SAMKO TIMBER LIMITED

2009
Annual Report

Contents

Corporate Profile

From our humble beginnings as a traditional solid wood processing company with just one plywood mill in Sulawesi in the late 1970s, Samko Timber has since developed into one of the world's top five tropical hardwood plywood producers today. The group currently also operates more than 1,000,000 m^3 of plywood, veneer, and secondary production capacity across the islands of Java, Sumatra, Kalimantan and Sulawesi.

Samko Timber places great emphasis on utilizing sustainable plantation wood resources, optimizing supply chain systems and developing its research and development (R&D), management, marketing, and distribution capabilities to achieve a strong competitive edge. In fact, utilizing our hands-on expertise, we are now moving into downstream timber processing and trading, increasing our market share and value-add.

Leveraging on the Group's strong business model that is both efficient and scalable, Samko Timber offers a wide range of primary and secondary processed timber products that comply with international market requirements, for export to a geographically diversified customer base in Asia, Japan, Europe, Middle East and the United States.

Through a subsidiary, about 34% of Samko Timber's natural forest concession is Forest Stewardship Council (FSC) management certified, making it one of only eight natural forest concession holders in Indonesia to have obtained FSC certification. Today, we have also attained ISO 14001, ISO 9001 and Japan Agriculture Standard (JAS) certifications for our various plants and we abide by other international and local environmental protection standards.

Listed on the Singapore Exchange in February 2008, Samko Timber is backed by a solid 30-year track record, a highly experienced management team, strong technical know how, and state-of-the-art facilities.

Chairman's Statement

Samko holds the strong belief that as a leading timber processing company in Indonesia, we will continue to stand resilient to economic challenges and emerge from the crisis, more determined to succeed.

Dear Shareholders,

Amidst a landscape of rapidly changing conditions, 2009 emerged as a challenging year for Samko Timber. Not only did the financial crisis trigger the worst post-war contraction, it also left damaging effects on numerous business sectors, including the timber industry.

Despite the consequences, the Group has demonstrated immense strength and resilience to ride out the storm and continue its steady recovery process. We remain amongst the top five tropical hardwood plywood producers globally, and are one of the largest in Indonesia.

FINANCIAL REVIEW

For the financial year ended 31 December 2009 ("FY2009"), revenue for the Group decreased 13%, from Rp3,210 billion to Rp2,797 billion. This decline was largely due to the lower export sales volume, which decreased 38% as a result of the slowdown in the market, and the strengthening of the Indonesian Rupiah against the US Dollar.

Corresponding to the lower revenue, gross profit saw a reduction of 69%, from Rp294 billion to Rp90 billion. Gross profit margin meanwhile, declined from 9% in FY2008 to 3% in FY2009. This was largely due to the

Chairman's Statement

gross loss incurred by our subsidiary PT Sumalindo Lestari Jaya, Tbk. Our overall lower sales volume and higher unit cost incurred in FY2009 were also contributing factors to the reduced gross profit and gross profit margin.

Other income for the year increased to Rp280 billion from Rp56 billion in FY2008. This was mainly derived from a foreign exchange gain of Rp255 billion, as well as other incidental gains such as gains from disposal of property, plant and equipment, and a subsidiary.

The Group reported a loss of Rp825 billion in FY2009 as compared to Rp865 billion in FY2008. Losses per share for FY2009 stood at Rp854 as compared to losses per share of Rp929 in FY2008. Net asset value per share also decreased from Rp1,467 in FY2008 to Rp549 in FY2009. As at 31 December 2009, the Group's total assets stood at Rp3,548 billion.

REDUCED TIMBER EXPORTS

The global economic crisis in late-2008 impacted the downstream timber industry in Indonesia. According to the Central Statistics Agency of Indonesia, export values plummeted 28% year-on-year in the first quarter of 2009. This was due to the weaker purchasing power in export markets, which in turn, reduced demand.

With the reduced demand, competition had intensified in the industry and hence, margins were significantly lower. As a result, smaller-scale competitors were greatly affected and have since exited the market. Regardless of the challenging economic environment, the Group has exhibited enduring strength and will continue to monitor business conditions, assess the risks in all operational and financial aspects, and implement measures to mitigate possible negative impact.

Chairman's Statement

OUTLOOK AND PROSPECTS

The exchange rate risk was high in 2009, and is expected to continue its volatility in 2010. With this increased risk of foreign exchange fluctuation, the decline in export revenue is expected to continue. The focus of sales will therefore continue to be on the domestic and regional market where cost and logistics will give the Group a competitive edge.

Export demand for timber is expected to improve - especially that of the export market. Some of our export market is slowly recovering and we are increasing our export sales. The overall export market however remains soft, as buyers remain cautious but confidence level is improving.

The credit restrictions that ensued from 2008's financial tsunami may continue to affect the Group's funding for working capital. Therefore, it is vital for the Group to improve its liquidity and build on stronger balance sheet. We will also explore various fund raising options, which include divesting the assets of our subsidiaries, in the aim of strengthening the Group's balance sheet and loan rescheduling.

Currently, the Group is focused on managing its costs and cash flow, and to sustain current working capital facilities. We have put in place the necessary measures for cost rationalisation, as well as the maintenance of the required working capital necessary to keep operations going and meet all financial obligations.

Our production plants are strategically located in Java, giving us greater and easier access to the domestic market, as compared to other competitors outside Java.

By protecting and gradually growing our market share, we will enable the Group to seize growth opportunities and expand into upstream and downstream segments of the value chain to enhance margins.

Regardless of the unfavourable environment, the Group believes that it is able to ride through the difficulties with our competitive strengths. We are also well-positioned to fully maximise our economies of scale and quality focus. With our large market share and logistical strength, the Group is able to gain an edge over others in the industry.

Overall, Samko holds the strong belief that as a leading timber processing company in Indonesia, we will continue to stand resilient to economic challenges and emerge from the crisis, more determined to succeed. We will also continue to head towards continual improvement and sustain our market leadership, and fulfil the needs and wants of customers by providing them with timber products and services of superior quality.

ACKNOWLEDGEMENTS

I would like to take this opportunity to thank my fellow Directors for their guidance and support in leading the Group through this uncertain phase.

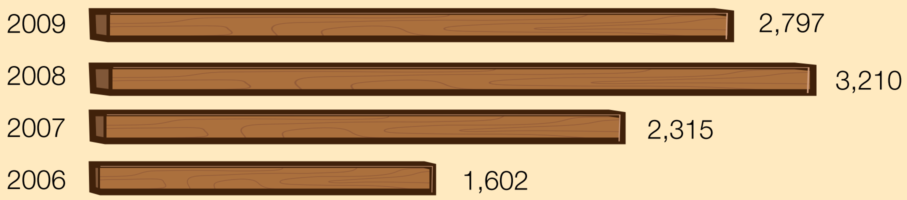
I would also like to express my heartfelt appreciation to our customers, suppliers and business associates for their support this past year. Greater appreciation is due to all our staff for their immense commitment and contribution to the Group.

Last but not least, I would like to thank our shareholders for your continued belief in us. With your enduring support, Samko Timber will continue to strive towards a better tomorrow.

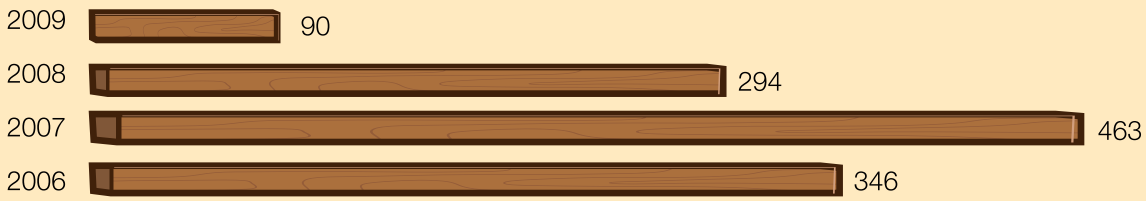
KOH BOON HONG
Chairman

Financial Highlights

Revenue Rp ‘billion

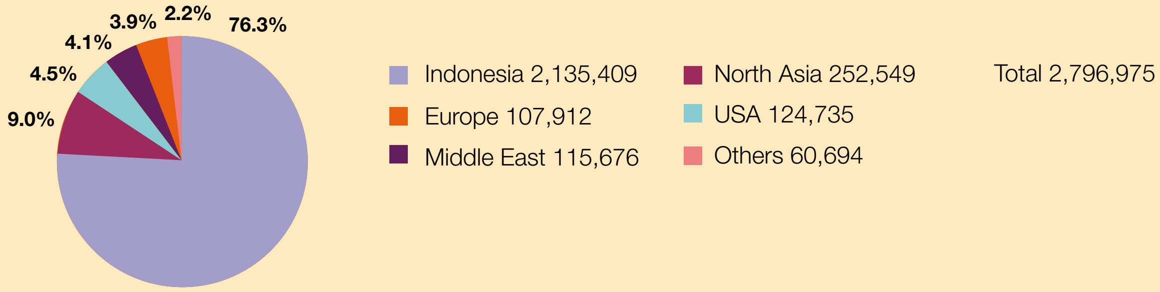


Gross Profit Rp ‘billion



(Loss)/profit After Tax Rp ‘billion

Revenue By Geography (2009) Rp ‘million



Revenue By Product Segment (2009) Rp ‘million

	Primary processed timber products	Secondary processed timber products	Chemical glue	Elimination	Total
Revenue					
Sales to external customers	2,632,093	159,939	4,943	--	2,796,975
Inter-segment sales	136,183	1,771	28,964	-166,918	--
Total sales	2,768,276	161,710	33,907	-166,918	2,796,975

For over 30 years, Samko Timber has strived to become one of the largest timber processing companies in Indonesia, and we have achieved this goal responsibly.

Now, we are one of the top five tropical hardwood plywood producers in the world, as we maintained a strong and sustainable source of timber supplies.

Operations Review

A Solid Foundation:
Over 30 Years of Excellence.

For over 30 years, Samko Timber has strived to become one of the largest timber processing companies in Indonesia, and we have achieved this goal responsibly.

Now, we are one of the top five tropical hardwood plywood producers in the world, as we maintained a strong and sustainable source of timber supplies. Harvesting in both the natural and plantation forest concessions also led us to become one of only eight natural forest concession holders with FSC certification, owning 34% share of the total FSC forest management certification in Indonesia.

We continue to work towards keeping our reputation in the industry. Our products are distributed in Asia, Japan, Europe, Middle East and the United States.





Operations Review

Capturing
a greater market share...

GROUP REVENUE

During the year in review, our Group revenue decreased by 13% as compared to 2008 to Rp2,797 billion, which was mainly due to a decrease in sales volume of approximately 12%.

As a result of the decline in revenue, the Group registered a loss of Rp825 billion for the financial year ended 31 December 2009 compared to losses of Rp865 billion for 2008. Losses continued mainly due to decreases in sales, additional provision for impairments of goodwill and property, plant and equipment and reversal of deferred tax assets in the year in review.

PERFORMANCE BY BUSINESS SEGMENT

In FY2009, sales from primary processed timber products decreased by 12% or Rp365 billion, from Rp3,134 billion in FY2008, to Rp2,768 billion this year. This was largely due to the decrease in our sales volume by approximately 12%. Our subsidiary, PT Sumalindo Lestari Jaya, Tbk ("Sumalindo") was the worst affected as its sales volume saw a decline of 47% compared to FY2008.

Sales from secondary processed timber products decreased by 18%, as a result of the decrease in our export sales volume which was affected by the slowdown in the market and the strengthening of Indonesia Rupiah against the US Dollar.

Operations Review

PERFORMANCE BY GEOGRAPHICAL MARKET

Export sales in 2009 decreased by 38% to Rp658 billion compared to Rp1,055 billion in 2008, mainly due to a decrease in export sales volume, as a result of the slowdown in the market and the strengthening of the Indonesian Rupiah against the US Dollar. Our subsidiary PT Sumalindo Lestari Jaya, Tbk ("Sumalindo") was worst affected, with sales volume declining by 47% compared to 2008.

Our domestic sales volume decreased by 4%. This was offset by higher selling prices achieved in 2009 compared to the year before.

In terms of geographical segments, Indonesia remained our largest market with sales accounting for 76% or Rp2,135 billion of our group sales. North Asia generated Rp253 billion of sales during the year in review. This translated to 9% of group sales. Sales to the USA contributed about 4% or Rp125 billion to overall Group sales.

BOOSTING MARKET SHARE

Consistently, the Group seeks to focus its efforts on growing its market share in Indonesia, while seizing opportunities for further expansion in Asia. We succeeded in improving our domestic market share, especially in secondary processed plywood market in Java and in new markets like Medan.

OPTIMISING PRODUCTION CAPACITY

We continue to expand the utilisation of our capacity invested in 2008. However, the onslaught of the crisis has and is expected to continue hindering the reinforcements and optimisation of the Group's production capacity. Our subsidiary PT Sumalindo was the worst affected in FY2009, with export sales declining by 47% compared to 2008. Nonetheless, we will continue to optimise our operation to increase production output and realise further economies of scale.

MOVING TOWARDS LONG-TERM GROWTH

To strengthen our growth platform, we consistently develop better quality and value-added products. We are in the process of developing more downstream businesses such as doors and timber trading, tapping our broad knowledge and experience about the industry.

BUILDING ON GROWTH OPPORTUNITIES

We continue to focus on the domestic and regional market where we have cost and logistic advantages over our competitors.

On the export front, some of our export market is slowly recovering and we are increasing our export sales. The overall export market remains soft, as buyer remains cautious but confidence level is improving.

With a representative office located in Malaysia and a timber trading arm in Singapore, the Group is better equipped to provide our customers with greater and easier access to relevant information. This will open up greater opportunities for business dealings with local companies and uphold good relations with our overseas customers.

Board of Directors

MR KOH BOON HONG
Chairman

Mr Koh Boon Hong founded the Group in 1978 and has served on the Board of Samko Timber Ltd since August 2007. He was appointed to the Board of Sunarko Holding Pte Ltd in 1980 and continues to hold office today. Since 1981, he has also served as a director of Hasan Holding Pte Ltd and Noah Shipping Pte Ltd. Over the past 34 years, Mr Koh has also held directorships in various companies in the property industry, including Sing Holdings Limited, Sing Developments (China) Pte Ltd., Sing-Mas Investments Pte Ltd., and Sing Realty (Singapore) Pte Ltd.

MR MICHAEL JOSEPH SAMPOERNA
Non-Executive Director

Mr Michael Joseph Sampoerna has served on the Board since August 2007. He possesses extensive Board and management experience, having previously served on the Boards of various local and overseas companies, including as President Director of PT. H.M Sampoerna Tbk. Currently, Mr Sampoerna is a director of eleven other companies in Singapore and is the President Commissioner of PT. Sumber Graha Sejahtera (PT. SGS) and PT. Sampoerna Agro Tbk.

MR ARIS SUNARKO @ KO TJI KIM
Chief Executive Officer

Mr Aris Sunarko @ Ko Tji Kim has served on the Board since December 2005. He holds a B.Sc. degree from the University of Southern California and spent 13 years as a manager of production facilities in PT Panca Usaha Palopo Plywood. Mr Sunarko was responsible for the Group's initial venture into the production of laminated veneer lumber in 1989, which culminated after in the acquisition of PSUT in 1993. Mr. Sunarko possesses about 28 years of experience in the timber industry and is currently the President Commissioner of PT. Haskojaya Abadi, PT. Putra Sumber Kimindo and PT. Pelayaran Nelly Dwi Puteri, and President Director of PT. SGS and PT. Panca Usaha Palopo Plywood.

MR EKA DHARMAJANTO KASIH
Non Executive Director

Mr Eka Dharmajanto Kasih has served on the Board since April 2006. He is also a director and commissioner of various companies including commissioner of PT SGS, independent director of PT H.M. Sampoerna Tbk and President Director of PT. Sampoerna Agro Tbk. Prior to Samko Timber, he was a commissioner and a director of PT. H.M. Sampoerna Tbk, and also a director of Sampoerna International Finance Company, BV and Sampoerna International Pte Ltd. Mr Kasih holds a Bachelor's degree in economics from the University of Indonesia and has been an adjunct lecturer at the University of Indonesia (Faculty of Economics) since then.

