

The following is the text of a letter and independent technical report prepared for the purpose of incorporation in this prospectus received from Pöyry, an independent technical consultant, in connection with the forestry assets of our Group.

Pöyry's technical report presents all of our forest and processing operations held by our Group, with the exception of the oil palm tree and rubber tree assets owned by our associates that do not relate to our various wood products business segments. The projections contained in Pöyry's technical report are not necessarily indicative of future performance and the actual woodflows, costs and capital expenditures may vary from the projections contained in the technical report.

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February 23, 2007

Dear Sirs,

Pöyry has been engaged by Samling Global Limited (the "Company" or "Samling") to provide independent technical consulting services for the review of its forestry and processing operations in Malaysia, Guyana, New Zealand and China. The review covered companies in Samling which, following the reorganisation (as defined in the prospectus to be issued by the Company in connection with its proposed listing on the Stock Exchange of Hong Kong, the "prospectus") undertaken by the Company have become its subsidiaries and certain companies that are jointly controlled by Samling.

This report presents our Independent Technical Report ("ITR") of the forest and processing operations of Samling. The ITR does not cover the aspects of Company equity holdings. The summarised supporting data and glossary are contained in the final sections of the report.

Scope of work

The scope of the work was to:

- Observe the current forest operations and processing plants and to assess current practices and performance, and validate costs and production levels.
- Review the planned operations and plantation development.
- Assess environmental performance.

During April and May 2005, a team of 16 forest and wood processing specialists visited the operations of Samling and reviewed the forest resource, manufacturing facilities, planned plantation development and facility expansions. A second review, including selected site visits, was completed by the end of August 2006.

The operations of the following subsidiaries and jointly controlled companies of the Company have been visited.

<u>Company Name</u>	<u>Assets</u>
Malaysia	
Samling Plywood (Lawas) Sdn Bhd	Forest Concession (T/0404, T/0405)
Samling Plywood (Miri) Sdn Bhd	Forest Concession (T/0413) & SPM plywood mill
Samling Plywood (Baramas) Sdn Bhd	Forest Concession (T/0411, T/0412) SPK plywood mill and Layun veneer factory
Samling Plywood (Bintulu) Sdn Bhd	Forest Concession (T/3283, T/3282) & SPB plywood mill and Tebanyi veneer factory
KTN Timor Sdn Bhd	Forest Concession (T/0280)
Merawa Sdn Bhd	Forest Concession (T/0390)
Majulaba Sdn Bhd	Forest Concession (T/9115)
Ravenscourt Sdn Bhd	Forest Concession (T/0294) and Lawas sawmill (operated by Rimalco Sdn Bhd)
Syarikat Reloh Sdn Bhd	Forest Concession (T/3112)
Sertama Sdn Bhd	Forest Concession (T/3173)
Samling Wood Industries Sdn Bhd	Forest Concession (T/3284) and Kuala Baram sawmill (operated by Rimalco Sdn Bhd)
SIF Management Sdn Bhd	Forest Concession (T/9082), SIF Veneer Factory
Syarikat Samling Timber Sdn Bhd	Forest plantation License (LPF/0014, LPF/0006 clearing only*)
Samling Reforestation Bintulu Sdn Bhd	Forest plantation License (LPF/0007, LPF/0021, LPF/0020, LPF/0008, LPF/0005)
Daiken Miri Sdn Bhd	MDF mill
Samling Housing Products Sdn Bhd	Housing Product manufacturing
Samling Flooring Products Sdn Bhd	Flooring Product manufacturing, Lana veneer factory, Rindaya plywood mill
Magna-Foremost Sdn Bhd	Door facing manufacture
Samling DorFoHom Sdn Bhd	Wood supply trading for Magna Foremost
Foremost Crest Sdn Bhd	Engineered doors
New Zealand	
Hikurangi Forest Farms Limited	Forest plantations
Guyana	
Barama Company Ltd	Concession TSA04/91, plywood mill & two sawmills, harvesting rights
China	
Riverside	Plywood mill
Foothill	LVL mill

These operations constitute the forestry assets and processing operations of Samling, with the exception of oil palm tree and rubber tree assets owned by Samling's associates.

Pöyry

Pöyry Forest Industry is part of the Pöyry Group which is listed on the Helsinki Stock Exchange. Pöyry employs 5,200 experts in 42 countries in the forest industry, energy, infrastructure and environment sectors. Pöyry Forest Industry's consulting division has continuously been providing consultancy services since 1966 and has 250 professionals operating in 13 offices around the world.

Our full time professional staff has expertise in all aspects of the forest industry and advises clients in business strategy, processes and operations designed to enhance stakeholder value. Our expertise covers the complete supply chain, from raw materials to technology, markets and financing. Consulting and advisory services are provided in three main practice areas:

- Strategy Consulting
- Operations Consulting
- Investment Banking

The Pöyry team that conducted an Independent Technical Review of Samling's operations consisted of 16 specialists in their respective fields and were supported by forest industry experts in the Shanghai, Singapore, Auckland, Melbourne, Helsinki, London and New York offices.

Forward-Looking Statements

All statements contained in this review that are not statements of historical fact, such as estimates of current and future growth and output in the natural forests and plantations, constitute forward looking statements. These forward looking statements and other matters discussed in the ITR that are not historical fact are only Pöyry's projections of future performance and may differ from actual performance. Nothing in this report is, or should be relied upon as a promise by Pöyry that the actual future performance, results, achievements, growth, yields, costs, or prices relating to the current or planned forest or processing plants will be as discussed in this ITR. Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to those discussed in this ITR. Actual results may be different from the opinions contained in this report, as anticipated events may not occur as expected and the variation may be significant.

Statement of Interests

Pöyry was selected for this assignment based on our company and staff expertise in consulting in the international forest industry. Pöyry has no historical relationship with, and is independent of, Samling. Pöyry is an independent consulting company and has no economic interest in any of the companies assessed in this assignment. Our payment for services is not contingent on Samling's approval of our work. In preparing this report, Pöyry has completed the work with skill and diligence in the performance of the services and observed recognised principles of professional ethics and respected the laws and customs in the country where the services were rendered.

Report Qualifications and Assumptions

In preparing this report, we have relied on the accuracy and completeness of the forest inventory, operating and other data as supplied by Samling. We have exercised due care in reviewing the historical information herein and believe it is both reasonable and representative. Our ITR has been completed according to generally accepted practices employed in the international consulting industry. Although we have compared key information provided by Samling with expected values through our own research, the accuracy of the results and conclusions of this report are reliant on the accuracy of the information provided.

We undertook a limited visual inspection of various forest concession and plantation land sites and various wood products operations of Samling in Malaysia, Guyana, New Zealand and China in April and May, 2005 and a further inspection in certain of Samling's processing mills in Miri in July 2006.

This ITR is subject to certain limitations, including, among others, the following:

- We undertook site visits and conducted aerial surveys which provide only an indicative assessment of likely woodflows from the natural forests and existing plantations. This ITR assumes that the sites visited are representative of the condition of the full range of Samling's operations.
- We did not undertake a full scale review of the existence of any hazardous materials or other adverse environmental conditions that may be present on any forest lands on which Samling operates.
- We are not an expert in, and express no opinion on, any legal or accounting matters assumed for purposes of this ITR.
- We do not intend to provide purchasers of the Offer Shares (as defined in the prospectus) with any revised or updated projections or an analysis of any differences between such projections and actual woodflows, production volumes or conditions of Samling's operation.

We have made certain assumptions in preparing this ITR, including, among others, the following:

- We have set out certain key assumptions in section 2 of this ITR.
- The woodflow projections contained in this ITR are predicated based upon various assumptions. Such assumptions are inherently subject to uncertainties and Samling's actual woodflows may differ from those projected. Accordingly, such projections are not necessarily indicative of Samling's actual woodflows during the forecast period.
- For the purposes of preparing the projections, we made certain assumptions with respect to general business and economic conditions and state and local policies, the outcome of which cannot be predicted with any expectation of certainty. For instance, we have made assumptions with regards to allowable cuts and quotas set for Samling's concessions which could differ from those applied to Samling's concessions in future.

As a result of the foregoing and other limitations and assumptions the actual woodflows, production volumes, capital expenditure and conditions of forestry concessions and plantations of Samling may differ from that set forth in this ITR. The degree of uncertainty associated with the projections set out in this ITR increases with each year presented. If actual woodflows, production volumes, capital expenditure and concession or plantation conditions are less favorable than those shown or if the assumptions used in formulating the projections prove to be incorrect, Samling's business and operations may differ from the projections.

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1 INTRODUCTION

Pöyry was engaged by Samling in April 2005 to provide independent technical consulting services for the review of its forestry and processing operations in Malaysia, Guyana, New Zealand and China.

During April and May 2005, a team of 16 forest and wood processing specialists visited the operations of Samling and reviewed the forest resource, manufacturing facilities, planned plantation development and facility expansions. A second review, including selected site visits, was completed by the end of August 2006.

This ITR presents the findings and conclusions of our review of the market environment, the Company's current and planned operations and the risk factors associated with these developments.

The introductory letter attached to this report outlines in more detail the scope of the consulting assignment and the associated report qualifications and forward looking statements.

The report is structured in five main sections:

- Key assumptions — Forest performance and operating costs
- Company overview — Company overview and development
- Market review — Review of key markets and market developments
- Current operations — Asset description and operational review
- Planned expansions — Review of planned plantation and processing expansion

The summarised supporting data and glossary are contained in the final sections of the report.

2 KEY ASSUMPTIONS

The key assumptions, as outlined below, focus on the Company's current and future planned operations and, in particular, to the forestry operations and the inherent unpredictability of biological based assets.

The assumptions used in this review are not limited to the key assumptions discussed in this section. All assumptions associated with this review, whether implied or expressed, are contained within the respective areas of the report.

2.1 Forest performance

Growth and Yield Estimation

Malaysian natural forest concessions — Pöyry has assumed, for the purposes of the calculation of woodflows*, that the yield is based on the current combined quota as set out by the Sarawak Forest Department, which approximates to an annual level of cut of 1.96 m³/ha/a per net operable ha for merchantable logs. The species and grade mix is assumed to remain similar to the current mix.

Guyana natural forest concessions — Pöyry has assumed the projected sustainable yield from the Barama concession and the other concessions where Samling has cutting rights (Barakat Timbers and Trading Company Limited, N Sukul and Sons, Toolsie Persaud Limited, Guyana Sawmills Limited (Cuyuni) and N. Mazaharally & Sons), could rise to approximately 420,000 m³ based on the annual allowable cut, processing facilities, export potential and the likely species mix. The allowable cut is defined as the total volume per compartment that the Guyana Forestry Commission allows to be cut based on inventory, species mix, merchantability and stand growth dynamics. If the Company were able to expand the volume of commercial ply grade logs being sold to export, the annual volume could potentially increase to over 600,000 m³.

New Zealand plantations — The weighted average yield table for radiata pine has been derived by Pöyry through analysis of HFF data using a combination of mid-rotation and pre-harvest inventory results run through recognised New Zealand growth and yield models.

Malaysian plantations — Pöyry believes that while the plantation establishment plan may include a number of species, it is reasonable at this stage to assume the majority of the plantation areas as being planted as *Acacia mangium* (details of yield assumptions are found in Section 5.1.1). It is assumed that the acacia will be grown on a 10 year rotation targeting both saw and peeler log-grades.

Whilst all woodflows shown for the forest resources are best estimates of what future management intention might be, the reality may be different.

* Woodflow is a technical term to describe the amount of wood being harvested from a forest (plantation or natural forest). It may be expressed either as a total cumulative amount over numerous periods or as an annual figure. In this report, woodflows are shown in m³ units, but may also be expressed as tonnes or other units of weight using appropriate conversion factors. Woodflows are normally constrained by a combination of the capacity of the forest to produce, management intentions and, in specific cases, imposed quotas.

Renewal of Concession licences

Pöyry has assumed that the forest concession licences in Guyana and Sarawak will be renewed on expiry but that the Guyana harvesting rights will not be.

2.2 Operating Costs

Forestry and Manufacturing Costs

For the purposes of this report, logs destined for Samling plants are assumed by Pöyry to be transferred at cost. Those exported are sold to the open market on a Free On Board (FOB) basis. Third party sales are assumed to be bought from log ponds or coastal mill sites.

Exchange Rates

Unless otherwise specified, Pöyry has used the following exchange rates as averages for the financial year 2005/6:

Malaysia	1 USD = 3.73 Ringgit
China	1 USD = 8.04 Yuan
New Zealand	1 USD = 1.498 NZ Dollars
Guyana	All financial information received in USD

3 COMPANY OVERVIEW

3.1 Introduction

Samling is a large tropical forest resource and integrated forest and wood products company with approximately 4 million ha of forest concessions and harvesting rights in addition to having a position as one of the largest hardwood plywood producers by manufacturing capacity in the world. Total revenue of the Company (from consolidated accounts FY June 2006) reached USD389 million in 2006.

The founder of the Company commenced operations in Malaysia in 1963. In 1976, Samling was formed with a natural forest harvesting and log export business, based on extensive forest concessions granted by the Sarawak Government. The Company has also developed forest resources in Guyana, New Zealand and China to provide further platforms for growth of the business. Samling currently has approximately 4 million ha of forest concessions, plantation licences, freehold land and leases and harvesting rights. This existing resource base is complemented with the planned expansion of plantation resources to further expand Samling's operations. Log production from the existing forest assets has a near term capacity of approximately 3.182 million m³/a. Based on Samling's existing and planned company woodflows, Pöyry estimates that total production could increase to approximately 5.0 million m³ /a by 2020. Ultimately this depends on Samling's long term development plan.

Samling has forests in Malaysia certified under the Malaysian Timber Council Certification scheme (MTCC) as well as obtaining Forest Stewardship Council (FSC) certification for their New Zealand plantation resource. Forest certification is a measure of environmental management and, in this respect, Samling is taking a proactive approach clearly differentiating the Company from a number of other industry participants.

The Company benefits from a well developed infrastructure, economies of scale and a business that has been in operation for a considerable length of time. With a large tropical hardwood forest resource base, the Company is in a strong position to sustain and grow its wood processing base.

From the early 1990s, Samling has focused on the development of processing operations to add further value to its forest resources. This has included the manufacture of plywood, veneer and other wood products designed to diversify its product portfolio, serving a wider range of customers, as well as more effectively utilising its raw material resource. The Company has a current wood processing capacity of approximately 1.44 million m³/a (excluding housing products).

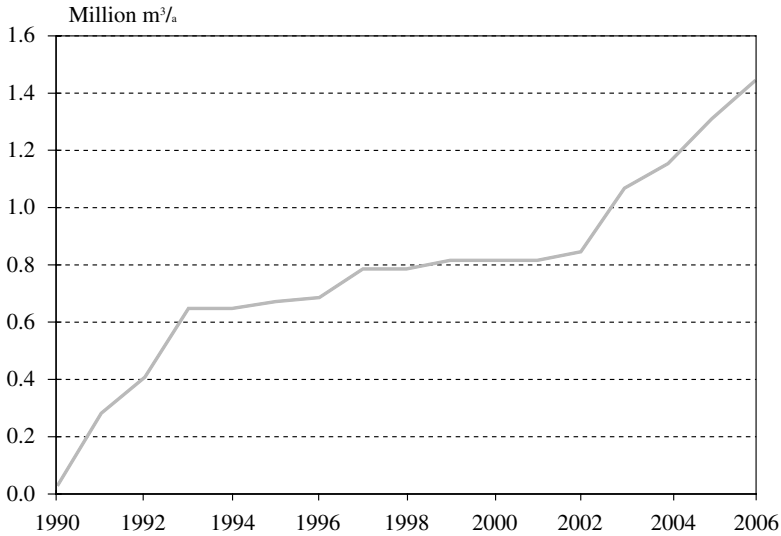
Today, Samling's operations are mainly focused on the sale of logs, veneer and plywood to global export markets, which make up approximately 84% of turnover. Samling has informed Pöyry that they intend to expand this production portfolio and focus on a range of product areas which complement these businesses. This is consistent with the Company's continued focus of increasing the level of value-added products in its business portfolio.

Based upon the potential woodflows and product mixes, Samling plans to expand its total processing capacity depending on market opportunities.

Samling's resources and operations are positioned to access the fast growing markets in Asia, particularly China and India, as well as the developed markets in Europe and North America.

With the majority of its operations and forest resources based in the Asia-Pacific region, the Company is well placed to capitalise on the increasing demand for forest products in Asia, the world's largest wood deficit region making these resources highly strategic in developing and capturing specific high end markets.

**Figure 3-1:
Historic Processing Capacity Growth of Samling**

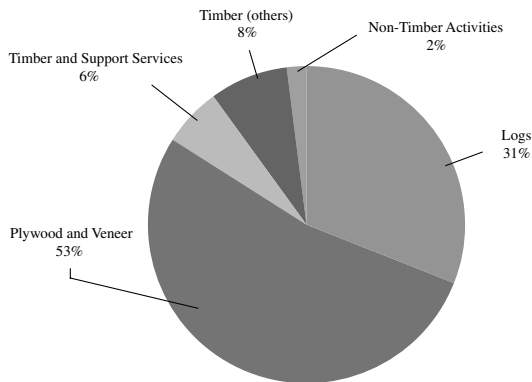


Sources: Samling and Pöyry

Note: Excludes housing products.

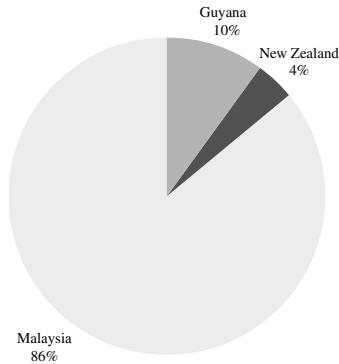
Over the last 2 decades, the Company has expanded its operations from its base in Sarawak, Malaysia to include operations in Guyana, New Zealand and China. While its main operational base will remain in Malaysia, future plans are aimed at growth in all countries where it has current operations, particularly in the processing of the increasing output from the maturing New Zealand plantations and the planned fast growing plantations in Malaysia. This structure is intended to enable the Company to diversify its cost structure and business risks.

**Figure 3-2:
Samling Global Production — By Product (based on Sales Revenue)**



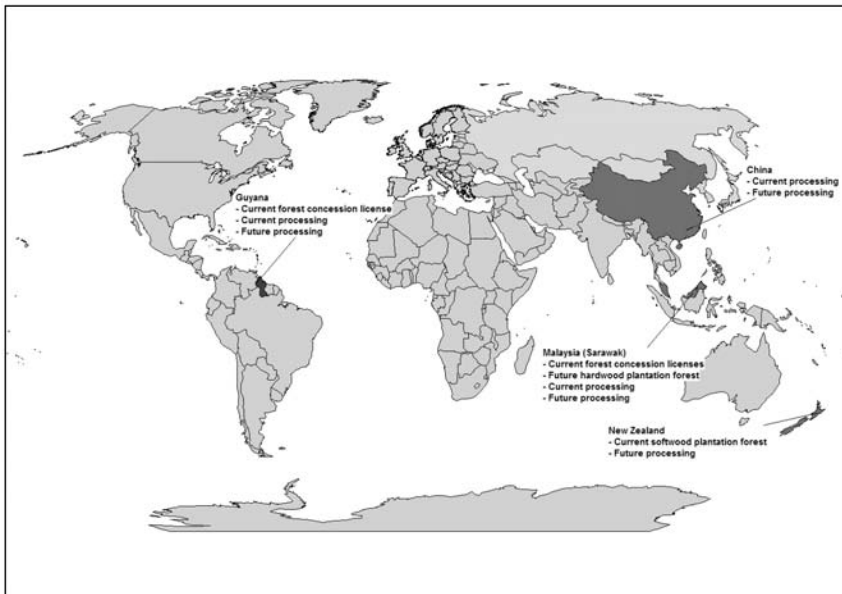
Sources: Samling consolidated accounts (Year End 30 June 2006)

**Figure 3-3:
Samling Global Production — By Geography (based on production volume)**



Source: Samling
(Year End 30 June 2006)

**Figure 3-4:
Samling’s Global Operations**



Source: Pöyry

3.2 Forestry Operations

Samling currently has approximately 4 million ha of forest concessions, plantation licences, freehold land and leases and harvesting rights, with an annual log production capacity of approximately 3.182 million m³/a. This resource base currently consists of mainly mixed tropical hardwood resources in Malaysia and Guyana in addition to maturing radiata pine plantations in New Zealand.

**Table 3-1:
Current Forest Assets**

Country	Asset	Current Gross Area (<i>'000s ha</i>)	Net Operable Area³ (<i>'000s ha</i>)	Near term Production capacity m³/a
Malaysia	Concession licenses*	1,424.4	908.2	1.772 million
	Forest plantations	438.2	138.0	0.460 million ¹
Guyana	Concession license	1,611.2	1,327.9	0.360 million ²
	Harvesting rights	445.4	370.3	
New Zealand	Forest plantations	35.0	26.4	0.580 million
Total		3,954.2	2,770.8	3.172 million

Notes:

Near term production taken as average for the next 5 years. Malaysia plantations data does not include salvage volumes. The gross license area is currently issued to Samling, however, the total net operable area is a future figure following the development of the plantations and hence is shown in italics.

¹ Malaysian plantations are largely in planning phase — production volume here from salvage operations.

² Includes production from harvest right areas. Production figure from Pöyry constrained model, unconstrained production over the same time period could be 0.468 million m³/a.

³ Guyana operable areas include approximately 10% by area that cannot be harvested (e.g. steep areas, riparian reserves). Areas used for woodflow are 90% of these areas.

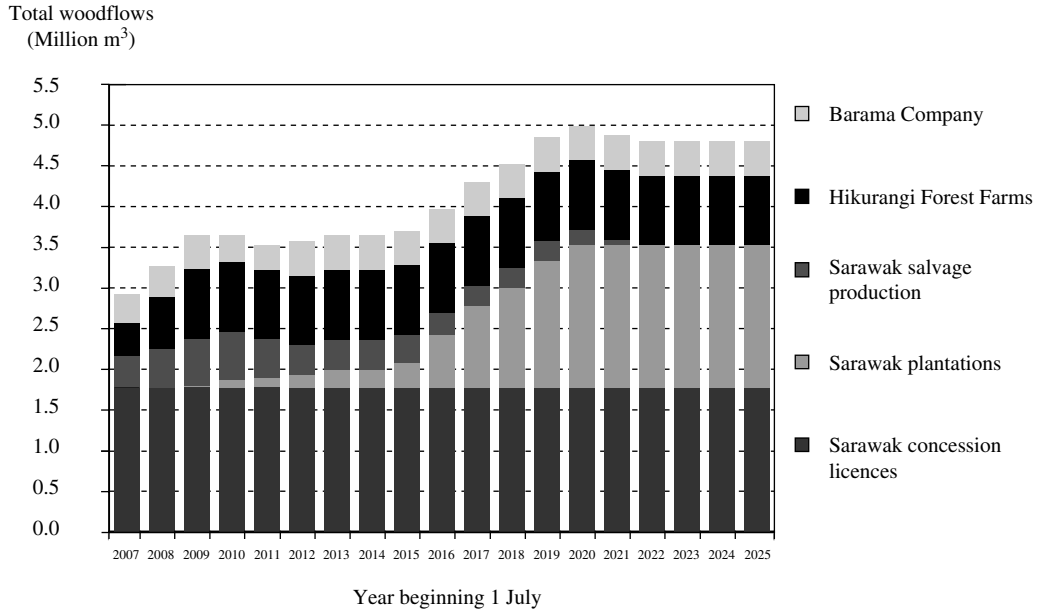
* The log production data and annual quota in this ITR differs to figures used in Samling's Prospectus primarily due to:

- (i) inclusion of production data and annual quota applicable to Merawa Sdn. Bhd. and Dayalaba Sdn. Bhd. on the assumption that they were included in the Samling Group for the whole of the FY ended June 30, 2006.
- (ii) ITR figures do not include portions of concession timber licence No. T3173; areas and woodflows of which have been contracted to a third party. Helicopter logging is also not included.

Samling has plans that could increase production log volume to approximately 5.0 million m³/a by 2020 with the development of hardwood plantations in Malaysia, as well as the increasing maturity of the pine resource in New Zealand. With the completion of these plans, Samling will transform its forestry resource base to one which is more than 50% based upon plantation fibre. This will place the Company at a strong competitive advantage, both in terms of fibre cost and security.

This transformation process is an important part of the Company's overall development strategy, as the increased fibre volume provides the base for the expansion of the wood processing business, strengthening its position in global markets.

Figure 3-5:
Total Estimated Potential Woodflows Over Time from all Sources, Current and Future



Source: Pöyry; Includes production from Glenealy’s Lana Sarawak plantation approximately 0.4 million m³/a by 2025. See Section 6. Includes Merawa Sdn. Bhd. and Dayalaba Sdn. Bhd. but does not include woodflow from contracted parts of T3173 or helicopter logging.

Samling operates its harvesting operations according to the International Tropical Timber Organization (ITTO) guidelines and part of one concession license area in Malaysia has obtained MTCC certification. Samling has further introduced ISO 9001:2000 for its Malaysian (Baram) operations.

**Table 3-2:
Forest Certification**

Operation	Area Currently Certified (ha)	Percentage of Gross Area	Certification Standard	Status
Sarawak Forest Concessions	55,949 (Concession T/0412)	55.6% of gross concession area of T/0412	MTCC	Certification obtained October 2004.
New Zealand Forest Plantation	35,000	100% of gross area.	FSC	Certification obtained August 2005.

Biological and Climatic Aspects

Samling forestry and wood processing industries represented in this ITR (current and future) are directly affected by biological and climatic risks through the production and sourcing of logs or the disruption of manufacturing and trading of wood products and supply of other essential raw materials. The following factors may affect availability and prices of logs and the ability to manufacture wood products:

- Unfavourable local and global weather conditions such as prolonged drought, flooding, windstorms, frost, snow and freezing weather.
- The occurrence of natural disasters, such as damage by fire, insect infestation, crop diseases and pests, land slides and earthquakes.

Natural forests have evolved with a high level of diversity which minimises the potential damage and loss caused by insect attack and storm events. In Malaysia, there is a potential for fire damage resulting from changing weather patterns and the use of fire in shifting agriculture activities. During the last El Nino event of 1996/7, some 20,000 ha of the natural forest concessions in Sarawak were damaged by fire. Currently, Guyana experiences a very narrow range of temperatures and lies outside the hurricane belt. Climate change could affect the health and future productivity of its forests.

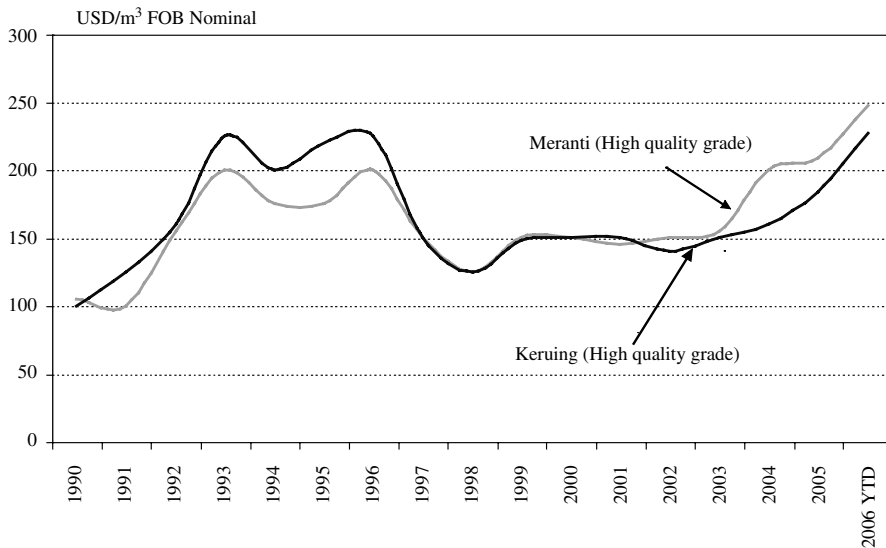
Climate change is likely to result in hotter, drier and more extreme weather conditions for Samling's New Zealand plantations. The risk of large losses from fire is relatively low due to the good regional fire control infrastructure.

3.3 Tropical Hardwood Log Trading

Samling harvests and handles approximately 1.9 million m³/a of tropical logs. Logs harvested are either utilised within Samling's own processing operations or sold to third parties. Third party sales are mainly for export. High value, large diameter logs are sold into key global tropical log markets for further processing, primarily into sawn timber and plywood.

