## Report of the Auditors to the Members of L & M Group Investments Limited

1. We were engaged to audit the accompanying consolidated financial statements of the Group and financial statements of the Company for the year ended 31 December 2002 as set out on pages F6 to F65. These financial statements are the responsibility of the Company's directors.

2. Except as discussed in paragraphs 3, 4 and 9 below, we conducted our audit in accordance with Singapore Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statement presentation.

3. As described in Note 7, the Group's interests in its previously-controlled subsidiaries, PT Siwani Trimitra Tbk ("MITI") and PT Siwani Makmur Tbk ("SIMA"), have been reduced during the financial year ended 31 December 2002 to non-controlling interests of 19.0% and 11.89%, respectively. To date, we have not been able to obtain adequate information and explanations regarding the authority for the disposals, the completeness of the recording of the disposals, and the existence and completeness of the consideration receivable for these disposals. Consequently, we have not been able to verify the ownership by the Group and the Company of the interests of 19.0% in MITI and 11.89% in SIMA as at 31 December 2002. The investment in MITI is stated in the Group's and the Company's financial statements as at 31 December 2002 at no value, while the investment in SIMA is stated at a net book value of S$2.4 million.

4. As described in Note 12, the Group has recorded project receivables from PT Vitadaya Harapan (the "Vitadaya Receivables") held through a subsidiary, Jun Duan Technologies Limited ("Jun Duan"), amounting to S$7.6 million as at 31 December 2002. The Group has not provided us with sufficient information relating to the Vitadaya Receivables to allow us to form a view as to the recoverability of these amounts. Consequently, we are not able to form a view as to the recoverability of amounts due from Jun Duan to the Company, amounting to S$6.8 million as at 31 December 2002, previously utilised by Jun Duan to finance the acquisition of the Vitadaya Receivables.

5. As described in Note 8, an associated corporation, PT CyberCity Indonesia ("CCI") owes S$20.8 million to the Group and S$15.7 million to the Company, as at 31 December 2002. CCI had used these funds to make advances to PT Griya Nusantara Pratama ("GNP"), which had given to the Group rights to acquire an equity interest of approximately 14% in an Indonesian company, PT Jakarta International Trade Fair ("JITF"). CCI's ability to repay the Group and the Company is dependent on the successful implementation of JITF's Project Master Plan involving the development of JITF's property. JITF has not met the cashflow and profitability projections that were previously provided to the Group in 2001, and has not demonstrated an ability to carry out its plans and meet its revised cash flow and profitability projections. In our opinion, allowances for doubtful receivables of S$20.8 million and S$15.7 million should be made in the Group's and the Company's financial statements, respectively, for the amounts receivable from CCI.

6. The Group has recorded amounts receivable from an associated corporation, Concrete Technology Pte Ltd ("CTPL"), of S$1.5 million as at 31 December 2002. The history of financial performance and the current financial position of CTPL and other information available to us do not support the recoverability of these receivables. In our opinion, an additional allowance for doubtful receivables of S$1.5 million should be made in the Group's financial statements.

7. The Company recorded amounts of S$45.8 million due from a subsidiary which as at 31 December 2002 has a net liabilities position of S$109.5 million. In our opinion, as the financial position of the subsidiary do not support the recoverability of these receivables, an additional allowance for doubtful receivables of S$45.8 million should be made in the Company's financial statements.

8. Had the Group and the Company recorded the additional allowances for receivables described in paragraphs 5 to 7 above, shareholders' equity would have been stated at deficit balances of S$21.8 million and S$60.7 million, respectively, as at 31 December 2002. During the year ended 31 December 2002, although the Group generated positive cash flows from operations, it recorded negative operating cash flows before working capital change of S$24.1 million. In the light of their financial positions, as described in Note 2, the continuation of the Group and the Company as going concerns requires the successful completion of the debt and equity restructuring proposal with the creditor-bank and the Soeryadjaya family described in Note 17; and the generation of significant positive cash flows from the core specialist activities. The Group's discussions with its main creditor-bank and its internal restructuring plans have been in progress for a number of years with no successful conclusion to date. Because there is a continuing lack of progress in its financial restructuring initiatives, but the Group has nevertheless continued in operation for some time notwithstanding its poor financial condition, we are unable to determine whether it is reasonable to continue to use the going concern basis. If the going concern basis is not applied, provisions would be required to state assets at their realisable values, additional liabilities would be recorded, and assets and liabilities would be reclassified.

9. Based on the Group's and the Company's records which were available to us, the finance function of the Group became aware for the first time in December 2002 of certain expenses dating back to January 2002 which had not been recorded during the year. These expenses were incurred in Indonesia in relation to the Group's Indonesian operations. As the activities of the Indonesia-based executives in some cases were not subject to dual control or close supervision, no alternative audit procedures were available to us to establish whether all expenses incurred in relation to the Indonesian operations have been identified by the Group's finance function and stated accurately in the Group's and the Company's financial statements.

10. Because of the significance of the matters discussed in paragraphs 3 to 9, we are unable to, and accordingly, do not express an opinion as to whether the financial statements are properly drawn up in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act") and Singapore Statements of Accounting Standard and so as to give a true and fair view of:

    (i) the state of affairs of the Company and of the Group as at 31 December 2002 and the results and changes in equity of the Company and of the Group and of the cash flows of the Group for the year ended on that date; and

    (ii) the other matters required by Section 201 of the Act to be dealt with in the financial statements and consolidated financial statements.

11. Because of the matters described in paragraphs 3 and 9, we were unable to determine whether the accounting and other records of the Company relating to its ownership of the Company's investment in MITI and SIMA and its liabilities relating to its Indonesian operations have been properly kept in accordance with the Act. In our opinion, except for those records, the accounting and other records and the registers required by the Act to be kept by the Company and by those subsidiaries incorporated in Singapore, of which we are the auditors, have been properly kept in accordance with the provisions of the Act.

12. We have considered the financial statements and auditors' reports of all subsidiaries of which we have not acted as auditors, including those audited by our associated firms, and the financial statements of those subsidiaries for which audits are not required under the laws of their respective countries of incorporation, being financial statements that have been included in the consolidated financial statements. The names of these subsidiaries are disclosed in Note 32 to the financial statements.

13. Except for the matter referred to in paragraphs 3 and 4 above, we are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations as required by us for those purposes.

14. As a consequence of the matter referred to in paragraph 5, the auditors of L & M.com Pte Ltd qualified their audit report in a similar manner as set out in paragraph 5 above.

15. As a consequence of the matter referred to in paragraph 6, the auditors of L & M Foundation Specialist Pte Ltd qualified their audit report in a similar manner as set out in paragraph 6 above.

16. As a consequence of the matter referred to in paragraph 8, the auditors of various of the Group's subsidiaries, including L & M.com Pte Ltd, did not express an opinion on the financial statements of these subsidiaries.

17. The audit reports of the following subsidiaries were not the subject to material qualifications by their auditors:

Borneo Geotechnic Sdn Bhd
PT SSE Van der Horst Indonesia

18. The auditors' reports in respect of the subsidiaries incorporated in Singapore did not include any comment made under Section 207(3) of the Act.

**KPMG**
*Certified Public Accountants*

**SINGAPORE**

9 June 2003