MR NG CHER YAN
Independent Director

Mr Ng Cher Yan was appointed to the Board on December 14, 2007. He started his career with Pricewaterhouse Singapore and is currently practicing as a Certified Accountant in C Y Ng & Co., which he established in 1990. Mr Ng holds directorships in several companies listed on the SGX-ST, and is also Chairman of the Citizens' Consultative Committee of the Braddell Heights Constituency in Singapore. Mr Ng holds a Bachelor of Accountancy from the National University of Singapore, and is a member of the Institute of Certified Public Accountants in Singapore, and Institute of Chartered Accountants in Australia.

Board of Directors

MR SIM IDRUS MUNANDAR
Independent Director

Mr Sim Idrus Munandar was appointed to the Board in December 14, 2007. He is also a commissioner of PT Sumber Sawit Sejahtera and PT Catur Manunggal Hidup Sejahtera. Prior to 2005, he was a President Director of PT Bina Danatama Finance Tbk, a public- listed company in Indonesia engaged in the financing business. Mr Sim holds a Bachelor's degree in economics from the University of Indonesia, and has been a lecturer in the Sekolah Tinggi Ekonomi (STIE) Jayakarta since 1981.

MR LAURENCE JOHN WEE EWE LAY
Independent Director

Mr Laurence John Wee Ewe Lay was appointed to the Board on December 14, 2007. He holds a Bachelor of Law (Honours) from the University of Buckingham, and was admitted as an advocate and solicitor of the Supreme Court of the Republic of Singapore in December 1983 and has been in legal practice for more than 25 years. He is currently the Managing Partner of Wee Ramayah & Partners where he has served since 1984. Mr Wee currently also holds directorship appointments in several other Singapore companies, including AL Assets Pte Ltd, Cecilanda Private Limited, Royal Assets Pte Ltd and Royal Brothers Global Investments Pte Ltd.

MR AMIR SUNARKO @ KOH TJI KIONG
Executive Director

Amir Sunarko @ Koh Tji Kiong, Head of Kalimantan Operations, was appointed to the Board in April 2006. He holds a B.Sc. degree from the University of Southern California, and was Director of PSUT from 1993 until his election as a member of its Board of Commissioners in 2005. He is currently the President Director of PT. Sumalindo Lestari Jaya Tbk (Sumalindo), where he served since 2002. Mr Sunarko possesses approximately 23 years of experience serving as a commissioner or director of various companies in the timber industry, including PT. SGS, PT Nelly Jaya Pratama, PT Haskojaya Abadi, PT Putra Sumber Kimindo, and PT. Pelayaran Nelly Dwi Putri.

MR ALI GUNAWAN BUDIMAN
Executive Director

Mr Ali Gunawan Budiman, Head of Business Development, was appointed to the Board in April 2006. He is also a director of PT SGS, the key subsidiary of Samko Timber Ltd. Mr. Budiman has extensive experience in business development area and has gained valuable working experience such as working as a project manager at the Boston Consulting Group. Mr Budiman holds a Bachelor's degree in Chemical Engineering from Institut Teknologi Bandung, and a Master in Finance degree from the London Business School.

Senior Management

MR UNTORO ANGKAWIJAYA
Chief Financial Officer (CFO)

Mr Untoro Angkawijaya joined the Group in 1994. He possesses some 20 years of experience in financial management. Prior to joining the Group, Mr Angkawijaya was Financial Controller of the Sinar Mas Group and Citibank N.A., Jakarta. He holds a Bachelor of Engineering degree in Electrical Engineering and a Masters of Business Administration (Finance) from the University of New South Wales, Australia.

MR HARRY HANDOJO
Head of Java Operations

Mr Harry Handojo joined Samko Timber Limited in 1997. He had previously served at PT Putra Sumber Utama Timber (PSUT), where he was initially appointed as Project Manager and responsible for the implementation and development of new business plans. In 1999, Mr Handojo was promoted to General Manager of PSUT. He holds a Bachelor of Engineering degree from the Institute of Technology, Surabaya, Indonesia.

MR WIHARTONO
Group Financial Controller

Mr Wihartono joined the Group in 1995 as Financial Controller of PT Putra Sumber Utama Timber (PSUT), and was responsible for overseeing day-to-day financial and accounting matters. Between 1987 and 1995, Mr Wihartono was Group Head of Johan Malonda & Rekan, a public accounting firm. He holds a Bachelor degree in Economy (Major in Accounting), from the Tarumanagara University, Jakarta, Indonesia.

MR THE VICTOR DIPUTRA
Head of Sulawesi Operations

Mr The Victor Diputra joined the Group in 1986 and possesses some 25 years of working experience in the timber industry. Prior to joining the Group, he spent two years with PT Harapan Kita Utama Pontianak and before that, he worked with PT Aji Ubaya Banjarmasin from 1983 to 1985.

MR YUSRAN MUSTARY
Head of Sumatra Operations

Mr Yusran Mustary joined the Group in 1997, and possesses some 20 years of experience in the timber industry. Mr Mustary started his career at PT Wijaya Triutama Plywood Industry in 1988 and left as Manager in 1994. Before joining the Group, he was General Manager of PT Basirih Industrial Corporation from 1994 to 1997. Mr. Mustary holds a Diploma-3 in Civil Technical Engineering from the Hasanudin University, Ujung Pandang, Indonesia.

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Corporate Governance

INTRODUCTION

Samko Timber Limited (the "Company") strives to observe the standards of corporate conduct in line with the spirit of the Code of Corporate Governance 2005 (the “**Code**”) so as to safeguard shareholders’ interests and enhance the financial performance of the Group.

To discharge its governance function, the Board of Directors (the “Board”) and its Committees have laid down policies, procedures and practices to govern their activities.

I. BOARD MATTERS

THE BOARD’S CONDUCT OF ITS AFFAIRS
Principle 1: Effective Board to lead and control the Company

The Board oversees the business affairs of the Group and is responsible for setting the strategic direction of the Group establishing goals for Management. In addition, the Board works with Management to achieve these goals set for the Group. To ensure smooth operations, facilitate decision-making and ensure proper controls, the Board has delegated some of its powers to its Committees and the Management. The Board Committees and Management remain accountable to the Board.

Apart from the statutory responsibilities, the Board is responsible for the overall management of the Group and to review and monitor the Group’s operations.

The Board is supported by three Board Committees, namely, the Audit Committee (“**AC**”), the Nomination Committee (“**NC**”) and the Remuneration Committee (“**RC**”). Each Committee has its own specific Terms of Reference setting out the scope of its duties and responsibilities, rules and regulations, and procedures governing the manner in which it is to operate and how decisions are to be taken.

BOARD COMPOSITION AND BALANCE
Principle 2: Strong and independent element on the Board

The Board consists of the following nine members, three of whom are executive Directors, six are non-executive Directors, including three independent directors:-

Non Executive Chairman:

Koh Boon Hong

Executive Directors:

Aris Sunarko @ Ko Tji Kim	Chief Executive Officer
Koh Tji Kiong @ Amir Sunarko	
Ali Gunawan Budiman	

Non Executive Directors:

Michael Joseph Sampoerna
Eka Dharmajanto Kasih

Independent Directors:

Ng Cher Yan	Lead Independent Director
Sim Idrus Munandar	
Wee Ewe Lay Laurence John	

The Directors of the Company come from different backgrounds and possess core competencies, qualifications and skills. They bring with them a wealth of experience that enhances the overall quality of the Board. The profiles and key information of all the Directors are on pages 10 and 11 of the Annual Report.

The NC is of the view that the current Board size and composition is adequate taking into account the scope, nature and size of operations of the Group.

The NC conducted its annual review of the Directors' independence and was satisfied that the Company has complied with the guidelines of the Code. In its deliberation as to the independence of a Director, the NC took into account whether a director has business relationships with the Group, and if so, whether such relationships could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent judgement.

In addition, the Company benefited from Management's ready access to its Directors for guidance and exchange of views both within and outside of the formal environment of Board and Board Committees meetings.

The Board meets at least once every quarter, with optional meetings scheduled if there are matters requiring the Board's decision at the relevant times.

In the course of the year under review, the number of meetings held and the attendance by each member of the Board and Committees are as follows:-

	Board		Audit Committee		Nomination Committee		Remuneration Committee	
	No. of Meetings		No. of Meetings		No. of Meetings		No. of Meetings	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Koh Boon Hong	9	8	N.A	N.A	N.A	N.A	N.A	N.A
Aris Sunarko @ Ko Tji Kim	9	9	N.A	N.A	N.A	N.A	N.A	N.A
Koh Tji Kiong @ Amir Sunarko	9	9	N.A	N.A	N.A	N.A	N.A	N.A
Ali Gunawan Budiman	9	9	N.A	N.A	N.A	N.A	N.A	N.A
Michael Joseph Sampoerna	9	8	N.A	N.A	N.A	N.A	N.A	N.A
Eka Dharmajanto Kasih	9	8	N.A	N.A	N.A	N.A	N.A	N.A
Ng Cher Yan	9	9	4	4	2	2	1	1
Sim Idrus Munandar	9	8	4	4	2	2	1	1
Wee Ewe Lay Laurence John	9	8	4	3	2	2	1	1

N.A. – Not Applicable

ROLE OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER ("CEO")
Principle 3: Clear division of responsibilities and balance of power and authority

To maintain effective supervision and ensure a balance of power and authority, different individuals assumed the Chairman and CEO roles. The division of responsibilities between the Chairman and CEO has been clearly established, to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision-making.

The Company's Chairman, Mr Koh Boon Hong, who is non-executive, brings with him a wealth of experience, leads the Board and bears responsibility for the working of the Board.

The CEO, Mr Aris Sunarko @ Ko Tji Kim, is involved in the day-to-day running of the business and has executive responsibilities for the Group's businesses.

BOARD MEMBERSHIP
Principle 4: Formal and transparent process for the appointment of directors to the Board

The NC consists of the following three members, all of whom are non-executive and independent:-

Sim Idrus Munandar	Chairman
Ng Cher Yan	
Wee Ewe Lay Laurence John	

Corporate Governance

The responsibilities and principal functions of the NC, as set out in its Terms of Reference, include:

(a) Reviewing and assessing candidates for directorships (including executive directorships) before making recommendations to the Board for the appointment of Directors;

(b) Reviewing and recommending to the Board the retirement or re-election of Directors in accordance with the Articles of Association of the Company at each annual general meeting;

(c) Recommending to the Board the re-appointment of any Director, who is over 70 years of age, at each annual general meeting;

(d) Reviewing the composition of the Board annually to ensure that the Board has an appropriate balance of independent and non-independent Directors and ensuring an appropriate balance of expertise, skills, attributes and ability among the Directors;

(e) Determining annually the independence of Directors, in accordance with applicable codes and guidelines; and

(f) Deciding whether the Directors have been and will continue to contribute effectively and demonstrate commitment to their roles.

It reviewed the independence of the Directors, including those with multiple directorships in other companies, the Board size and competency mix and the effectiveness of the Board as a whole, and was satisfied with the outcome of the reviews.

In accordance with the Company's Articles of Association, every Director shall retire from office once every three years and at each Annual General Meeting ("AGM"), one-third of the Directors shall retire from office by rotation, and the newly appointed Director(s) shall hold office only until the next AGM. The retiring Directors are eligible to offer themselves for re-election.

Accordingly, the NC has reviewed and recommended to the Board the nomination of Messrs Aris Sunarko @ Ko Tji Kim, Koh Tji Kiong @ Amir Sunarko and Sim Idrus Munandar, who are due for retirement pursuant to the Company's Articles of Association for re-election at the forthcoming AGM. The three Directors, being eligible, will be offering themselves for re-election.

The NC has also proposed the recommendation of re-appointment of Mr Koh Boon Hong, who is retiring pursuant to Section 153(6) of the Companies Act, Cap 50, to hold office from the date of the forthcoming AGM until the next AGM.

BOARD PERFORMANCE
Principle 5: Formal assessment of the effectiveness of the Board as a whole and the contribution by each director to the effectiveness of the Board

The NC has assessed the effectiveness of the Board as a whole, as well as the contribution of each Director to the effectiveness of the Board.

The NC is guided by its Terms of Reference which set out its responsibilities for assessing the Board's effectiveness as a whole and its ability to discharge its responsibilities in providing stewardship, corporate governance and monitoring Management's performance with the objective of enhancing long term value for shareholders.
The NC reviewed the Directors' mix of skills and experiences that the Board requires to function competently and efficiently in achieving the Group's strategic objectives and was satisfied that the Board has a good mix of skills and expertise.

The evaluation of the Board will be carried out on an annual basis. Each Director assesses the Board's performance as a whole by providing feedback to the NC. The NC, when reviewing the Board's performance, will take note of the feedback received from the Directors and act on their comments accordingly.

A procedure to evaluate the contribution of each individual director to the effectiveness of the Board had been established. In assessing the contributions of each Director, the NC will take note of the individual Director's attendance at meetings of the Board, Board Committees and General Meetings, the individual Director's functional expertise and his commitment of time to the Company. The NC will also evaluate the competing time commitments faced by Directors serving on multiple boards during the year and is satisfied that the Directors have spent adequate time on the Company's affairs to fulfill their responsibilities.

The NC will decide how the Board's performance is to be evaluated and develop objective performance criteria, which address how the Board has enhanced long-term shareholders' value. The NC will also implement a process for assessing the effectiveness of the Board as a whole and assessing the contribution of each individual Director to the effectiveness of the Board. The NC Chairman will act on the results of the performance evaluation of the Board, and selections of members of the Board of Directors, in consultation with the NC. Each member of the NC shall abstain from voting on any resolutions in respect of the assessment of his performance or re-nomination as Director.

ACCESS TO INFORMATION
Principle 6 *Board members should be provided with complete, adequate and timely information*

In order to enable the Board to function effectively and to fulfil its responsibilities, Management recognises its obligation to supply the Board and the three Board Committees with complete, adequate information in a timely manner. A system of communication between Management and the Board has been established and will improve over time.

Each Director has been provided with the up-to-date contact particulars of the Company's senior management staff and the Company Secretary to facilitate access to any required information. The Company Secretary attends all Board and Board Committee Meetings and is responsible in ensuring that board procedures are adhered to.

In furtherance of their duties, the Directors, individually or as a group, may seek independent professional advice on matters relating to the businesses of the Group, at the Company's expense.

II. REMUNERATION MATTERS

PROCEDURES FOR DEVELOPING REMUNERATION POLICIES
Principle 7: Formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors

The RC comprises of three Independent Non-Executive Directors, Messrs Wee Ewe Lay Laurence John (Chairman), Sim Idrus Munandar and Ng Cher Yan.

The principal responsibilities of the RC, as set out in its Terms of Reference, include:-

(a) Recommending to the Board for endorsement, the remuneration policies and guidelines for setting remuneration for the Directors and key executives; and

(b) Recommending specific remuneration packages for each Executive Director for endorsement by the Board.

The RC had reviewed and recommended to the Board:-

(a) a framework of remuneration and the specific remuneration packages and terms of employment for each executive director and senior management; and

(b) the payment of Directors' Fees for the financial year ending 31 December 2009.

No member of the RC was involved in deciding his own remuneration.

Corporate Governance

The Group had entered into separate service contracts with the CEO and the other two Executive Directors for an initial fixed period of three years commencing from 19 December 2007 (the "Initial Period") and will be renewed automatically for successive periods of three years from the next day after the expiry of the Initial Period. However these service contracts, which can be terminated by either party giving six months' notice, will be reviewed by the RC and recommended for approval by the Board to be extended for a further period of three years after the expiry of the Initial Period. None of the non-Executive Directors is on service contract with the Company.

LEVEL AND MIX OF REMUNERATION
Principle 8: Level of remuneration of directors to be appropriate and not excessive

The Company's remuneration packages for Executive Directors comprised both fixed and variable components. The variable component is an annual salary supplement equivalent to one month of their respective total basic salary during each Muslim Hari Raya month.

Directors' fees are set in accordance with a remuneration framework based on the level of responsibility and scope of work. The Executive Directors do not receive Directors' fees, whilst the Non-Executive Directors are paid Directors' fees, subject to the shareholders' approval at the AGM. The Board has endorsed the remuneration framework.

DISCLOSURE ON REMUNERATION
Principle 9: Clear disclosure of remuneration policy, level and mix of remuneration, and procedure for setting remuneration

The Company has not included an annual remuneration report in this Annual Report as the matters required to be disclosed therein have been disclosed in summary below and the notes to the financial statements under Directors' remuneration as set out on page 18 of the Annual Report.

The remuneration of each individual Director and key executive officers of the Group is however not disclosed as the Company believes that disclosure may be prejudicial to its business interests given the highly competitive environment it is operating in. The RC will review the practice of the industry in this regard, weighing the advantages and disadvantages of such disclosure.