Figure 3-6 highlights recent price trends for Malaysian hardwood logs. Since 2000, log prices have been trending upwards, with a particularly large increase in prices over the last three years. Since 2002, nominal prices for selected log grades and species have increased by as much as 65% (approximately 10.5%/a).

Figure 3-6:
Malaysia Keruing and Meranti Historical Export Log Prices



Source: ITTO (Malaysian traded logs)

The upward price trend is supported by a continued tightening of supply, increasing costs for harvesting and compliance with a tighter regulatory environment which will be passed on to end-users. Generally, prices are close to those achieved in the mid 1990s (in nominal terms) and the factors affecting the upward price trend are positive.

Samling has a long standing relationship with key buyers in the main markets and has worked closely with these customers to match log production in the forest with their requirements. Samling assembles and exports from three load ports in Sarawak (Bintulu, Miri and Lawas). During the financial year ended 30 June 2006, the Sarawak concessions exported a combined sales volume of 496,000 m³ as per audited accounts. During the same period, Barama exported approximately 99,000 m³ of sawlogs sourced from both the Barama Company concession and other concession areas for which they have cutting rights.

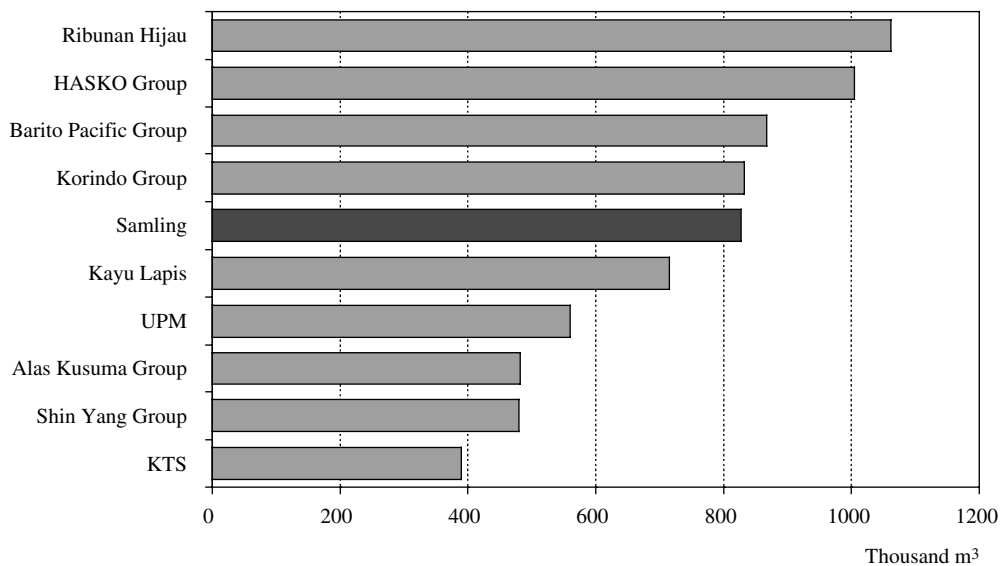
3.4 Processing Operations

Samling currently has processing operations in Malaysia, Guyana and China with 1.44 million m³/a (excluding housing products) capacity for wood products plus log exports and downstream processing. This makes Samling one of the largest integrated tropical hardwood forest and wood products companies in the world in terms of combined forest resource under management and plywood capacity. The current product portfolio is dominated by plywood production, where the Company is one of the leading global hardwood plywood producers (Figure 3-7).

In addition to plywood, the Company also produces a range of downstream products. The manufacturing of these products having been developed to utilise the available forest resource. The sawmilling operations largely use logs that are unsuitable for plywood production, while the manufacture of Medium Density Fiberboard (MDF) and its associated door and furniture production utilises the residues from plywood mill and sawmill operations. Some of these residues are processed by Samling's own chipping facility.

Figure 3-7:

Leading Global Hardwood Plywood Producers by Installed Capacity (as of January 2006)



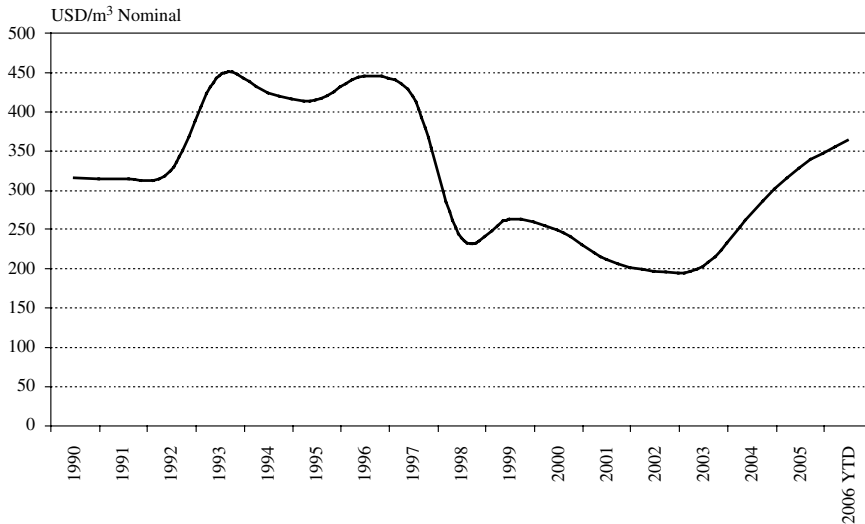
Sources: Samling and Pöyry's global mill data base

Figure 3-7 relates to installed capacity. In relation to production, it is Pöyry's understanding that some of the Indonesian mills are operating well below their installed capacities.

The Company is committed to maximising value from its forest resources. Given this commitment, the Company plans to continue to embark on value-added processing. Expansion of the Company's processing capacity is planned for Malaysia, Guyana, China and New Zealand. The expansion of the processing capacity is largely based on the planned forest plantation activities in Malaysia and the increasing age-class of the pine resource in New Zealand.

Prices for plywood have increased by more than USD150/m³ (16%/a increase) over the past three years (Figure 3-8). We expect prices to continue to develop positively over the coming five years, supported by steady demand and rising peeler log prices. While substitution trends from other wood panels place a limit on pricing behaviour, especially in commodity grades, plywood prices still tend to lead overall wood panel price developments.

Figure 3-8:
Malaysia and Indonesia — Historical Plywood Prices¹



Note:

¹ Plywood price trend from 1990 to 1995 is based on weighted average Indonesian FOB plywood prices for selected key export destinations. Plywood price trend from 1996 onwards is based on an average of a series of Indonesian and Malaysian FOB and domestic plywood prices for specific grades and thickness.

Sources: ITTO/APKINDO

3.5 Sales and Marketing Activities

Samling supplies its products to a large number of countries. Changes in the global markets and resource availability, as well as changes in the resource flow from Samling's own operations, drive future development of its sales, production and product mix. The Company has informed Pöyry that it plans to increase volumes of value-added products, while at the same time maintaining the Company's position in the export log and plywood business. Pöyry believes that, while the export log and plywood businesses will continue to underpin the Company's performance, the strategy to diversify their earnings base through value-added products is appropriate.

Pöyry has been informed by the Company that it is focusing on increasing its manufacture and sales of higher value products, in all of its product groups, to provide higher and more stable profits. In logs, this means adding value through quality control, environmental certification and ensuring logs are sold into the highest possible value end-use. In plywood, this means continuing to target superior finish applications. The Company's aim is to be a globally recognised and branded supplier of certified plywood for high quality marine, floor base and furniture uses. For sawn timber, this means the manufacture of graded, dried quality timber.

For downstream products, such as flooring and furniture, the Company has informed Pöyry that it is developing strategies which will focus on positioning itself as a supplier of high quality, certified and branded products in the leading retail and distribution chains globally. The Company has indicated to us that other options such as further processing, through moulding, edge glue or finger-jointing will be implemented when driven by customer demand.

Samling has indicated to us that they have been continuously developing relationships with selected wholesalers and end-use customers to more effectively forecast product demand and improve margins. The marketing functions are organised by product groups, such as logs, plywood, furniture, flooring and doors.

Samling has informed Pöyry that the Company has also been working towards improving their distribution networks by providing product logistics support in major markets such as Japan, the UK, the US and China. Apart from offering a wide range of products to end-users, it also provides customers with warehousing, logistics and after sales services.

The Company informed us that this improvement in customer service is being facilitated by the Company's plywood mills 'pre-positioning' part of their stock in warehouses in the importing countries. This allows the Company to cut down delivery times and improve customer service.

Pöyry believes it is in the interest of both buyers and suppliers to have an ongoing and stable supply-demand relationship, in order to focus increased efforts on developing and servicing the customers' needs.

3.6 Management Team

Samling has been operating in the forest industry since 1976 and has an experienced and stable executive team that is committed to the long term success of the Company. Over half of their senior managers have been with the Company for more than ten years and many have long experience in the Malaysian forest products industry. The quality and strength of the team is demonstrated by the successful expansion and diversity of the Company, both in terms of production and product development, as well as the formulation of a clear sales and marketing strategy. This strength is also illustrated by the focus on developing customer relationships which move outside the traditional distribution channels.

The management team has been successful in developing the Company's operations to meet changing market requirements. In manufacturing, this has meant the implementation of high quality production standards and the development of new products for high growth markets. In the area of forest management, the team has been successful in managing the operations to attain certification of the Company's New Zealand forests, as well as partial certification of one of its Malaysian forest concessions. Focus has also been given to areas such as the most effective utilisation of the whole resource base, including waste recovery, and supply chain innovations leading to more effective customer service. Overall, the management team has demonstrated its ability to work effectively both during periods of high growth as well as in challenging market conditions and to adapt to different and difficult work environments.

3.7 Key Success Factors for the Wood Products Business

Pöyry's opinion as to the key factors for the successful and profitable supply of wood products and export logs to global markets can be summarised as follows:

- Security of low cost log supply through long term forest concessions, licences and plantation forest holdings.
- Low cost processing, technical superiority and efficient, flexible production adaptable to customer needs.
- A broad product range focused on a number of end-use sectors across a range of raw material sources and cost structures.
- Effective marketing and sales force, a good corporate brand and control over the distribution chain.
- An effective distribution chain with wide market coverage and preferably local presence is critical in growth markets such as Asia.
- Good understanding of the regional market and downstream industries and the operating environment.

- Integration of forestry, primary and downstream processing to maximise value on all products arising from the harvested logs.
- Consistent supply of high quality products that meet customers' quality expectations.
- Supply of environmentally certified products, enabling the targeting of the high end markets in the more developed countries.

Increasing degree of competition against other imports as well as cost competitive local players are some of the challenges which leading producers in the wood products sector face. Key markets in Asia are price sensitive and the risk of substitution by lower priced products is high. With its own low cost wood and manufacturing as a base, and a strategy of developing and expanding its environmental certification and distribution channels, Samling is well positioned to take on these challenges.

In Pöyry's opinion, the key strengths of Samling include:

- Large forest resource base which is well positioned for key product markets in North America, Europe and Asia.
- Large infrastructure in place to manage operations and full integration between the forestry and processing operations.
- An efficient and low cost producer of logs and solid wood products.
- Established in key markets with a diversified product range.
- Reputation in the market for quality products.

The Company has identified distribution as a focus for development with opportunities to capture margins currently lost in the often fragmented supply chain.

4 FOREST PRODUCTS MARKET REVIEW

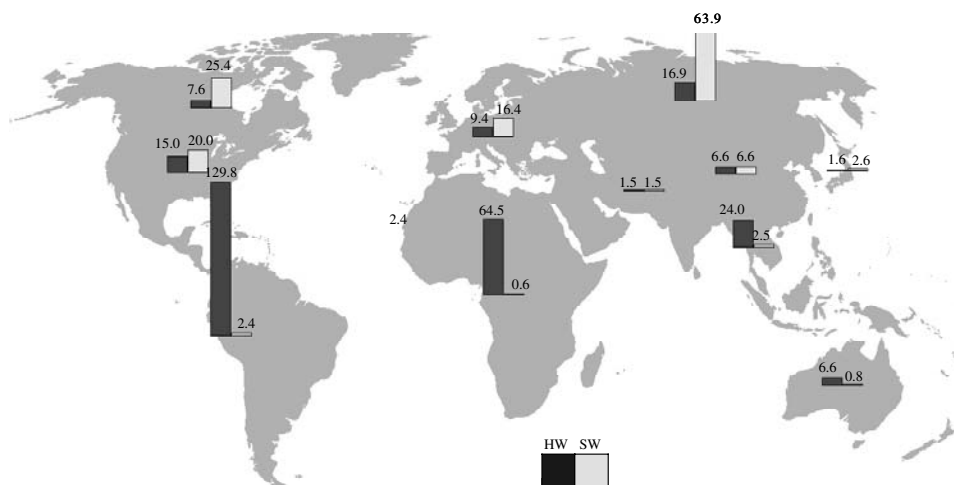
4.1 Overview of Global Forest Resources

It is estimated that in 2005, forests covered some 3.9 billion ha, or 30% of Earth’s land area. Tropical and sub-tropical forests comprise approximately 50% of the world’s total forest areas and are mainly located in South America, Asia and Africa, while temperate and boreal forests account for the other 50%, mainly located in Europe, Russia and North America. Natural forests represent 95% of the world forest resources, while man-made industrial plantation forests make up only about 5%. While plantation forests are being expanded rapidly, it is important to recognise that currently they only represent a very small part of the world’s total forest resource.

In the Asia-Pacific region, total forest area is estimated to be approximately 750 million ha (2005), which contains approximately 70% tropical forests and sub-tropical forests and 30% of temperate forests and boreal forests. Natural forests account for approximately 85% of the resource base and industrial plantation forests account for approximately 15% of the total forest resource, much higher than the global average, mainly as a result of the plantation resource bases in China, Indonesia, Australia and New Zealand.

It is estimated that the global growing stock presently amounts to approximately 426 billion m³ (2005). Approximate 67% of this growing stock is hardwood, with South America, Africa and Asia being the main hardwood forest regions (Figure 4-1). The softwood resource, which represents the other 33%, is mainly situated in the northern temperate and boreal zones, with Russia, in particular, accounting for about 50% of the global softwood resource.

Figure 4-1:
Growing Stock of Global Forest Resources (2005) M³ Millions



Sources: FAO (2005) and Pöyry

While forest area in developed countries has stabilised and is generally increasing at a modest amount each year, declining forest volume (deforestation) has continued to be a major issue in developing countries, particularly for tropical and sub-tropical forests. Many countries in the Asia-Pacific region, notably Indonesia and China, have been increasing restrictions on the level of harvest designed to conserve the remaining forest areas.

One consequence of this is a significant and growing shortage of large-diameter logs, both softwood and hardwood, which is particularly favoured by plywood and sawn timber producers. This shortfall is likely to be long-term because of the time period required to grow such logs. Samling's extensive concessions and cutting rights of over 3.5 million ha in Malaysia and Guyana are therefore strategically very important in meeting the demand for high quality tropical hardwood plywood and sawn timber products.

This issue of supply shortfall is particularly apparent in the Asia-Pacific region, where regional demand for forest products significantly exceeds supply and the region is the largest "wood deficit" region in the world.

Demand for forest products in the Asia-Pacific region is expected to continue to increase, and to exceed that available from the region's forest resources, thus perpetuating the need to continue to import forest products (in various forms). The increase in regional demand is expected to be met by imports of finished products as well as stimulate the expansion of local wood processing industries in the region, which will rely on external sources. In general, the forest product markets in developing countries are focused on raw materials and primary processed products such as logs and commodity grade plywood, while the developed countries are increasingly looking for higher value-added products.

With this background of strong demand and increasingly challenged supply, owners and managers of forest resources, especially tropical and sub-tropical forest resources, are in a strong position to benefit from value growth in both raw material as well as finished products.

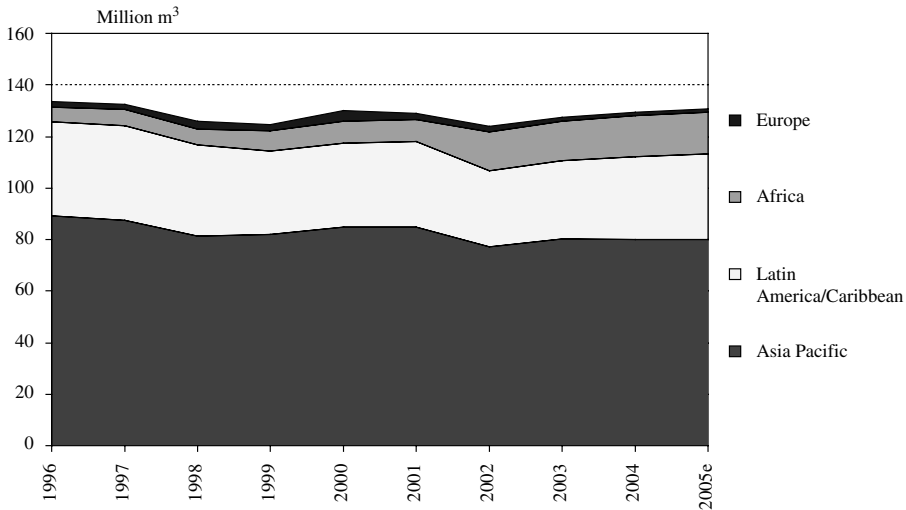
4.2 Tropical Hardwood Log Markets

Tropical log exports are a major component of Samling's sales mix and represent approximately 22% of the overall sales revenue from the consolidated accounts. Of the total exports, Malaysia is the primary source, with small volumes of exports from Guyana.

Between 1996 and 2005, demand for tropical hardwood logs has been stable. The Asia-Pacific region is by far the largest market for logs, representing approximately 59% of the total global market (Figure 4-2). Other regions such as South America and Africa are important consumption areas, with demand met mainly by local supply. Whilst Europe tropical hardwood log consumption is relatively lower, it remains an important market, especially in terms of high quality logs. Much of the tropical hardwood logs harvested within the Asia-Pacific region stay within the region. Imports do however play an important part in meeting domestic demand within the region (Figure 4-3).

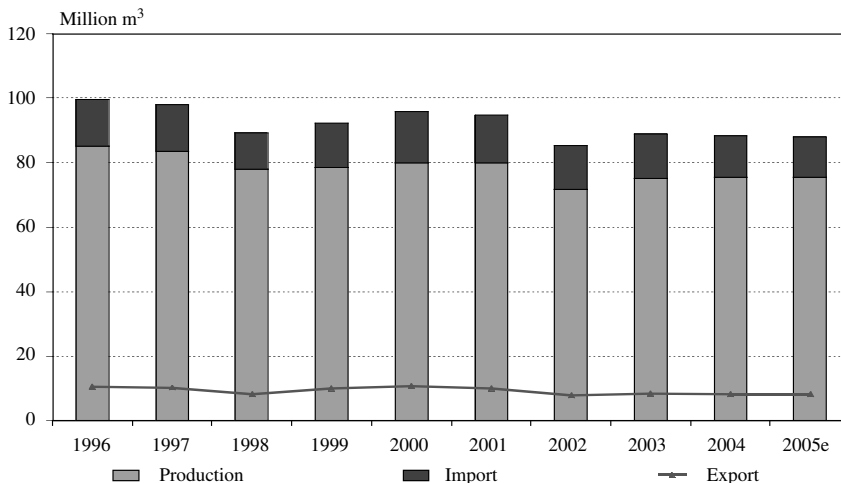
Within the Asia-Pacific region, Japan and China are the largest single markets, although showing very different trends: China, with rapid growth in demand driven by increased wood processing capacity, is in contrast to Japan’s decline in log demand (total log demand has declined 6.5%/a over the last five years) as uncompetitive processing capacity is shut down. However in 2005, Japan still represented an important market, accounting for approximately 11% of traded tropical hardwood logs within the region. Closure of local wood processing facilities in Japan, while negative for log exports, is positive for the importation of finished products, such as plywood, veneer and sawn timber. Taiwan is also an important log market, due to its large wood processing capacity, and very limited forest resources.

Figure 4-2:
Global Tropical Hardwood Log Consumption



Source: Pöyry

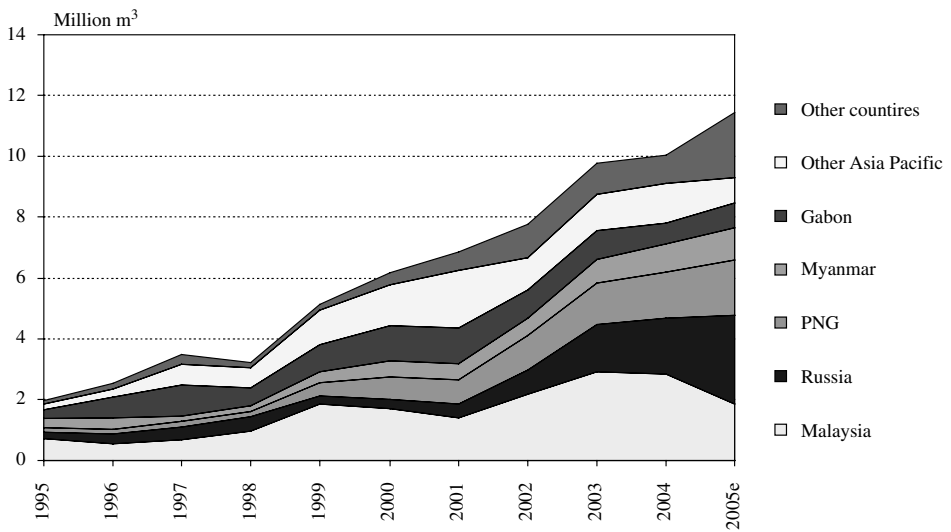
Figure 4-3:
Total Asia-Pacific Tropical Hardwood Log Production & Trade



Source: Pöyry

As a result of the impact of declining demand in Japan, the overall Asia-Pacific tropical hardwood log market has remained stable, balanced with increasing demand in China and India (13%/a and 9%/a respectively over the last five years). In these countries, processing cost structures favour the import of logs rather than processed timber products. China’s imports of hardwood logs have increased five-fold over the past decade, driven mainly by economic growth and partly by restrictions imposed during 1998 by the Chinese Government on harvesting from natural forests (Figure 4-4). Although Malaysian log exports to China declined in 2005, this appears to reflect regional supply variations as some exports have been diverted to other markets, among them India. Both China and India offer a growing market for the “hard” hardwood species being harvested in Guyana.

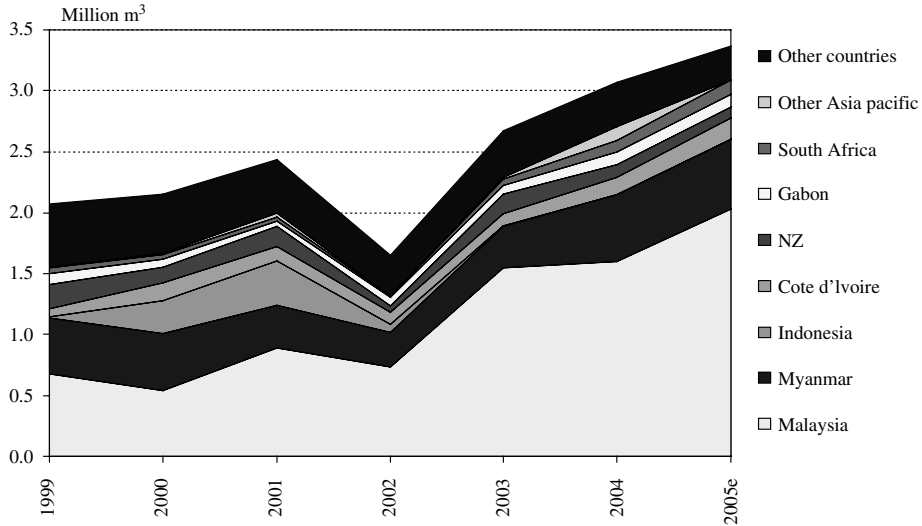
Figure 4-4:
China – Hardwood Log Imports



Source: Pöyry

India is a rapidly growing market, with imports of hardwood logs mirroring changes in GDP growth in the country (Figure 4-5). Malaysian exporters have achieved a significant position in the Indian market which, though small compared to China and Japan, represents an interesting market development opportunity. Although the focus in the Indian market has traditionally been on teak logs, importers are now looking for a wider range of tropical and plantation hardwoods from South East Asia and this trend is expected to continue.

Figure 4-5:
India — Hardwood Log Imports



Source: Pöyry

Overall, we project the demand for wood in the Asia-Pacific region to grow substantially over the next decade. Projected positive economic growth in Asia, increasing urbanisation and expanding furniture, construction and interior decoration industries are the major drivers that are expected to support demand for logs and wood products. These growth factors will also have a positive impact on demand for tropical hardwoods. The turnaround in demand to the more positive levels that have been seen in the last four years (Figure 4-3) is expected to continue.

Malaysia has been clearly recognised as the leading exporter of tropical hardwood logs. The main production natural forest type in Malaysia is the *Dipterocarpus spp*-dominated lowland rainforest. Dipterocarps have common wood characteristics, resulting in relatively uniform log quality, in contrast to the more heterogeneous forests, for example, in Africa and South America. Dipterocarps in general also make excellent rotary veneer and good quality joinery timber.

It is important to note that demand fluctuations occur constantly as end-use markets for products like logs pass through different market demand cycles. Most of those demand fluctuations are local and overall swings in demand in any single market are relatively minor compared to global consumption levels. This is a critical issue to log exporters such as Samling, and indeed for all other products. However, while the impact of demand fluctuations in any individual end-use and geographic market might be significant, a company that has diversified itself through multiple end-uses and countries will be able to manage fluctuations more effectively.

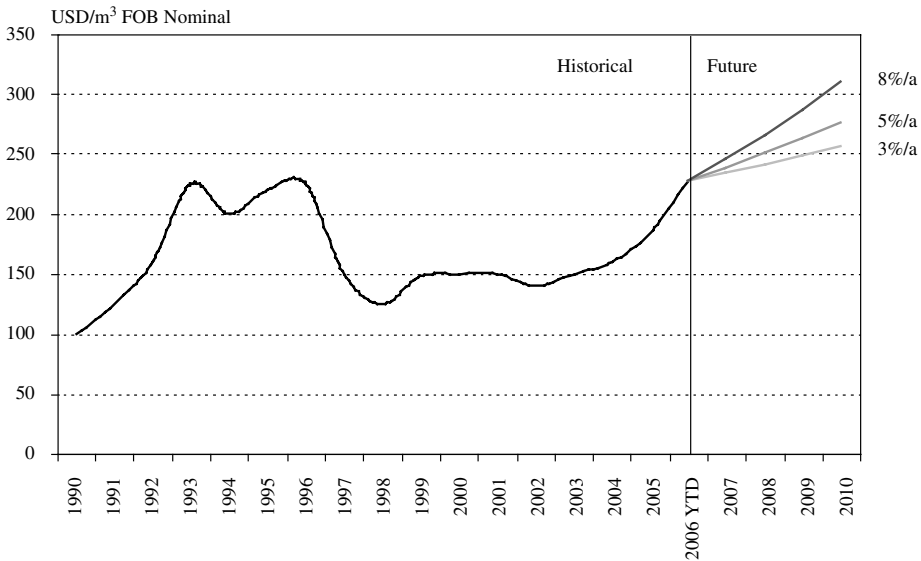
Pricing Environment

As illustrated in the previous discussion on consumption, the growth in global demand for tropical hardwood logs has remained relatively flat over the last ten years. There are major differences between the demand structures for different qualities of logs, with demand for lower quality logs being affected by substitution (replacement by alternatives like plantation softwood and hardwood logs and non-wood products) and hence, suffering from demand decline. In contrast, demand for higher quality logs has been increasing as log availability issues become a concern. The main issues driving prices, therefore, have been supply factors which have had a major influence on price development.

Log supply and availability has been a major issue throughout the 1990s and continues to be critical. Prices for tropical hardwood logs reached historical peaks in the mid-1990s, driven both by supply concerns and by the high price of end-use products such as plywood, which was partially the result of a managed pricing environment.

The Asian crisis in 1997/98 saw a sharp decline in log prices brought on by a sudden shift in the demand and supply dynamics. At the same time, plywood prices also declined as a result of the same factors (Figure 4-6 and Figure 4-7).