A summary of each non-Executive and Executive Director's remuneration paid or payable for FY2009 is shown below.

Name of Director	Remuneration Band	Salary %	Director Fees %	Performance Based Bonuses %	Other Benefits %	Total %
Koh Boon Hong	<$250,000	-	100	-	-	100
Aris Sunarko @ Ko Tji Kim	$500,000 and <$750,000	98	-	-	2	100
Koh Tji Kiong @ Amir Sunarko	$500,000 and <$750,000	100	-	-	-	100
Ali Gunawan Budiman	$250,000 and <$500,000	91	-	-	9	100
Michael Joseph Sampoerna	<$250,000	-	100	-	-	100
Eka Dharmajanto Kasih	<$250,000	-	100	-	-	100
Ng Cher Yan	<$250,000	-	100	-	-	100
Sim Idrus Munandar	<$250,000	-	100	-	-	100
Wee Ewe Lay Laurence John	<$250,000	-	100	-	-	100

Remuneration of Key Executive Officers (other than the Company's Executive Directors)

The Company advocates a performance-based remuneration system taking into account the performance of individuals and the Company's performance.

The table below shows the ranges of gross remuneration received by the Group's key Executive Officers (excluding Executive Directors) in the Company and in the Group's subsidiaries, but does not include any associated companies.

Name of Key Executive Officers	Position	Remuneration Band	Salary %	Performance Based Bonuses %	Other Benefits %	Total %
Untoro Angkawijaya	Chief Financial Officer	$250,000 to <$500,000	99	-	1	100
Harry Handojo	Head of Java Operations	<$250,000	90	-	10	100
Lucky Phua	Head of Marketing, Research & Development	$250,000 to <$500,000	97	-	3	100
Wihartono	Group Financial Controller	<$250,000	99	-	1	100
The Victor Diputra	Head of Sulawasi Operations	<$250,000	98	-	2	100
Yusran Mustary	Head of Sumatra Operations	<$250,000	98	-	2	100

No remuneration or compensation was paid or is to be paid in the form of share options, since the Company does not currently have any plan to implement share option or share incentive plans. However this does not rule out the possibility of the Company doing so in the future.

Except for Mr Lucky Phua, who is the son-in-law of the Chairman and the brother-in-law of the CEO and the Executive Director, Koh Tji Kiong @ Amir Sunarko, there is no Group employee related to a Director or the CEO whose remuneration exceeded $150,000 for the financial year ended 31 December 2009.

III. ACCOUNTABILITY AND AUDIT

ACCOUNTABILITY

Principle 10: Presentation of a balanced and understandable assessment of the company's performance, position and prospects

The Board recognises that it is accountable to shareholders for the performance of the Group. In discharging this responsibility, the Board will ensure the timely release of the Group's financial results and that the results provide a balanced and understandable assessment of the Group's performance, position and prospects.

To assist the Board in discharging its responsibility, the Company has established a system whereby business and finance heads of individual subsidiaries and business units to provide written representations, to Management who would in turn furnish an overall representation to the AC and the Board confirming, *inter alia*, the integrity of the Group's financial statements.

Management will keep the Board regularly updated on the Group's business activities and financial performance by providing operations reports on a regular basis. Such reports will include information on:-

- the Group's actual performance against the approved budget and where appropriate, against forecast; and
- key business indicators and major issues that are relevant to the Group's performance.

AUDIT COMMITTEE

Principle 11: Establishment of Audit Committee with written terms of reference

The Audit Committee ("AC") comprises of three Independent Directors, Messrs Ng Cher Yan, Sim Idrus Munandar and Wee Ewe Lay Laurence John. The Chairman of the AC is Mr Ng Cher Yan.

Corporate Governance

The AC has adopted the written Terms of Reference, which has been approved by the Board. The principal functions of the AC include:-

(a) Reviewing the financial reporting process including but not limited to the audit plans of the external auditors and, where applicable, the internal auditors, including the results of the auditors' review and evaluation of the Group's system of internal accounting, operational and compliance controls and risk management policies and systems and ensuring co-ordination between the internal and external auditors and management at least annually. The Committee shall ensure that a review of the effectiveness of the Group's internal controls is conducted at least annually;

(b) Reviewing the Company's financial results announcements before submission to the Board for approval prior to release to the SGX-ST;

(c) Reviewing the combined financial statements and the external auditors' report on those financial statements, and discussing any significant adjustments, major risk areas, changes in accounting policies, compliance with FRS, concerns and issues arising from their audits including any matters which the external auditors may wish to discuss in the absence of Management, where necessary, before submission to the Board for approval;

(d) Reviewing and discussing with the external auditors any suspected fraud, irregularity or infringement of any relevant laws, rules or regulations, which has or is likely to have a material impact on the operating results and/or financial position and the management's response;

(e) Reviewing the co-operation of Management with the auditors;

(f) Reviewing the non-audit services provided by the external auditors as part of the AC's assessment of the external auditors' independence;

(g) Considering the appointment, re-appointment and removal, approving the remuneration and engagement of the external auditors and reviewing the independence and objectivity of the external auditors annually;

(h) Reviewing any transactions falling within the scope of Chapters 9 and 10 of the SGX-ST's Listing Manual ("Chapter 9" and "Chapter 10," respectively);

(i) Reviewing all hedging policies of, and instruments used for hedging by, the Group;

(j) Undertaking other reviews and projects as may be requested by the Board of Directors and reporting to the Board of Directors its findings from time to time on matters arising and requiring the attention of the AC;

(k) Reviewing potential conflicts of interest, if any;

(l) Ensured that arrangements are in place for employees to raise concerns, in confidence, about possible improprieties in matters of financial reporting or other matters; and

(m) Undertaking such other functions and duties as may be required by applicable law or the Listing Manual, and by such amendments made thereto from time to time.

Apart from the duties listed above, the AC will:-

(i) commission and review the findings of internal investigations into the matters or matters where there is any suspected fraud or irregularity, or failure of internal controls or infringement of any Singapore law, rule or regulation which has or is likely to have a material impact on the Company's operating results and/or financial position; and

(ii) ensure that the appropriate follow-up actions are taken.

Having reviewed the non-audit services provided by the external auditors, the AC is of the view that the non-audit services provided by the external auditors in 2008 did not prejudice their objectivity and independence. Accordingly, the AC has recommended the re-appointment of Messrs Ernst &Young LLP as external auditors for the ensuing year.

As the Lead Independent Director, the AC Chairman's scope of work also include leading the AC in its' role in respect of Interested Person Transactions undertaken by the Group and being available to shareholders where they have concerns which have been raised through the normal channels of the Chairman or Chief Financial Office but have not been resolved or for which such contact is inappropriate.

INTERNAL CONTROLS
Principle 12: Sound system of internal controls

The Board recognises the importance of maintaining a sound system of internal controls to safeguard the shareholders' investments and the Company's assets. The AC has been assigned to oversee and ensure that such system has been appropriately implemented and monitored.

The Company has appointed an external professional firm in the review of the effectiveness of the Group's internal controls, including the adequacy of the Group's internal financial controls, operational and compliance controls. Audit findings, recommendations and actions taken by Management on the recommendations were reported to the AC.

The AC and the Board are of the opinion that, in the absence of any evidence to the contrary, the Group's internal controls provide adequate assurance against material financial misstatements or losses and will continue to monitor and improve the effectiveness of the Group's internal controls.

INTERNAL AUDIT
Principle 13: Independent internal audit function

An internal audit function that is independent of the activities it audits will be established and the Internal Auditor's ("**IA**") primary line of reporting is to the AC Chairman.

The Company has an internal audit team and the AC will continue on an annual basis:-

- to review the adequacy of the Group's internal controls;
- to review the adequacy of the internal audit function, its activities and organizational structure to ensure that no unjustified restrictions or limitations are imposed;
- to review and approve the annual IA plan to ensure that there is sufficient coverage of the Group' activities; and
- to oversee the implementation of the internal audit plan and ensure that Management provides the necessary co-operation to enable the IA to perform its' function. All improvements to controls recommended by the IA and accepted by the AC will be monitored for implementation.

IV. COMMUNICATION WITH SHAREHOLDERS

Principle 14: Regular, effective and fair communication with shareholders
Principle 15: Shareholders' participation at general meetings

In line with the continuous disclosure obligations of the Company, under the SGX-ST Listing Rules and the Singapore Companies Act, Cap. 50, the Board has established a policy to inform shareholders promptly of all major developments that may impact materially on the Company.

The Board embraces openness and transparency in the conduct of the Company's affairs, whilst safeguarding the commercial interests of the Company. The Company does not practice selective disclosure.

The Group's results and other material information are released through the SGXNET on a timely basis for dissemination to shareholders and the public in accordance with the requirements of SGX-ST. A copy of the Annual Report and the Notice of the AGM are sent to every shareholder of the Company. The Notice of the AGM is also published in a major local newspaper and announced via SGXNet.

Corporate Governance

In addition, shareholders' participation is encouraged at the AGM to ensure a high level of accountability and to be informed of the Group's strategy and goals. The AGM is the principal forum for dialogue with shareholders. The Board welcomes questions from shareholders who have an opportunity to raise issues either informally or formally before or at the AGM. The Board including the Chairmen of the Audit, Remuneration and Nomination Committees, as well as the key management of the Company are present and available to address questions of the shareholders with the assistance of the external auditors, when necessary.

DEALINGS IN SECURITIES

The Company has issued an internal code on dealings in the Company's securities to the Directors and Executives (including employees with access to price-sensitive information to the Company's shares) of the Group based on the recommendations of the Best Practices Guide issued by the SGX-ST.

The Directors and Executives covered by this code are prohibited from dealing in the Company's securities two weeks before the announcement of the Company's financial statements for the first, second and third quarters of its financial year and one month before the announcement of the Company's financial statements for its full financial year, and ending after the announcement of the relevant results. Notification of the 'closed window' periods will be sent to the persons involved.

The Directors are also required to notify the Company of any dealings in the Company's securities within two (2) days of the transaction and to submit an annual confirmation on their compliance with the internal code.

Based on the processes in place, the Board is of the opinion that the Company has complied with the Best Practices Guide by the SGX-ST.

MATERIAL CONTRACTS

Other than the interested persons transactions, the details of which can be found in the notes to the Financial Statements, there were no other material contracts of the Company or its subsidiaries involving the interests of the CEO, each director or controlling shareholder subsisted at the end of the financial year or have been entered into since the end of the previous financial year.

ADDITIONAL INFORMATION: USE OF PROCEEDS FROM THE RENOUNCEABLE UNDERWRITTEN RIGHTS ISSUE ("RIGHTS ISSUE")

As announced on 5 March 2010, the net proceeds of approximately S$28.42 million from the Company's Rights Issue were used in the following manner:-

(i) Approximately S$21 million for the repayment of the CS Term Loan and the CS Facility, and

(ii) Approximately S$7.4 million for the Group's general corporate and working capital purposes.

Directors' Report

The directors are pleased to present their report to the members together with the audited consolidated financial statements of Samko Timber Limited (the "Company") and its subsidiaries (collectively, the "Group") and the balance sheet and statement of changes in equity of the Company for the financial year ended 31 December 2009.

1. Directors

The directors of the Company in office at the date of this report are:

Koh Boon Hong - Chairman
Aris Sunarko @ Ko Tji Kim – Chief Executive Officer
Koh Tji Kiong @ Amir Sunarko
Ali Gunawan Budiman
Eka Dharmajanto Kasih
Michael Joseph Sampoerna
Ng Cher Yan
Sim Idrus Munandar
Wee Ewe Lay Laurence John

2. Arrangements to Enable Directors to Acquire Shares and Debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

3. Directors' Interests in Shares and Debentures

The following directors, who held office at the end of the financial year, had, according to the register of directors' shareholdings required to be kept under section 164 of the Singapore Companies Act, Cap. 50, an interest in shares and share options of the Company and related corporations (other than wholly-owned subsidiaries) as stated below:

	Direct Interest		Deemed Interest	
Name of director	**At the beginning of financial year**	**At the end of financial year**	**At the beginning of financial year**	**At the end of financial year**
Ordinary shares of the Company				
Aris Sunarko @ Ko Tji Kim	8,000,000	8,000,000	367,174,692	367,174,692
Koh Tji Kiong @ Amir Sunarko	–	–	367,174,692	367,174,692

There was no change in any of the above-mentioned interests between the end of the financial year and 21 January 2010.

By virtue of Aris Sunarko and Amir Sunarko deemed interest in the Company, they are also deemed interested in the wholly owned subsidiaries of the Company.

Directors' Report

3. Directors' Interests in Shares and Debentures (cont'd)

Except as disclosed in this report, no director who held office at the end of the financial year had interests in shares, share options, warrants or debentures of the Company, or of related corporations, either at the beginning of the financial year, or date of appointment if later, or at the end of the financial year.

4. Directors' Contractual Benefits

Except as disclosed in the financial statements, since the end of the previous financial year, no director of the Company has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director, or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

5. Audit Committee

The Audit Committee ("AC") carried out its functions in accordance with section 201B(5) of the Singapore Companies Act, Cap. 50, including the following:

- reviewing the financial reporting process including but not limited to the audit plans of our external auditors and, where applicable, our internal auditors, including the results of our internal auditors' review and evaluation of our system of internal accounting, operational and compliance controls and risk management policies and systems and ensuring co-ordination between the internal and external auditors and management at least annually. The Audit Committee shall ensure that a review of the effectiveness of our Group's internal controls is conducted at least annually;

- reviewing the financial statements and our external auditors' report on those financial statements, and discussing any significant adjustments, major risk areas, changes in accounting policies, compliance with FRS, concerns and issues arising from their audits including any matters which our external auditors may wish to discuss in the absence of our management, where necessary, before submission to our Board of Directors for approval;

- reviewing and discussing with our external auditors any suspected fraud, irregularity or infringement of any relevant laws, rules or regulations, which has or is likely to have a material impact on our operating results and/or financial position and our management's response;

- reviewing the co-operation of our management with our auditors;

- considering the appointment, re-appointment and removal, approving the remuneration and engagement of our external auditors and reviewing the independence and objectivity of our external auditors annually;

- reviewing any transactions falling within the scope of Chapter 9 and Chapter 10 of the Listing Manual ("Chapter 9" and "Chapter 10," respectively);

- reviewing and approving our Group's audit fees;

- reviewing all hedging policies of, and instruments used for hedging by, our Group;

- undertaking other reviews and projects as may be requested by our Board of Directors and reporting to our Board of Directors its findings from time to time on matters arising and requiring the attention of AC;

5. Audit Committee (cont'd)

- where the auditors supply a substantial volume of non-audit services to our Group, keeping the nature and extent of such services under review;
- reviewing legal and regulatory matters that may have a material impact on the financial statements, related compliance policies and programmes and any reports received from regulators;
- reviewing potential conflicts of interest, if any;
- undertaking such other functions and duties as may be required by applicable law or the Listing Manual, and by such amendments made thereto from time to time;

The AC has also conducted a review of interested person transactions. The AC had convened 4 meetings during the year with full attendance from all members. The AC has also met with internal and external auditors, without the presence of the Company's management, at least once a year.

Further details regarding the AC are disclosed in the Report on Corporate Governance.

Auditors

Ernst & Young LLP have expressed their willingness to accept reappointment as auditors.

On behalf of the board of directors:

Aris Sunarko @ Ko Tji Kim
Director

Ali Gunawan Budiman
Director

7 April 2010

Statement by Directors

We, Aris Sunarko @ Ko Tji Kim and Ali Gunawan Budiman, being two of the directors of Samko Timber Limited, do hereby state that, in the opinion of the directors,

(i) the accompanying statement of balance sheets, consolidated statement of comprehensive income, statements of changes in equity, and consolidated statement of cash flows together with notes thereto are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2009 and the results of the business, changes in equity and cash flows of the Group and the changes in equity of the Company for the year ended on that date, and

(ii) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the board of directors:

Aris Sunarko @ Ko Tji Kim	Ali Gunawan Budiman
Director	Director

7 April 2010

Independent Auditors' Report

To the member of Samko Timber Limited

We have audited the accompanying financial statements of Samko Timber Limited, (the "Company") and its subsidiaries (collectively, the "Group") set out on pages 29 to 101, which comprise the balance sheets of the Group and the Company as at 31 December 2009, the statements of changes in equity of the Group and the Company and the statement of comprehensive income and consolidated statement of cash flows of the Group for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Singapore Companies Act, Cap. 50 (the "Act") and Singapore Financial Reporting Standards. This responsibility includes devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition, and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss account and balance sheet and to maintain accountability of assets; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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

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

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

Independent Auditors' Report

To the member of Samko Timber Limited

Opinion

In our opinion,

(i) the consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2009 and the results, changes in equity and cash flows of the Group and the changes in equity of the Company for the year ended on that date; and

(ii) the accounting and other records required by the Act to be kept by the Company incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

Without qualifying our opinion, we draw attention to Note 2.1 to the financial statements. The Group incurred a net loss of Rp824,786 million for the year ended 31 December 2009 and is in a net current liability position of Rp707,842 million as at that date. These factors indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. As discussed more fully in Note 2.1, the Group has undertaken certain measures to improve its short-term liquidity. These include the rights issue in January 2010 that raised approximately Rp190,243 million to repay some of the Group's term loans as well as to provide working capital for the Group, and the reduction in the Group's effective interest in PT Sumalindo Lestari Jaya Tbk (SULI) from 51.62% to 30.99% as a result of the rights issue undertaken by SULI on 30 March 2010. With effect from this date, the SULI group will be de-consolidated and management believes that the de-consolidation is expected to have a positive effect on the balance sheets of the Group. The ability of the Group to continue as a going concern depends on its ability to generate sufficient cash flow from its operations and continuous financial support from its lenders and creditors.

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

Ernst & Young LLP
Public Accountants and
Certified Public Accountants
Singapore

7 April 2010

Consolidated Statement of Comprehensive Income

For the financial year ended 31 December 2009

	Notes	Group 2009 Rp'million	Group 2008 Rp'million
Revenue	4	2,796,975	3,209,539
Cost of sales		(2,706,563)	(2,915,793)
Gross profit		90,412	293,746
Other items of income			
Finance income	5	3,095	3,603
Other income	6	279,957	55,633
Other items of expenses			
Selling expenses		(131,825)	(171,653)
General and administrative expenses		(193,358)	(212,321)
Finance expense	7	(173,339)	(179,948)
Other expense	8	(680,492)	(815,625)
Loss before tax	9	(805,550)	(1,026,565)
Tax (expense)/benefit	10	(187,871)	31,370
Net loss for the year		(993,421)	(995,195)
Attributable to:			
Equity holders of the parent		(824,786)	(864,788)
Minority interests		(168,635)	(130,407)
		(993,421)	(995,195)
Earnings per share from continuing operations attributable to equity holders of the parent (in Rupiah)			
Basic	11	(854)	(929)
Diluted	11	(854)	(929)

Consolidated Statement of Comprehensive Income

For the financial year ended 31 December 2009

	Notes	Group 2009 Rp'million	Group 2008 Rp'million
Net loss for the year		(993,421)	(995,195)
Other comprehensive income		–	–
Total comprehensive loss for the year		(993,421)	(995,195)
Attributable to:			
Equity holders of the parent		(824,786)	(864,788)
Minority interests		(168,635)	(130,407)
		(993,421)	(995,195)

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Consolidated Statement of Balance Sheets

Aa at 31 December 2009

	Notes	Group 2009 Rp'million	Group 2008 Rp'million	Company 2009 Rp'million	Company 2008 Rp'million
Non-current assets					
Property, plant and equipment	12	1,843,458	2,180,785	928	1,308
Intangible assets	13	47,946	41,791	–	–
Goodwill	14	194,971	619,992	–	–
Investment in subsidiaries	31	–	–	1,356	544,528
Biological assets	15	216,714	403,219	–	–
Land use rights	16	93,465	101,625	–	–
Deferred tax assets	17	16,940	177,068	–	–
Other non-current assets	18	61,603	83,090	188	196
		2,475,097	3,607,570	2,472	546,032
Current assets					
Inventories	19	395,497	540,233	933	–
Trade and other receivables	20	263,681	168,093	631,588	790,115
Prepaid operating expenses		74,270	46,874	1,389	49
Advances to suppliers		113,359	179,296	–	–
Derivatives	30	–	15,959	–	–
Cash and cash equivalents	21	110,868	157,186	3,605	16,181
Restricted deposits	22	115,462	110,390	94,946	110,390
		1,073,137	1,218,031	732,461	916,735
Current liabilities					
Trade and other payable	23	419,394	437,052	96,753	110,546
Other liabilities	24	210,854	112,065	4,686	666
Advances from customers		190,589	180,649	–	–
Derivatives	30	–	32,476	–	–
Income tax payable		28,133	22,479	–	–
Short term bank borrowings	25	334,308	416,162	47,000	54,750
Loans and borrowings (current portion)	26	597,701	616,642	93,637	117,051
		1,780,979	1,817,525	242,076	283,013
Net current (liabilities)/assets		(707,842)	(599,494)	490,385	633,722

Consolidated Statement of Balance Sheets

Aa at 31 December 2009

	Notes	Group 2009 Rp'million	Group 2008 Rp'million	Company 2009 Rp'million	Company 2008 Rp'million
Non-current liabilities					
Loans and borrowings	26	827,698	1,062,159	–	–
Post-employment benefits	27	65,972	54,434	–	–
Deferred tax liabilities	17	68,284	91,195	–	–
Other liabilities	26	202,860	202,860	–	–
		1,164,814	1,410,648	–	–
Net assets		602,441	1,597,428	492,857	1,179,754
Equity attributable to equity holders of the parent					
Share capital	28	1,943,866	1,943,866	1,943,866	1,943,866
Accumulated losses		(1,760,182)	(935,396)	(1,451,009)	(764,112)
Restructuring reserves	29	309,050	309,050	–	–
		492,734	1,317,520	492,857	1,179,754
Minority interests		109,707	279,908	–	–
		602,441	1,597,428	492,857	1,179,754

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Statements of Changes in Equity

For the financial year ended 31 December 2009

Group

	Attributable to equity holders of the parent				Minority interests	Total equity
	Share capital (Note 28)	Restructuring reserves (Note 29)	Accumulated losses	Equity attributable to equity holders of the parent, total		
	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million
Balance at 1 January 2009	1,943,866	309,050	(935,396)	1,317,520	279,908	1,597,428
Disposal of subsidiaries	–	–	–	–	(1,566)	(1,566)
Total comprehensive loss for the year	–	–	(824,786)	(824,786)	(168,635)	(993,421)
Balance at 31 December 2009	1,943,866	309,050	(1,760,182)	492,734	109,707	602,441
Balance at 1 January 2008	1,269,167	309,050	(70,608)	1,507,609	404,585	1,912,194
Additional paid-up capital	674,699	–	–	674,699	–	674,699
Change in minority interest	–	–	–	–	5,730	5,730
Total comprehensive loss for the year	–	–	(864,788)	(864,788)	(130,407)	(995,195)
Balance at 31 December 2008	1,943,866	309,050	(935,396)	1,317,520	279,908	1,597,428

Statements of Changes in Equity

For the financial year ended 31 December 2009

Company

	Attributable to equity holders of the parent		
	Share capital (Note 28) Rp'million	**Accumulated losses** Rp'million	**Total equity** Rp'million
Balance at 1 January 2009	1,943,866	(764,112)	1,179,754
Total comprehensive loss for the year	–	(686,897)	(686,897)
Balance at 31 December 2009	1,943,866	(1,451,009)	492,857
Balance at 1 January 2008	1,269,167	(8,345)	1,260,822
Additional paid-up capital	674,699	–	674,699
Total comprehensive loss for the year	–	(755,767)	(755,767)
Balance at 31 December 2008	1,943,866	(764,112)	1,179,754

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Consolidated Statement of Cash Flow

For the financial year ended 31 December 2009

	2009 Rp'million	2008 Rp'million
Operating activities		
Loss before tax	(805,550)	(1,026,565)
Adjustments for:		
Impairment of goodwill	425,021	339,457
Depreciation of property, plant and equipment	240,715	211,627
Impairment of property, plant and equipment	200,915	65,166
Interest expense	173,339	179,948
Inventories written-down	13,065	18,390
Post employment benefits expense	19,338	16,296
Amortisation of land use rights	8,302	5,823
Amortisation of deferred losses on sales and lease back	3,452	438
Amortisation of intangible assets	1,636	1,178
Allowance for bad debts	467	6,540
(Gain)/loss on changes in fair value of biological assets	(1,919)	35,024
Interest income	(3,095)	(3,603)
Gain on disposal of a subsidiary	(4,853)	–
Gain on disposal of property, plant and equipment	(8,567)	(4,665)
Gain on sales of land use rights	(9,406)	–
Foreign exchange (gain)/loss	(221,807)	266,731
Loss on dilution of interest in a subsidiary	–	3,316
Gain on loan waiver	–	(50,968)
Operating cash flow before changes in working capital	31,053	64,133
Changes in working capital		
Inventories	130,736	23,982
Trade and other receivables	60,605	(15,983)
Prepaid operating expenses	(27,402)	113,940
Advances to suppliers	43,764	6,735
Trade and other payable	(17,658)	90,398
Other liabilities	39,529	9,051
Advances from customers	9,940	79,821
Other non-current assets	9,866	(45,405)
Cash flow from operating activities	280,433	326,672
Income tax paid	(11,804)	(23,130)
Net cash flows from operating activities	268,629	303,542

Consolidated Statement of Cash Flow

For the financial year ended 31 December 2009

	2009 Rp'million	2008 Rp'million
Investing activities		
Proceeds from disposal of property, plant and equipment	23,713	15,872
Proceeds from disposal of land use rights	9,565	–
Disposal of a subsidiary, net of cash disposed	7,198	–
Interest received	3,095	3,603
Additions to land use rights	(301)	(31,447)
Additions of biological assets	(3,261)	(25,840)
Additions of intangible assets	(7,842)	(594)
Purchase of property, plant, and equipment	(89,243)	(496,731)
Acquisition of subsidiaries, net of cash acquired (Note 31)	–	(29,994)
Net cash flows used in investing activities	(57,076)	(565,131)
Financing activities		
Proceeds of short term bank borrowings	(59,897)	89,788
Repayment of long-term loans and borrowings	(80,313)	(726,287)
Interest expense paid	(104,149)	(203,047)
Placement of restricted deposits	(12,055)	(110,390)
Proceeds from issuance of ordinary shares	–	674,699
Proceeds from long-term loans and borrowings	–	401,743
Cash received from a company related to a substantial shareholder	–	110,390
Cash received from warrant exercise in a subsidiary	–	7,555
Net cash flows (used in)/from financing activities	(256,414)	244,451
Net decrease in cash and cash equivalents	(44,861)	(17,138)
Cash and cash equivalents at 1 January	155,729	172,867
Cash and cash equivalents at 31 December	110,868	155,729

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

1. General

1.1 *The Company*

Samko Timber Limited (the "Company") is a limited liability company, which is incorporated in the Republic of Singapore in December 2005 and listed on the Singapore Exchange Securities Trading Limited (SGX-ST) on 25 February 2008.

The registered office and principal place of business of the Company is located at 7500A Beach Road #14-308/312, The Plaza, Singapore 199591.

The principal activities of the Company are investment holding and trading. The principal activities of the subsidiaries are disclosed in Note 31.

2. Summary of significant accounting policies

2.1 *Going Concern*

For the year ended 31 December 2009, the Group incurred net loss of Rp824,786 million (2008: Rp864,788 million) and had net current liabilities of Rp707,842 million (2008: Rp599,494 million).

During the financial year ended 31 December 2009 and up to the date of this report, the Group had undertaken, inter alia, the following measures which have improved its short-term liquidity and mitigated the uncertainty of the Group's ability, to operate as a going concern for at least the next twelve months:

1. During 2009, PT Sumalindo Lestari Jaya Tbk (SULI), a subsidiary of the Company listed in the Indonesian Stock Exchange has successfully completed the disposal of its 60% owned subsidiary, PT Sumalindo Hutani Jaya for Rp 140.2 billion (including receivables from PT Sumalindo Hutani Jaya). The divestment provided SULI and its subsidiaries (SULI group) some liquidity for its working capital needs;

2. In January 2010, the Company raised S$28.4 million cash (approximately Rp190,243 million) via a rights issue. Out of these proceeds, S$21 million (approximately Rp140,672 million) was used to fully repay the term loans owing to Credit Suisse and the remaining amount of S$7.4 million (approximately Rp49,570 million) was used for the Group's general working capital purposes;

3. On 30 March 2010, SULI raised approximately Rp119,202 million cash via a rights issue. US$2 million (approximately Rp18,800 million) of the proceeds will be used to fully repay the loan owing to a creditor and the remaining amount of Rp100,402 million will be used for SULI's general working capital purposes;

4. Same as disclosed below, as at the date of this report, the Group has completed its negotiations with certain lenders resulting in the support of these lenders and the rescheduling of the repayments of certain loans.

   As at the date of this report, SULI group is in negotiation with certain lenders to restructure loans of Rp153,413 million (Notes 25 and 26). Although SULI group has since 2008, breached certain loan covenants and defaulted the repayment of certain loans, the lenders have not called upon the loans or taken any adverse actions as of the date of this report. The Group believes that the outcome of the negotiation between the parties will not have a material impact to Group's liquidity as the Group (excluding SULI group) has not (and does not intend to, owing to current financial position) provided any guarantees or any financial commitments to support any of SULI group's obligations; and

Notes to the Financial Statements

For the financial year ended 31 December 2009

2. Summary of significant accounting policies (cont'd)

2.1 *Going Concern (cont'd)*

5. The Group has rationalised its operations and focused on its domestic and regional markets where it has competitive advantages. These measures and the gradual improvement in the market place (particularly since the fourth quarter 2009) have eased some liquidity pressure on the Group. The Group's operating activities cash flow remains positive for both 2009 and 2008.

Further, as disclosed in Note 39, the Group's equity interests in SULI group will be reduced from 51.62% to 30.99% following the completion of SULI group's rights issue on 30 March 2010. Consequently, the SULI group will not be consolidated from that date. Given SULI group's adverse financial positions have significantly affected the financial positions of the Group for the years ended 2008 and 2009; the de-consolidation of SULI group is expected to have a positive effect on the net tangible assets and earnings per share of the Group had the transaction been completed in 2009. To illustrate the effect, had SULI group been de-consolidated as at 31 December 2009, the Group pro-forma net current liabilities will improve from Rp707,842 million to Rp157,225 million.

While the Group believes that the aforementioned steps have mitigated its going concern risks, the Group's operating environment remains challenging and competitive especially in the export market (refer to Note 38 for the industry conditions). The Group will continue to monitor and address these risks by improving its production efficiency, increase market share and seek additional funding as and when necessary and the continuing financial support from its lenders and creditors.

The financial statements have been prepared on the assumption that the Group will continue as a going concern. This assumption is on the premise that the Group's initiatives above will continue to have positive effect to the Group, availability of additional funding for its working capital needs as and when required and that the Group will be able to generate sufficient cash from its operations.

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

2.2 *Basis of preparation*

The consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company have been prepared in accordance with Singapore Financial Reporting Standards (FRS).

The financial statements have been prepared on a historical cost basis except as disclosed in the accounting policies below.

The financial statements are presented in Indonesia Rupiah (Rp) and all values in the tables are rounded to the nearest million as indicated.

2. Summary of significant accounting policies (cont'd)

2.3 ***Change in accounting policies***

The accounting policies adopted are consistent with those of the previous financial year except as follows:

On 1 January 2009, the Group adopted the following standards and interpretations mandatory for annual financial periods beginning on or after 1 January 2009.

- FRS 1 *Presentation of Financial Statements* (Revised)
- Amendments to FRS 18 *Revenue*
- Amendments to FRS 23 *Borrowing* Costs
- Amendments to FRS 32 *Financial Instruments: Presentation* and FRS 1 *Presentation of Financial Statements* - Puttable Financial Instruments and Obligations Arising on Liquidation
- Amendments to FRS 101 *First-time Adoption of Financial Reporting Standards* and FRS 27 *Consolidated and Separate Financial Statements* - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- Amendments to FRS 102 *Share-based Payment* - Vesting Conditions and Cancellations
- Amendments to FRS 107 *Financial Instruments: Disclosures*
- FRS 108 *Operating Segments*
- Improvements to FRSs issued in 2008
- INT FRS 113 Customer *Loyalty Programmes*
- INT FRS 116 *Fledges of a Net Investment in a Foreign Operation*
- Amendments to INT FRS 109 Reassessment *of Embedded Derivatives* and FRS 39 *Financial Instruments: Recognition and Measurement* - Embedded Derivatives
- INT FRS 118 *Transfers of* Assets *from* Customers

Adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to additional disclosures, including, in some cases, revisions to accounting policies.
The principal effects of these changes are as follows:

<u>FRS 1 Presentation of Financial Statements - Revised presentation</u>

The revised FRS 1 separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented in the statement of other comprehensive income. In addition, the Standard introduces the statement of comprehensive income which presents income and expense recognised in the period. This statement may be presented in one single statement, or two linked statements. The Group has elected to present this statement as one linked statements.