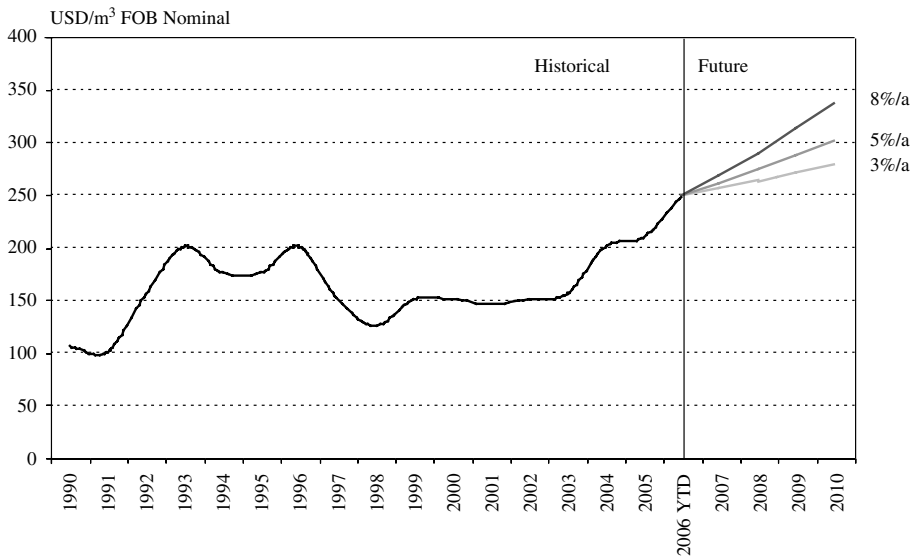
Figure 4-6:
Malaysia Keruing Historical Export Log Prices and the Calculated Future Effect of a Range of Annual Price Increases



Source: Historical data ITTO (Malaysian traded logs)

Since 2000, log prices have been trending upwards, with a particularly large increase in prices over the last three years, reflecting strong demand for raw materials from China and a very tight supply environment for logs. Increasing prices for Malaysian logs have also been due to declining Indonesian log exports and the export ban initiated in 2001. Since 2002, prices for selected log grades and species have increased by as much as 65% (approximately 10.5%/a) as a result of the impact of these supply constraints. In nominal terms, the current export prices for some species are less than those attained in the mid-1990s, but the gap has narrowed to less than USD30/m³ as in the case of Malaysia Keruing (Figure 4-6).

Figure 4-7:
Malaysia Meranti Historical Export Log Prices and the Calculated Future Effect of a Range of Annual Price Increases



Source: Historical data ITTO (Malaysian traded logs)

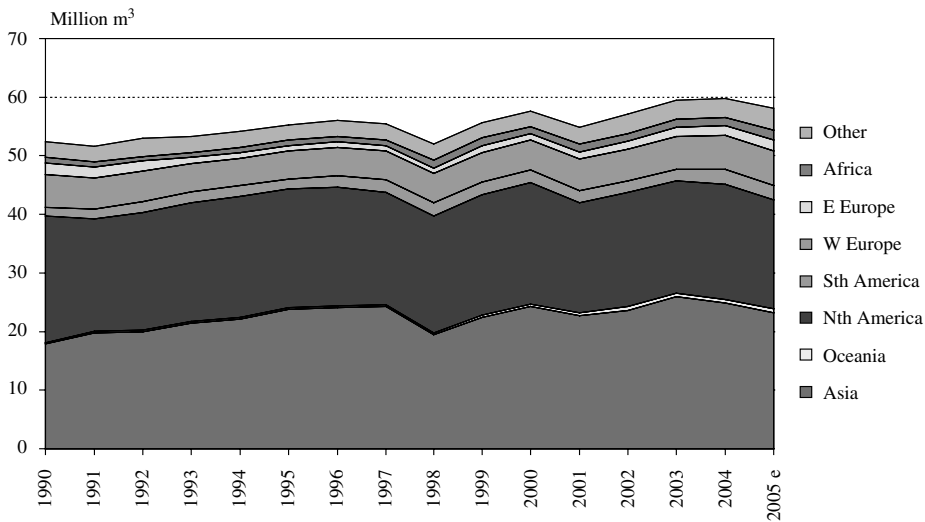
Looking forward, declining hardwood log availability will continue to drive a positive price environment and price increases over the coming years. The continued demand for logs by China and the growth of the Indian market will also be important factors providing a positive effect. Generally, prices are close to those achieved in the mid-1990s (in nominal terms) and the factors affecting the upward price trend are positive. Figure 4-6 and Figure 4-7 also illustrate the calculated future effect of a range of annual price increases (3%/a, 5%/a and 8%/a) on FY June 2006 nominal prices.

4.3 Plywood and Veneer

Plywood, laminated veneer lumber (LVL) and veneer production are very important products in Samling’s global sales, making up approximately 53% of revenue for the FY2006. Samling is one of the largest wood products companies by plywood capacity and plans to expand further capacity in these product areas.

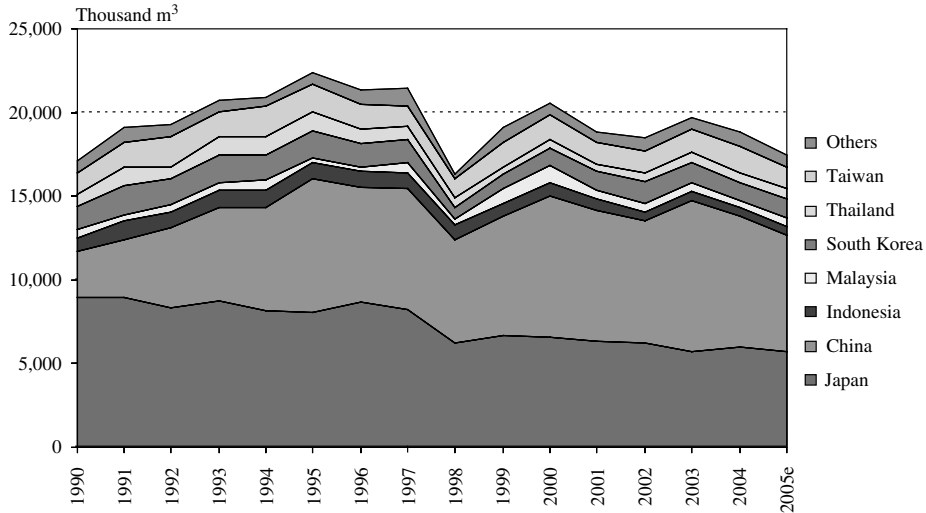
On a global basis, total plywood demand has remained relatively flat over the last decade and a half, amounting to close to 60 million m³ in 2005 (Figure 4-8). Plywood consumption in the Asia-Pacific region has grown by a modest 1.8%/a over the same period and represented approximately 40% of the global market or 23 million m³ in 2005. Similarly, hardwood plywood consumption in the Asia Pacific region has been relatively stable since the Asian crisis (Figure 4-9). China and Japan account for 42% and 34%, respectively, of total demand for plywood in the Asia-Pacific region and dominate the tropical hardwood plywood markets. Plywood consumption is mainly driven by the construction and furniture industries.

Figure 4-8:
Global Total Plywood Demand Development



Source: Pöyry

**Figure 4-9:
Asia-Pacific Hardwood Plywood Demand**



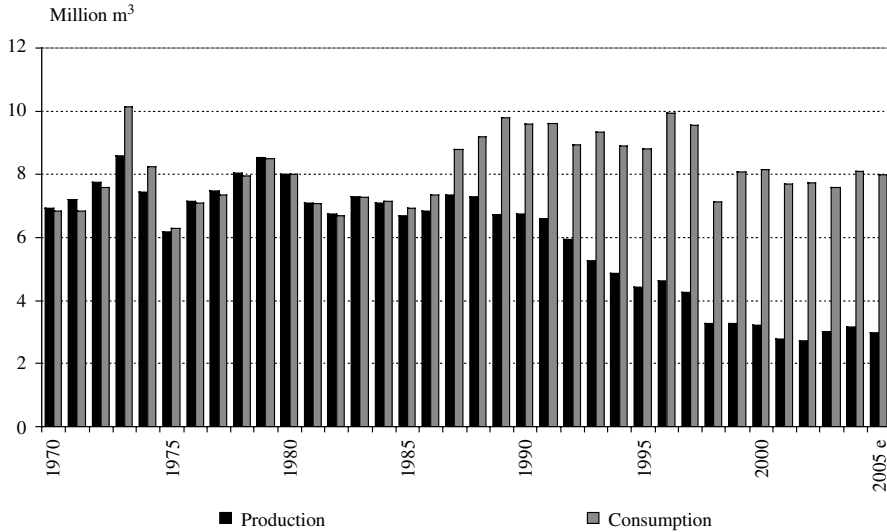
Source: Pöyry

One of the drivers of plywood demand has been substitution by other wood panels like MDF and particleboard. The price differential between plywood and MDF and particleboard has been a key factor in this substitution. Within the plywood segment, substitution also occurs between softwood, temperate hardwood and tropical hardwood plywood. However, in some end-use applications for tropical plywood, such as film-faced plywood, floor-base plywood, marine plywood and container flooring grades, there is a lower substitution threat. Therefore, there are some positive prospects for these products, in comparative terms, in the current market place.

Veneer is primarily manufactured for the production of plywood and accordingly market trends follow that of plywood. Veneer tends to be produced as a separate product that can be transported or exported to an area more conducive to plywood production. As plywood production can be very labour intensive, in many cases, veneers are exported to countries with lower labour rates, such as the Philippines.

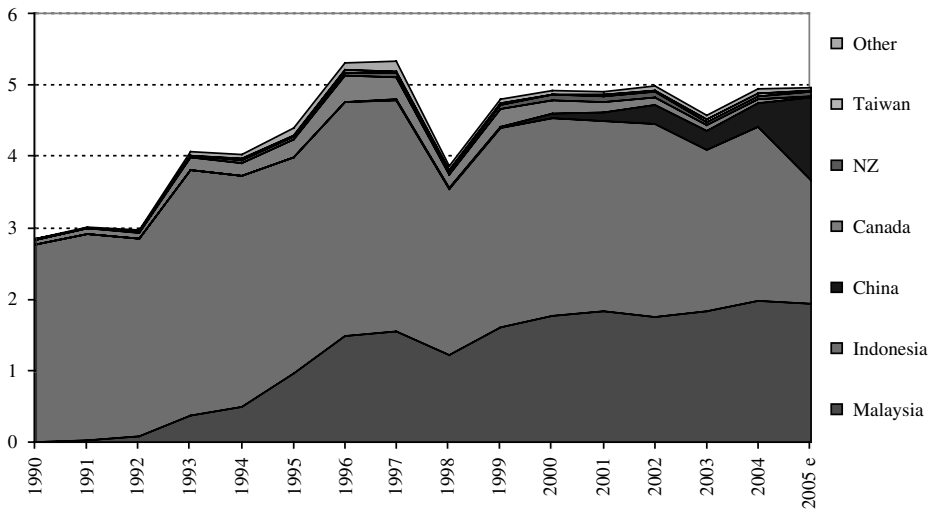
In Samling’s largest market, Japan, substitution trends for plywood appear to have stabilised at approximately 70% of total panel supply. The domestic plywood industry has down-sized considerably since the late 1980s, due in part to a decline in overall plywood demand over this period but more fundamentally as a result of poor cost competitiveness of domestic suppliers compared to imports (Figure 4-10). As domestic production declined, plywood imports increased substantially, opening the market for Malaysian and Indonesian producers (Figure 4-11).

Figure 4-10:
Japan Plywood Production and Consumption



Source: Pöyry

Figure 4-11:
Japan Plywood Imports by Country



Source: Pöyry

The Japanese market is Samling’s largest plywood market. The Company also produces a plywood related product, Laminated Veneer Lumber (LVL) and exports it to Japan. While total LVL demand in Japan is not expected to increase significantly from current levels, in non-structural applications in joinery and fixtures it is substituting for softwood timber, and partition framing is identified as a growing market.

Pöyry expects future demand growth for plywood in Asia to remain relatively flat, with less substitution by other products. Improving living standards linked to increasing GDP implies increased volumes of plywood consumption in flooring, interiors and furniture, among other end-uses.

Despite the recent improvement in economic growth in Japan, Pöyry anticipates that the long-term outlook in Japan is for declining housing starts which is likely to constrain demand growth. Offsetting this is increasing housing programme initiatives by several governments and improving housing standards in Asia. Strong economic growth, an expanding furniture industry and anticipated continuing housing construction activity in China are some of the factors that will support plywood demand. China's export oriented furniture industry has also been expanding and significant capacity investments have occurred in the industry.

Price Environment

Over the course of the 1990s, plywood prices have gone through two different phases. In the early 1990s, plywood prices increased significantly as a result of a rapid increase in demand and the effective management of the supply by influential industry bodies such as APKINDO, an Indonesian plywood trade organisation. As a result of the Asian economic crisis, however, consistent with other commodities, plywood prices fell sharply principally as a result of the decrease in economic activity (Figure 4-12).

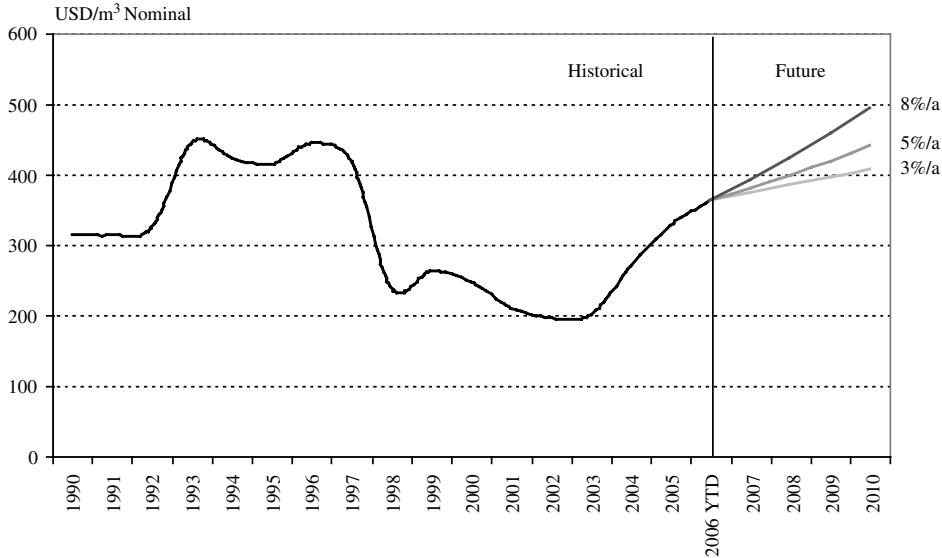
Prices have stabilised from 2000 onwards and, since 2003, have shown a clear upward trend as a result of some growth in demand within the region. There has also been an impact from increasing tropical log costs driven by the tightening supply situation (see previous discussion on tropical hardwood logs). In particular, the declining availability of logs and the rising costs of delivery in Indonesia have increased the price of Indonesian plywood. Plywood prices in Asia have increased by over USD150/m³ (16%/a increase) since 2003 as a result of these trends. Depending on plywood grade and thickness, there is still a difference of some USD20/m³ to 150/m³ in nominal terms between current plywood prices and those attained during the mid 1990s.

We expect plywood prices to continue to develop positively over the coming five years, supported by steady demand and rising log prices. While substitution trends from other wood panels place a limit on pricing behaviour, especially in commodity grades, plywood prices still tend to lead overall wood panel price developments.

In selected end-use areas (for example marine grade and container flooring plywood), plywood remains the preferred panel product and so has a superior price position and greater potential for price increase. While Samling continues to sell commodity grades of plywood, there is a move towards specialist grades such as thin overlay, floor base, marine and container plywood. Samling has been steadily developing its US market for fancy plywood and has plans to broaden its product range with species sourced from its Guyana operation, as well as producing oak and maple faced fancy plywood to augment the current range. The US market demands a high quality product and the Company plans to continue to emphasise product quality as a means of securing better customers and better prices.

We expect plywood prices to improve in real terms over the next five years, with the potential to increase further, driven by developments in log prices. Supply constraints created by increased attention to illegal logging and environmental forestry management are all positive price factors. Figure 4-12 also illustrates the calculated future effect of a range of annual price increases (3%/a, 5%/a, and 8%/a) on FY June 2006 nominal prices.

Figure 4-12:
Malaysia and Indonesia – Historical Plywood Prices¹ and the Calculated Future Effect of a Range of Annual Price Increases



Note:

¹ Plywood price trend from 1990 to 1995 is based on weighted average Indonesian FOB plywood prices for selected key export destinations. Plywood price trend from 1996 onwards is based on an average of a series of Indonesian and Malaysian FOB and domestic plywood prices for specific grades and thickness.

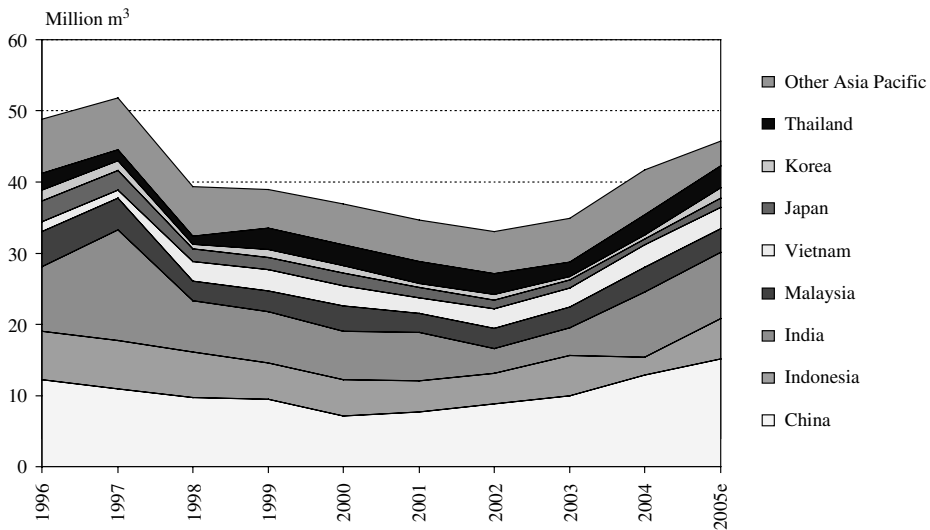
Sources: Historical data ITTO/APKINDO

4.4 Sawn Timber

Although sawn timber comprises only a very small part of Samling's current business, Samling plans to expand capacity in sawn timber and it is therefore expected to represent an increasing part of the business. Based on Samling's plans, production capacity of sawn timber is expected to increase significantly from its present level of approximately 50,000 m³/a to an appropriate capacity to process the expected saw log component from plantation developments over the years 2011 to 2020. Importantly, the expansion in sawn timber production will be based solely on plantation fibre, predominantly from the Malaysian plantation resource being developed, but also from the softwood resource in New Zealand.

Global demand for sawn timber has been growing steadily but slowly at approximately 0.7%/a over the period 1995 to 2005. Hardwood sawn timber consumption in Asia had been decreasing since 1997, in part due to restricted supply of suitable logs following protective forest policies implemented in the region (Figure 4-13). However, since 2002, demand has stabilised and increased and the Asia-Pacific region is expected to have a positive outlook with the continued upswing in economies of importing countries and the strong construction industry prospects in China and India. The construction and furniture industries are major demand drivers for tropical hardwood sawn timber products. For example in China, construction of new floor space (a measure of construction activity) has grown at an average rate of 12%/a over the past 10 years. China’s furniture production has grown at an average rate of 18%/a since 1995.

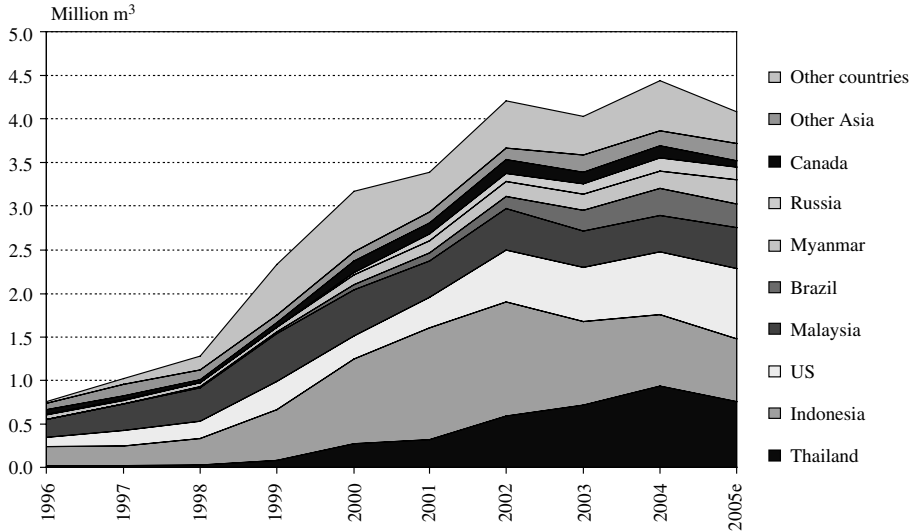
Figure 4-13:
Asia-Pacific Hardwood Sawn Timber Consumption



Source: Pöyry

China’s hardwood timber imports have steadily increased due to demand for timber outweighing domestic supply (Figure 4-14). Major suppliers of hardwood timber to China are Thailand, Indonesia, the US and Malaysia. Indonesia has been the largest supplier of hardwood timber to China since 1999, supplying a historic peak of 1.3 million m³ in 2002. However, with regulations on illegal logging and other pressures on the Indonesian solid wood industry, hardwood timber supply has fallen since 2003.

Figure 4-14:
China — Hardwood Sawn Timber Imports



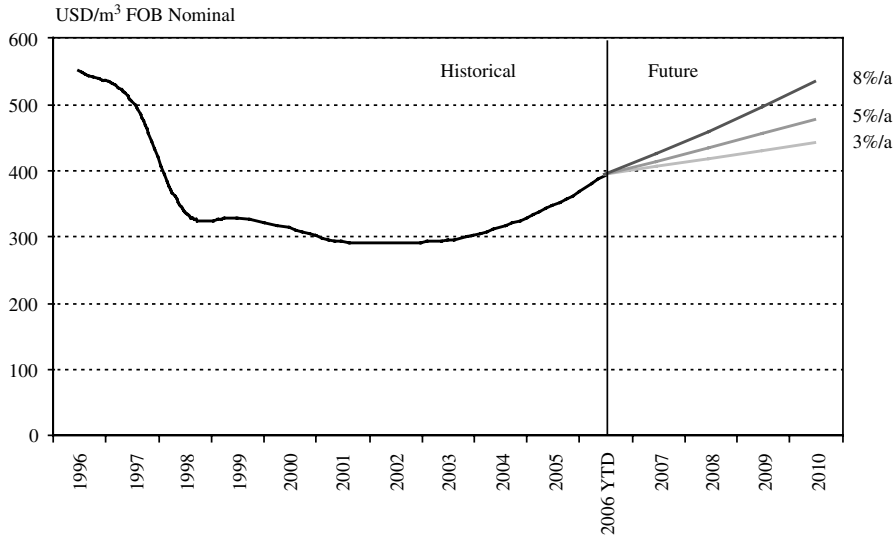
Source: Pöyry

On the other hand, Chinese imports from Thailand, the US and Brazil are rising noticeably. In China, domestic demand is requiring higher value species for the furniture industry, such as sawn timber from the US or Brazil.

In Pöyry's opinion, the region's future industry outlook particularly in China, India and Thailand will continue to be strong, suggesting that tropical hardwood demand in the region is expected to be robust in the coming years.

We expect future sawn timber prices to move parallel to log prices. Declining availability of hardwood logs will reduce sawn timber supply, which will push up prices. International demand is driving solid wood prices up, especially for tropical timbers. This is due to the lower supply of quality raw materials and increasing production costs. For example, Meranti timber prices in Malaysia have been increasing since the beginning of 2003 (Figure 4-15). Overall, we expect hardwood sawn timber prices to increase in real terms over the next five years as trends of increasing log prices continue to take effect. Figure 4-15 also illustrates the calculated future effect of a range of annual price increases (3%/a, 5%/a and 8%/a) on FY June 2006 nominal prices.

Figure 4-15:
Malaysia — Historical Domestic Meranti Sawn Timber Prices and the Calculated Future Effect of a Range of Annual Price Increases



Source: Historical data ITTO

4.5 Samling's Other Downstream Products

The sale of other woodbased products besides logs, plywood and veneer currently represent about 7% of Samling's business. These include door facings, housing products such as flooring and decking and other segments such as MDF. The Company's outlook and Pöyry's opinion for these sectors is described in the following section.

Samling's production of MDF in Malaysia is from tropical hardwood which has physical advantages over more conventional softwood and temperate hardwood MDF which increase the product's attractiveness for niche markets. Unlike MDF panels, which have developed into a global commodity, door facings made in a dedicated press is a specialised product holding niche status. Markets are chiefly located in Europe and North America, much of which can be considered as captive (door facing producers are also end-users of the product). Combined, these factors have led to a relatively strong demand and price situation for players like Samling who are aligned with major end-users. Given these developments, we expect that MDF and door facing prices to increase over the coming five years.

Samling's flooring production is based in Sarawak, Malaysia with both structural flooring and engineered flooring facilities. These facilities are export oriented and while they are important in the drive to increase the proportion of value-added products, flooring is currently a relatively minor proportion of Samling's global sales. Given the positive outlook for the consumption of flooring products, we expect prices for engineered wood flooring to increase over the coming five years. We expect selling prices for laminated flooring to also increase.

Furniture operations are a relatively minor component of Samling's processing capability. Furniture production is, however, one of the key drivers for Samling's wood products demand both for high quality tropical hardwoods as well as panel products.

On a global basis, trade in furniture has grown significantly in the last five years (2000 to 2004), with the European Union and the US accounting for 75% of global consumption. Imports of wooden furniture have been particularly strong in the US with annual growth of 15%/a over the last decade, five times the growth of sales from domestic production. In the Asia-Pacific region, China is the largest producer followed by Japan. Strong economic growth, increased urbanisation and improved living standards means that furniture demand in the Asia-Pacific region is expected to be strong.

4.6 Marketing and Competitiveness

The forest industry is highly competitive and Samling faces competition from a number of different areas. To date, the main competition from within the forestry industry has been from similar manufacturers located primarily within the Asia-Pacific region. Key to the future ability of competitors is access to suitable raw material. Samling, controlling large forestry concessions in Malaysia and Guyana and owning forests in New Zealand, has secured its future access to raw material. This will provide a key competitive advantage to Samling. The substantial amount of infrastructure required to develop large new forest areas limits the possibility of significant new entrants to the industry.

In addition to on-site raw material availability for the majority of the processing plants, Samling further benefits from the low cost base of these locations, particularly for wood and labour.

There is the potential competition from wood products that are substitutes for tropical hardwood forest products. These include products made from temperate hardwood, softwoods or plantation species. Samling's diversification into ownership of softwood plantations in New Zealand and planned plantation developments in Malaysia can mitigate substitution effects.

There is also the potential for competition from non-wood product substitutes, such as metals, plastics and ceramics, used as alternative materials mainly in construction and furniture manufacturing. Samling's success in maintaining or expanding its market position against these potential substitutes is closely linked to the ability of the global forest products industry to continue to present wood products as an attractive, sound and cost effective alternative. However, whilst wood products do face substitution threats, the risk of sudden, large scale substitution of wood products by a non-wood products is regarded as small, as this would require a massive change in consumer demand and industry structure.

5 CURRENT OPERATIONS OF SAMLING

Samling's current operations are defined as those assets that are built and/or are in established production as at the time of this review. Specifically, they include:

1. The Sarawak natural forest concession licenses and completed processing facilities
2. The Guyana natural forest concession license, harvesting rights and completed processing facilities
3. The New Zealand forest plantation
4. The China processing facilities

Detailed sections on each asset follow. Each concentrates first on the current situation as at the end of June 2006 and then looks at how Samling might manage the asset in the future over both the short and medium term.

Where relevant, the environmental aspects of the forestry operations are covered in each section. For the processing operations, a limited check was made to ascertain that environmental regulations for each respective country were being adhered to. Pöyry found no evidence of any significant infringements against the relevant country's regulations.

5.1 Malaysia

5.1.1 Forest Concessions

Introduction

Samling has held concession licenses allowing the selective logging harvest of natural forests in Sarawak since 1976. These licences are known as timber licences or sometimes T-licences. At the present time, the Group holds licenses covering a gross area of 1.424 million ha¹.