<u>Amendments to FRS 107 Financial Instruments: Disclosures</u>

The amendments to FRS 107 require additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. In addition, reconciliation between the beginning and ending balance for Level 3 fair value measurements is now required, as well as significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures. The fair value measurement disclosures and liquidity risk disclosures are presented in Notes 35 and 34 respectively.

Notes to the Financial Statements

For the financial year ended 31 December 2009

2. Summary of significant accounting policies (cont'd)

2.3 ***Change in accounting policies (cont'd)***

FRS 108 Operating Segments

FRS 108 requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary and secondary reporting segments of the Group. The Group determined that the reportable operating segments are the same as the business segments previously identified under FRS 14 Segment Reporting. Additional disclosures about each of the segments are shown in Note 37, including revised comparative information

Improvement to FRS issued in 2008

In 2008, the Accounting Standards Council issued an omnibus of amendments to FRS. There are separate transitional provisions for each amendment. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group:

- FRS 1 *Presentation of Financial Statements*: Assets and liabilities classified as held for trading in accordance with FRS 39 Financial Instruments: *Recognition and Measurement* is not automatically classified as current in the balance sheet. The Group amended its accounting policy accordingly and analysed whether Management's expectation of the period of realisation of financial assets a liabilities differed from the classification of the instrument. This did not result in any re-classification of financial instruments between current and non-current in the balance sheet.

- FRS 16 *Property, Plant and Equipment*: Replaces the term net selling price" with "fair value less costs to sell". The Group amended its accounting policy accordingly, which did not result in any change in the financial position.

- FRS 23 *Borrowing Costs*: The definition of borrowing costs is revised to consolidate the two types of items that are considered components of "borrowing costs" into one - the interest expense calculated using the effective interest rate method calculated in accordance with FRS 39. The Group has amended its accounting policy accordingly which did not result in any change in its financial position.

2. Summary of significant accounting policies (cont'd)

2.4 ***Standard issued but not yet effective***

The Group has not adopted the following standards and interpretations that have been issued but not yet effective.

Description	*Effective for annual periods beginning on or after*
Amendments to FRS 27 *Consolidated and Separate Financial Statements*	1 July 2009
Amendments to FRS 39 *Financial Instruments: Recognition and Measurement* - Eligible Hedged Item	1 July 2009
Revised FRS 103 *Business Combinations*	1 July 2009
Amendments to FRS 105 *Non-current Assets Held for Sale and Discontinued Operations*	1 July 2009
INT FRS 117 *Distributions o f Non-cash Assets to Owners*	
Improvements to FRSs issued in 2009:	1 July 2009
- Amendments to FRS 38 *Intangible Assets*	1 July 2009
- Amendments to FRS 102 *Share-based Payment*	1 July 2009
- Amendments to FRS 108 *Operating Segments*	1 July 2009
- Amendments to INT FRS 109 *Reassessment of Embedded Derivatives*	1 July 2009
- Amendments to INT FRS 116 *Hedges of a Net Investment in a Foreign Operation*	1 July 2009
- Amendments to FRS 1 *Presentation of Financial Statements*	1 January 2010
- Amendments to FRS 7 *Statement o f Cash Flows*	1 January 2010
- Amendments to FRS 17 *Leases*	1 January 2010
- Amendments to FRS 36 *Impairment of Assets*	1 January 2010
- FRS 39 *Financial Instruments: Recognition and Measurement*	1 January 2010
- Amendments to FRS 105 *Non-current Assets Held for Sale and Discontinued Operations*	1 January 2010
- Amendments to FRS 108 *Operating Segments*	1 January 2010

Except for the revised FRS 103 and the amendments to FRS 27, the directors expect that the adoption of the other standards and interpretations above will have no material impact on the financial statements in the period of initial application. The nature of the impending changes in accounting policy on adoption of the revised FRS 103 and the amendments to FRS 27 are described below.

Notes to the Financial Statements

For the financial year ended 31 December 2009

2. Summary of significant accounting policies (cont'd)

2.4 ***Standard issued but not yet effective (cont'd)***

Revised FRS 103 *Business Combinations* and Amendments to FRS 27 *Consolidated and Separate Financial Statements*

The revised standards are effective for annual periods beginning on or after 1 July 2009. The revised FRS 103 introduces a number of changes in the accounting for business combinations occurring after 1 July 2009. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. The Amendments to FRS 27 require that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will they give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to FRS 7 Statement of Cash Flows, FRS 12 Income Taxes, FRS 21 The Effects of Changes in Foreign Exchange Rates, FRS 28 Investments in Associates and FRS 31 Interests in Joint Ventures. The changes from revised FRS 103 and Amendments to FRS 27 will affect future acquisitions or loss of control and transactions with minority interests. The standards may be early applied. However, the Group does not intend to early adopt.

2.5 ***Basis of consolidation***

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the balance sheet date. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Acquisitions of subsidiaries are accounted for by applying the purchase method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Adjustments to those fair values relating to previously held interests are treated as a revaluation and recognised in equity. Any excess of the cost of business combination over the Group's share in the net fair value of the acquired subsidiary's identifiable assets, liabilities and contingent liabilities is recorded as goodwill on the balance sheet. The accounting policy for goodwill is set out in Note 2.9(a). Any excess of the Group's share in the net fair value of the acquired subsidiary's identifiable assets, liabilities and contingent liabilities over the cost of business combination is recognised as income in profit or loss on the date of acquisition. When the Group acquires a business, embedded derivatives separated from the host contract by the acquiree are not reassessed on acquisition unless the business combination results in a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

2. Summary of significant accounting policies (cont'd)

2.6 *Transactions with minority interests*

Minority interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity. Transactions with minority interests are accounted for using the parent entity extension method, whereby, transactions with minority interests are accounted for as transactions with equity holders. On acquisition of minority interests, the difference between the consideration and book value of the share of the net assets acquired is reflected as being a transaction between owners and recognised directly in asset. Gain or loss on disposal to minority interests is recognised directly in profit or loss.

2.7 *Foreign currency*

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange difference arising on the settlement of monetary items or on translating monetary items at the balance sheet date are recognised in profit or loss except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity. The foreign currency translation reserve is reclassified from equity to profit or loss of the Group on disposal of the foreign operation.

The assets and liabilities of foreign operations are translated into Rupiah at the rate of exchange ruling at the balance sheet date and their statement of comprehensive income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to other comprehensive income. On disposal of a foreign operation, the cumulative amount recognised in other comprehensive income relating to that particular foreign operation is recognised in the profit or loss.

2.8 *Property, plant and equipment*

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Subsequent to recognition, plant and equipment and furniture and fixtures are measured at cost less accumulated depreciation and accumulated impairment losses. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the income statement as incurred. Freehold land and buildings are measured at fair value less accumulated depreciation on buildings and impairment losses recognised after the date of the revaluation. Valuations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from the fair value of the freehold land and buildings at the balance sheet date.

Notes to the Financial Statements

For the financial year ended 31 December 2009

2. Summary of significant accounting policies (cont'd)

2.8 ***Property, plant and equipment (cont'd)***

Any revaluation surplus is recognised in other comprehensive income and accumulated in equity under the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset carried in the asset revaluation reserve.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. The revaluation surplus included in the asset revaluation reserve in respect of an asset is transferred directly to retained earnings on retirement or disposal of the asset.

Freehold land has an unlimited useful life and therefore is not depreciated. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and improvements	:	20 years
Machinery and heavy equipment	:	8 to 20 years
Electrical installations	:	5 to 15 years
Furniture, fixtures and equipment	:	4 to 10 years
Vehicles	:	4 to 8 years

Assets under construction included in plant and equipment are not depreciated as these assets are not yet available for use.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Construction in progress is stated at cost, which includes the progress billing paid in accordance with the construction contracts. Constructions in progress are not depreciated as these assets are not yet available for use. Construction in progress is transferred to the respective plant and equipment account when construction is completed and ready for use.

The assets' residual values, useful life and depreciation method are reviewed at each financial year end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in the profit or loss in the year the asset is derecognised.

2.9 ***Intangible assets***

(a) ***Goodwill***

Goodwill acquired in a business combination is initially measured at cost. Following initial recognition, goodwill is measured at cost less accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events and circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired is allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination.

2. Summary of significant accounting policies (cont'd)

2.9 *Intangible assets (cont'd)*

(a) *Goodwill (cont'd)*

The cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired, by comparing the carrying amount of the cash-generating unit, including the allocated goodwill, with the recoverable amount of the cash-generating unit. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in the profit or loss. Impairment losses recognised for goodwill are not reversed in subsequent periods.

Where goodwill forms part of a cash-generating unit and part of the operation within that cash-generating unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operations disposed of and the portion of the cash-generating unit retained.

Goodwill and fair value adjustments arising on the acquisition of foreign operation on or after 1 January 2005 are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated in accordance with the accounting policy set out in Note 2.7.

Goodwill and fair value adjustments which arose on acquisitions of foreign operation before 1 January 2005 are deemed to be assets and liabilities of the Company and are recorded in Indonesia Rupiah at the rates prevailing at the date of acquisition

(b) *Other intangible assets*

Intangible assets acquired separately are measured initially at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial acquisition, intangible assets are measured at cost less any accumulated amortisation and accumulated impairment losses.

Intangible assets with finite useful lives are amortised over the estimated useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives or not yet available for use are tested for impairment annually, or more frequently if the events and circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the useful life assessment continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit or loss when the asset is derecognised.

Notes to the Financial Statements

For the financial year ended 31 December 2009

2. Summary of significant accounting policies (cont'd)

2.10 ***Biological assets***

Biological assets in the form of standing trees in a plantation forest are recognised and measured in the balance sheets at fair value separately from the land to which these assets are attached. The Group's forests are accounted for at fair value less estimated point-to sale costs at harvest. Any resultant gains or losses arising from changes in fair value are recognised in the profit or loss.

The valuation of the biological asset is based on discounted cash flow model whereby the fair value is calculated using cash flows from continuous operations that is based on sustainable forest management plans taking into account growth potential. The yearly harvest made from the forecasted tree growth is multiplied by actual wood pines and the cost of fertilizer and harvesting is then deducted. The fair value is measured as the present value of the harvest from one growth cycle based on the productive forestland.

2.11 ***Land use rights***

Land use rights are initially measured at cost. Following initial recognition, land use rights are stated at cost less accumulated amortisation and any impairment in value. Amortisation is calculated on a straight line basis over the lease term of 7 -30 years. Land use rights are tested for impairment annually either individually or at the cash generating unit level, as appropriate.

2.12 ***Impairment of non-financial assets***

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment assessment for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets. In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount

Impairment losses are recognised in the profit or loss except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in the profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

2. Summary of significant accounting policies (cont'd)

2.13 *Subsidiaries*

A subsidiary is an entity over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less impairment losses.

2.14 *Associates*

An associate is an entity, not being a subsidiary or a joint venture, in which the Group has significant influence. The associate is equity accounted for from the date the Group obtains significant influence until the date the Group ceases to have significant influence over the associate.

The Group's investments in associates are accounted for using the equity method. Under the equity method, the investment in associates is measured in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates. Goodwill relating to associates is included in the carrying amount of the investment. Any excess of the Group's share of the net fair value of the associate's identifiable asset, liabilities and contingent liabilities over the cost of the investment is deducted from the carrying amount of the investment and is recognised as income as part of the Group's share of results of the associate in the period in which the investment is acquired.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. The Group determines at each balance sheet date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the profit or loss.

The financial statements of the associates are prepared as of the same reporting date as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

2.15 *Financial assets*

Financial assets are recognised on the balance sheet when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Notes to the Financial Statements

For the financial year ended 31 December 2009

2. Summary of significant accounting policies (cont'd)

2.15 *Financial assets* (cont'd)

All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned.

(a) ***Financial assets at fair value through profit or loss***

Financial assets held for trading are classified as financial assets at fair value through profit or loss. Financial assets held for trading are derivatives (including separated embedded derivatives) or financial assets acquired principally for the purpose of selling in the near term.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial assets are recognised in profit or loss. Net gains or net losses on financial assets at fair value through profit or loss include exchange differences, interest and dividend income.

(b) ***Loans and receivables***

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

(c) ***Held-to-maturity investments***

Financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold the investment to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the held-to-maturity investments are derecognised or impaired, and through the amortisation process.

(d) ***Available-for-sale financial assets***

Available-for-sale financial assets are financial assets that are not classified in any of the other categories. After initial recognition, available-for-sale financial assets are measured at fair value. Any gains or losses from changes in fair value of the financial asset are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised.

Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.

2. Summary of significant accounting policies (cont'd)

2.16 *Impairment of financial assets*

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset is impaired.

(a) ***Assets carried at amortised cost***

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in the profit or loss.

When the asset becomes uncollectible, the carrying amount of impaired financial assets is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying value of the financial asset.

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred; the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

(b) ***Assets carried at cost***

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on financial assets carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

(c) ***Available-for-sale financial assets***

Significant or prolonged decline in fair value below cost, significant financial difficulties of the issuer or obligor, and the disappearance of an active trading market are considerations to determine whether there is objective evidence that investment securities classified as available-for-sale financial assets are impaired

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to profit or loss. Reversals of impairment losses in respect of equity instruments are not recognised in profit or loss. Reversals of impairment losses on debt instruments are recognised in profit or loss if the increase in fair value of the debt instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss

Notes to the Financial Statements

For the financial year ended 31 December 2009

2. Summary of significant accounting policies (cont'd)

2.17 ***Cash and cash equivalents***

Cash and cash equivalents comprise cash at bank and on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value. These also include bank overdrafts that form an integral part of the Group's cash management.

2.18 ***Inventories***

Inventories are stated at the lower of cost or net realisable value. Cost incurred in bringing the inventories to their present location and condition are accounted for using the average method for finished goods, work in progress and raw materials and first-in, first-out method for indirect materials and spare parts. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

2.19 ***Provisions***

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.20 ***Financial liabilities***

Financial liabilities within the scope of FRS 39 are recognised on the balance sheet when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

Financial liabilities are recognised initially at fair value, plus, in the case of financial liabilities other than derivatives, directly attributable transaction costs.

Subsequent to initial recognition, derivatives are measured at fair value. Other financial liabilities (except for financial guarantee) are measured at amortised cost using the effective interest method.

For financial liabilities other than derivatives, gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process. Any gains or losses arising from changes in fair value of derivatives are recognised in profit or loss. Net gains or losses on derivatives include exchange differences

A financial liability is derecognised when the obligation under the liability is extinguished. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit or loss.

2. Summary of significant accounting policies (cont'd)

2.21 *Borrowing costs*

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale.

2.22 *Post employment benefits*

The Group recognises provision for employee service entitlements in accordance with Indonesia Labour Law No. 13/2003.

The cost of providing employee benefits is determined using the projected unit credit method. The accumulated unrecognised actuarial gains and losses that exceed 10% of the present value of the Group's defined benefit obligations is recognised on straight line basis over the expected average remaining working lives of the participating employees.

Past service cost is recognised immediately to the extent that the benefits are already vested or otherwise amortised on a straight-line basis over the average years until the benefits become vested.

The employee benefits liabilities recognised in the balance sheet represents the present value of the defined benefit liability, adjusted for unrecognised actuarial gains and losses and unrecognised past service costs.

2.23 *Leases*

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional requirements of INT FRS 104.

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss. Contingent rents, if any, are charged as expenses in the periods in which they are incurred.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Notes to the Financial Statements

For the financial year ended 31 December 2009

2. Summary of significant accounting policies (cont'd)

2.24 ***Revenue***

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable. Local sales are recognised upon delivery of goods to customers, while export sales are recognised upon the shipment of the products (FOB Shipping Point).

Interest income is recognised using the effective interest method.

2.25 ***Income taxes***

(a) ***Current tax***

Currents tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Amendments to tax obligations are recorded when an assessment is received or, if appealed against by the Group, when an assessment is received or, if appealed against by the Group, when the result of appeal is determined.

Current taxes are recognised in the profit or loss except that tax relating to items recognised directly in equity is recognised directly in equity.

(b) ***Deferred tax***

Deferred tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised

2. Summary of significant accounting policies (cont'd)

2.25 ***Income taxes***

(b) ***Deferred tax***

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be utilised.

(c) ***Sales tax***

Revenues, expenses and assets are recognised net of the amount of sales tax except:
- Where the sales tax incurred in a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

2.26 ***Derivatives***

Derivatives are classified as financial assets or liabilities at fair value through profit or loss and are initially recognised at fair value on the date on which a derivative contract is entered into or bifurcated, and are subsequently remeasured at fair value at each balance sheet date. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The Group's derivative does not qualify for accounting for hedges. Consequently, gain and losses from changes in fair value of these derivatives are recognised immediately in the profit or loss.

2.27 ***Related parties***

Related parties are entities and individuals that directly or indirectly through one or more intermediaries, control, or are controlled by, or under common control with the Group. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the entities, key management personnel, including directors and officers of the Group and close members of the family of these individuals and companies associated with these individuals also constitute related entities. Transaction between related parties are accounted for at arm's length prices or on terms similar to those offered to non related entities in an economically comparable market.

In considering each possible related entity relationship, attention is directed to the substance of the relationship, and not merely the legal form.

2.28 ***Segment reporting***

A business segment is a distinguishable component of the Group that is engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

Notes to the Financial Statements

For the financial year ended 31 December 2009

2. Summary of significant accounting policies (cont'd)

2.29 ***Share capital and share issue expenses***

Proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against share capital.

2.30 ***Contingencies***

A contingent liability or asset is a possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future event(s) not wholly within the control of the Group.

Contingent liabilities and assets are not recognised on the balance sheet of the Group.

2.31 **Financial guarantee**

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due.

No financial guarantee is recognised on the balance sheet of the Group.

3. Significant accounting estimates and judgements

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

(a) **Key sources of estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) ***Depreciation of property, plant and equipment***

The cost of property, plant and equipment are depreciated on a straight-line method over the estimated useful lives. Estimates of the useful lives of these property, plant and equipment are within 4 to 20 years. These are common life expectancies applied in the integrated timber processing industries. Changes in the expected level of usage and technological development could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised. The carrying amount of the Group's property, plant and equipment as of 31 December 2009 was Rp1,843,458 million (31 December 2008: Rp2,180,785 million).

3. Significant accounting estimates and judgements (cont'd)

(a) **Key sources of estimation uncertainty (cont'd)**

(ii) ***Impairment of non-financial assets***

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill and other indefinite life intangibles are tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Further details of the key assumptions applied in the impairment assessment of property, plant, and equipment and goodwill, are given in Notes 12 and 14 to the financial statements.

(iii) ***Impairment of loans and receivables***

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. The carrying amount of the Group's loans and receivable at the balance sheet date is disclosed in Note 20 to the financial statements.

(iv) ***Derivatives***

Derivatives are carried at fair value, which requires the use of accounting estimates and judgment. While a significant component of fair value measurement is determined using variable objective evidence (i.e. foreign exchange rates and interest rates), the timing and amount of changes in fair value will differ with the valuation methodology used. Any changes in the fair value of these derivatives will directly affect the profit or loss account. The related loss/gain recognised on changes in fair value of derivatives for the year ended 31 December 2009 and 2008 was Rp Nil and loss of Rp12,513 million, respectively. The Group's derivative liability and asset as at 31 December 2009 amounted to Rp Nil (2008: Rp32,476 million and Rp15,959 million).

Notes to the Financial Statements

For the financial year ended 31 December 2009

3. Significant accounting estimates and judgements (cont'd)

(a) **Key sources of estimation uncertainty (cont'd)**

(v) ***Employee benefits***

The determination of obligation and provision for post-employment benefits of employees is dependent on the selection of certain assumptions used by actuaries in calculating such amount. Those assumptions are described in Note 27 and include, among others, discount rate and salary incremental rate. Actual results that differ from the Group's assumptions are accumulated and amortised over future periods, and therefore generally affect the recognised expense and recorded obligation. Significant differences in actual experience or significant changes in assumptions may materially affect the Group's obligation for post-employment benefits. Post employment liabilities as of 31 December 2009 amounted to Rp65,972 million (2008: Rp54,434 million).

(vi) ***Biological assets***

Certain assumptions are made in the valuation of biological assets calculation and this calculation required use of estimates in relation to the future cash flows and the suitable discount rate as disclosed in note 15.

(b) **Critical judgments made in applying accounting policies**

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

(i) ***Income taxes***

The Group has exposure to income taxes in numerous jurisdictions. Significant judgment is involved in determining the Group-wide provision for income taxes. There are certain transactions and computation for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final income tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred income tax in the year in which such decision is made by the taxation authority. The carrying amount of income tax payable and deferred tax liabilities as of 31 December 2009 was Rp28,133 million (2008: Rp22,479 million) and Rp68,284 million (2008: Rp91,195 million), respectively.

(ii) ***Deferred tax assets***

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. There is no assurance that sufficient taxable profit will be generated to allow all or part of the deferred tax assets to be utilised. The carrying amount of deferred tax assets as at 31 December 2009 was Rp16,940 million (2008: Rp177,068 million).

4. Revenue

	Group 2009 Rp'million	Group 2008 Rp'million
Domestic sales	2,139,215	2,154,546
Export sales	657,760	1,054,993
	2,796,975	3,209,539

5. Finance income

	Group 2009 Rp'million	Group 2008 Rp'million
Interest income from:		
Fixed deposit	2,112	1,548
Current account	983	2,055
	3,095	3,603

6. Other income

	Group 2009 Rp'million	Group 2008 Rp'million
Foreign exchange gain, net	255,212	–
Gain on sales of land use rights	9,406	–
Gain on disposal of property, plant and equipment	8,567	4,665
Gain on disposal of a subsidiary	4,853	–
Gain on changes in fair value of biological assets	1,919	–
Gain on loan waiver	–	50,968
	279,957	55,633

7. Finance expense

	Group 2009 Rp'million	Group 2008 Rp'million
Interest expense on:		
Bank borrowings	156,952	131,229
Finance lease	14,818	37,595
Others	1,569	11,124
Total finance expense	173,339	179,948

Notes to the Financial Statements

For the financial year ended 31 December 2009

8. Other expense

	Group 2009 Rp'million	Group 2008 Rp'million
Impairment of goodwill	425,021	339,457
Impairment of property, plant and equipment	200,915	65,166
Tax penalties	13,144	2,174
Inventories written-down	13,065	–
Expenses associated to idle non-current assets	9,417	3,513
Amortisation of land use rights	8,302	5,823
Retrenchment expenses	4,247	19,531
Amortisation of deferred losses on sales and lease back	3,452	438
Allowance for bad debts	467	6,540
Foreign exchange loss, net	–	312,902
Loss on changes in fair value of biological assets	–	35,024
Loss on derivative contracts, net	–	12,513
Advance to suppliers written-off	–	4,334
Loss on dilution of interest in a subsidiary	–	3,316
Others	2,462	4,894
	680,492	815,625

9. Loss before tax

Other than as disclosed elsewhere in the financial statements, the following items have been included in arriving at loss before tax from continuing operations:

	Group 2009 Rp'million	Group 2008 Rp'million
Factory overhead	(627,920)	(847,600)
Salaries and employees' benefits	(461,504)	(463,437)
Depreciation of property, plant and equipment	(240,715)	(211,627)
Transportation charges	(106,347)	(147,192)
Non-audit fees paid and payable to the Group and Company's auditor	(92)	(29)

10. Income tax expense /(benefit)

(a) **Major components of income tax expense/(benefit)**

The major components of income tax expense/(benefit) for the years ended 31 December 2009 and 2008 are:

	Group	
	2009	**2008**
	Rp'million	Rp'million
Statement of comprehensive income:		
Current income tax – continuing operations:		
Current income tax	6,055	3,798
Under provision in respect of previous years	11,403	1,488
	17,458	5,286
Deffered income tax – continuing operations		
Deferred income tax	170,988	(56,309)
Deferred tax from reduction on tax rate	(575)	19,653
	170,413	(36,656)
Income tax expense/(benefit)	187,871	(31,370)

(b) **Relationship between tax expense/(benefit) and accounting loss**

Reconciliation between tax expense/(benefit) and the product of accounting loss multiplied by the applicable tax rate is as follows:

	Group	
	2009	**2008**
	Rp'million	Rp'million
Loss before tax	(805,550)	(1,026,565)
Tax at domestic rates in the countries where the Group operates	(222,480)	(307,970)
Income not taxable for tax purposes	(667)	(3,118)
Expenses not deductible for tax purposes	190,987	112,730
Deferred tax assets not recognised	65,821	88,951
Unrecoverable deferred tax assets	156,606	55,240
Effect of reduction in tax rate	(13,472)	19,653
Under provision prior year income tax	11,403	1,488
Others	(327)	1,656
Tax expense/(benefit)	187,871	(31,370)

The above reconciliation is prepared by aggregating separate reconciliation for each national jurisdiction.

As of 31 December 2009, the Group has tax losses of approximately Rp984,738 million (31 December 2008: Rp982,976 million) that is available for offset against future taxable profits, subjected to a maximum of five years period. The use of these tax losses is subject to the agreement of the tax authorities and compliance with certain provisions of the tax legislation in the country in which the Company and its subsidiaries operate.

Notes to the Financial Statements

For the financial year ended 31 December 2009

11. Earnings per share

Basic earnings per share amounts are calculated by dividing profit for the year that is attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares during the year plus the dilutive effect on the conversion of warrants (Note 28). As at 31 December 2009, the Company and the Group had no outstanding warrants.

Basic earnings per share for the years ended 31 December 2009 and 2008 were computed based on the weighted average number of shares after adjusting for the effect of Company's rights issue completed after 31 December 2009 (Note 39).

The following reflects the loss and share data used in the computation of basic earnings per share for the years ended 31 December:

	Group	
	2009	**2008**
	Rp'million	Rp'million
Loss attributable to owners of the parent used in computation of earnings per share	(824,786)	(864,788)
	Number of shares	Number of shares
Adjusted weighted average number of ordinary shares used for basic and dilluted earnings per share computation	965,399,597	930,813,745

12. Property, plant and equipment
Group

	Buildings and improvements Rp'million	Machinery & heavy equipment Rp'million	Electrical installations Rp'million	Vehicles Rp'million	Furniture, fixtures & equipment Rp'million	Construction in Progress: Buildings Rp'million	Construction in Progress: Machinery Rp'million	Leased Assets: Machinery & heavy equipment Rp'million	Leased Assets: Vehicles Rp'million	Total Rp'million
Cost										
At 1 January 2009	564,705	1,723,378	25,899	34,273	39,546	84,655	240,949	358,655	4,757	3,076,817
Additions from acquisition of subsidiary										
Additions	2,840	45,918	200	1,617	3,220	40,054	18,871	6,597	1,119	120,436
Disposals from divestment of subsidiary	(2,093)	(316)	–	(432)	(190)	–	–	–	–	(3,031)
Disposals	(906)	(84,526)	–	(2000)	–	–	(3,985)	(263)	–	(91,680)
Reclassifications	63,988	166,711	(270)	1,434	8,274	(99,218)	(138,355)	(14,305)	–	(11,741)
At 31 December 2009	628,534	1,851,165	25,829	34,892	50,850	25,491	117,480	350,684	5,876	3,090,801
Accumulated depreciation										
At 1 January 2009	78,569	629,511	7,346	21,956	19,765	–	–	72,795	924	830,866
Depreciation charge during the year	29,940	141,866	2,721	4,056	7,156	–	–	54,138	838	240,715
Disposals from divestment of subsidiary	(1,669)	(316)	–	(412)	(187)	–	–	–	–	(2,584)
Disposals	(878)	(74,088)	–	(1,502)	–	–	–	(202)	–	(76,670)
Reclassifications	9,239	(9,821)	–	665	(6,329)	–	–	(4,841)	–	(11,087)
At 31 December 2009	115,201	687,152	10,067	24,763	20,405	–	–	121,890	1,762	981,240
Provision for impairment	–	266,103	–	–	–	–	–	–	–	266,103
Net carrying amount										
At 31 December 2009	513,333	897,910	15,762	10,129	30,445	25,491	117,480	228,794	4,114	1,843,458

Notes to the Financial Statements

For the financial year ended 31 December 2009

12. Property, plant and equipment (cont'd)

Group (cont'd)

	Buildings and improve-ments Rp'million	Machinery & heavy equipment Rp'million	Electrical installations Rp'million	Vehicles Rp'million	Furniture, fixtures & equipment Rp'million	Construction in Progress		Leased Assets		Total Rp'million
						Buildings Rp'million	Machinery Rp'million	Machinery & heavy equipment Rp'million	Vehicles Rp'million	
Cost										
At 1 January 2008	320,084	1,489,963	16,385	32,788	30,585	149,562	184,659	272,130	3,299	2,499,455
Additions from acquisition of subsidiary	95,492	1,352	–	–	–	–	–	–	–	96,844
Additions	23,038	499	6,539	3,909	9,987	127,738	219,003	104,317	1,701	496,731
Disposals	(180)	(11,457)	–	(2,049)	–	–	(15)	–	–	(13,701)
Reclassifications	126,271	243,021	2,975	(375)	(1,026)	(192,645)	(162,698)	(17,792)	(243)	(2,512)
At 31 December 2008	564,705	1,723,378	25,899	34,273	39,546	84,655	240,949	358,655	4,757	3,076,817
Accumulated depreciation										
At 1 January 2008	51,707	499,260	5,077	18,741	15,531	–	–	31,001	416	621,733
Depreciation charge during the year	26,862	125,384	2,269	4,673	4,234	–	–	47,592	613	211,627
Disposals	–	(931)	–	(1,563)	–	–	–	–	–	(2,494)
Reclassifications	–	5,798	–	105	–	–	–	(5,798)	(105)	–
At 31 December 2008	78,569	629,511	7,346	21,956	19,765	–	–	72,795	924	830,866
Provision for impairment	–	65,166	–	–	–	–	–	–	–	65,166
Net carrying amount										
At 31 December 2008	486,136	1,028,701	18,553	12,317	19,781	84,655	240,949	285,860	3,833	2,180,785

12. Property, plant and equipment (cont'd)

Company

	Furniture, fixtures & equipment Rp'million	Electrical installations Rp'million	Construction in Progress: Buildings and improvements Rp'million	Total Rp'million
Cost				
At 1 January 2009	1,527	119	–	1,646
Additions	171	–	–	171
Write-off	(171)	–	–	(171)
At 31 December 2009	1,527	119	–	1,646
Accumulated depreciation				
At 1 January 2009	315	23	–	338
Depreciation charge during the year	374	30	–	404
Write-off	(24)	–	–	(24)
At 31 December 2009	665	53	–	718
Net carrying amount				
At 31 December 2009	862	66	–	928
Cost				
At 1 January 2008	124	–	416	540
Additions	651	119	336	1,106
Reclassification	752	–	(752)	–
At 31 December 2008	1,527	119	–	1,646
Accumulated depreciation				
At 1 January 2008	6	–	–	6
Depreciation charge during the year	309	23	–	332
At 31 December 2008	315	23	–	338
Net carrying amount				
At 31 December 2008	1,212	96	–	1,308

Notes to the Financial Statements

For the financial year ended 31 December 2009

12. Property, plant and equipment (cont'd)

Buildings & improvements, machinery & heavy equipment with aggregate net book value of Rp1,113,116 million in 2009 (2008: Rp1,259,187 million) are pledged as collateral for interest bearing loans (Note 26).

As at 31 December 2009 and 2008, the Group has idle machinery & heavy equipment with a net carrying amount Rp139,972 million and Rp153,612 million, respectively. An impairment provision of Rp112,087 million in 2009 (2008: Rp65,166), was recognised for these property, plant and equipment as its recoverable amount based on valuation performed by an independent valuer was lower than its net carrying amount. The impairment loss has been included in "Other expense" in the income statements.