Total woodflow from these timber licenses is controlled by an annual production quota of logs assessable for royalty payments set by the Sarawak Forestry Corporation, part of the Sarawak Forest Department. For the financial year ended 30 June 2006, the total combined quota was set at 1.783 million m³. The woodflow from this production quota goes either to export, the Company's own local veneer/plywood mills and sawmills or third party, non-Samling domestic purchasers.

¹ Gross areas, net operable areas and woodflows do not include contracted portions of timber licence T3173.

Site Visits

Pöyry conducted a site visit of Samling's natural forest concession timber licenses in April/May 2005. Staff members spent time becoming familiar with the forest resources and reviewing information provided by Samling through management accounts, royalty payment sheets and other miscellaneous sources. Verification methodology included both aerial and ground inspections plus discussions with available Samling staff and cross referencing with other industry information held by Pöyry. A second brief review was completed at the end of August 2006 where specialists assessed relevant updated data and information. A comprehensive survey or forest inventory was not undertaken.

Asset Description

The asset comprises the area of the combined 15 forest concession timber licenses currently held by Samling that allow for the selective logging of the natural forest. These timber licenses are issued and administered by the Sarawak Forest Department through the Sarawak Forestry Corporation. This body sets the rules and monitors activities under which production can take place.

The current gross area of these timber licenses is 1.424 million ha. Within this total gross area, Pöyry estimates that there is a current productive net operable area (or "loggable" area) of 0.908 million ha. Samling also holds plantation forestry licenses that overlap some of these concession licences. Within these plantation licenses are areas of natural forest (145,000 ha) that can be included under the timber license selective logging rules. As the last areas for plantation development will be reorganised by 2008/9, the total net operable area will have declined slightly.

The difference between gross area and net operable area is accounted for in allocation of areas to:

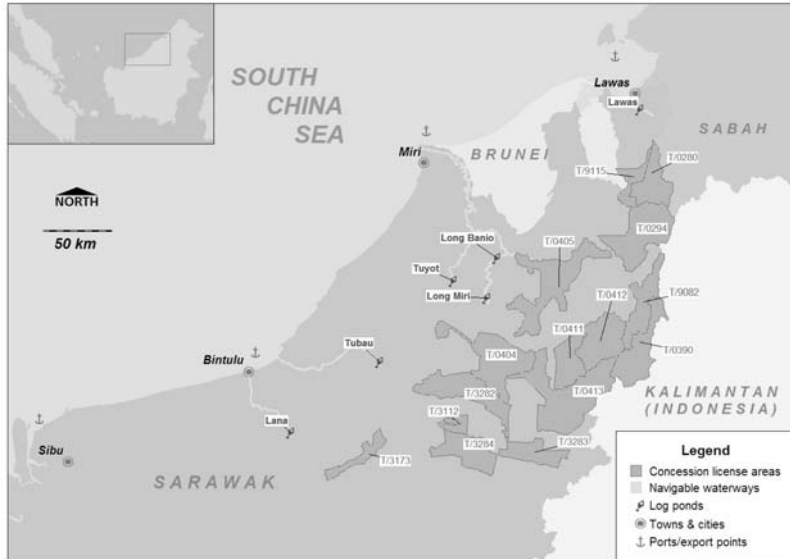
- Plantation establishment
- Low yielding forest e.g. "kerengas"
- Extreme steepness liable to land slides
- Shifting agriculture and formerly declared native customary reserves (NCR)
- Water catchment reserves, and
- Other reserves e.g. social, environmental and border buffers

Minor differences may be apparent between the gross area and net operable areas as defined in the original timber license agreements and those itemised in this ITR. The concession agreement's data often comes from original mapping done up to 30 years ago and includes areas that, for instance, are now part of other parties' oil palm plantations. The ITR uses data provided from current mapping and surveys by Samling and the Sarawak Forest Department/Corporation. We consider this to be a more accurate representation of the current situation. It has been endorsed by the Sarawak Forestry Corporation as part of formal plans submitted by the Company.

Generally, areas that have been recognised as being worthy of reserve status have been identified and removed from productive status within the gross area of the forest resources. These areas may be given this reserve status either through having significant conservation interest, having social, historic or recreational values or having been identified as environmentally sensitive. There is a potential that further areas will be identified and required to be removed from the productive forest area, thus affecting future wood supplies. This status change may be mandatory or may arise from proactive discussions between Samling, the Sarawak Forest Department and interest groups.

Current license areas are shown in Figure 5-1. Forest concession timber licences in Sarawak are for a fixed period and at the end of this period require renewal. This renewal is at the discretion of the Sarawak Forest Department. Of the licences currently held by Samling, one of a gross area of 21,205 ha (1% of total gross) requires renewal in 2007. Then 454,105 ha (32%) requires renewal between 30 June 2008 and 30 June 2012, a further 744,190 ha (52%) between 30 June 2013 and 30 June 2017. The remaining 204,895 ha (14%) is due for renewal by end August 2018. In November 2005, Samling requested the amalgamation of two licences in the Lawas region, numbers T/0299 and T/0298. This has been granted by the Forestry Department and the license details sighted (T/9115). When a license expires and is due for renewal, it can normally be presumed to be reissued to the same licensee unless issued for plantation development, or if the requirements of the licence have not been fulfilled.

Figure 5-1:
Samling Sarawak Concession Timber License Area Locations



Source: Pöyry

Samling has been operating as a concession holder since 1976 and to date has not lost access to a concession area because of requirements not being fulfilled. To date, timber licenses have rolled over upon expiry, but there is the risk of this not happening in the future. Samling can seek to manage this through continued liaison with the relevant forestry departments. Non-compliance with license stipulations could also affect non-renewal or, in extreme circumstances, licenses being revoked.

The resource within the concession licenses range from low to mid-altitude mixed dipterocarp to sub-montane forests. From its field inspections, Pöyry estimates that some 18% of the net operable area is primary forest and the remainder (82%) has been selectively logged at least once.

Much of the forest management operations are controlled by the timber license agreements between the licensee and the Sarawak Forestry Corporation. There are a series of general and annual plans which the concessionaire must produce and have approved. These plans include a formal system for the entry into licensed areas in order to start production and for the closing of areas after production has been completed. These area units are known as coupes and are operationally broken down into blocks. The logging operation would ideally move through the designated blocks in a prescribed order.

Log harvesting is done on a selective system whereby merchantable stems equal to or greater than the minimum allowable diameters can be cut. For dipterocarp species, this minimum diameter is 60 cm at a point 1.3 m on the upper slope side of a tree, or 70 cm above buttress height. For non-dipterocarp species, it is 45 cm measured at the same point(s).

The Sarawak Forestry Corporation control extends to a process of setting the annual level of volume production for each of the concession units. This annual production level is known as the production quota and is measured at the point where the logs are inspected by the Sarawak Forest Department and the royalty is paid.

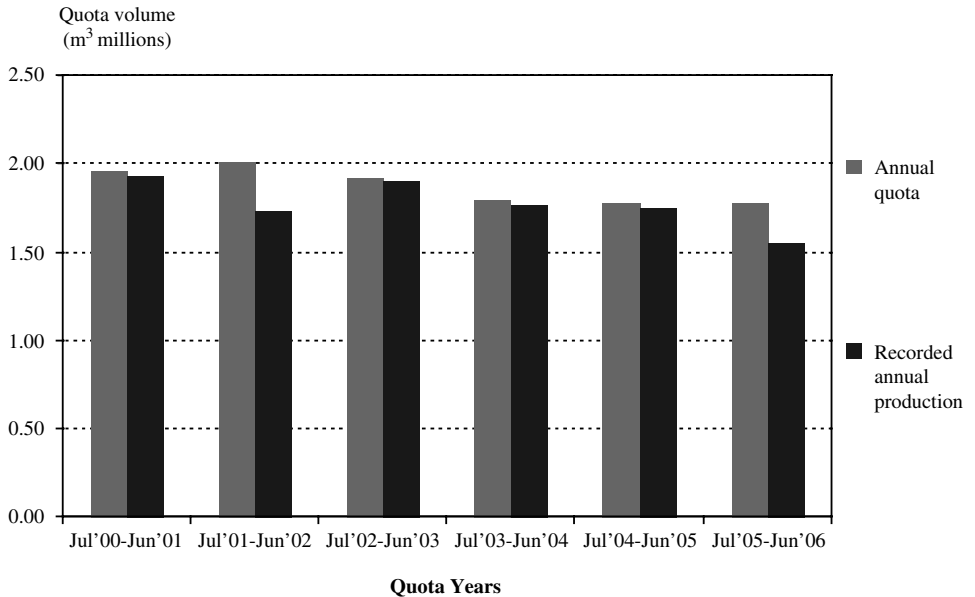
Quotas run in years from July to June annually. The 2005/6 combined quota for all concessions of 1.783 million m³ is applicable to the current net operable area of approximately 908,180 ha. This equates to a cut on an annual basis of 1.96 m³/ha/a.

At the time of writing, no revised 2006/7 quota had been issued. For the purposes of this report, we have assumed that the production quota will be as per 2005/6 going forwards.

Harvest History

Over the past five years, the quotas have ranged from between just over 2 million m³/a, and the 2005/6 amount of 1.782 million m³/a (Figure 5-2). An analysis for recent periods (2000/01–2005/06) shows that except for the 2001/2002 and the recent 2005/6 periods, Samling's production has been within 1% of quota requirements. The 2001/2002 quota period coincided with one of especially poor international log prices and as such, production was limited from the concession licenses furthest from the points of sale. The 2005/6 production figure was constrained by the extremely wet weather experienced in early 2006. Total sales production for the financial year ending 30 June 2006 was about 1.6 million m³, 97.7% from ground based tractor extraction and 3.3% from helicopter logging.

Figure 5-2:
Samling Annual Log Production to Quota (2000/1 – 2005/6 Year to date (YTD))



Sources: Samling and Pöyry

Note: Does not include helicopter logging and contracted woodflows from T3173, includes Dayalaba Sdn. Bhd. and Merawa Sdn. Bhd (T0390).

Table 5-1 provides a species breakdown from current production and their main end-uses.

**Table 5-1:
Recent Historical Species Composition (1 July 2005 – 30 June 2006)**

Common Names	Current Proportion of total log volume harvested	Log Usage
Yellow and red merantis, luis all shorea spp. (all dipterocarps)	25.8%	Plywood mills take all but lower grade, also sawn and exported.
Kapur (dipterocarp)	4.5%	Plywood mills take all but lower grade, also sawn and exported.
Keruing (dipterocarp)	2.7%	Plywood mills take all but lower grade, also sawn and exported.
Selangan batu/yellow balau (dipterocarp)	2.7%	Currently all exported or 3rd party sales
Mixed light hardwoods (various) (dipterocarps + non dipterocarps)	55.5%	Plywood mills take all but lower grade, also sawn and exported.
Bindang (Agathis spp.) (non dipterocarp)	6.5%	Can be used for plywood, but mainly sawn and exported
Menggris (non dipterocarp)	2.3%	Not currently exported or used for plywood, but sawn and 3rd party sales only.
	100%	

Sources: Samling and Pöyry

Note:

For marketing purposes, logs are further classified by grades according to size and characteristics. It should be noted that as harvesting moves from un-logged to previously logged forest, the percentage of the larger size grade logs reduces.

Wood Flows

The level of production quota set by the Sarawak Forest Department defines the estimated woodflows. The current combined quota for all concession timber licenses approximates to an annual level of cut of 1.96 m³/ha/a per net operable ha for merchantable logs. From the financial year 2006/7, Pöyry anticipates that there will be a further slight re-adjustment of the net operable area due to plantation license development in the Lawas region, down from 908,180 ha to 907,866 ha. This is then taken as the net operable area going forward and assumes all licenses roll-over to Samling and no further areas are removed for plantations or other reasons. Given this area, the annual production quota should remain very similar at about 1.772 million m³/a.

The long term sustainability of this production quota is of critical importance. Estimates of the level of annual cut or annual allowable cut that forests can sustainably support vary widely. Unlike a monoculture plantation, natural forests have additional levels of variability covering:

- Species composition
- Species biology/ecology
- Multiple age-class structures, and
- Large and diverse soil and topography conditions over extensive areas

In order to formally calculate an annual allowable cut level, data is required from an extensive network of inventory plots enumerated over long periods of time and encompassing all the above variability. Often, this data is simply not available. In this case, there was not enough data to form an opinion on the appropriate growth rates. The calculation of such an annual allowable cut is one of the tenets of forest certification, such as that of the MTCC scheme.

Trees felled in the forest are extracted, converted to logs and transported by forest roads to barging sites (log ponds). From the log ponds, logs are barged to Miri or Bintulu for either export or for processing in Samling's veneer mills, plywood mills and sawmills. This part of Samling's business is largely dependent on the productivity of the forest concessions. It is a critical assumption of this report that Samling will meet its expectations of yield in all of volumetric, species and log grade mix from these forest resources. This applies equally to Samling's natural forest concessions discussed here and elsewhere in this ITR, as well as its plantation developments. The potential of these expectations not being met can be mitigated through managing its forest resources on sound forest management principles. Forest certification by internationally recognised bodies is a way of demonstrating that these management practices are in place. In Malaysia, a certification process has been completed in part of one concession.

Production Costs

To harvest the 2005/6 production quota year annual amount of approximately 1.783 million m³/a, a large infrastructure has been developed, consisting of offices, housing, workshops, roads and bridges. Although a detailed survey was not carried out, Pöyry considered the general condition of the plant and infrastructure to be good, with evidence of appropriate capital spending. A large fleet of equipment is operated to maintain the infrastructure and to harvest and transport the logs. Samling's contractors operate a large fleet of equipment and, as such, get the benefit of preferential service and pricing from suppliers.

During the field inspection, Pöyry was able to see some of the plant items in operation and the workshop facilities. The equipment that was seen indicated an adequate level of preventative maintenance.

Pöyry estimates the current average production cost (weighted by volume) for the recent period of July 2005 to end of June 2006, from all concession timber license areas at USD84.7/m³ delivered to point of sale. This includes depreciation of contractor and concession company plant items and all overheads (Table 5-2). The delivered wood costs also include the costs for road construction and maintenance. Pöyry has taken the cost data from Samling's FY June 2006 management accounts and other financial information.

Table 5-2:
Weighted Average Historical Production Costs (FY 2005/6) all Destinations

<u>Component</u>	<u>USD/m³</u>
Delivered wood costs	70.6
Royalties	13.7
Overheads	0.4
Total	84.7

Sources: Pöyry and Samling.

Note: These figures include depreciation in the delivered wood costs, USD9.2/m³ from the contractors and USD4.6/m³ from the concession companies. Costs are for ground extraction only.

Production costs will be materially affected in the future by, amongst others, three primary factors:

1. The location of processing facilities. The SIF veneer mill located in the vicinity of licences T/0390, T/0412 and T/9082 will have the capacity to take a significant proportion of the veneer log production from these licences. This will take away the need for haulage to the distant log ponds and the forwarding costs of barging the logs to Miri as was previously the case. Similarly, the new veneer mills at Layun and Tebanyi (see map in Figure 5-3) will be able to take a proportion of the veneer log production from other Baram Valley concessions with similar real cost reductions. The Tebanyi natural forest sawmill will have a similar effect on saw grade logs from all these concessions. Note that these cost savings will not apply to logs destined for export.
2. Pöyry anticipates a slight production cost increase in real terms in the future for those concessions that are completing their cut of primary forest and moving to re-entry and subsequent cuts. This is because the second and subsequent cuts have lower per hectare yields, thus reducing the productivity of the logging machinery. This will affect the delivered cost of all logs regardless of their point of sale/transfer. This increase is shown in the estimated export productions costs in Table 5-2.
3. Harvest and transport operational costs will also change with any future fuel and oil price fluctuations.

Samling pays a royalty and a premium tax to the Sarawak Forest Department. As with its other international forest concessions, the royalty rates and premium level per recovered m³ is dependent on the tree species group and the individual concession of origin. Higher value species attract higher royalty rates. These rates are subject to change and any change would directly or indirectly have an impact on the cost of wood.

Table 5-3:
Volume Weighted Average Royalty and Premium Costs (FY 2005/6)

<u>Common Names</u>	<u>Total USD/m³ (Royalty + Premium)</u>
Yellow and red merantis, luis all shorea spp. (all dipterocarps)	25.4
Kapur (dipterocarp)	16.7
Keruing (dipterocarp)	18.2
Selangan batu/yellow balau (dipterocarp)	11.1
Mixed light hardwoods (various) (dipterocarps + non dipterocarps)	8.5
Bindang (Agathis spp.) (non dipterocarp)	11.1
Menggris (non dipterocarp)	8.1

Sources: Samling and Pöyry

Log Markets

Logs coming from the concession license areas flow through to one of four end-use categories.

1. Export
2. Samling plywood and veneer mills
3. Samling saw mills
4. Other domestic buyers (third parties)

Approximately 36%⁽¹⁾ of production is of current export specification logs from concession selective logging under the Timber Licences. Presently, government regulations stipulate that companies are not permitted to export more than 40% of the total quota production. Export percentages are assumed to fluctuate in the future as Samling's processing capacities change and wood becomes available from different sources.

⁽¹⁾ This figure refers strictly to production from forest concession timber licences and does not include salvage volumes or helicopter logging.

For the purposes of this report, logs destined for Samling plants are assumed to be transferred at cost. Those exported are sold to the open market on a Free On Board (FOB) basis to log ships anchored at Bintulu, Miri or Lawas ports. Third party sales are assumed to be bought from log ponds or coastal mill sites also at prevailing open market rates.

Management Review

During the field inspection in April 2005, Pöyry's staff met a wide cross section of Samling's concession license employees. The majority appeared competent and experienced in natural forest logging operations.

Samling utilises a number of management tools, including a geographic information system that is used for the production of the planning maps in accordance with the license procedures. It also uses a log tracking system to manage log inventory and to prevent theft. The inventory based planning systems in place currently fulfil license requirements.

Environmental Concerns

Environmental concerns have become increasingly important and the forestry industry is put under close scrutiny by both local and global environmental organisations. In some end-use markets, mainly in developed countries, this has resulted in pressure on large retailers and local, regional and national bodies responsible for procuring wood products, to specify that material is independently certified as coming from "well managed" or sustainable forests. In these markets, it is important to meet these requirements as failure to do so could restrict market access.

Additionally, forestry and manufacturing operations are subject to the environmental regulations of the countries where they are located. Any violations to the various laws and regulations could have legal and cost penalties and could put the Company in breach of existing agreements.

Compared to Samling's other forestry operations, there is a higher potential for encroachment and land tenure disputes from the local population on concession and license land in Malaysia. There have already been, and continue to be, instances of this in Sarawak. Samling has been proactive in cooperating with the local community and government agencies, which limits the potential for the expansion of shifting agriculture and settlements and/or loss of access rights due to land disputes.

Illegal logging has become a focus of international attention. It undermines efforts for sustainable forest management and distorts forest product markets to the detriment of legal producers. Samling has systems in place to monitor the occurrence of illegal operations within its concession boundaries through inventory control and aerial surveillance.

Certification

The Malaysian Timber Council Certification (MTCC) scheme is a national certification scheme that is accepted by some countries outside of Malaysia. The scheme has recently been recognised by the UK Government as a certification of legally harvested timber. The Malaysian Government is continuing to seek wider acceptance of this scheme by other foreign countries through the Programme for the Endorsement of Forest Certification (PEFC).

As at end June 2006, part of one concession license (T/0412) with a gross area of 55,949 ha (net operable area of 31,390 ha), is certified under the MTCC. This is the only forest in Sarawak certified under any scheme at the present time. Pöyry's consultants who visited this particular concession area were impressed with the overall standard of the operations and, in particular, the reduced impact logging practices.

Samling has gained experience in reduced impact logging techniques whilst operating in the MTCC certified license area and has informed Pöyry that it wishes to extend the area covered under this scheme, subject to collaboration with the Sarawak Forest Department.

5.1.2 Export Log Business

Introduction

Samling assembles and exports from three load ports in Sarawak (Bintulu, Miri and Lawas) to customers in Japan, China, India, Korea, Vietnam and Taiwan. Each shipment size varies considerably. In Pöyry's view, Samling's export log business was efficiently run, with systems and infrastructure in place to keep pace with any future changes in export volumes.

Site Visits

Visits to the Tuyot log dump/pond and the lower Miri River export log storage area in northern Sarawak were made by Pöyry in April 2005. In Sarawak, Samling provided Pöyry with an overview of its export log operations and discussions were held with Samling's General Manager for log exports.

Production Costs and Prices

According to cost information that Samling made available to Pöyry for financial year end 2005/6, the average costs of harvesting, transport and loading export logs was higher than the overall weighted average of USD87.4/m³, the bulk of the variance lying in the royalty rates. The current weighted average selling price for Samling's log export business is USD145/m³ FOB with specific prices varying depending on log specification and market. Samling's log export prices are currently considerably higher than prices obtained in the domestic market (USD78/m³ delivered to mill gate for ground based extraction).

5.1.3 Plywood Business

Introduction

Samling operates four plywood mills in Sarawak, Malaysia. Pöyry inspected the plywood mills and found Samling Plywood Bintulu, Samling Plywood Miri, and Samling Plywood Baramas to be operating well. Rindaya Plywood was still in a start up phase at the time of the visit. The general condition of the plywood mills was good and they were well managed. All mills have adequate wood supply at low cost and production is currently close to the design capacities of the mills. Product quality is good and the plants are well positioned to supply the major markets in Asia and further a field.

Site Visit

Pöyry visited Samling Plywood Bintulu, Samling Plywood Miri and Samling Plywood Baramas' mill operations during April and May 2005. In January 2006, Pöyry also visited Rindaya Plywood in Sibü. During July 2006, additional data and information on the four plywood plants was made available for inspection. Information sources included data from Samling's FY June 2005 audited accounts, FY June 2006 management accounts and other financial information, mill records, discussions with management and site staff, Pöyry's databases and third party data.

Current Asset Description

Samling's current assets for plywood making in Malaysia are described in Table 5-5. Figure 5-3 shows the geographical location of these plants.

Table 5-4:
Plywood Facilities as at 30th June 2006

<u>Country/State</u>	<u>Location</u>	<u>Name</u>	<u>Start Date</u>	<u>Capacity ('000 m³/a)</u>
Sarawak	Bintulu	Samling Plywood Bintulu (SPB)	1992	252
Sarawak	Miri	Samling Plywood Miri (SPM)	1993	132
Sarawak	Miri	Samling Plywood Baramas (SPK)	1992	126
Sarawak	Sibü	Rindaya Plywood	2006 ¹	84

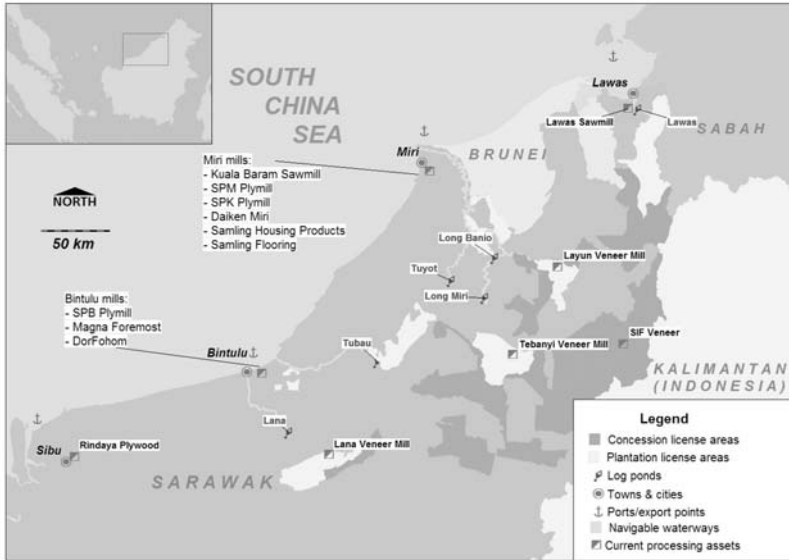
Source: Samling

Note:

¹ Original start up date is assumed to be 1997. The plant had been de-commissioned for some time. It was recently purchased by Samling and recommenced operations in January 2006.

All four mills produce a range of plywood, in both 4x8' and 3x6' sizes. SPM predominantly uses Japanese made plant and equipment, with Japanese made peelers, driers, veneer handling and composing lines. SPK is a mixed equipment mill, consisting of Japanese made peelers, Korean made driers and Japanese/Taiwanese made veneer handling and composing lines. SPB is a plant complex comprised of two separate, but very similar factories in terms of equipment and capacity. As with SPK, the plant has a mixture of Japanese, Taiwanese and Korean equipment. Rindaya Plywood has been recently taken over by Samling, refurbished, and is now operating with a mixture of equipment of various ages including Japanese peelers, Japanese and Taiwanese dryers, veneer handling and composing lines. The design capacity of the plants is a nominal figure based on a specific panel thickness and panel type, a fixed number of working shifts and operating days per year. Actual production will vary depending on order size, what is being produced and how many days and shifts the plant actually operates.

Figure 5-3:
Current Processing Assets Location — Sarawak



Source: Pöyry

Production Costs

Table 5-6 summarises the current operating position for the plywood plants. Logs are a major cost component for the manufacture of plywood. The proportion of the log volume that is recovered in the finished plywood product (recovery rate) is therefore a critical aspect affecting both the cost and required log volumes and is dependent on the quality and dimensions of the logs. Logs for SPK and SPM come almost exclusively from Samling's own natural forest concessions. In the case of SPB, logs come from third party sources as well as from Samling. Rindaya is obtaining logs only from third party sources and this typically happens only during the start up phase. Presently, SPK has almost completely converted to using veneer as the raw material (a small volume of 2,000-4,000 m³ of logs is still being processed at the mill). The Company has advised that this is expected to continue in the foreseeable future.

**Table 5-5:
Current Operating Position as at 30th June 2006**

<u>Name</u>	<u>Capacity (^{'000} m³/a)</u>	<u>Production (^{'000} m³/a)</u>	<u>Capacity Utilisation %</u>	<u>Recovery Rates %</u>
Samling Bintulu Plywood (SPB)	252	222	88	42
Samling Plywood Miri (SPM)	132	115	87	49
Samling Plywood Baramas (SPK)	126	110	88	NA ¹
Rindaya	84	12	14	42-48

Note:

¹ SPK has largely switched from the processing of logs for veneer production to the use of veneer for its plywood production.

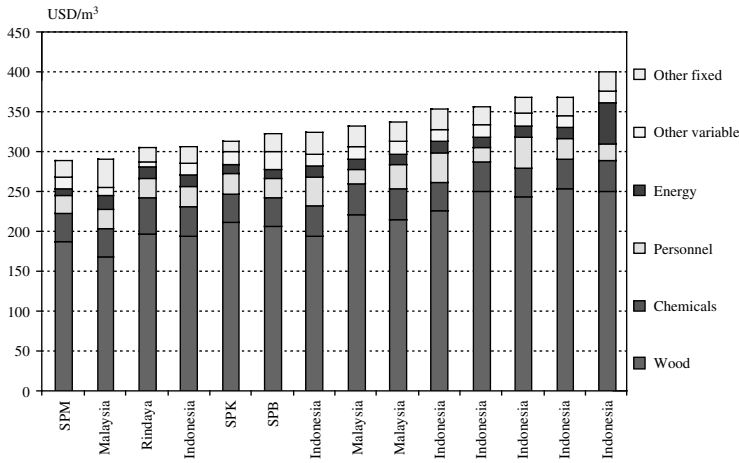
Source: Samling

Wood supply to the plywood plants and to all other operations that rely on logs delivered from Samling's own or third party concessions can be temporarily interrupted as a result of deterioration in the infrastructure (through the effects of weather or otherwise) in place for delivering those logs. In particular, this is a potential operations issue within Malaysia. Samling operates a supply chain system utilising different transport mechanisms (road and river) and the strategic stockpiling of logs. When weather affects one part of the supply chain, logs can continue to be transported from depots in unaffected areas. Samling is also constantly investing in the maintenance of its infrastructure to keep transport networks in good order. However, despite these measures, long periods of high rainfall will disrupt log supply.

Other key inputs to the operation are resin and power. The main resin supplier for all four operations is based in Kota Kinabalu. Power for all four plants is supplied from the national grid.