13. Intangible assets

	Group	
	2009	**2008**
	Rp'million	Rp'million
Cost:		
At 1 January	43,888	42,574
Addition due to acquisition of a subsidiary (Note 31)	–	720
Additions during the year	7,842	594
Disposals of a subsidiary (Note 31)	(51)	–
At 31 December	51,679	43,888
Accumulated amortisation:		
At 1 January	2,097	919
Current year charge	1,636	1,178
At 31 December	3,733	2,097
Net carrying amount	47,946	41,791

The Group obtained forest concession rights with terms ranging from 20 to 45 years in connection with the Indonesian government's grant to the Group for the right to utilise the timber resources in certain virgin forest areas, and develop the industrial timber plantations in certain areas in East Kalimantan, Indonesia. As at 31 December 2009, the remaining terms of these concession rights range from 2 to 41 years (2008: 11 to 42 years). These forest concession rights are carried at cost less amortisation since there is no active market for these intangible assets. The amortisations of intangible assets have been included in profit or loss.

14. Goodwill

Goodwill on consolidation arises from the acquisition of the subsidiaries, PT Arangan Hutani Lestari (AHL), PT Sumalindo Lestari Jaya Tbk (SULI), PT Essam Timber (Essam) and PT Wana Kaltim Lestari (WKL). The carrying amount of goodwill is:

	Group	
	2009 Rp'million	**2008** Rp'million
Cost:		
At 1 January	959,449	841,103
Additions due to acquisition of new subsidiaries (Note31):		
PT Essam Timber	–	118,737
PT Wana Kaltim Lestari	–	4,750
- Arising acquisition		
Effect of dilution of ownership in SULI	–	(5,141)
At 31 December	959,449	959,449
Less: impairment		
At 1 January	339,457	–
Addition during the year	425,021	339,457
At 31 December	764,478	339,457
Net carrying amount	194,971	619,992

Goodwill arising from business combination was allocated to following cash-generating units for impairment testing:

	Group	
	2009 Rp'million	**2008** Rp'million
Forest concession rights and manufacturing plants of SULI	835,837	835,837
Forest concession rights of Essam	118,737	118,737
Forest plantation of PT WKL	4,750	4,750
Sub total – goodwill of SULI and its subsidiaries	959,324	959,324
Forest plantation of AHL	125	125
	959,449	959,449
Less : impairment	(764,478)	(339,457)
	194,971	619,992

The recoverable amounts of the goodwill have been determined based on value in use calculation using the cash flows projections from financial budget covering a five-year period. Cash flows beyond the five-year period were extrapolated using the estimated growth rates stated below.

Notes to the Financial Statements

For the financial year ended 31 December 2009

14. Goodwill (cont'd)

The calculations of value in use are most sensitive to the following assumptions:

Budgeted gross margins – Gross margins of SULI and Essam, are mainly based on sustainable average margin in the last five years for SULI preceding the start of the budget period. As Essam has insignificant prior years' sales, management has reviewed and adopted similar margin with SULI. These are increased over the budget period for anticipated efficiency improvements. The budgeted gross margin determined for the purpose of value in use calculation for the year ended 31 December 2009 is 14% which is lower than that of the year ended 31 December 2008 of 19%.

Growth rates – The growth rate of SULI is determined based on the sustainable growth rate of 11% (2008: 9%) taken into consideration the performance of the prior years' and the projected market conditions. Essam's production volume had been determined based on remaining years of the concession, derived based the optimum level of harvest. The Group estimated the average growth rate of 13% based on the projected capacity of Essam and the projected market conditions.

Discount rate – The discount rate used for the current year is 14.4 % (2008: 15.2%) which reflect management's estimate of the risks specific to the assets. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals.

Market share assumptions – These assumptions are important because, as well as using industry data for growth rates, management assess how the asset's position, relative to its competitors and the market conditions, might change over the budget period. Taken that into consideration, the based volume used to prepare the budget for 2010 and beyond has been revised lower as compared to those used to prepare the budget for the prior year. Management expects the Group's share of the timber market to sustain with the reasonable growth rates as mentioned aboved over the budget years.

Based on management review, there is impairment of goodwill of Rp764,478 million as at 31 December 2009 (2008: Rp339,457 million).

15. Biological assets

The Group's plantation forest are recognised and measured at fair value less estimated point-of-sale costs at harvest. The valuation of the biological assets of PT Sumalindo Lestari Jaya is calculated by the independent valuers Benny, Desmar, dan Rekan, and PT Bahana Kareza Appraisal for PT Arangan Hutani Lestari, based on the discounted cash flow model whereby the fair value is calculated using cash flows from continuous operations, assuming sustainable forest management plans, taking into account the growth potential from their industrial forest plantations. The yearly harvest made from the forecasted tree growth is multiplied by actual wood pines and the cost of fertilizer, before the deduction of harvesting. The fair value is measured as the present value of the harvest from one growth cycle based on the productive forestland.

15. Biological assets (cont'd)

Biological assets comprise of standing trees in a plantation forest, separate from land on which these assets are located. Movements in the carrying value are as follows:

	Group	
	2009	**2008**
	Rp'million	Rp'million
At fair value		
At 1 January	403,219	412,403
Addition during the year	3,261	25,840
Deduction from disposals of a subsidiary	(191,685)	–
Gain/ (loss) on changes in fair value	1,919	(35,024)
At 31 December	216,714	403,219

16. Land use rights

	Group	
	2009	**2008**
	Rp'million	Rp'million
Cost:		
At 1 January	140,507	76,174
Additions	301	31,447
Transfer from construction in progress	–	2,512
Reclassification	–	30,374
Disposals	(1,318)	–
At 31 December	139,490	140,507
Accumulated amortisation:		
At 1 January	38,882	9,977
Reclassification	–	23,082
Amortisation	8,302	5,823
Disposals	(1,159)	–
At 31 December	46,025	38,882
Net carrying amount	93,465	101,625

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For the financial year ended 31 December 2009

17. Deferred tax

Deferred income tax as at 31 December relates to the following:

	Group	
	2009 Rp'million	**2008** Rp'million
Deferred tax assets		
Unabsorbed losses	9,710	123,003
Allowance for doubtful accounts	3,849	–
Temporary difference on employees' benefits obligation	3,659	10,785
Temporary difference between accounting and tax base accumulated depreciation	2,790	57,610
Temporary difference on amortisation of land use rights	2,290	2,862
Allowance for inventory obsolescence	28	4,838
Effect of discounting of receivables	–	12,160
Effect of discounting of loans	–	(2,552)
Temporary difference on accounting and tax treatment of finance lease	(5,443)	(31,645)
Others	57	7
Total deferred tax assets, net	16,940	177,068
Deferred tax liabilities		
Temporary difference between accounting and tax base accumulated depreciation	57,681	11,555
Effect of change in value of biological assets	35,258	68,870
Effect of fair value on net asset of subsidiary acquired by the Group	11,478	13,196
Effect of discounting of loans	33	374
Temporary difference on employees' benefits obligation	(13,776)	(3,667)
Allowance for doubtful accounts	(10,608)	–
Unabsorbed losses	(6,361)	(1,681)
Temporary difference on accounting and tax treatment of finance lease	(3,256)	2,957
Temporary difference on amortisation of land use rights	(1,744)	–
Sales and lease back	(212)	–
Allowance for inventory obsolescence	(209)	–
Others	–	(409)
Total deferred tax liabilities, net	68,284	91,195

18. Other non-current assets

	Group	
	2009 Rp'million	**2008** Rp'million
Tax recoverable	51,355	51,712
Advances for purchase of property, plant and equipment	1,947	12,759
Guarantee deposits -net	871	752
Deferred loss on sale and lease-back transactions	–	3,452
Others	7,430	14,415
	61,603	83,090

18. Other non-current assets (cont'd)

Certain guarantee deposits were made by a subsidiary to PT Sarana Agro Mandiri, a related party, for the purchase of logs. In 2008, the subsidiary had provided full allowance on the guarantee deposit.

19. Inventories

	Group	
	2009	**2008**
	Rp'million	Rp'million
Balance sheet:		
Raw materials	84,265	117,510
Work in progress	39,159	67,042
Finished goods	122,240	189,234
Indirect materials and spare parts	127,521	137,739
Materials in transit	22,312	28,708
	395,497	540,233
Income statement:		
Inventories recognised as an expense in cost of sales	1,483,251	1,495,959
Inventories written down in other expense (2008: cost of sales)	13,065	18,390

All inventories are pledged as collaterals on interest bearing loans (Notes 25 and 26).

20. Trade and other receivables

	Group		Company	
	2009	**2008**	**2009**	**2008**
	Rp'million	Rp'million	Rp'million	Rp'million
Trade receivables				
- Third parties	124,355	140,025	674	105
- Related parties	12,750	15,010	–	–
- Subsidiary companies	–	–	15,099	19,465
Other receivables				
- Third parties	126,321	11,906	410	456
- Related parties	255	1,152	254	296
- Subsidiary company	–	–	615,151	769,793
Total trade and other receivables	263,681	168,093	631,588	790,115
Add:				
- Cash and cash equivalents (Note 21)	110,868	157,186	3,605	16,181
- Restricted deposits (Note 22)	115,462	110,390	94,946	110,390
- Tax recoverable (Note 18)	51,355	51,712	–	–
- Guarantee deposits - net (Note 18)	871	752	188	196
Total loans and receivables	542,237	488,133	730,327	916,882

Notes to the Financial Statements

For the financial year ended 31 December 2009

20. Trade and other receivables (cont'd)

Trade receivables are non-interest bearing and are generally on 30 to 90 days' terms. They are recognised at their original invoice amounts which represent their values on initial recognition.

All trade accounts receivable are pledged as collaterals for the interest bearing loans (Notes 25 and 26).

The amount due from related parties is unsecured, interest free and is repayable on demand.

At the balance sheet date, trade receivables arising from export sales amounting to Rp57,904 million (2008: Rp65,056 million) are arranged to be settled via letters of credits issued by reputable banks in countries where the customers are based.

Receivables that are past due but not impaired

There is no other class of financial assets that is past due except for trade receivables. The age analysis of the trade receivables past due but not impaired is as follows:

	Group		Company	
	2009	2008	2009	2008
	Rp'million	Rp'million	Rp'million	Rp'million
61 - 90 days	3,360	21,172	–	–
More than 90 days	36,017	17,155	–	–
Total	39,377	38,327	–	–

Receivables that are impaired

The Group's receivables that are impaired at balance sheet date and the movement of the allowance accounts used to record the impairment are as follows:

	Group		Company	
	2009	2008	2009	2008
	Rp'million	Rp'million	Rp'million	Rp'million
Trade receivables	15,806	15,339	–	–
Less: Allowance for impairment	(15,806)	(15,339)	–	–
Other receivables	–	–	739,012	–
Less: Allowance for impairment	–	–	(123,860)	–
Total	–	–	615,152	–

Movement in allowance accounts:

At 1 January	15,339	15,817	–	–
Charge for the year	467	6,540	123,860	–
Written off	–	(7,018)	–	–
At 31 December	15,806	15,339	123,860	–

20. Trade and other receivables (cont'd)

Trade and other receivables are denominated in the following currencies:

	Group		Company	
	2009	2008	2009	2008
	Rp'million	Rp'million	Rp'million	Rp'million
Indonesian Rupiah	195,741	79,736	487,490	622,410
United States dollars	67,459	81,018	143,616	167,245
Others	481	7,339	482	460
	263,681	168,093	631,588	790,115

21. Cash and cash equivalents

	Group		Company	
	2009	2008	2009	2008
	Rp'million	Rp'million	Rp'million	Rp'million
Cash on hand	3,059	5,672	13	27
Cash in banks	95,203	99,832	3,586	2,952
Fixed deposits	12,606	51,682	6	13,202
Cash and cash equivalents	110,868	157,186	3,605	16,181
Interest rate per annum	0.10% - 6.25%	0.05% - 6.50%	0.10%	0.22%

Fixed deposit are made for varying periods of between one day and one month depending on the immediate cash requirement of the Group, and earns interests at the respective short-term deposit rates.

Cash and cash equivalents are denominated in the following currencies:

Indonesian Rupiah	74,307	93,834	–	–
United States Dollars	34,616	61,303	2,573	14,252
Others	1,945	2,049	1,032	1,929
	110,868	157,186	3,605	16,181

For the purpose of the consolidated cash flow statement, cash and cash equivalent comprised the following at the balance sheet date:

	Group	
	2009	2008
	Rp'million	Rp'million
Cash and short term deposits	110,868	157,186
Bank overdrafts	–	(1,457)
	110,868	155,729

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For the financial year ended 31 December 2009

22. Restricted deposits

	Group 2009 Rp'million	Group 2008 Rp'million	Company 2009 Rp'million	Company 2008 Rp'million
Indonesian Rupiah	12,055	–	–	–
United States Dollars	103,407	110,390	94,946	110,390
	115,462	110,390	94,946	110,390
Interest rate per annum	0.10% - 5.50%	0.75% - 1.75%	0.10% - 0.20%	0.75% - 1.75%

23. Trade and other payable

	Group 2009 Rp'million	Group 2008 Rp'million	Company 2009 Rp'million	Company 2008 Rp'million
Trade payable				
- Third parties	291,539	308,225	260	–
- Related parties	11,985	17,316	–	–
Liabilities for purchase of machineries	577	965	–	–
Other payable				
- Third party	18,800	–	–	–
- Related parties	96,493	110,546	96,493	110,546
Total trade and other payable	419,394	437,052	96,753	110,546
Add:				
- Other liabilities (Note 24)	210,854	112,065	4,686	666
- hort term bank borrowings (Note 25)	353,108	416,162	47,000	54,750
- ong term loans and borrowings (Note 26)	1,425,399	1,678,801	93,637	117,051
Total financial liabilities carried at amortised cost	2,408,755	2,644,080	242,076	283,013

Trade and other payable are denominated in the following currencies:

	Group 2009	Group 2008	Company 2009	Company 2008
Indonesian Rupiah	176,600	149,547	–	177
United States Dollars	233,972	278,574	96,753	110,365
Others	8,822	8,931	–	4
	419,394	437,052	96,753	110,546

<u>Trade payable - third parties</u>

These amount are non interest bearing. Trade payables are normally settled on 60-days terms while other payables have an average term of 3 months.

23. Trade and other payable (cont'd)

Other payable – third party

Represents a loan facility granted by a creditor to a subsidiary for working capital purposes. It bears fixed interest rate at 12% per annum and due in April 2010. The loan is secured by pledged shares of certain subsidiaries.

Other payable – related parties

The amount represents unsecured, non-interest bearing loan and repayable on demand. The proceed was placed as deposit to secure the Company's loan (Note 22).

24. Other liabilities

	Group		Company	
	2009	**2008**	**2009**	**2008**
	Rp'million	Rp'million	Rp'million	Rp'million
Accrued expenses				
- Interests	59,606	8,530	1,807	–
- Freight	33,611	22,157	–	–
- Salaries and wages	12,011	6,242	–	–
- Claims and commissions	595	2,103	452	–
- Others	51,835	32,189	2,394	–
Deferred income	30,973	–	–	–
Value added tax payable	19,918	36,368	–	–
Other	2,305	4,476	33	666
	210,854	112,065	4,686	666

25. Short term bank borrowings

The details of short term bank borrowings are as follows:

	Group		Company	
	2009	**2008**	**2009**	**2008**
	Rp'million	Rp'million	Rp'million	Rp'million
(a) US$8,000,000 and Rp75,000 million working capital facility. Interest is payable at 10.0% per annum for the US$ denominated loan and 15.0% per annum for the Rupiah denominated loan	158,908	183,194	–	–
(b) US$7,500,000 pre-export Letter of Credit financing and foreign exchange facility. Interest is payable at SIBOR plus 3.5% per annum	51,700	62,415	–	–
(c) US$3,000,000 packing loan facility. Interest is payable at 8.5% per annum.	27,448	32,850	–	–

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25. Short term bank borrowings (cont'd)

	Group		Company	
	2009	2008	2009	2008
	Rp'million	Rp'million	Rp'million	Rp'million
(d) US$3,000,000 working capital facility. Interest is payable at 5.25% per annum below the bank's best lending rate	25,968	32,479	–	–
(e) Rp47,500 million working capital facility. Interest is payable at 13.5% per annum.	23,284	44,062	–	–
(f) US$5,500,000 working capital facility. Interest is payable at 5.75% - 8.00% per annum.	–	4,955	–	–
(g) Rp2,000 million overdraft facility. Interest is payable at 15.0% per annum.	–	1,457	–	–
(h) US$5,000,000 term borrowing, repayable when required by the bank, interest is payable at bank's cost of fund plus 0.75% per annum	47,000	54,750	47,000	54,750
	334,308	416,162	47,000	54,750

The short term bank borrowings are secured and guaranteed by pledge on asset, accounts receivable, time deposits, share of a subsidiary, subsidiaries' inventories and property, plant and equipment of the Group, commitment from the Company's substantial shareholder in the form of cash from the loans, pledges/mortgages over fixed assets, deposit from a director, and personal guarantee from a director.