Samling’s plywood operations are well organised with overall relatively modern mills. This has allowed Samling to produce quality plywood at competitive costs. Samling’s operations compare favourably with the competitive position of other producers (Figure 5-4). In particular, SPM’s variable cost structures compare well with other tropical hardwood plywood producers in the region. This could mainly be attributed to a good quality log supply and a corresponding good recovery rate, a well-trained workforce and effective utilisation of residues for the creation of heat. All these factors have enabled Samling’s plywood operations to supply the markets with high quality products at competitive prices.

Figure 5-4:
Plywood Cost Competitive Position of Samling’s Operations



Sources: Pöyry and Samling

Note: Delivered log prices for all mills are at market rates for comparison purposes.

Data on SPK was taken on 28th Feb 2006 prior to complete conversion to veneer feedstock. Wood costs are presently higher than when the plant was operating on logs alone. Comparisons are made only with relevant businesses, of which for example we have identified 7 in Indonesia.

Presently, the plants enjoy recovery rates expected for the standard of the resource being processed at each plant. SPM is currently operating at a 49% recovery rate. As generally smaller diameter logs are processed at SPB, the recoveries there are slightly lower at 42%. At Rindaya, plywood recoveries are presently between 42% and 48%. As Rindaya has only been operating since January 2006, it is still very much in the process of starting up. Operational performance typically shows greater fluctuation during this period. Given that the average diameter of logs processed at the plant are between 40 cm and 45 cm, recovery rates are likely to settle at percentages closer to that at SPB. Pöyry anticipates that over the coming decade, the log diameters will continue to reduce. As a consequence, recovery rates at SPM, SPB and

Rindaya are expected to decline. All plywood producers in the region will face this same issue and naturally, the wood cost component of the manufacturing cost will increase as a consequence. The average recovery rate at SPM is expected to trend towards 45% and between 40% and 45% at SPB and Rindaya, though this may be mitigated depending on the level of investment made by Samling to improve recovery.

We expect that log costs will increase over the long term as harvesting distances change. Combined with declining recoveries, this will lead to a rise in the wood cost component at each respective mill. Consequently, Pöyry expects that the overall cost of production at the four plants may increase in real terms in the future. We anticipate that other production costs at the plywood mills should not go up significantly in real terms over the coming years. Nonetheless, the current and future costs related to Samling's plywood and other processing and forestry operations are vulnerable to external factors. The principal factors outside the control of Samling are shipping availability and the cost of oil and its effect on fuel prices in transport and power generation and oil derived raw materials such as resins. Any increases incurred that were not recovered through increased product prices would have an adverse effect on financial performance.

Samling plans to continue to re-invest in its operations to maintain high levels of product quality, manage recovery and maintain costs at acceptable levels to remain a globally competitive plywood producer. Further details on costs can be found in Table 7-4.

In Pöyry's opinion, the current management at each plywood mill is well organised and highly competent. The plants have their own management, maintenance, quality, training and health and safety systems. Management systems are designed to comprehensively monitor plant performances. A number of key performance indicators are tracked and reported on a monthly basis. In particular, management and management systems at SPM, in Pöyry's opinion, are exemplary. This has contributed significantly to the low production cost and high product quality at that mill.

Realised Prices

Current weighted average FOB prices (From Samling management accounts FY June 2006) are:

- USD363/m³ for SPM
- USD358/m³ for SPK
- USD368/m³ for SPB
- USD364/m³ for Rindaya

Plywood sales are only just starting from Rindaya and as such, present selling prices are not an accurate reflection of the expected prices to be achieved at this operation.

Certification

SPM, SPB and SPK Samling are ISO certified (ISO 9001:2000) and comply with the ISO standard. The mills also have JAS certification and regularly undergo compliance inspections from certified inspectors. In addition, SPK has MTCC Certificates for Forest Management (T/0412) and for Chain of Custody (Table 5-7). Rindaya is in the process of securing JAS and ISO certification. Samling indicate it will take around 12 months to obtain these.

**Table 5-6:
Samling Product Certifications for Plywood**

Certificate	Location	Purpose
ISO9001:2000	Samling Plywood-Bintulu, Baramas and Miri	For plywood manufacturing
Japanese Agricultural Standard (JAS)	Samling Plywood-Bintulu, Baramas and Miri	For regulation of formaldehyde emission for panel products to Japan
CE Marking	Samling Plywood-Bintulu and Baramas	For plywood used in construction for European markets
MTCC Certificate for Chain of Custody	Samling Plywood Baramas	An independent assurance that the product from the mill is derived from legal and sustainable forest resources

Source: Samling

Achieving these certifications provides Samling's plywood operations with an important competitive advantage, particularly in export markets.

Future Operating Potential

From past performance, Pöyry envisages that SPM, SPB and SPK can comfortably produce plywood at approximately 85% to 95% of design capacity on an annual basis without the need for investment in additional capacity. We consider this capacity utilisation good by industry standards. Rindaya has only recently started operations, so the mill presently has no production track record. However, given the operational performance of existing well established lines under Samling's management, we expect that the plant should reach a capacity utilisation similar to SPM or SPK once the plant has gone through its start up phase.

5.1.4 Veneer

Introduction

Samling operates four veneer plants, all of which are located in Sarawak and have started operations within the last three years. The first plant in operation was the Tebanyi veneer mill built close to the Tebanyi base camp inside the forest concession. The second plant, Lana, has been in operation for two years. The Layun and SIF plants are the most recent to be commissioned and have been operating for less than one year. Pöyry has visited all four mills. The general condition of the veneer mills is good and they are well managed. The veneer mills are well positioned for initial utilisation of the logs arising from clearing for plantations and the subsequent use of plantation resource. This reduces log costs and transportation costs of the finished dried veneers are minimised. The building of the mills inside the forest resource demonstrates Samling's commitment to maximising utilisation of the forest resources.

Site Visit

Pöyry visited the Lana and Tebanyi veneer mills during April and May 2005. During July 2006, Pöyry also visited the Layun and SIF veneer mills and reviewed additional data and information pertaining to all four veneer plants. Information sources included data from Samling's FY June 2005 audited accounts, FY June 2006 management accounts and other financial information, mill records, discussions with management and site staff, Pöyry databases and third party data.

Current Asset Description

Samling's current assets for veneer operation in Malaysia are described in Table 5-8. Figure 5-3 shows the plant locations. The Tebanyi mill is built with mostly second-hand Japanese and Taiwanese equipment. Similarly the Lana, SIF and Layun veneer mills operate a combination of second hand and new Japanese and Taiwanese equipment.

Table 5-7:
Veneer facilities as at 30th June 2006

<u>Country/State</u>	<u>Location</u>	<u>Name</u>	<u>Start Date</u>	<u>Capacity (^{'000} m³/a)</u>
Sarawak	Tebanyi	Tebanyi Veneer mill	2003	114
Sarawak	Lana	Lana Veneer mill	2004	86
Sarawak	SIF	SIF Veneer mill	2005	72
Sarawak	Layun	Layun Veneer mill	2005	84

Source: Samling

Production Cost

Samling's veneer operations benefit from the availability of a good standard of wood resource, a skilled and disciplined workforce and effective management. In particular, the strategic decision to locate veneer processing facilities close to the source of wood enables Samling to deliver logs to the plants at lower costs. The dried veneers are then shipped to export points, further saving on transport costs.

Presently, the Tebanyi and Layun mills are processing natural forest logs from areas being cleared for plantation development by Samling. The average diameter of logs being processed at these plants is small (40 – 45cm), but recoveries are satisfactory (44% at Tebanyi and 50% at Layun). The Lana veneer mill receives some logs from natural forest concessions as well as from areas cleared for plantation development. Recoveries at Lana are 46%. SIF is the only veneer mill which receives logs solely from concession areas. Recoveries are presently approximately 50%.

As the planned plantations mature (see section 6.1.1), Samling expects that the Tebanyi, Layun and Lana veneer mills will process plantation logs and Pöyry anticipates that recoveries at the three mills will move toward 45%. As with plywood, Pöyry anticipates that over the coming decade, the concession log diameters will continue to fall. As a consequence, recovery rates at veneer mills like SIF are expected to decline, with long term recovery trending towards 45%.

Future changes to production costs will essentially be driven by the changes in the cost of logs delivered to the mills. Pöyry anticipates that other costs of production should not change greatly in real terms over the coming years. Nonetheless, the current and future costs related to Samling's veneer operations are vulnerable to external factors (in particular the cost of oil and its effect on fuel prices in transport and power generation). Presently, power is generated on site using diesel generators, though, in the case of Tebanyi, a co-generation plant has been built and commissioned. This should optimise energy related costs and mitigate risks associated with oil prices. Samling plans to continue to invest in its veneer mills to manage costs and maintain and improve performance. Further details on costs can be found in Table 7-4.

Realised Prices

Current weighted average prices (From Samling management accounts FY June 2006) are:

- USD232/m³ for the Tebanyi mill,
- USD255/m³ for the Lana mill,
- USD257/m³ for the SIF mill, and
- USD250/m³ for the Layun mill.

Selling prices include exports (at FOB price point) as well as domestic sales including sales to Samling's own plywood plants.

Certification

Samling's veneer mills are not certified to standards such as ISO 9000. However, each plant does operate to its own internal procedures, as is expected for plants of this type, covering raw material and production quality.

Future Operating Potential

Presently, Tebanyi and Lana are operating at 84% and 72% capacity utilisation respectively. SIF and Layun are operating at much lower levels since the plants are new and still in the process of ramping up production. Pöyry expects that future, veneer production at the four plants should reach at least 80% to 95% of the design capacity of each plant.

5.1.5 Sawmilling Business

Introduction

Samling presently operates two hardwood sawmills in Sarawak, Malaysia. In Pöyry's opinion, the general condition of the sawmills was good and the mills were well managed producing a high quality product.

Site Visits

Pöyry visited the Sarawak sawmills during April 2005. Limited actual cost data and market information was made available to Pöyry on Samling's sawmill operations. During July 2006, additional data and information on these sawmills was made available (including management accounts FY June 2006).

Current Asset Description

Samling's current assets for sawmill operations in Malaysia are described in Table 5-9. Figure 5-3 shows the plant locations.

Table 5-8:
Sawmill Facilities as at 30th June 2006

<u>State</u>	<u>Location</u>	<u>Name</u>	<u>Capacity (’000 m³/a)</u>
Sarawak	Miri	Samling Wood Industries Sdn Bhd	24
Sarawak	Lawas	Ravencourt Sdn Bhd	30

Source: Samling

The Sarawak operations are typical small-scale hardwood sawmills, with equipment consisting of primarily Japanese sawmill equipment. In addition, both sawmills have kiln-drying facilities and some downstream processing machinery, enabling the production of dressed, moulded and edge glued timber.

Production Costs

Currently, the Miri sawmill is processing logs at a 49% recovery while at Lawas, it is at 37%. Logs principally come from Samling's own natural forest concessions. As with plywood and veneer mills, delivered log costs are the principal cost factor in sawmilling. We would expect that over time, the delivered log cost (and therefore wood costs) at both plants will increase as the distance from harvesting areas increases over the coming years. Other costs of manufacturing are not expected to change greatly in real terms over the coming years, although external effects such as oil prices may affect this. Samling plans to continue to re-invest in its two sawmill operations to improve efficiency and productivity. Further details on costs can be found in Table 7-4.

Realised Prices

The weighted average selling prices for sawn timber from the operations are currently (From Samling manufacturing accounts FY June 2006) USD272/m³ for the Lawas sawmill and USD271/m³ for the Miri sawmill. Selling prices include exports (at FOB price point) as well as domestic sales.

Certification

While Samling sawmills and the sawn outputs do not have product certification, production observed during the site visits was of a high standard.

Future Operating Potential

Pöyry estimates the current sawn output for the Miri sawmill to be 19,000 m³/a. The plant has the potential to increase production to at least 22,000 m³/a without the requirement for investment in additional processing capacity. Likewise, Pöyry estimates the current production of the Lawas sawmill to be approximately 18,500 m³/a of sawn output. The plant has the potential to increase production to at least 25,000 m³/a without the requirement to invest in additional processing capacity. It is Pöyry's opinion that both plants should be able to maintain this output. Historically neither plants have reached their rated capacities.

5.1.6 Other Downstream Product Processing

Introduction

As part of its strategy to move further along the value chain and to diversify its product range, Samling operates a number of other downstream processing plants. Recovery of processing waste from the sawmills and plywood mills for the manufacture of Medium Density Fiberboard (MDF) and door facings helps to achieve maximum utilisation of the forest resources. MDF and plywood form the basis for the flooring, door and furniture manufacture.

Pöyry inspected the MDF, door facing, furniture, flooring and door making operations and found that the plants are largely operating well. The general condition of the downstream facilities is good, and they are well managed. Product quality appeared satisfactory and this was evident from low customer rejection figures.

Site Visit

Pöyry visited the MDF plant, door facing factory, furniture factory and flooring factories during April 2005. Pöyry visited the engineered door plant (Foremost Crest) located in Sungei Buloh (Kuala Lumpur) in April 2006. Additional data and information was also made available in July 2006 for inspection. Information sources included data from Samling's FY June 2005 audited accounts, FY June 2006 management accounts and other financial information. Information sources included Samling's management accounts, mill records, discussions with management and site staff, Pöyry databases and third party data.

Current Asset Description

Samling's current assets for other downstream operations in Malaysia are described in Table 5-10. Figure 5-3 shows the plant locations in Sarawak.

**Table 5-9:
Other Downstream Product Processing as at 30th June 2006**

<u>Processing Type</u>	<u>Country/ State</u>	<u>Location</u>	<u>Name</u>	<u>Start Date</u>	<u>Capacity ('000/a)</u>
MDF	Sarawak	Miri	Daiken Miri	1997	100 m ³
Door facings	Sarawak	Bintulu	Magna-Foremost	1999	8,000 units
Housing products	Sarawak	Miri	Samling Housing Products	1996	6,172 pieces
Laminate flooring	Sarawak	Miri	Samling Flooring Products	2000	1,500 m ²
Engineered flooring	Sarawak	Miri	Samling Flooring Products	1994	504 m ²
Engineered doors/skin doors	Peninsula Malaysia	Selangor	Foremost Crest	2000	267 units

Source: Samling

Both the door facing plant and the MDF plant are standard fiberboard processing operations utilising European equipment. Similarly, the laminate flooring and engineered wood flooring plants utilise European made equipment.

The Miri door and furniture mill is a typical integrated operation with processing organised in a batch process, workshop style, and built with Japanese, German and Italian processing equipment. Similarly, the engineered door factory in Selangor comprised of both new and refurbished Taiwanese, German, Italian, and locally made cutting, moulding, sanding and framing equipment. The plant is also organised to produce doors on a consignment basis.

Samling also operates a small business (Samling DorFoHom Sdn Bhd) dedicated to supplying the wood raw material for making Magna-Foremost's door facings.

Production Costs

MDF

Daiken Miri's operations benefit from low cost availability of residual wood which comes from the various plywood, sawmill and remanufacturing operations in the vicinity of the plant. Off-cuts from processing logs at sawmills are obtained for approximately USD25/ODt, a value covering little more than transport cost. Given the abundance of locally available raw material for the plant, Pöyry expects that future, raw material costs should remain unchanged in real terms. Other costs of production are also expected to remain unchanged in real terms, with the potential exception of resin and oil related products, the cost of which will vary depending on changes in oil prices. Presently, Daiken Miri obtains its resin primarily from a local manufacturer based in Kota Kinabalu. Daiken Miri is one of the few hardwood MDF producers within the region which can readily supply specific niche end-users, compared to rubberwood or pine based MDF. Further details on costs can be found in Table 7-4.

Door Facings

Wood material used in the production of door facings comes principally from SPB, (supplied by Samling DorFoHom Sdn Bhd), for the door facing plant. Resin is obtained mainly from a local manufacturer based in Kota Kinabalu. In the future, Pöyry expects that raw material and other variable costs will remain effectively constant in real terms. It is possible, however, that resin costs may vary with changes in oil prices. Further details on costs can be found in Table 7-4.

Laminate Flooring

Laminate flooring has become a popular flooring system in Europe, Taiwan and China. High density fiberboard (HDF), the flooring substrate and main raw material used in the process of producing laminate flooring is provided by Daiken Miri. Typically, HDF substrate costs are similar globally. The other main cost in laminate flooring production is the impregnated decor, backing and overlay papers used to cover the substrate. The mill obtains its papers mainly from Malaysian manufacturers. European manufacturers benefit from a very competitive market for overlays and decor papers. Samling's decor paper costs are competitive with other South East Asian producers. Further details on costs can be found in Table 7-4.

Engineered Flooring

The principal raw materials in the manufacture of engineered flooring are plywood (as a floor base substrate), sawn wood, adhesives and lacquers. Plywood is sourced from the neighbouring Samling plywood mills at market prices. All other materials are sourced externally and there are no dependencies on single suppliers. Over the coming years, Pöyry envisages that these individual cost elements, comprising materials and fixed and variable costs, will remain largely unchanged in real terms. Further details on costs can be found in Table 7-4.

Housing Products

Materials represent more than 60% of the housing products production cost. The vast majority of the wood raw materials are sourced within Samling and in effect largely within Samling Kuala Baram industrial park. The other raw materials are multi-sourced and as a result, there is no dependence on where the raw materials are sourced. Samling plans to invest capital at levels sufficient to maintain the machinery in good order and making replacement investments where necessary. Further details on costs can be found in Table 7-4.

Engineered Doors

Like housing products, materials represent a significant proportion (between 40 and 60%) of the cost of making doors. Much of the wood raw material is sourced from within Samling. For example door facings, the main wood raw material component, is sourced from Magna-Foremost. Other raw materials are multi-sourced and there is similarly no dependence on where the raw materials are sourced. Samling plans to invest capital at levels sufficient to maintain the machinery in good order and making replacement investments where necessary. Further details on costs can be found in Table 7-4.

Realised Prices

Current weighted average prices (From Samling management accounts and sales data FY June 2006) are as follows:

- USD245/m³ FOB for MDF
- USD5.11/m² FOB for Laminate flooring
- USD17.3/m² FOB for Engineered flooring
- USD3.00/unit FOB for Engineered door facings
- USD13.4/unit at mill gate for Engineered doors

From the sales data in the management accounts provided by Samling, the annualised revenue from this is approximately USD17.1 million.

Certification

To conform to market requirements and demand, Samling has obtained a number of product certifications. Table 5-11 summarises the certificates held by the downstream processing facilities.

**Table 5-10:
Samling Product Certifications for Downstream Processing**

<u>Certificate</u>	<u>Location</u>	<u>Purpose</u>
Japanese Industrial Standard (JIS)	Daiken Miri (MDF)	For regulation of formaldehyde emission for panel products to Japan

Source: Samling

Future Operating Potential

MDF

Currently, the MDF plant is producing at about 90,000 m³/a. Pöyry envisages that the plant should be able to comfortably operate at least at this level and that no investment in additional capacity will be required to achieve this. Samling plans to continue investing in the operation to maintain the plant in good working order.

Door Facings

Currently, Magna-Foremost is producing at approximately 8 million door facings a year. Pöyry considers that in the future, the operation should realistically be able to continue producing at this level.

Laminate Flooring

Pöyry envisages that in the future, the plant should be able to produce approximately 340,000 m²/a, with no additional investment in capital required. Samling plans to continue to invest in its operations to maintain current performance.

Engineered Flooring

Given Samling's commitment to improving productivity and quality, it is Pöyry's opinion that the plant should be able to produce around 245,000 m²/a with no additional investment in capital required. However, Pöyry considers that it will be necessary for Samling to continue investing in its operations to maintain current performance.

Housing Products

Samling will be required to invest capital at sufficient levels to maintain the machinery in good order to replace equipment. Pöyry expects that the plant can produce approximately 5 million units/a.

Engineered Doors

Production at the plant over the past year has averaged approximately 5,800 doors per month. As Samling expands in European and in other markets, the Company intends to increase this production to the current capacity of the plant (23,000 doors per month on a single shift). Assuming markets can be found, this production volume is realistic.

5.2 Guyana

Introduction

Samling's subsidiary, Barama Company Limited (Barama), has a forest concession with a net operable area of 1.327 million hectares and harvesting rights on a further 0.370 million net operable hectares of forest concession land. Pöyry has used available data to construct estimates of future woodflows from a combination of the concession and harvest rights areas. Two woodflows have been produced. The first is a woodflow constrained by the existing and planned processing requirements of the two sawmills and Plywood mill, current and reasonable forward looking species utilisation, harvest rights criteria and acceptance of certain species in the round log export markets. The results of this constrained woodflow is an annual yield of approximately 420,000 m³ of hardwood logs. The second woodflow model is largely unconstrained by processing and export requirements, but retains constraints on harvest rights and species utilisation. The results of this second woodflow model is an annual yield of over 600,000 m³. The earlier charts in this document and all costs estimates use the first, constrained woodflow. It should be noted that Barama of course has the ability to manage the cut in any way possible so long as Guyana Forest Service criteria are met.

For both scenarios, an annual yield can be produced sufficient to meet the planned wood input requirements of the existing sawmills and plywood mill as well as allowing for log exports.

As a member of Caricom, the association of the Caribbean nations, Guyana has good access to the Caribbean market and favourable import duties relative to other exporters to the US. The Guyana Government is supportive of both Barama and its forest management.

Site Visits

Pöyry's staff members conducted a visit to the Barama forest concession in June 2005. The purpose of the visit was to verify information provided by Samling as to the extent, productivity, costs, revenues and impact of its operations. Pöyry met and consulted with Barama staff members and also spent time inspecting the forest from both the air and ground. Information pertaining to historical forest yields, management accounts and maps was made available. A comprehensive survey or forest inventory was not undertaken. Data sets were updated in August 2006 to reflect June 2006 financial year results.

Asset Description

Barama Company Limited (Barama) was established in 1991, formalising a joint venture between Samling and Sunkyong Limited (now known as SK Global) of South Korea. This is now 100% owned by Samling and is no longer a joint venture with SK Global.

Barama's lowland mixed tropical forest concession in northwest Guyana (Timber Sales Agreement 04/91) is the largest forest management operation in the country. The gross area of the concession is 1.611 million ha; the net operable area is 1.327 million ha. The current concession licence runs from 16 October 1991 to 2016. It is then renewable for a further 25 years until 2041.

Barama has also entered into agreements with other concession holders giving it the exclusive rights to harvest and sell their logs*. The gross area covered by these agreements is 0.445 million ha; the net operable area is 0.370 million ha. The terms and conditions of these agreements are such that most harvesting will need to be completed over the next ten years. Barama is required to pay a premium to the concession holder and the relevant royalties.

Many of the boundaries of the concessions are large rivers and access to the concession is by means of river boats. This isolation serves to protect the resource from illegal logging, while barging provides cost efficient log haulage. Population densities are very low in northwest Guyana; there is no significant pressure for conversion of forest to agriculture.

* These other agreements are with: Barakat Timbers and Trading Company Limited, N Sukul and Sons, Toolsie Persaud Limited, Guyana Sawmills Limited (Cuyuni), N. Mazaharally & Sons, Interior Wood Products Inc. — St Monica and Interior Wood Products — Awakini. A further harvesting right with Barama Housing Incorporated is proposed, but has to date not been finalised.

Figure 5-5:
Location of Barama Concession



Source: Pöyry

The concessions consist of tropical lowland forest in a natural, healthy condition. Barama's records indicate that 'peeler' species suitable for veneer production currently account for 36% of the harvestable volume, with 'sawlog' species accounting for the remainder (64%). Given the uniformity of the forest resource observed by Pöyry, the application of this percentage to all previously un-harvested areas seems appropriate. Past harvesting targeted peeler species with the result that re-entry harvests will have different log type percentages.

The Guyana Forestry Commission is well organised, playing an important and transparent regulatory role. It requires forest inventory prior to harvest and uses the results to determine allowable cuts by compartment. It monitors actual harvest by means of a tree tagging system and inspections at log yards. In the case of a large concession such as Barama's, the Guyana Forestry Commission's expectation is that harvesting operations will be reasonably evenly spread across the cutting cycle. The cutting cycle for the Barama concession is 40 years, ending in 2031.

Harvest History

Observations of the forest made by Pöyry and Barama records and comments from Barama staff show that 18% of the Barama concession area suitable for harvesting and 42% of the harvest right area suitable for harvesting has had some logging activity to date. Many of the harvested areas can support re-entry harvests later during the concession or harvesting right term.

Wood Flow

Based upon current constraints of processing, the projected harvestable woodflow from the Barama concession and the harvest rights areas is approximately 420,000 m³/a. If these processing and other constraints were relaxed, the maximum sustainable yield from the allowable cut increases to over 600,000 m³/a. The allowable cut is defined as the total volume per compartment that the Guyana Forestry Commission allows to be taken based on inventory, merchantability and stand growth dynamics.

The volume of logs harvested in financial year 2005 – 2006 was stated as 218,551 m³ (61,777 m³ from the Barama concession and 156,774 m³ from the harvest rights). It will take some time to increase the harvesting capacity from its current level to the required level. As already mentioned, Pöyry have modelled two woodflow production scenarios (Figure 5-6) both are based on the same assumptions of total operable area and merchantable species mix. The volume of woodflows are dependent on the commercial species available in the forest resource. Based on existing commercial species acceptable to a round log export market, current and future planned processing harvest right criteria and period terms, the projected harvestable woodflow from all sources is approximately 420 000 m³/a. If, however, a greater range of the plywood species were to be acceptable to the export market and harvest right area constraints were relaxed, then the annual area cut could increase and woodflows could rise to over 600 000 m³/a.

Both these scenarios fall within the Guyana Forestry Commission allowable cut. This is defined as the total volume per compartment that is permitted to be taken based on inventory, merchantability and stand growth dynamics.

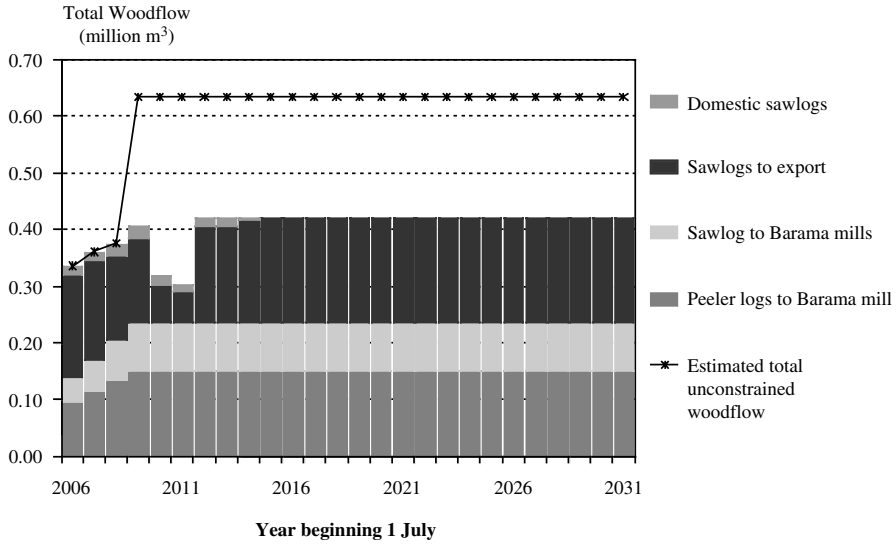
Both the constrained and the total sustainable woodflows are estimated on a total recoverable merchantable species mix, up to 13 m³/ha*. The maximum allowable cut level is 20m³/ha, hence an even greater harvest volume could possibly be available in the future if:

1. inventory shows this volume to be present,
2. market acceptance of species is greater than Pöyry currently estimates.

The woodflow figures for the constrained model are also presented in Table 7-1.

* These yields are per harvestable hectare. The harvestable area is approximately 90% of the operable area. The remaining 10% accounts for roads and areas within harvest blocks that cannot be harvested such as steep, rocky or wet areas.

**Figure 5-6:
Projected Guyana Wood Flow Constrained and Unconstrained**



Source: Samling

Notes: The above chart shows both the Pöyry constrained (bar) and the unconstrained woodflow scenarios (line), both to the end of the current 40 year harvest cycle (2031). Both models assume future recoverable yields are 9.5 m³/ha to 2008, then 11 m³/ha 2008-2020 and thereafter 13 m³/ha. The 13 m³/ha yield is based on an assumption that a greater species range will become merchantable. Such an assumption would be consistent with historical trends. The production dip in 2010-2011 for the constrained model is due to peculiarities of the harvest rights areas assumed to be under production at that time. In reality, future management options may allow for this to be smoothed.

Production Costs

The production costs for future operations shown in Table 5-12 are based on costs reported by Barama over the past two years and appear similar to costs reported by other companies undertaking similar operations. Transport costs and some associated costs such as road maintenance vary according to the distance of the harvested area from the sales point. There are significant differences in haulage distances; these differences result in different production costs for each of the sales points as the harvesting operations move across the concession.

Table 5-11:
Unit Cost estimates for Barama Concession (as at Financial Year Ended June 2006)

Cost Type	Cost for Export logs (USD/m³)	Cost for Domestic Logs (USD/m³)
Road construction (varying costs from depending on harvest type; first, recent re-entry, later re-entry)	0.92 – 2.63	0.90 – 2.57
Log ponds, road maintenance, haulage to log pond	0.21 per km Varies from 19.71 to 39.40	0.20 per km Varies from 14.30 to 31.43
Forest administration and operation planning	21.37	20.93
Harvesting	12.10	11.85
Capital purchases	8.42	8.25
Marketing and port handling	7.89	0.00
Company overheads	3.45	3.38
Total production costs range — sawlogs	72.20 to 87.97	Land of Canaan mill 51.62 to 72.75 Buckhall mill 57.70 to 68.68 Harvest right sales 60.20 – 66.10
Total production costs range — peeler logs	No peeler logs exported	Land of Canaan mill 61.95 to 71.68

Note: The percentage of the volume delivered at the log pond that is merchantable is lower for export logs than for logs used domestically due to higher quality specifications. This accounts for the slight differences between many of the costs per m³. Estimates based on the constrained woodflow model.

All harvesting and transport operational costs will be affected by fluctuations in fuel and oil prices.

Log Markets

Barama currently supplies one of Samling's sawmills at the Land of Canaan which has a capacity that would require approximately 19,000 m³ per year. The sawmill at Buckhall has started operation and is expected to require 67,000 m³/a of saw logs when producing at levels expected by Samling. Additional sawlog volume (typically around 180,000 m³/a) will be exported. All peeler logs go into the peeler mill that is planned to be expanded to take 153,000 m³/a. Volumes increase over the first few years as the peeler mills expands. The majority of logs are either transferred to the Barama processing at production cost, or sold in an export market at prevailing market prices. Small quantities of logs are sold to other concession holders as required by the terms of the harvesting agreements (harvesting right committed sales as shown in the previous chart). Pöyry has estimated from data provided by Barama that from February to June of the 2005/6 financial year, 31,370 m³ of round logs were sent to the Plywood mill and 5,270 m³ to the sawmills. The total volume to all mills in financial year 2005/6 was 76,658 m³.

Management Review

In Pöyry's opinion, the Barama operations are a very good example of tropical forest management. Forest planning is undertaken to a good standard. Employees appeared knowledgeable about their work and willing to continually improve operations. Forest information and financial management systems are operating to support management decisions, although ongoing improvements will be required to manage larger operations.

Barama has difficulty finding appropriately skilled Guyanese forest workers and currently relies heavily on expatriate workers. Barama plans to address this issue by training local workers.

5.2.1 Export Log Business

Introduction

After meeting the input requirements for the Barama sawmills, Pöyry anticipates some 180,000 m³ of hardwood logs to be available for export per year from the Barama concession and the harvesting rights. In financial year 2005 – 2006, Barama exported approximately 98,700 m³ of sawlogs from concession and harvest right sources. 21,563 m³ went to local domestic destinations.

Site Visits

Visits to the site were made by wood products specialists from Pöyry in June 2005.

Production Costs and Prices

Logs are currently either barged to wood ships waiting at the Demarara River mouth or barged to the Georgetown port where they are loaded into containers. The main species exported are greenheart (*Ocotea* spp), purpleheart (*Peltogyne* spp) and mora (*Mora* spp). According to cost information from management accounts that Samling made available to Pöyry, the average production costs at point of sale of export logs is estimated to be in the order of USD80/m³. The current average price for the export logs reported by Barama is USD120/m³ FOB, this price is in line with Pöyry's view of prices for logs of similar quality. The price for the small volumes of logs sold to the holders of the other concessions as required under the harvesting agreements is approximately USD50/m³.

5.2.2 Plywood

Introduction

Samling operates a plywood mill in Guyana, built in 1993 and located approximately 45 minutes from Georgetown along the Demerara River (Figure 5-5). The plant is a typical Asian hardwood plywood mill, producing tropical hardwood plywood for the US market. The mill is producing high quality veneer and plywood. Pöyry inspected the site and found that the plant is operating well. The general condition is good and the mill is well managed.

Site Visit

Pöyry visited the plywood mill during May and June 2005. Additional data and information was also made available for inspection during July 2006. Information sources included data from Samling's FY January 2006 management accounts and other financial information, mill records, discussions with management and site staff, Pöyry databases and third party data.

Current Asset Description

Current assets for the plywood operation in Guyana are described in Table 5-13.

Table 5-12:
Plywood facilities as at 30th June 2006

<u>Country/State</u>	<u>Location</u>	<u>Name</u>	<u>Start Date</u>	<u>Capacity (’000 m³/a)</u>
Guyana	Georgetown	Barama Plywood	1993	108

Source: Samling

The 166 hectares freehold site houses Barama's headquarters, and various outbuildings. Located across the road is management housing. The mill is very similar in set-up to the Malaysian mills (SPB, SPM and SPK) utilising a mixture of Japanese, Korean and Taiwanese equipment.

Production Cost

Presently, the plant is operating with a recovery of 46% to 48%. This is largely a reflection of the quality of logs currently being removed from the forest which are being supplied from Samling's own concessions as well as from third party concessions where Samling's own operators have logging contracts. Logs are delivered via barge and product is loaded and shipped via the river to the port in Georgetown. Since Samling has yet to start harvesting logs from its own concession in earnest, we expect the availability of quality logs will improve and to remain strong over the coming two decades. Therefore, recoveries should also remain above 45%. Delivered log costs are expected to vary over the coming years as costs of harvest and transport change with log origin. Therefore, wood costs at the plant are also expected to vary slightly, together with total production costs. Other manufacturing costs are not expected to vary significantly in real terms with the exception of resin, which is sourced from Venezuela and Jamaica. Additionally, the cost of power, which is produced by diesel operated generators, may also vary. Resin and power costs are both dependant on the cost of oil. Further details on costs can be found in Table 7-4.

Realised Prices

Current average prices for plywood (weighted averages over all products sold, obtained from the Samling manufacturing accounts from February 2006 to end of June 2006) from Barama's plywood is USD330/m³ FOB.

Future Operating Potential

Although the plant is capable of producing 108,000 m³/a of plywood, current production is well below this at 29,000 m³/a. We understand that Samling plans to increase output from the factory to approximately 44,000 m³/a over the next two years and maintain this level of output until at least 2009. In Pöyry's opinion, this should be achievable without significant further investment.

5.2.3 Sawmills

Introduction

Samling's two sawmilling operations in Guyana provide the opportunity for Samling to market premium timbers to the North American and European timber markets. With access to these premium timbers from its own concession and competitive labour rates, these sawmills are relatively cost competitive operations.

Site Visit

Pöyry visited the Barama Sawmill at the Land of Canaan during May 2005. At the time of this visit, the second sawmill (at Buckhall) was under construction and has not been visited since. Samling states that the plant has been completed and that it is currently undergoing commissioning trials. Additional data and information relating to mill performance was made available during July 2006, including preliminary information pertaining to the Buckhall sawmill. Information sources included data from Samling's FY January 2006 audited accounts, FY June 2006 management accounts and other financial information, mill records, discussions with management and site staff, Pöyry databases and third party data.

Current Asset Description

Current assets for the sawmill operations in Guyana are described in Table 5-14.

Table 5-13:
Sawmill facilities as at 30th June 2006

<u>Country/State</u>	<u>Location</u>	<u>Name</u>	<u>Start Date</u>	<u>Capacity (*000 m³/a)</u>
Guyana	Georgetown	Barama Sawmill	1993	14
Guyana	Georgetown	Buckhall Sawmill	2006	50

Source: Samling

The Barama sawmill is a typical small-scale hardwood operation utilising Japanese equipment and associated planning and recovery equipment located at the Land of Canaan in proximity to Georgetown (Figure 5-5). The Buckhall sawmill is also based on predominantly Japanese equipment.

Production Costs

Although small, in Pöyry's opinion, the Barama sawmill is well operated and costs are managed effectively. The plant benefits significantly from being located next to the plywood mill. Apart from being able to share many resources (and therefore utilise those resources more efficiently), much of materials required for the day to day operation of the plant are made on site, minimising unnecessary costs. Logs are sourced from Samling's own natural forest concession and concessions under Samling's management. Current recoveries are approximately 36%.

The Buckhall sawmill is presently undergoing commissioning. Although not located near the plywood plant, operational costs should nonetheless be similar to the Barama sawmill. Logs are sourced from Barama's own natural forest concession and concessions where Barama has harvesting rights. Average recoveries are presently approximately 31%.

In the future, Pöyry's opinion is that production costs at both sawmills are likely to increase as a function of the changing delivered log costs, but not due to any fundamental change in operating expenses. A possible exception to this is the cost of power, which is produced by diesel operated generators. Power costs are therefore dependant on the cost of oil. Samling plans to continue to invest in the mills to maintain the competitive position of the operation. Further details on costs can be found in Table 7-4.

Realised Prices

Current average prices for sawn timber (weighted averages over all products sold, obtained from the Samling manufacturing accounts February 2006 to end of June 2006) from Barama's sawmill is USD398/m³ FOB. Timber is yet to be sold in significant quantities from the Buckhall site. What has been sold as at 30 June 2006 of approximately 420 m³, has attained a price of USD581/m³ FOB.

Future Operating Potential

Barama's sawmill at the Land of Canaan is small. The plant design capacity is estimated to be approximately 14,000 m³/a, and the plant is currently producing approximately 4,000 m³/a of sawn lumber inclusive of moulded decking. This production is less than that in previous years and it is Pöyry's opinion that at the very least, this production volume should be achievable in the future. It is Pöyry's opinion that the plant should be able to convert logs into sawn lumber at average recoveries of 40%.

Log supply information given by Samling indicates the Buckhall sawmill should be able to produce approximately 40,000 m³ of sawn timber annually. To date (as at 30 June 2006), management accounts show that production at Buckhall sawmill has been 1,039 m³.

5.3 New Zealand

5.3.1 Plantations

Introduction

The Samling Group's New Zealand forest resource is the Hikurangi Forest Farms (HFF) softwood plantation.

New Zealand offers some of the best growth rates in the world for softwood pine plantations. The HFF plantations are well located for sea access to the Asian and US markets and the required public port infrastructure upgrade is in the planning phase. Pöyry found the HFF plantations to be of high quality and appear to be well managed by a skilled and motivated forest management team. The resource has been intensively tended and should yield high proportions of good quality pruned logs. New Zealand log prices are also at historically low levels, and it is Pöyry's opinion that some price recovery is expected in the medium to long term. HFF has attained FSC certification.

Operational challenges that will be faced by HFF are the high cost of log production due to the steep and unstable soils, and logging crew availability to attain future increases in harvest level.

Site Visit

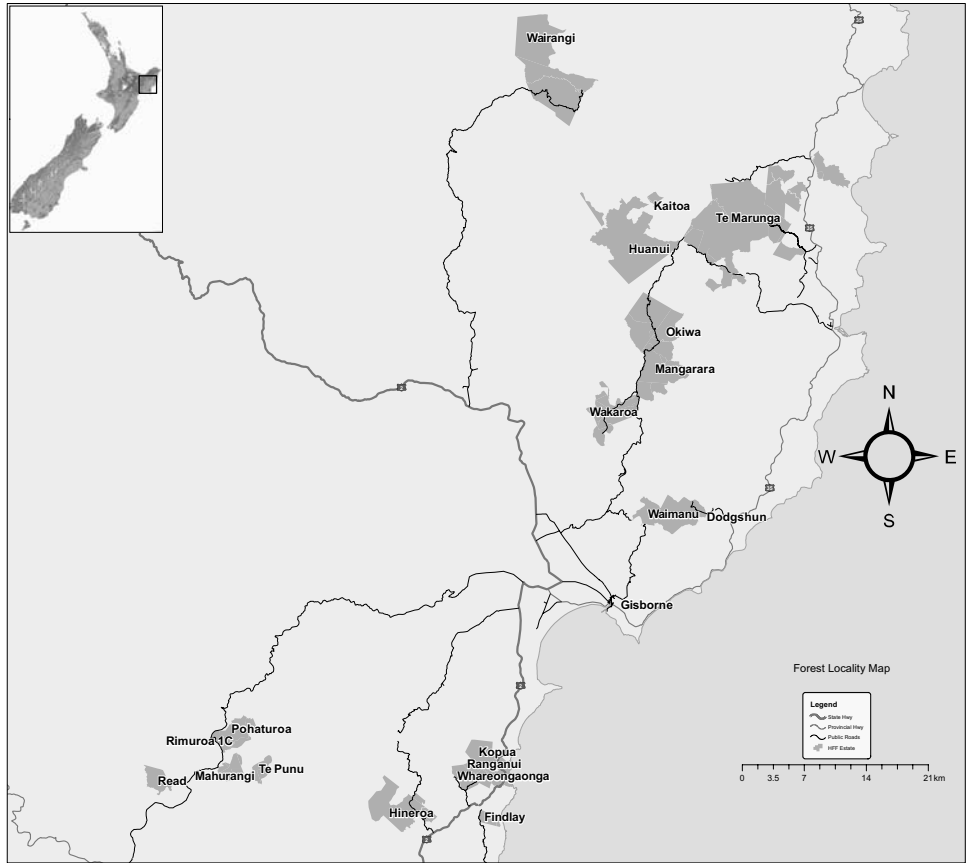
Pöyry staff visited the HFF Office, Gisborne, New Zealand in April 2006. Data sets provided by the Samling Group for HFF included a listing of stands by species, age, area, treatment history together with relevant yield tables. Also utilised from earlier work was a 2004 valuation audit report, a 10 year harvest plan, and maps. There was no formal inventory or survey of the forest resources. The HFF resource comprises a softwood pine plantation located on the East Coast of New Zealand centred on the city of Gisborne. The current plantations are 98% radiata pine (*Pinus radiata*) with the remainder Douglas-fir (*Pseudotsuga menenzii*). The crops are being grown for the production of saw and veneer grade logs with a by-product of pulp/chip grade material.

Asset Description

As at 31 May 2006, the net planted forest area of HFF was estimated to be 26,352 ha. Of this, 91% has been established on freehold land, the balance being leases and areas for which HFF has a forestry or cutting right*.

* Forestry rights and timber titles are legal arrangements whereby forest growers can establish and grow a forest on private freehold land. The freehold land owner either gets an annual fee or a percentage of the stumpage or profit when the timber is finally felled and sold.

**Figure 5-7:
Hikurangi Forest Farms Location**



Source: HFF

The following table shows the breakdown of net stocked areas by land tenure and Figure 5-8 indicates the current age-class structure.

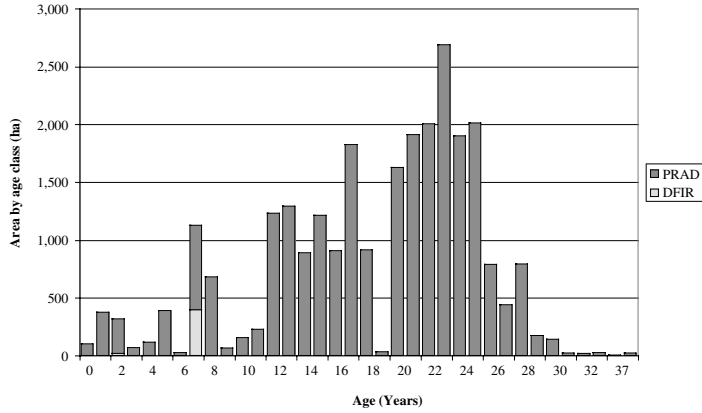
Table 5-14:
HFF Area Statement as of End May 2006

Tenure	Forest Block Name	Net Stocked Area (ha)
Freehold	Findlay	169.7
	Hineroa	1,749.0
	Huanui	3,465.0
	Kopua	835.5
	Mangarara	2,008.3
	Okiwa	2,415.9
	Te Marunga	7,395.6
	Waimanu	1,793.5
	Wairangi	3,210.7
	Wakaroa	824.9
	Freehold Total	
Forestry Right/Timber Titles	Dodgshun	17.7
	Kaitoa	2.8
	Mahurangi	611.8
	Pohaturoa	561.6
	Ranganui	119.0
	Read	140.6
	Rimuroa 1C	31.7
	Te Puna	122.9
Forestry Right/Timber Title Total		1,608.1
Leasehold	Whareongaonga	875.5
Leasehold Total		875.5
Grand Total		26,351.7

Sources: HFF and Pöyry

The difference between the gross area of 35,009 ha and the net plantable area of 26,352 ha is due to; as yet unplanted plantable area, roads, rivers and riparian strips, natural forest reserves and non plantable areas.

Figure 5-8:
Current HFF Age-Class Distribution

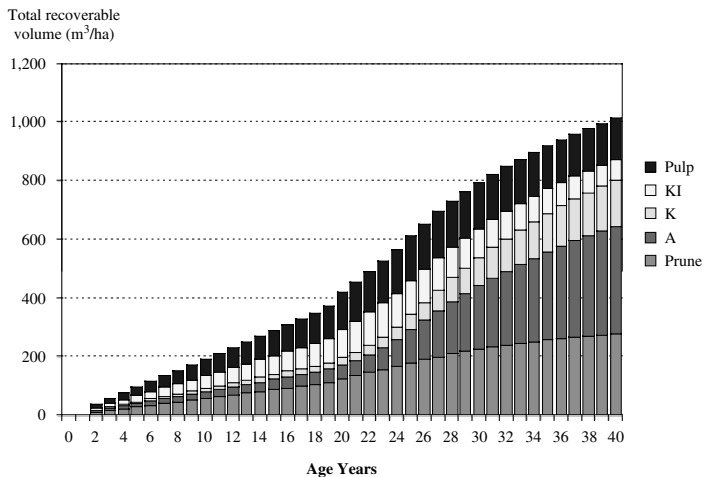


Source: HFF (DFIR = Douglas-fir, PRAD = radiata pine)

Wood Flows

Figure 5-9 below shows the weighted average yield table for radiata pine. This has been derived by Pöyry through analysis of HFF data using a combination of mid-rotation and pre-harvest inventory results run through recognised New Zealand growth and yield models. Pöyry has compared the results to other New Zealand forests and noted that while the yields are high, they are justified by the above average growth rates observed in this region.

Figure 5-9:
Area Weighted Average Yield Table (Radiata Pine)



Sources: HFF and Pöyry

HFF schedules its harvest to a minimum clearfell age of 27 years. Some areas of New Zealand cut at lower average ages. A later clearfell age commensurates with a grower wishing to maximise volumes of the larger veneer grade material.

HFF manages its forest under an intensive pruning regime with the aim of maximising the amount of clearwood* for veneer and appearance grade sawn timber production.

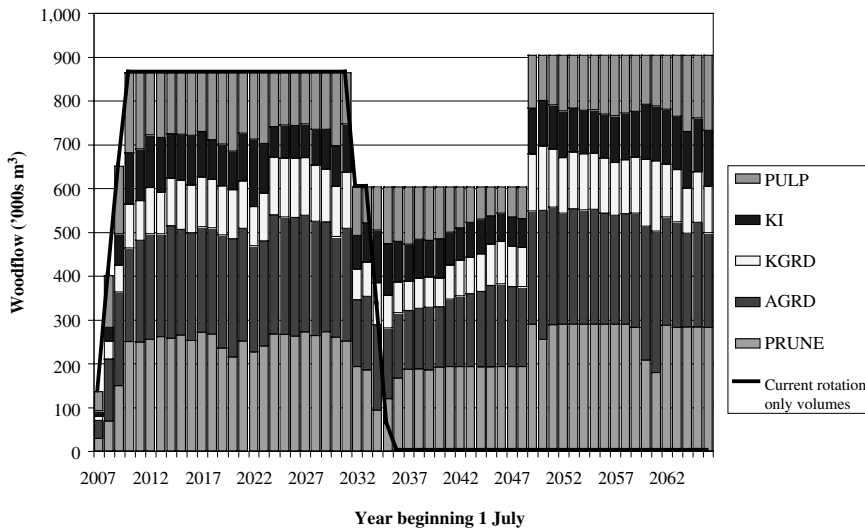
Woodflow production from the forest during the financial year ended 30 June 2006 was 95,608 m³ and is due to rise in 2007. Taking into account the areas, per hectare yields, rotation period and current management considerations, the following chart (Figure 5-10) represents an estimate of future woodflows. The same yield and area parameters under a more smoothed set of modelling constraints would produce a woodflow as shown in Figure 5-11.

The Figure 5-10 wood flows are also represented in tabular form in Table 7-1.

There is a current lack of transport infrastructure within the East Coast Region compared to other regions in the country. Samling has addressed this through discussions with local government in association with other local producers. The forest industry is receiving assistance in road infrastructure development from the New Zealand Government.

* Clearwood is wood free from live and dead knots and blemishes.

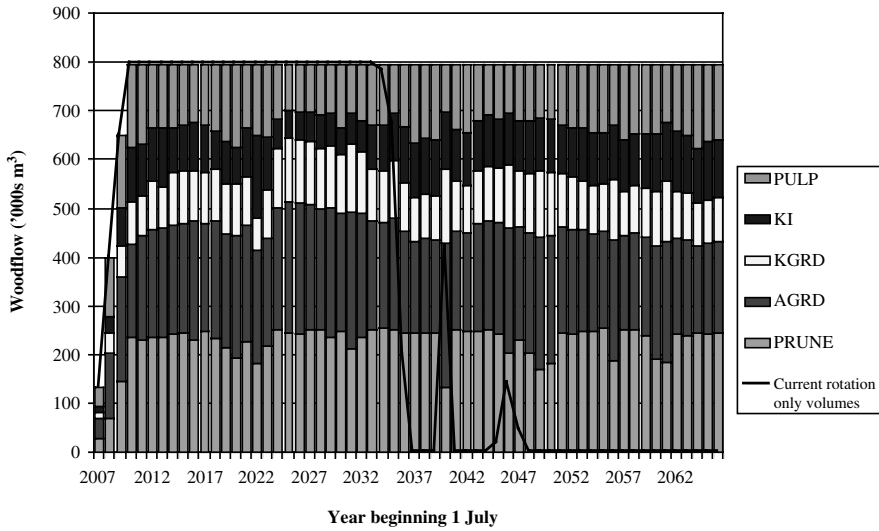
**Figure 5-10:
HFF Wood Flow Scenario**



Source: Pöyry

Note: Wood flows are shown for a perpetual model as a bar chart with the current rotation investment cycle as the red line. Note also that the first period includes volumes cut in June 2006.

Figure 5-11:
HFF Wood Flow Scenario — Smoothed Wood Flows



Source: Pöyry/Samling

Note that the first period includes volumes cut in June 2006.

Plantation Costs

The HFF forestry costs can be broken down into the following categories:

1. Annual operational costs, covering direct and indirect costs for establishment and maintenance of the forest and all central overheads such as land rentals, stumpage payments, office fees, management salaries and insurances.
2. Production costs are the direct and indirect costs of harvesting and distributing the forest products. These include harvest costs, transport costs and harvest roading costs.

The following table itemises the components of these.

Table 5-15:
Current Estimated HFF Forestry Costs

Plantation Costs	Cost NZD and Cost Basis	Cost USD
Year 1 (establishment + weeding)	1,400 per ha	943.5 per ha
Year 5 (prune + thin)	1,050 per ha	707.6 per ha
Year 6 (prune)	600 per ha	404.3 per ha
Year 7 (prune + thin)	750 per ha	505.4 per ha
Harvest Costs		
Log + load	32.0 – 34.0 per m ³	21.6 – 22.9 per m ³
Harvest overheads	2.20 per m ³	1.48 per m ³
Cartage to mill/wharf	0.20 per m ³ /km	0.13 per m ³ /km
Harvest roading	7.0 per m ³	4.7 per m ³
Overheads		
Land rental (Whareongaonga only)	11.2 per ha/year	7.5 per ha/year
Central overheads	73.0 per ha/year	49.2 per ha/year

Sources: Pöyry and HFF. NZD 1 = USD0.6739

Notes: Central overheads include insurances, rates, etc. These are current costs as at end June 2006. Exchange rate used reflects the timing of the costs data.

It is Pöyry's opinion that the forest operation cost data provided by Samling is reasonable for the location in the East coast of New Zealand and it appears similar to costs reported by other companies undertaking similar operations. As with other locations, fuel and oil price changes in the future could have a significant impact on overall production costs.

The data is also summarised in Table 7-2 for both production (harvest based costs on a USD/m³ basis) and annual operational costs (plantation development, maintenance and overhead costs on a USD/a basis).

An allowance for road investment requirements for the increased harvest levels is included in the operating costs. It is planned that harvesting will be undertaken by contractors.

HFF has a number of land rental/joint venture arrangements with forestry rights, or timber titles or leases. Most of these agreements have an option of either an annual rental to be paid to the land owner by the forest manager, a share of the stumpage, or both. Based on Pöyry's examination of the land information in all but one case, the land owner is being compensated entirely by a stumpage share payment. 'Stumpage' in this context is defined as the residual stumpage at point of sale after all production, harvesting, and cartage costs are deducted.

These payments range between 10% and 32% of stumpage. The exceptions are Dodgshun forest where a one-off, upfront payment was made and Kaitoa where HFF had already purchased the timber title.

The stumpage share payments are summarised in Table 5-17.

Table 5-16:
Percentage of Net Stumpage Paid to Land Owner

Forest Block	Net Area (ha)	Stumpage Payment
Ranganui	119.0	21%
Whareongaonga	875.5	13%
Mahurangi	611.8	11%
Te Puna	122.9	15%
Pohaturoa	561.6	12%
Read	140.6	32%
Rimuroa 1C	31.7	12%
Total	2,463.1	

Source: HFF

Log Markets

HFF currently supplies logs to both domestic and export markets. In the financial year ended 30 June 2006 HFF sold 33,892 m³ to domestic markets and 67,804 m³ to export. HFF intends in the future to use all log production for its own processing to be established in the Gisborne area. The current production grades ranging from chip or pulpwood through to top grade pruned material currently has a weighted average at mill gate price of NZD 80.09/m³ (USD51.0/m³) as at 30 June 2006.

Management Review

During the site visit, Pöyry met and held discussions with a number of key staff.

In Pöyry's opinion, HFF is competently managed with well described and understood forest assets, and forest management tools and techniques that are as good as any New Zealand forestry company. An area which still requires refinement appeared to be the yield reconciliation process, which is in its infancy due to minimal harvesting activity on the site to date. Environmental management is of a good standard in the New Zealand resource. HFF management has established an open relationship with local government and worked with them to resolve any potential environmental issues well in advance of operations commencing.

New Zealand's plantations have a low risk to pests, disease and weather. The forest estate is highly productive, healthy, and well tended, and Samling has a skilled and motivated forest management team in place. However, the East Coast of the North Island has in the past seen quite extensive landslips, extended periods of dry weather and extreme storm conditions. Samling maintains fire and wind damage insurance for its plantations to manage this issue.

Certification

The entire HFF forest estate is certified under the FSC scheme. Certification was achieved in August 2005.

5.4 China

5.4.1 Plywood

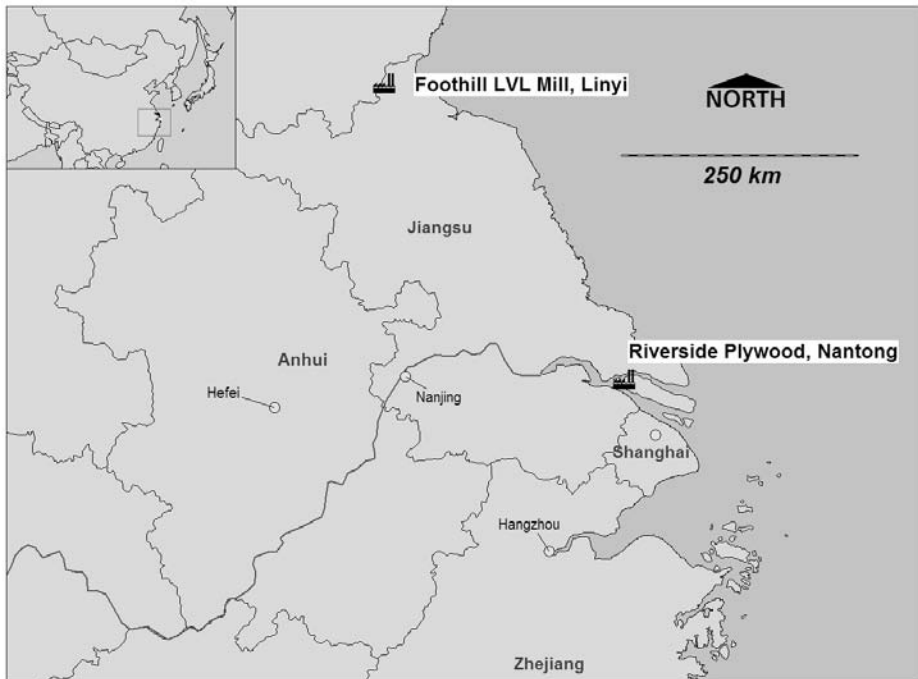
Introduction

Pöyry staff inspected the plywood mill, and found it to be operating satisfactorily. In Pöyry's opinion, the general condition of the plywood mill is good and it is adequately managed. In particular, the plant places considerable care on producing quality plywood, especially in the fancy veneer section of the operation. Management and employees are professional in their work and show clear commitment to quality.

Site Visit

Pöyry visited the mill during June 2005. Additional data and information was made available during April and June 2006 for inspection. Information sources included FY June 2006 management accounts and other financial information, mill records, invoices, discussion with management and site staff, Pöyry databases and third party data.

Figure 5-12:
Map Showing Location of China Processing Assets



Source: Pöyry

Current Asset Description

Current assets for the plywood operation in China are described in Table 5-18.

**Table 5-17:
Plywood facilities as at 30th June 2006**

<u>Country/State</u>	<u>Location</u>	<u>Name</u>	<u>Start Date</u>	<u>Capacity ('000 m³/a)</u>
China	Nantong	Riverside Plywood	2003 ¹	120

Note:

¹ The plant was originally built in the early 1990s by Barito Pacific.

Source: Samling

The plywood mill is located in Nantong, north of Shanghai City, near the Yangtze River. Originally built by Barito Pacific, Samling took over the operation in 2003 and has since added fancy veneer processing at the plant. In 2003, the plant manufactured approximately 15,000 m³ of plywood. This more than doubled during the financial year ended June 2004 to 40,000 m³ as the plant ramped up production. In 2005 the plant production had increased to approximately 52,000 m³. In 2006 production was approximately 41,000 m³ with the Company giving changes in product mix as the reason for the reduced production level. Although the plant is set up to make tropical hardwood plywood, the operation is presently making plywood (mainly 1.22 m x 2.44 m sheets) from a mixture of poplar/radiata pine raw plywood and fancy plywood (red oak, beech, birch, meranti and maple amongst other species) in a range of thicknesses.

Production Costs

Since taking over, Samling has worked to improve operations and increase output at the plant. Samling has also developed a wider portfolio of products, including fancy plywood processing, as well as the manufacture of softwood plywood products.

The performance of the plywood plant is heavily dependent on the cost of raw material, given that Samling sources much of this from third parties. Samling has taken a very flexible approach to sourcing raw material for plywood manufacturing. Currently, the plant purchases poplar veneer from the domestic market and a limited volume of radiata pine logs, imported from New Zealand. Depending on the current costs for raw materials, Samling can switch between sourcing logs (hardwood or softwood) and veneer (radiata pine or poplar). As third party supply of raw material is purchased at market rates, Pöyry envisages that delivered veneer and delivered log costs to the plants will increase in line with the expected rise in future real prices. This will lead to an increase in wood costs and total production costs over the coming five years. Presently, roundwood recoveries at the plant are approximately 65% and recoveries for processing veneers are approximately 90%. The high recoveries are a reflection of the

investment in labour at the plant dedicated to maximising utilisation of veneer material. The relatively low cost of labour makes this possible and is a very positive contribution to the overall productivity of the plant. Samling presently purchases its resin from third party sources. Resin costs are one key manufacturing cost component that can potentially vary in the future, since it is heavily influenced by the cost of oil. Power is sourced from the national grid.

Various other steps have been taken to enhance flexibility as well as reduce costs, such as through the introduction of locally made machinery for drying poplar veneers. Samling plans to continue to invest in the plant to maintain its cost structure and develop the production of softwood and temperate hardwood plywood. Further details on costs can be found in Table 7-4.

Realised prices

The current average price for plywood (weighted average over all products sold, obtained from Samling for the period January to June 2006) from the mill is USD351/m³, including domestic sales and exports to FOB.

Certification

While the plant does not have ISO certification, there are well established quality and operational systems in place to manage product quality.

Future Operating Potential

Realistically, Pöyry believes that the plant should be able to produce plywood near the plant design capacity. Samling is targeting to increase plywood production to approximately 130,000 m³ by the financial year ending June 2008. Roundwood and veneer recoveries are not expected to change significantly in the future. Samling does not envisage a need for additional investment in equipment to achieve a production of 130,000 m³/a.

5.4.2 LVL

Introduction

In Pöyry's opinion, the plant is very tidy and well managed. Operators are well trained, competent and professional. Pöyry's staff were particularly impressed with the extent to which management systems (including monthly management reporting) have been implemented at the mill. It is in part a reflection on how the plant has been set up and managed from the time it started and on the attitudes and philosophy of the senior management involved with managing the plant.

Site Visit

Pöyry's staff visited the LVL plant during the period in June 2005. During April and August 2006, additional data and information was made available for inspection. Information sources included FY June 2006 management accounts and other financial information mill records, invoices, discussion with management and site staff, Pöyry databases and third party data.

Current Asset Description

Current assets for the LVL operation in China are described in Table 5-19.

Table 5-18:
LVL facilities as at 30th June 2006

<u>Country/State</u>	<u>Location</u>	<u>Name</u>	<u>Start Date</u>	<u>Capacity ('000 m³/a)</u>
China	Linyi	Foothill LVL	2003	40

Source: Samling

The LVL mill (Foothill) is located in Cangshan County, Shangdong Province, about 50 minutes drive from Linyi City. The mill started operations making non-structural LVL from poplar for the export market. Actual plant capacity changes depending on the season as the capacity of the plant to dry veneers varies with air temperature and humidity. Given this, design capacity of the plant has been estimated by Samling at approximately 40,000 m³/a.

Virtually, all the equipment in the plant is of Chinese origin. The plant makes LVL in a variety of dimensions up to 5 m long and as wide as 1.33 meters. Despite being small in size, the plant is very tidy, well operated and produces a product well suited to the end-users' needs.

Production Cost

Production level is relatively steady at 27,000 to 30,000 m³/a but costs are relatively high, partly as a result of the current high cost of raw materials for making resin, and also because the LVL mill buys its veneer from third parties at market rates. Although production costs appear high, Samling has taken action to manage these expenses. For example, the LVL plant runs its own resin plant, providing the resin at the cost of production. The Company has invested in Chinese equipment to capitalise on low costs and has cost effective and efficient servicing from locally based technicians. Average production costs have also been steadily falling as the plant has increased output to the capacity of the plant. Power for the plant is sourced from the national grid.

Veneer recovery is currently running at approximately 67%. Pöyry envisages that, given the diligence and care that is exercised at the plant along with Samling's commitment to maintaining operations in good working order, recoveries will be maintained at this level into the future. Therefore, wood costs (and total production costs) are expected to rise, but only as a direct function of the delivered cost for the veneer. In Pöyry's opinion, all other costs related to manufacturing are not expected to change significantly in real terms, with the possible exception of resin costs as the price of raw materials used in making resin (particularly phenol formaldehyde resin) is dependant on the cost of oil. Further details on costs can be found in Table 7-4.

Realised Prices

The current average price (weighted average for products sold, obtained from the Samling manufacturing accounts FY June 2006), for LVL from Foothill's mill is USD310/m³ FOB.

Certification

The plant does not have ISO standards or JAS certification. Currently, the plant is in the process of accumulating the necessary data for JAS certification. There are extensive manuals covering quality and quality control, from inwards goods inspection to final product delivery.

Future Operating Potential

Current annual production at the plant has been annualised at 26,000 m³/a. Given the current performance of the plant, Pöyry believes the operation can comfortably produce LVL at this level and should be able to improve output to closer to the design capacity of the plant. This output should be able to be maintained into the future and no additional investment in capital is expected other than what is required to maintain the performance and competitive edge of the operation.

6 FUTURE OPERATIONS

The "future" operations are defined as those operations that are decided and planned (including expansions).

6.1 Malaysia

6.1.1 Plantations

Introduction

Since 1998, Samling has negotiated the rights to 7 Licenses for Plantation Forestry (LPFs) in Sarawak of which 6 are included in detail in the scope of this ITR. These have a total gross area of 438,160 ha. The 7th license is held by Glenealy Plantations (Malaya Bhd), an associated company of Samling, and as such only certain aspects are tabulated here.

The current vegetation of all the proposed plantation sites is mainly, cut-over natural forest, derelict scrub, village areas of shifting agriculture and/or native customary reserve (NCR). The areas suitable for plantation development will provide approximately 138,000 ha of net plantable land over the 6 detailed licenses. The estimated planted area as at end June 2006 is 9,670 ha planted over three sites, 7.0% of the total net plantable area. The LPFs allow the holder to recover where present a yield of salvage timber in the conversion of areas to plantation, i.e. “salvage logging”.

The timber from salvage logging and the mature plantations will be used for the production of veneer and saw quality logs with a further potential for a chip/pulp grade log if economic. Based on current assumptions of yield and operable area, at full production, the plantations will sustain a woodflow of over 1.2 million m³/a. If the Glenealy production is also included, this expands to 1.5 million m³/a, all available for Samling processing facilities. Over the near term, production is expected to peak at 0.599 million m³/a of salvage material including that from Glenealy. This salvage wood availability is based on agreements currently in place.

Some of the plantation license areas overlap with the existing natural forest selective logging licenses (forest concession timber licences). It is Pöyry’s understanding that where these overlaps occur, areas of the natural forest that are not suitable for conversion to plantation and are not subject to shifting agriculture or defined as reserves can have a selective cut applied. Woodflow from these has been included under the existing asset concession woodflows in Section 5.1.1.

For the purpose of this report, it is assumed that the salvage volumes are transferred at cost to the mills and the future production from the planted tree crop will be internally sold at prevailing market prices. The Company has provided data that shows at 398,615 m³ were sold in the 2005/2006 financial year.

Plantation forestry in Sarawak is a new venture for Samling and it will be set up to complement the existing Sarawak concessions. To successfully execute a plan on this scale will require new levels of management input.

Site Visit

Pöyry conducted a site visit of Samling’s proposed plantation forest areas in April/May 2005. All proposed plantation areas were seen from the air, as ground visits were not possible to either Marudi or Jelalong. There was also a brief over-flight and ground visit of the Paong area (LPF/0021) in April 2006.

The purpose of the visits was to gain an overall familiarity with the operating environment and to verify information provided by Samling as to the proposed area, productivity, costs, revenues and impact of its current and proposed operations. A comprehensive survey or forest inventory was not undertaken.

Asset Description

Samling intends to establish a plantation forestry business over 6 Licenses for Plantation Forests granted by the Sarawak Forest Department. The licenses are interspersed amongst its current active concession licenses (see Current Operations Malaysia, Forest Concessions) and occur on both peat and mineral soils. The net plantable area of the licenses included in the ITR is estimated to be approximately 138,000 ha. A further 33,887 ha will be established as part of Glenealys plantation under LPF 0006 (Lana plantation). The following table (Table 6-1) gives a breakdown of the individual license areas and itemises those from which a salvage yield is available. The salvage yield from the Glenealy Lana plantation is included as agreements are in place to make it available to the mills covered in this ITR.

Table 6-1:
Samling's Current Plantation Licenses (Areas in hectares)

<u>License Block Name</u>	<u>LPF Number</u>	<u>License Periods</u>	<u>Gross License Area</u>	<u>Gross Plantable Area</u>	<u>Net Plantable Area including shifting agriculture allowance</u>	<u>Salvage volume available</u>
Paong	LPF 0021	2000 – 2060	101,000	25,000	24,745	Y
Segan	LPF 0014	1999 – 2059	10,800	7,289	6,012	N
Layun	LPF 0020	2000 – 2060	52,000	15,500	11,550	Y
Jelalong	LPF 0007	1998 – 2058	74,510	15,915	21,721	Y
Marudi	LPF 0008	1998 – 2058	59,650	22,410	22,085	N
Kenaya	LPF 0005	1998 – 2058	140,200	67,400	51,919	Y
Total			438,160	153,514	138,032	

Note:

Gross areas are provided by Samling and by Pöyry GIS interpretation.

Included in the Company's estimate of total net plantable area is 30,573 ha of former shifting agricultural land within the LPF areas that Samling proposes they will be able to plant. In order to achieve this, it will be necessary to maximise the involvement of local community (Longhouse) groups in plantation development. This may involve, for example, innovative profit sharing ventures.

The difference between the gross licence area and the gross plantable area comprises the following:

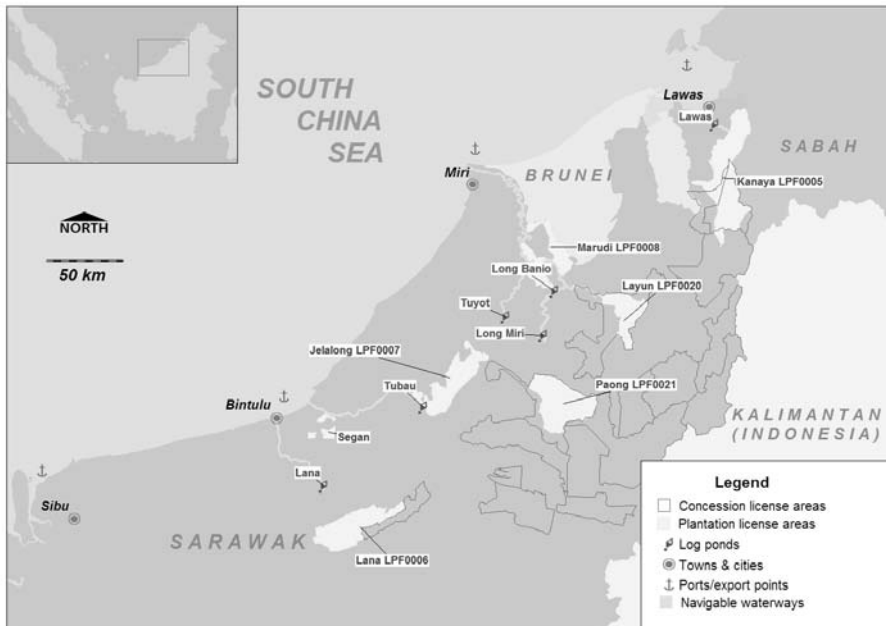
1. Concession areas, some of which are still available for selective logging under the forest concession timber licences, estimated at 145,000 ha,
2. The balance of the shifting agriculture and native customary reserve areas, and other reserves such as water catchments estimated at 139,211 ha.

There is a further reduction between the gross plantable and net plantable land due to:

1. Consideration of appropriate river and other buffers and reserves,
2. Allowance for location of infrastructure such as roads, log landings, transmission lines and camps.

Where the plantation blocks support a salvage yield, the area to be salvaged is estimated at the gross plantable area less the allowance for buffers, etc. as described above. Location of the plantation area licenses is illustrated in Figure 6-1.

Figure 6-1:
Map of Proposed Plantation Locations



Source: Pöyry

Note:

Lana, LPP0006 is under Glenealy.

The proposed plantations will produce a combination of logs to be used for the production of sawn timber and veneer in both current and future definite and planned plants. The potential residue of chip grade material, should there be beneficial margins, could be used for a combination of export chip, MDF and also for the proposed Sarawak pulpmill near Bintulu.

Woodflows from all the plantation areas and salvage logging for all licences areas (including Lana) will be available for current and future processing.

To date, *Acacia mangium* (acacia) has been targeted as the main plantation species, as it is proven for rapid growing and is enjoying increasing market acceptance as a solid wood crop. A combination of other species may also be used, including teak, eucalyptus, khaya and some rubberwood. Pöyry recommends detailed trial work on these other species be implemented as soon as possible.

The following table details the currently established plantation resource at the time of the inspection.

Table 6-2:
Estimates of Currently Established Plantation Areas (ha) by Species (as at end June 2006)

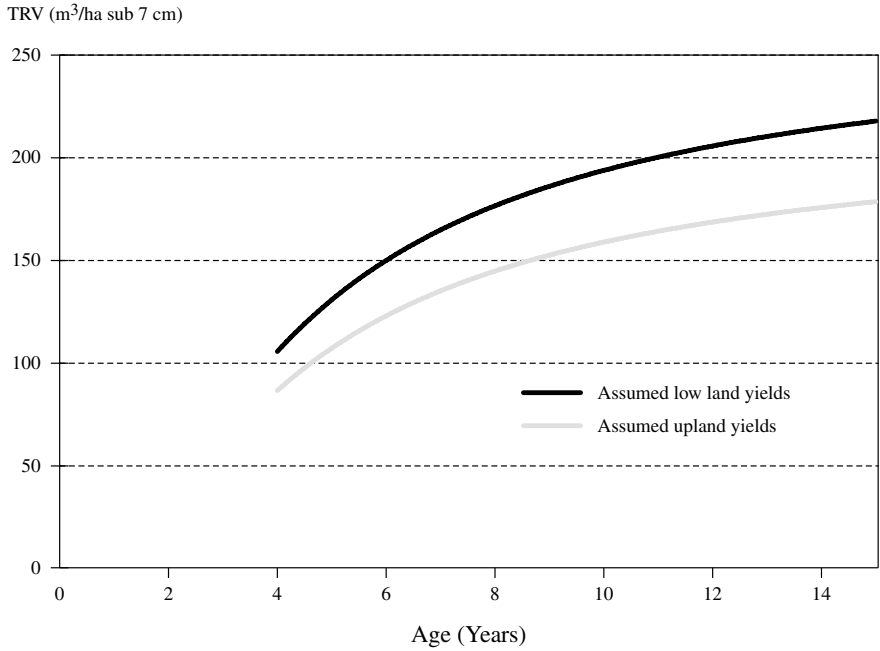
Plantation License	License No.	Species	Year End 30 June						Total (ha)
			2001	2002	2003	2004	2005	2006	
Paong	LPF 0021	<i>A.mangium</i>	–	–	134.1	892.8	1,397.7	2,058.1	4,482.7
		<i>A.crassiparva</i>	–	–	17.0	–	107.6	–	124.6
		Rubberwood	–	–	72.4	37.8	172.6	35.0	317.8
		Khaya	–	–	–	121.7	98.0	293.5	513.2
Segan	LPF 0014	Others	–	–	0.2	1.1	21.6	117.2	140.1
		<i>A.mangium</i>	227.0	1,058.1	551.1	712.4	707.7	64.6	3,320.8
		<i>A.crassiparva</i>	13.2	95.4	131.9	–	20.0	177.6	438.1
		Rubberwood	11.3	–	–	–	–	–	11.3
		Khaya	–	–	–	–	35.5	–	35.5
Layun	LPF0020	Others	6.8	48.9	1.5	14.2	118.9	29.1	219.3
		<i>A.mangium</i>	–	–	–	–	–	56.3	56.3
		<i>A.crassiparva</i>	–	–	–	–	–	–	–
		Rubberwood	–	–	–	–	–	–	–
		Khaya	–	–	–	–	–	–	–
		Others	–	–	–	–	–	9.9	9.9
Total (ha)			258.3	1,202.4	908.2	1,780.0	2,679.7	2,841.2	9,669.7

Source: Samling

It is assumed that acacia will be grown on a 10 year rotation targeting both saw and peeler log-grades. To achieve the required diameters in time, management attention will have to focus on detailed silviculture (thinning intensities, timings and pruning). Pöyry believes that while the plantation establishment plan may include a number of species, it is reasonable at this stage to assume that the majority of the plantation areas will be planted with *Acacia mangium*. Figure 6-2 represents Pöyry's best estimates of the average recoverable yield from the plantation resource, from the lowland (Segan, Marudi, Jelalong) and upland (Layun, Paong and Kanaya) plantation areas.

Monoculture plantations, often with narrow age-class distributions, are more likely to be affected by biological and weather impacts than ecologically diverse natural forests. With the increasing clearance of land and the routine use of fire in clearing processes, fire encroachment has become an important issue. Samling intends to manage this through recruiting employees with experience in forest protection and through local community involvement.

Figure 6-2:
Average Recoverable Yield Curve for *Acacia mangium*



Source: Pöyry

Note: TRV = Total recoverable volume is an estimate of the volume able to be recovered to merchantable limits and available for processing.

Table 6-3 gives the break down of anticipated volume by log grade.

Table 6-3:
Estimated Future Plantation Yields by Log Grade

Acacia mangium (10 year rotation)

Est. Recoverable Production Volumes (m³/ha)

Log grade	Upland Sites	Lowland Sites
Peeler	45	54
Sawlog	62	76
Total Harvest Yield	107	130
Chip log potential	52	64
Total Harvest Yield with chip	159	194

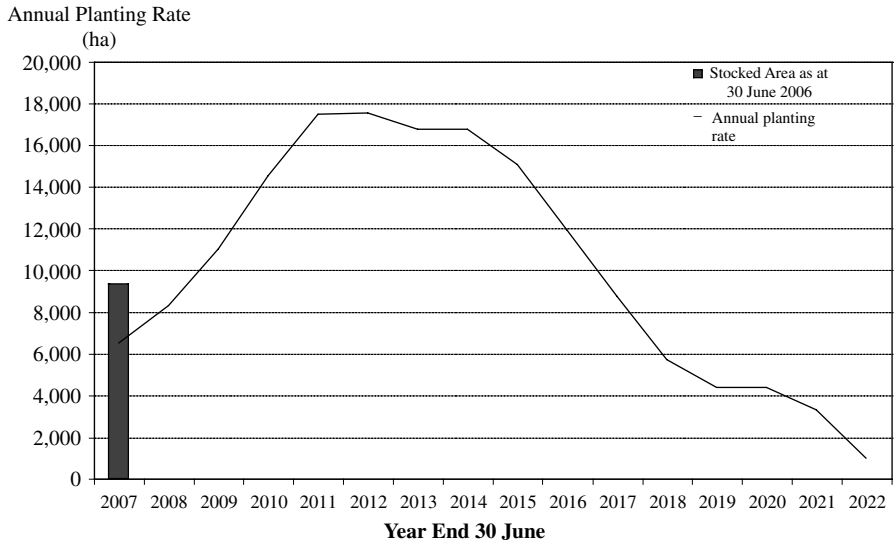
Source: Pöyry

Pöyry anticipates that planting rates will increase significantly over the next few periods as illustrated in Figure 6-3. This will require a considerable increase in labour availability to clear the remaining natural forest, establish plantation nurseries, implement planting, and carry out operational activities like weeding and thinning.

Figure 6-3 details the rate of forest plantation expansion assumed by Pöyry for the first rotation.

Factors that may affect the key assumptions regarding Samling's future plantation areas are: land encroachment, labour availability, changes in environmental legislation and changing government policy. Furthermore, detailed analysis which has not yet been undertaken by Samling may reveal that some areas are not suitable for plantation development. The impact of this issue can be reduced through continued partnership with the forestry department and through more detailed work in plantation development and planning.

**Figure 6-3:
Yearly Planting Rates**



Source: Pöyry

As the plantations are being established over the next 10-15 years, salvage production will yield a wood flow for current and future processing. The plantation licenses areas have been subjected to at least one logging cycle in the past and the Segan and Marudi licenses are not expected by Samling or Pöyry to produce a recoverable salvage yield.

**Table 6-4:
Current Recovered Salvage Yields**

Plantation Area	Recoverable Volumes (m ³ /ha)	Percentage Peeler	Percentage Saw
Jelalong	12	50%	50%
Paong	38	100%	0%
Layun	86	68%	32%
Kanaya ¹	50	80%	20%
Lana	26	90%	10%

Sources: Samling and Pöyry.

Note:

¹ No data available for Kanaya, figures provided are an estimate.

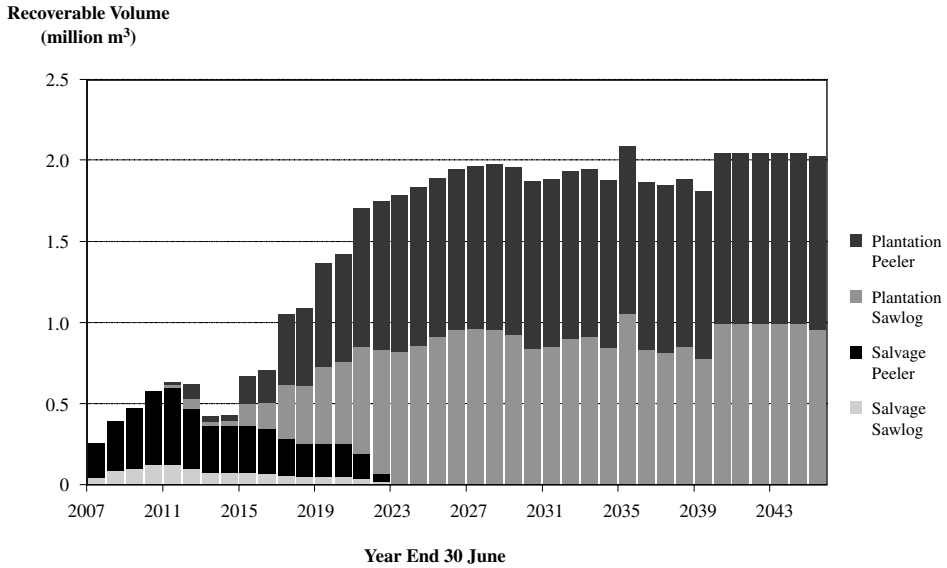
Pöyry has not conducted any forest inventory to confirm these figures, but they lie within the bounds of salvage operations being conducted elsewhere in similar forests in Sarawak.

Wood Flows

Significant plantation wood production is expected to start in 2015 – 2016 (Figure 6-4).

Table 7-1 shows this data summarised in tabular form. All are presented on a perpetual basis.

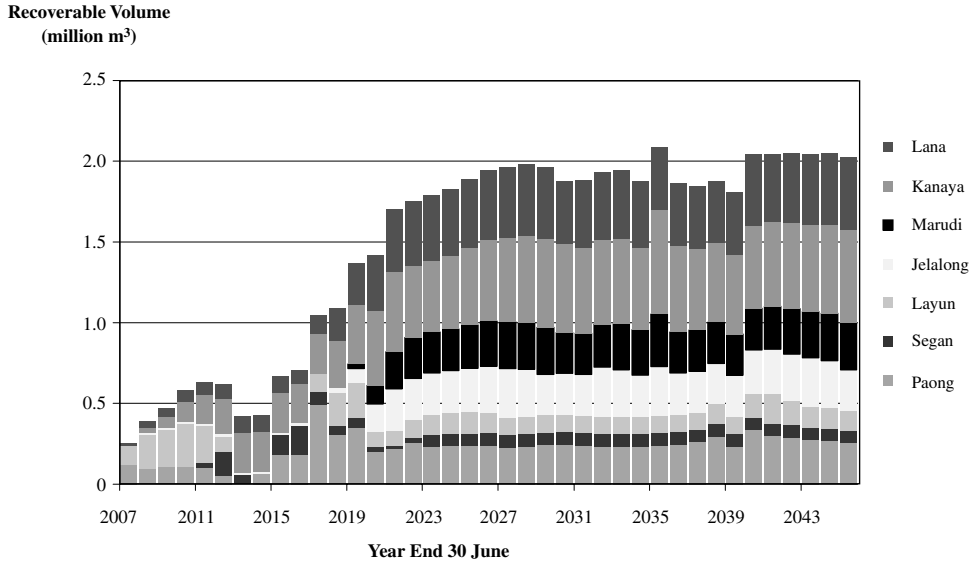
Figure 6-4:
Estimated Wood Flows for the Combined Plantation Licenses (all sources)



Source: Pöyry

Note: This includes production from Lana and Jelalong oil palm clearing.

Figure 6-5:
Estimated Woodflows From Plantation Sources only (by Plantation Origin)



Source: Pöyry

Note: Includes LPF006, Lana.

Estimated Production Costs

Volume weighted average production costs to mill gate for Samling peeler logs from salvage operations are USD16.8/m³ and USD19.9/m³ and for sawlogs (longer average haul distance) as at 30 June 2006. After the salvage of available resource, the establishment of the plantation is assumed to commence immediately before areas become infested with weeds.

The following table lists the estimated costs associated with the establishment, management and harvesting of the proposed Samling plantation forests. These costs include overheads, capital expenditure and any applicable royalties.

Table 6-5:
Costs Associated with the Samling Plantation Forest Operations (FY 2005/6)

Cost component	Year of Cost	Acacia		Rubber		Khaya	
		RM/ha	USD/ha	RM/ha	USD/ha	RM/ha	USD/ha
CAPEX Allowance	0	1,700.0	462.0	1,700.0	462.0	1,700.0	462.0
Salvage Waste Fell	0	332.1	90.2	323.7	87.9	323.7	87.9
Survey & Goodwill	0	20.0	5.4	20.0	5.4	20	5.4
Road Maintenance	0	–	–	–	–	–	–
Survey & Goodwill	0	20.0	5.4	20.0	5.4	20	5.4
Lining	0	–	–	–	–	–	–
Holing	0	–	–	–	–	–	–
Planting/fertiliser	0	452.6	122.9	1,086.2	294.9	1086.2	294.9
Seedlings	0	–	–	–	–	–	–
Supplying	0	–	–	–	–	–	–
Blanking	0	–	–	–	–	–	–
Spreading	0	899.1	244.1	904.3	245.5	904.3	245.5
Underbrush	0	31.9	8.7	–	–	–	–
Weeding	1	73.5	19.9	72.8	19.8	72.8	19.8
Road Maintenance	1	–	–	–	–	–	–
Pruning/Singling	1	59.8	16.2	60.6	16.5	60.6	16.5
Weeding	1	266.9	72.5	322.8	87.6	322.8	87.6
Weeding	1	81.1	22.0	95.9	26	95.9	26
Weeding	2	177.6	48.2	–	–	–	–
Pruning/Singling	2	105.2	28.6	–	–	106.7	29
Weeding	2	–	–	–	–	227.2	61.7
Thinning	3	250.0	67.9	–	–	–	–
Weeding	3	88.8	24.1	107.6	29.2	107.6	29.2
Pruning/Singling	3	90.8	24.7	–	–	92.1	25
Thinning	3	45.8	12.4	–	–	–	–
Weeding	6	–	–	–	–	107.6	29.2
Thinning	6	–	–	–	–	45.8	12.4
Thinning	7	–	–	–	–	250	67.9
Weeding	7	–	–	–	–	–	–
Thinning	7	–	–	–	–	–	–
Thinning	12	–	–	–	–	250	67.9
Thinning	12	–	–	–	–	45.8	12.4
Fire, Pest & Disease Control	annual	15.8	4.3	19.2	5.2	19	5.2
Capex, General & Admin Overhead	annual	235.0	63.8	225.5	61.2	226	61.4
Road Maintenance	annual	89.1	63.8	103.7	28.2	103	28
Transport Overheads	annual	57.1	15.5	77.9	21.2	76.9	20.9

Sources: Pöyry and Samling 1 USD=RM 3.679

At the present time, Samling is expanding the level of management and associated research and development and systems behind their plantation forests. When all systems are in place, Pöyry estimates that the annual central overhead expenditure associated with this will be approximately USD54/planted ha/a.

In addition to the central overheads, the Sarawak Forest Department levies a land use charge of RM 5/ha/a (USD1.34/ha/a) of gross licence area.

Harvesting costs are estimated by Pöyry to be similar to other regional operations at approximately USD14.77–16.13/m³ including extraction, loading, roading and overheads. Transport costs are derived from weighted average haulage distances from the forest to assumed destinations as estimated by Pöyry using mapping software. A rate of USD0.12/m³/km is then applied. Transport costs vary by origin and log destination between USD2.15/m³ and USD27.37/m³.

Costs will vary year on year into the future as transport distances change and the area of forest planted and restocked after harvest also changes. Costs defined as production costs (direct harvesting and transport related costs on USD/m³ basis) and annual operating expenses (all plantation development costs and overheads) are summarised in Table 7-2. Fuel and oil price changes will have a material affect on production costs.

Estimated Log Prices

Pöyry estimates that the future volume weighted average market log price at mill gate for all peeler and saw grade material will be approximately USD62/m³.

Management Review

Although the current plantations are small, Samling has been building experience in management practices. Within Samling, there is already experience in plantation forest management as a contractor with Grand Perfect Bhd* upon which they can draw to help with systems and procedures. In addition, many of the workers have experience in oil palm plantations. Although technically a different resource, the skills involved with clearing and establishing oil palm plantations will cross over to the forestry plantation operation. It also provides experience in chemical spraying and weed control, as well as managerial skills such as overseeing contractors.

Pöyry understands from Samling that it is in the process of recruiting extra plantation forestry expertise.

To optimally manage the plantation licenses and provide information for external audit and valuations, Pöyry recommends the introduction of comprehensive geographic and information management systems. There is an opportunity to combine these systems with those of the concession license management.

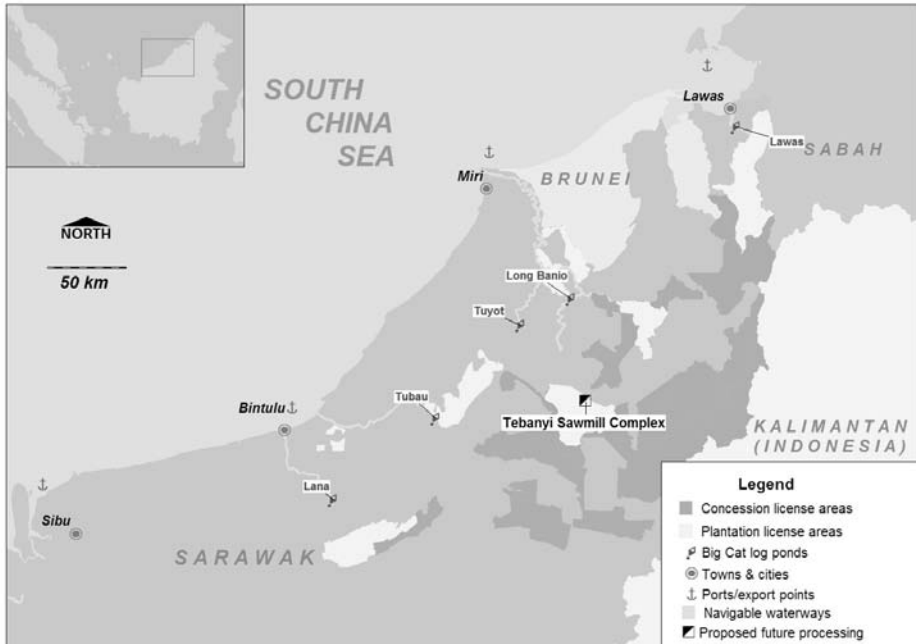
As the proposed venture includes the conversion to plantation of a proportion of the shifting agriculture and native customary reserve lands within the gross license areas, Samling will need to instigate an extension planting program that should include systems for land use negotiation and compensation.

* A nearby pulpwood plantation development.

6.1.2 Decided Mill Expansions

Samling plans to establish additional sawmilling production capacity within Sarawak. Figure 6-6 shows the location of the facility. Samling is subject to various government approval processes, such as export permits and building plans for all its operations. Any delay or failure to get the necessary approval could delay operations or require an alteration to Samling's plans.

Figure 6-6:
Location of Future Decided Processing Facilities — Sarawak



Source: Pöyry

Sawmills

Samling plans to establish a natural forest sawmill at Tebanyi in the calendar year ending December 2007 (Figure 6-6). The Company expects this plant to commence operations in the following calendar year. The Company intends to use the sawmill to process natural forest logs sourced from areas being cleared for Samling's plantation developments.

Samling estimates investment in the sawmill to be approximately USD1.2 million in real terms. Samling has indicated lately that the sawmill is expected to operate at a 35% recovery as the quality of logs being processed is not expected to be high. Delivered log costs are also expected by Pöyry to vary in the future with changes in the future costs of harvesting and transport of natural forest logs from plantation development areas. The mill will produce rough sawn air dried lumber.

6.1.3 Planned Mill Expansions

Veneer

Samling plans to establish an additional veneer mill (Lawas veneer) to process natural forest and plantation logs harvested from the northern part of Sarawak. Pöyry expects that veneer production costs at Lawas will be similar to those of the existing veneer plants. Future delivered log costs are likely to vary depending on where they are harvested. In turn, processed wood costs and total manufacturing costs will fluctuate. Other costs are not expected to change significantly in real terms in the future, with the exception of power which will be influenced by oil prices, since power generation at Lawas will be by diesel generators.

Sawmills

It is envisaged that as saw logs from Samling's plantations become available for harvesting and processing, Samling will seek to invest in plantation based hard wood saw mills to process this material. Once in operation, Samling plans to continue to invest in these plants to maintain performance.

6.2 New Zealand

6.2.1 Planned Mill Expansions

Veneer

Harvesting and export of logs at Hikurangi Forest Farms commenced in 2002 but it has been Samling's strategy to process this volume and export processed wood products rather than just logs. As such, Samling is planning to establish a veneer mill in New Zealand to process all of the veneer logs produced from the forest. Log costs will be the major cost factor for the operation and will change in line with domestic market price developments.

Sawmill

In addition to the veneer mill, Samling plans to construct and commission an export oriented sawmill in the Gisborne area to process all the saw logs expected to be harvested from Hikurangi Forest Farms. The mill will be set up mainly to process remanufacturing and structural timber grades.

Woodchip Mill

Samling is also planning to construct and commission an export woodchip mill. Samling expects that wood fibre for the chip mill will come in part from residues generated by the sawmill and veneer mill as well as from pulp logs available from the Hikurangi forest. Additionally, residues from third party sawmills and LVL facilities in the area as well as pulp logs from other plantations will be available for processing at the chip mill. Wood costs at the mill are likely to vary in the future in line with market price developments. Production costs will also change in the future as a consequence.

The following section contains the tables of data referenced in previous sections.

**Table 7-1:
Current and Future Asset Log Production Averaged Over Time Periods Shown (Pöyry Estimates)**

Country	Status	Asset	Estimated Annual Production Volume (thousand m ³) Financial Year Beginning 1 July					
			2006 – 2010	2011 – 2015	2016 – 2020	2021 – 2025	2026 – 2030	
Malaysia	Current	Concession licenses	1,771.6	1,771.6	1,771.6	1,771.6	1,771.6	
			Export sales volume	669.6	626.4	672.1	672.1	672.1
			Domestic sales volume	44.3	3.5	–	–	–
	Future	Forest plantations volume	22.4	200.8	1,045.9	1,473.3	1,538.3	
			Salvage wood volume	457.8	381.9	243.3	13.4	–
Guyana	Current	Concession licenses	360	397.4	420.4	420.4	420.4	
			Export sales volume	144.4	151.1	182.2	182.2	182.2
			Domestic sales volume	16.3	8.1	–	–	–
New Zealand	Current	Forest Plantations	582.4	863.6	863.6	863.6	863.6	
							320.4	

Sources: Pöyry and Samling

Notes:

- (1) For Malaysian and Guyana concessions woodflows are only shown for the export and 3rd party domestic sales components going forward. These are sold at market rates, other production transferred at cost to Samling downstream plants. Current average sales prices are in the main text. Woodflows may differ from those shown in the Samling Prospectus.
- (2) For Malaysian plantations, plantation material will be sold to downstream at market rates, salvage wood transferred at cost. Plantation volume does not show volume from Lana (LPF 0006) part of Glenealy, but salvage wood volume does as per agreements currently in place. Current average sales prices are in the main text.
- (3) Time period groups are arranged so as to best describe the estimated asset woodflows. Lustra of no production are represented: “–”.
- (4) New Zealand plantation woodflows are shown for the current planted rotation only (current investment cycle) as per IAS 41. For perpetual woodflows, see main text. All others woodflows shown can be treated as perpetual from the last lustrum detailed.
- (5) New Zealand plantation wood will be sold internally in the future to Samling downstream at market rates. Current average sales prices are in the main text.

Table 7-2: Pöyry Estimated Future Weighted Average Log Costs, Production Costs (USD/m³) and Annual Costs (thousand USD)

Country	Status	Year beginning 1 July					1 USD = RM 3.73	
		2006 – 2010	2011 – 2015	2016 – 2020	2021 – 2025	2026 – 2030		
Malaysia	Current concessions							
	Export sales	88.5	89.7	92.0	92.0	92.0		
	Production costs							
	3rd party sales	79.6	79.0	–	–	–		
	production costs	n/a	n/a	n/a	n/a	n/a		
	Annual costs	2006 – 2010	2011 – 2015	2016 – 2020	2021 – 2025	2026 – 2030		
Future plantations	Production costs	17.4	19.6	18.6	18.6	18.6	1 USD = RM 3.73	
	(plantation wood only)						1 USD = RM 3.73	
	Annual Costs	9,689	13,323	11,535	11,535	11,535	1 USD = RM 3.73	
Country	Status	2006 – 2010 2011 – 2015 2016 – 2020 2021 – 2025						
Guyana	Current concessions						Figures originated in USD	
	Export sales	80.5	77.2	80.5	82.1	82.1		
	Production costs							
	3rd party sales	64.7	60.2	–	–	–		
	Production costs	n/a	n/a	n/a	n/a	n/a		
	Annual costs	2006 – 2010	2011 – 2015	2016 – 2020	2021 – 2025	2026 – 2030	2031 – 2034	
Country	Status	2006 – 2010 2011 – 2015 2016 – 2020 2021 – 2025 2026 – 2030 2031 – 2034						
New Zealand	Current plantation	37.4	36.4	38.2	36.8	37.1	42.7	1 USD = NZDI.4839
	Production costs (all)							1 USD = NZDI.4839
	Annual costs	2,662.4	1,705.8	1,051.4	971.6	1,175.8	35.3	1 USD = NZDI.4839

Sources: Pöyry and Samling

Notes:

- (1) Production costs include harvesting, extraction, loading, all transport, roading, and harvest related overheads (compliance costs, etc). For concessions, they also include royalties, barging/lighterage and all central overhead costs. These in total are expressed on a per m³ of wood flow production basis. Plantations have an annual cost containing their central overheads (rates, office expenses, land rentals, insurance, etc) plus annual plantation growing costs and any relevant stumpage shares for New Zealand.
- (2) Production costs are not included for plantation salvage production and the component of Malaysian and Guyana transferred at cost to Samling downstream processing, weighted average estimates are in the main text.
- (3) New Zealand production costs are for all log grades on a weighted average basis to be sold either to external of Samling downstream processing. NZ cost data spot figures from end June 2006 so use a spot FX rate.
- (4) Depreciation components of production costs if relevant are itemised in the main text sections.

Table 7-3:
Current, Decided and Planned Major Processing Assets (m³/a)

Processing Assets	Current capacity (as at Financial Year Ending June 2006)	Planned Major Mill Expansions
Plywood		
<i>Malaysia</i>		
Samling Plywood Miri	132,000	
Samling Plywood Baramas	126,000	
Samling plywood Bintulu	252,000	
Rindaya Plywood Sibul	84,000	
<i>Guyana</i>		
Barama Plywood	108,000	
<i>China</i>		
Riverside Plywood	120,000	
Veneer		
<i>Malaysia</i>		
Tebanyi veneer mill	114,000	
Lana veneer mill	86,000	Additional capacity is planned to process peeler logs expected to be harvested from Samling's plantations in the future (2011–2020). A veneer plant is planned (2009–2012). Additional capacity is planned to process peeler logs expected to be harvested from Samling's plantations in the future (2011–2020)
Layun veneer mill	84,000	
Lawas veneer mill		
SIF veneer mill	72,000	
<i>New Zealand</i>		
Gisborne veneer mill		A world scale veneer plant is planned for Gisborne to process all the peeler grade logs that will be harvested from the Hikurangi Forest Farms (2008–2011)
LVL		
Foothill LVL	40,000	
Sawmills		
<i>Malaysia</i>		
Samling Wood Industries	24,000	To process salvage logs (by Dec 2007) World scale plantation based hardwood sawmills are planned for Sarawak to process all of the saw logs expected to be harvested from Samling's plantations in the future (2011–2020)
Ravenscourt (Lawas)	30,000	
Tebanyi natural forest sawmill		
Sarawak Plantation sawmills		
<i>Guyana</i>		
Barama sawmill	14,000	
Buck Hall sawmill	50,000	
<i>New Zealand</i>		
Gisborne Sawmill		A world scale softwood sawmill is planned for Gisborne to process all the saw logs that will be harvested from the Hikurangi Forest Farms (2008–2011)
Other		
Daiken Miri (MDF)	100,000	A new chip mill will be built to process pulpwood and residues from the planned plywood and sawmill in Gisborne (2008–2011)
Gisborne woodchip mill		
Samling Housing Products (Furniture)	6,172,000 units	
Engineered Wood Flooring	504,000 m ²	
Laminate flooring	1,500,000 m ²	
Magna Foremost door facings Malaysia	8,000,000 units	
Foremost Crest	267,000 units	

Source: Pöyry and Samling

Note: Capacity is in m³/a unless otherwise stated.

Table 7.4
Estimated Weighted Average Total Manufacturing Costs (Real) USD/m³ (inclusive of wood costs)
for Operations Existing as at 30th June 2006

Processing Assets	Annualised
Plywood	
<i>Malaysia</i>	309 (Weighted average)
Samling Plywood Miri	276
Samling Plywood Baramas ¹	331
Samling Plywood Bintulu	315
Rindaya Plywood Sibul ²	307
<i>Guyana</i>	
Barama Plywood	371
<i>China</i>	
Riverside Plywood ³	320
Veneer	
<i>Malaysia</i>	212 (Weighted average)
Tebanyi veneer mill	186
Lana veneer mill	256
Layun veneer mill ⁴	174
SIF veneer mill ⁴	222
LVL	
<i>China</i>	
Foothill LVL ³	291
Sawn Timber	
<i>Malaysia</i>	259 (Weighted average)
Kuala Baram (Miri) sawmill	258
Lawas sawmill	261
<i>Guyana</i>	
Barama sawmill	286
Buckhall sawmill	329
Other	
<i>Malaysia</i>	
Daiken Miri (MDF)	188
Samling Housing Products (Furniture) ⁵	15.2
Engineered Wood Flooring ⁶	16.0
Laminate flooring ⁶	5.31
Magna Foremost door facings Malaysia ⁷	1.66
Foremost Crest ⁷	21.6

Source: Pöyry and Samling

Notes:

Total manufacturing costs are based on data provided by Samling unless otherwise stated. Total manufacturing costs include wood costs as well as other costs of production and are split into variable and fixed cost allocations including sales, general and administration, as well as product distribution costs to FOB, where applicable. Costs do not include depreciation and amortisation or capital expenditure to maintain plant operations over and above general repairs and maintenance costs.

Logs supplied from natural forests and land cleared for plantation development has been assumed to be delivered to mills at cost. Therefore, total manufacturing costs have been modified from actual data to reflect this. Delivered natural log costs will vary in the future as harvesting and transport costs change. In some cases (Lana for example) Calculated delivered log costs given in this table are higher than current actual delivered wood costs provided in manufacturing accounts by Samling.

- ¹ Samling Plywood Baramas is purchasing veneer at market prices. Logs are assumed to be delivered at cost.
- ² Samling plywood Sibuluan has recently started operations. Therefore, production costs are derived from a combination of existing manufacturing accounts and production cost models. Production costs assume the plant is operating at or near full capacity. Logs are purchased at market prices.
- ³ Riverside plywood and Foot Hill LVL plants purchase logs and veneer at market prices.
- ⁴ Samling veneer Layun and SIF has recently started operations. Therefore, production costs are based mainly on actual data available for the Tebanyu and Lana operations. Production costs assume the plants are operating at or near capacity.
- ⁵ Production cost is in USD million.
- ⁶ Production cost is in USD/m².
- ⁷ Production cost is USD/piece, and is an ex mill cost not including distribution to FOB.

Lana and SIF veneer mills not operating at optimum volume yet.

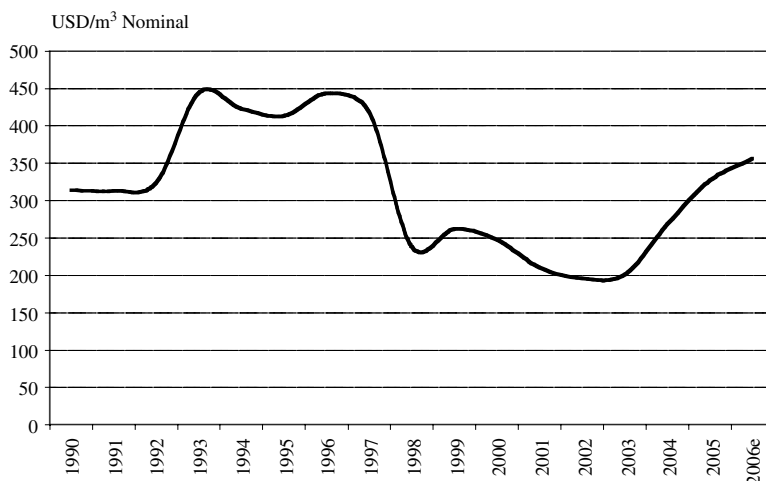


Table 7-5:
Historical Plywood Price Trend Data (USD/m³ nominal)

Grade/Type	'90	'91	'92	'93	'94	'95	'96	'97	'98	'99	'00	'01	'02	'03	'04	'05	'06e
Export weighted average price ¹	314	313	324	445	423	414	444	419	238	262	248	211	196	201	269	327	362
Indonesian export, MR, Grade BB/CC 2.7 mm							499	469	280	354	340	235	227	248	313	383	439
Indonesian export, MR, Grade BB/CC 3mm							455	423	251	305	281	204	198	216	281	356	400
Indonesian export, MR, Grade BB/CC 6mm							379	351	217	225	189	156	159	161	232	309	351
Indonesian domestic (MR grade) 9 mm							453	440	254	254	249	220	209	200	249	286	304
Indonesian domestic (MR grade) 12 mm							430	413	240	232	225	188	178	178	234	269	290
Indonesian domestic (MR grade) 15 mm							423	402	223	213	220						
Indonesian domestic (MR grade) 18 mm							398	382	211	207	214	185	168	171	233	269	277
Malaysian export (MR grade BB/CC) 2.7 mm							503	474	296	363	351	258	242	260	324	396	453
Malaysian domestic 3.6 mm							435	437	243	329	295	274	240	235	313	383	419
Malaysian domestic 9-18 mm							504	432	229	226	209	190	179	184	249	307	347

Sources: ITTO and APKINDO

Notes:

Export prices are at FOB price point

All prices are nominal

All prices are year averages

¹ Plywood price trend from 1990 to 1995 is based on weighted average Indonesian FOB plywood prices for selected key export destinations derived from APKINDO data. Plywood price trend from 1996 onwards is based on an average of a series of Indonesian and Malaysian FOB and domestic plywood prices for specific grades and thicknesses. 2 No data available from ITTO prior to 1996, and subsequently, incomplete for some grades.

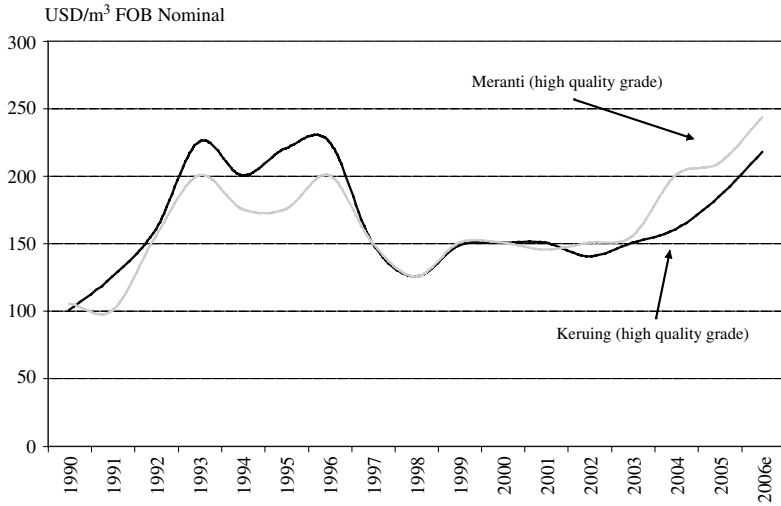


Table 7-6:
Historical Log Price Trend Data (USD/m³ nominal)

Grade/Type	'90	'91	'92	'93	'94	'95	'96	'97	'98	'99	'00	'01	'02	'03	'04	'05	'06e
Selangan Batu/Balau (Shorea spp.)	115	120	155	225	200	248	248	150	130	150	175	150	155	150	150	172	228
Kapur (Dryobalanops spp.)	118	100	175	225	198	200	225	150	125	148	150	147	150	148	148	162	203
Keruing (Dipterocarpus spp.)	100	125	160	225	200	220	225	150	125	148	150	150	140	150	160	184	227
Meranti (Shorea spp.)	105	100	155	200	175	175	200	150	125	150	150	145	150	155	200	209	247

Source: ITTO

Notes:

Prices are at FOB price point

All prices are nominal

All prices are year averages

Prices for the Meranti, Keruing and Kapur species are all Standard quality and up

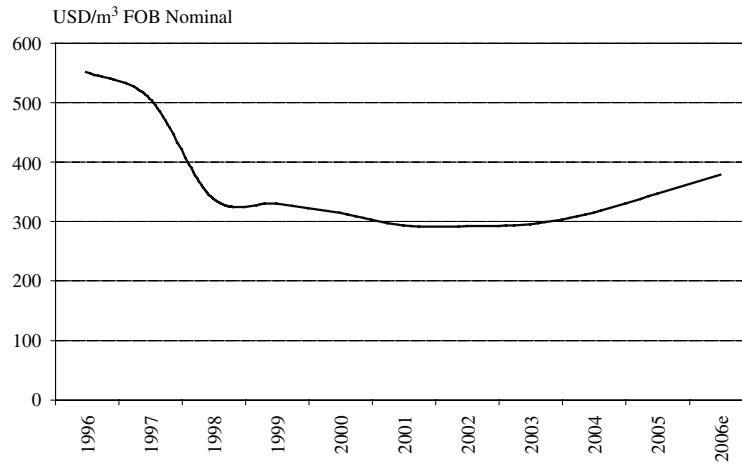


Table 7-7:
Historical Sawn Timber Price Trend Data (USD/m³ nominal)

<u>Grade/Type</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006e</u>
Malaysia Meranti	550	505	337	328	313	292	291	294	314	345	392

Source: ITTO

Notes:

Prices are at FOB price point

All prices are nominal

All prices are year averages

Prices for the Meranti Standard quality and up

8 GLOSSARY

a	Annum, year
APKINDO	Indonesian Wood Panels Association
CE Marking	“Conformite Europeene (European Conformity)” Marking
FOB	Free on board
FSC	Forest Stewardship Council
FY	financial year
ha	hectare
HFF	Hikurangi Forest Farms
ISO	International Organization for Standardization
ITR	Independent Technical Report
ITTO	International Tropical Timber Organization
JAS	Japan Agricultural Standards
JIS	Japan Industrial Standards
LPF	Licence for planted forest
LVL	Laminated veneer lumber
m	million
m ³ /a	Cubic metres per year
MDF	Medium density fiberboard
MTCC	Malaysian Timber Certification Council
NZ	New Zealand
NZD	New Zealand Dollar
ODt	Oven dried tonne
PEFC	Programme for the Endorsement of Forest Certification
PLC	Public limited company
PV	Present value
Production	The maximum allowable annual harvestable
Quota	volume from aggregated concession areas assessable for royalty payment as specified by the Forest Department of Sarawak
RM	Malaysian Ringgit
SGS	Société Générale de Surveillance
SPB	Samling Plywood Bintulu
SPK	Samling Plywood Kuala Baramas
SPM	Samling Plywood Miri
UK	United Kingdom
US	United States
USD	United States Dollar