During the current financial year, the Company's certain subsidiaries have breached certain financial covenants and/or in payment default. The banks are contractually entitled to request for immediate repayment of the outstanding loans amount in the event of breach of covenants.

The banks had not requested for any immediate repayment of the outstanding loan of Rp8,709 million as at the date when these financial statements are authorised for issue.

Subsequent to the year-end, a loan of Rp47,000 million was repaid from the proceed of the Company's rights issue (Note 39).

26. Long term loans and borrowings

	Group 2009 Rp'million	Group 2008 Rp'million	Company 2009 Rp'million	Company 2008 Rp'million
Current				
Interest bearing bank borrowings	506,903	507,869	93,637	117,051
Obligation under finance lease	86,470	98,409	–	–
Reforestation fund payable	1,460	5,496	–	–
Notes payable	2,868	4,868	–	–
	597,701	616,642	93,637	117,051
Non Current				
Interest bearing bank borrowings	766,173	959,578	–	–
Obligation under finance lease	61,525	102,581	–	–
	827,698	1,062,159	–	–
	1,425,399	1,678,801	93,637	117,051

(i) **Interest bearing bank borrowings**

	Group 2009 Rp'million	Group 2008 Rp'million
Within one year	506,903	507,869
Between two and five years	599,941	562,876
Later than five years	166,232	396,702
	1,273,076	1,467,447

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26. Long term loans and borrowings (cont'd)

	Group		Company	
	2009	2008	2009	2008
	Rp'million	Rp'million	Rp'million	Rp'million
(a) US$35,000,000 term loan payable on quarterly instalments starting November 2006 and subsequently commencing August 2012, on monthly instalments. Interest is at LIBOR plus 4% per annum.	256,150	287,209	–	–
(b) US$15,000,000 term loan payable on quarterly instalments starting June 2008. Interest is at LIBOR plus 5.95% per annum.	144,704	168,564	–	–
(c) US$27,889,152 term loan (Tranche B), repayable in 47 quarterly instalments starting March 2008 after a 3-year grace period. Interest is payable at 1.0% per annum.	231,017	299,364	–	–
(d) US$18,592,768 term loan (Tranche A), repayable in 35 quarterly instalments starting March 2008 after a 3-year grace period. Interest is 6.0% per annum for first 6 months in 2005 and 1.0% above the base lending rate of the creditor for remaining periods.	189,015	198,663	–	–
(e) US$33,190,000 term loan, repayable on a monthly basis, commencing on May 2006 and due on December 2011. Interest is payable at the Bank's cost of fund plus 4.0% per annum	143,256	155,742	–	–
(f) US$33,000,000 loan repayable in 18 months upon following the first utilisation date. Interest is payable at Libor plus 4.0% per annum	93,637	117,051	93,637	117,051

26. Long term loans and borrowings (cont'd)

(i) **Interest bearing bank borrowings (cont'd)**

	Group		Company	
	2009 Rp'million	**2008** Rp'million	**2009** Rp'million	**2008** Rp'million
(g) US$ 8,000,000 term loan, repayable in 36 monthly instalments starting March 2008. Interest is payable at 10.0% per annum.	58,153	68,141	–	–
(h) US$10,500,000 term loan, repayable in 12 quarterly instalments that started March 2007 after a 6-month grace period. Interest is payable at 10.0% per annum.	41,123	47,904	–	–
(i) US$5,000,000 term loan, repayable in 48 monthly instalments that started December 2007. Interest is payable at 6.0% SIBOR	34,648	43,800	–	–
(j) US$5,000,000 term loan, repayable in monthly instalment that started September 2008, after a 9-month grace period. Interest is payable at 10.0% per annum.	35,136	42,701	–	–
(k) US$5,000,000 term loan, repayable in 48 monthly instalments that started June 2007. Interest is payable at 10.0% per annum.	27,397	33,055	–	–
(l) Rp60,888 million term loan, repayable on quarterly instalments, commencing November 2004. Interest is payable at a range of 12.5% to 14.5% per annum.	18,840	5,253	–	–
	1,273,076	1,467,447	93,637	117,051

Notes to the Financial Statements

For the financial year ended 31 December 2009

26. Long term loans and borrowings (cont'd)

(i) **Interest bearing bank borrowings (cont'd)**

As a result of the restructuring of the loan of PT Sumalindo Lestari Jaya Tbk. (SULI) obtained from PT Bank Mandiri (Persero) Tbk, consisting of Tranche A amounting to US$18,592,768 and Tranche B amounting to US$27,889,152 (as indicated in loan (d) and (c) respectively), the past due interest amounting to Rp202,860 million will be written off after 15 years, if PT Sumalindo Lestari Jaya Tbk. can meet the repayment requirement as agreed with PT Bank Mandiri (Persero) Tbk. The balance of past due interest is presented as "other liabilities" under Non-current liabilities.

The long term interest-bearing bank borrowings are secured as follows:

- Corporate guarantee from a subsidiary for loan (a) and (l);
- A corporate guarantee from the Company for loan (e);
- Land rights, buildings, machineries, receivables, time deposits and inventories of the subsidiaries for loans (a) - (e), (g) - (l);
- Shares of subsidiaries for loan (f).

During the current financial year, the Company's certain subsidiaries have breached certain financial covenants and/or in payment default. The banks are contractually entitled to request for immediate repayment of the outstanding loans amount in the event of breach of covenants.

The banks had not requested for any immediate repayment of the outstanding loan amounts as at the date when these financial statements are authorised for issue. The carrying amount of these loans of Rp144,704 million (2008: Rp116,045 million) has been reclassified to Current liabilities as at 31 December 2009.

Subsequent to the year-end, a loan of Rp93,637 million is repaid from the proceed of the Company's rights issue (Note 39).

(ii) **Obligation under finance lease**

The Group has finance lease for certain items of machinery and heavy equipment and vehicles. There are no restrictions placed upon the Group by entering into these leases.

The future minimum lease payments under the lease agreements are as follows:

	Group			
	2009 Rp'million		2008 Rp'million	
	Minimum payments	**Present value of minimum payments**	**Minimum payments**	**Present value of minimum payments**
Within one year	98,831	86,470	117,512	98,409
Between two and five years	62,805	61,525	120,722	102,581
Total minimum lease payments	161,636	147,995	238,234	200,990
Less: interest	(13,641)	–	(37,244)	–
Present value of minimum lease payments	147,995	147,995	200,990	200,990

26. Long term loans and borrowings (cont'd)

	Group			
	2009		2008	
	Rp'million		Rp'million	
	Minimum payments	**Present value of minimum payments**	**Minimum payments**	**Present value of minimum payments**
Interest rate per annum	5.0% - 12.0%		7.21% - 15.50%	
Effective interest rate per annum	5.9% - 11.4%		7.5% - 14.5%	

All assets acquired under finance leases are secured against the assets under lease.

The net book value of assets under finance lease amounts to Rp232,908 million for the financial year ended 31 December 2009 (2008: Rp289,693 million).

(iii) **Reforestation fund payable**

In 2000, a subsidiary, Arangan Hutani Lestari (AHL) obtained a non-interest bearing loan amounting to Rp1,740 million (US$181,335) from the Department of Forestry of the Republic of Indonesia arising from the reforestation fund given through PT Bank Mandiri (Persero) Tbk., which shall be payable in annual instalments until July 2007. The loan is used for reforestation activities of Commercial Forest Estate by a group of farmers and is secured by property, plant and equipment, receivables, inventories, insurance claim and corporate guarantee from AHL.
AHL submitted an application for rescheduling the instalment payment. As of date of the report, AHL has not yet obtained an approval from Bank Mandiri on the application for rescheduling. Starting 2006, AHL made an instalment payment amounting to Rp10 million. As of 31 December 2009 and 2008, balance of the loan is considered due and demandable since AHL has been in breach with respect to the principal payment schedule.

In 1998, a subsidiary, PT Sumalindo Hutani Jaya (SHJ) obtained a non-interest bearing loan amounting to approximately Rp11,870 million from the Department of Forestry of the Republic of Indonesia arising from the reforestation fund given through PT Bank Mandiri (Persero) Tbk., which shall be payable in semi-annual instalments until July 2005. The loan is used for reforestation activities and is secured by fixed assets and inventories of SHJ. In October 2009, the loan was fully repaid.

Notes to the Financial Statements

For the financial year ended 31 December 2009

26. Long term loans and borrowings (cont'd)

(iv) Notes payable

Notes payable represents promissory notes issued by a subsidiary, PT Putra Sumber Utama Timber (PSUT) to a related party, PT Pelayaran Nelly Dwi Putri in relation to PSUT's liability for freight expenses. The notes is payable in eight instalments ranging from Rp1,000 million to Rp2,500 million each starting in June 2007 and subject to annual interest of 2% per annum.

	Group	
	2009	**2008**
	Rp'million	Rp'million
Within one year	2,868	4,868

As at 31 December 2009, the book value of the notes payable, approximate the fair value.

27. Post-employment benefits

The Group and its subsidiaries calculate and record post-employment benefits for its qualified employees based on Labour Law No. 13/2003 dated March 2003. The number of employees entitled to the benefits as at 31 December 2009 was 12,114 people (2008: 10,925 people).

The following tables summarise the components of provision for post employment benefits included in salaries and employee allowances and employee benefits under "general and administrative expenses" in consolidated statement of comprehensive income and "post-employment benefits" in the balance sheets.

	Group	
	2009	**2008**
	Rp'million	Rp'million
Components of provision for post-employment benefits		
Current service costs	11,216	11,190
Interest costs	7,816	7,824
Amortisation of past service costs and actuarial losses	1,442	456
Curtailments effect or termination	(3,383)	(3,174)
Present value of additional employment	2,247	–
	19,338	16,296
Employee benefits liabilities		
Beginning of the year	54,434	44,894
Expenses during the year	19,338	16,296
Actual payments during the year	(7,800)	(6,756)
	65,972	54,434

27. Post-employment benefits (cont'd)

Movements in the present value of employee benefits liabilities are as follows:

	Group	
	2009	**2008**
	Rp'million	Rp'million
Present value of post employment benefits obligation	100,293	84,662
Unrecognised past service cost vested	(3,217)	(3,580)
Unrecognised actuarial losses	(31,104)	(26,648)
Liability recognised in balance sheet	65,972	54,434

Reconciliation of present value of employee benefits liabilities is as follows:

	Group	
	2009	**2008**
	Rp'million	Rp'million
Beginning of the year	54,434	44,894
Current service cost	11,216	11,190
Interest cost	7,816	7,824
Past service costs and actuarial losses	1,442	456
Benefits paid	(7,800)	(6,756)
Effect of curtailment or termination	(3,383)	(3,174)
Present value of additional employment	2,247	–
	65,972	54,434

The cost of providing post-employment benefits is calculated by independent actuaries, PT KAIA Magna Consulting, PT Biro Pusat Aktuaria, and PT Binaputera Jaga Hikmah. The actuarial valuation was carried out using the following key assumptions:

	Group	
	2009	**2008**
Discount rate	10.5% - 11.5% per annum	11% per annum
Mortality table	TMI II – 1999	TMI II – 1999
Rates of increase in compensation	8% - 10% per annum	10% per annum
Average expected retirement age	55 years	55 years

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28. Share capital

	Group and Company			
	2009		2008	
	Number of shares	Rp'million	Number of shares	Rp'million
Issued and fully paid				
At 1 January	898,162,562	1,943,866	684,623,916	1,269,167
Additional paid-in capital of the Company	–	–	213,538,646	674,699
At 31 December	898,162,562	1,943,866	898,162,562	1,943,866

On 25 February 2008, the Company completed its Initial Public Offering (IPO) in respect of 183,000,000 ordinary shares of an offer price of S$0.55. On 21 February 2008, the Company issued 27,941,646 additional shares from option exercised by Sampoerna Forestry Ltd at a discount of 15% to the offering price and 2,597,000 shares for public over-allotment portion.

The holders of ordinary shares are entitled to receive dividends as and when declared by the Group. Each ordinary share carries one vote per share without restrictions. The ordinary shares have no par value.

Please refer note 39 for the details of the Company's Rights Issue after the balance sheet date.

29. Restructuring reserves

	2009	2008
	Rp'million	Rp'million
Balance at beginning and the end of year	309,050	309,050

Restructuring reserves represent the difference between the nominal value of shares issued in exchange for the nominal value of shares and reserves of subsidiaries acquired under common control, in accordance with the principles of merger accounting.

30. Derivatives

Derivatives included in the balance sheets of 31 December 2009 and 2008 is as follows:

	Group			
	2009 Rp'million		2008 Rp'million	
	Contract/ nominal amount	Amount	Contract/ nominal amount	Amount
Assets				
-Swap exchange contract US$9,310,000	–	–	101,945	15,959
Liabilities				
- Swap exchange contract (US$4,840,000 in 2008)	–	–	52,998	5,726
- Forward currency contracts (Equivalent in US$700,000 in 2008)	–	–	7,665	26,750
		–		32,476

PT Sumber Graha Sejahtera (SGS) and PT Putra Sumber Utama Timber (PSUT) entered into short-term foreign currency forward and swap exchange contracts to manage the adverse effects the exchange rate fluctuations may have on the foreign currencies denominated short-term liabilities. During 2009, SGS and PSUT's forward contract expired and management decide not to renew these derivatives for those subsidiaries.

The above derivatives do not qualify for accounting for hedges. The loss from forward currency transactions for the year ended 31 December 2008 is Rp12,513 million and is included within "other expenses"/"other income" within the consolidated statement of comprehensive income.

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For the financial year ended 31 December 2009

31. Investment in subsidiaries

	Name (Country of incorporation)	Principal activities	2009	2008	Percentage of effective equity interest held by the company 2009	2008
Cost			Rp'million	Rp'million	%	%
@	PT Sumber Graha Sejahtera (Indonesia)	Production of plywood, laminated veneer lumber wood panels and wood based furniture	1,289,754	1,289,754	99.98	99.98
&	Perfect Crops Limited (Seychelles)	Investment holding	939	939	100.00	100.00
Ω	Samko Trading Pte Ltd (Singapore)	Trading	416	–	100.00	100.00
			1,291,109	1,290,693		
Provision for impairment						
	PT Sumber Graha Sejahtera		(1,289,753)	(746,165)		
			1,356	544,528		

	Name (Country of incorporation)	Principal activities	Percentage of effective equity interest held by the company 2009 %	2008 %
	Subsidiaries held through PT Sumber Graha Sejahtera:			
@	PT Panca Usaha Palopo Plywood (Indonesia)	Production of plywood, sawn timber, wood mouldings and construction materials	98.44	98.44
@	PT Putra Sumber Utama Timber (Indonesia)	Production of plywood and laminated veneer lumber, wood mouldings and building material components	99.21	99.18
@	PT Sejahtera Usaha Bersama (Indonesia)	Production of veneers	99.98	99.98
#	PT Makmur Alam Lestari (Indonesia)	Production of veneers	99.91	99.91
@	PT Sumalindo Lestari Jaya Tbk (Indonesia)	Forest exploration, industrial timber estate and utilization of forest products	51.62	51.62

31. Investment in subsidiaries (cont'd)

	Name (Country of incorporation)	Principal activities	Percentage of effective equity interest held by the company 2009 %	2008 %
	Subsidiaries held through PT Putra Sumber Utama Timber:			
@	PT Putra Sumber Kreasitama (Indonesia)	Production of wood mouldings and building materials components	97.27	97.27
@	PT Putra Sumber Kimindo (Indonesia)	Production of chemical glues	68.82	68.82
#	PT Navatani Persada (Indonesia)	Production of laminated engineering wood panel, veneers, wood mouldings, building construction components and wood furniture	69.92	69.92
#	PT Arangan Hutan Lestari (Indonesia)	Cultivation and logging of industrial forest plantations	59.51	59.51
	Subsidiaries held through PT Makmur Alam Lestari:			
#	PT Makmur Alam Sentosa (Indonesia)	Production of veneers	99.97	99.88
#	PT Kharisma Megah Dharma (Indonesia)	Production of veneers	99.99	99.90
#	PT Mitra Lestari Abadi (Indonesia)	Production of veneers	99.00	98.89
#	PT Wana Makmur Sejahtera (Indonesia)	Production of veneers	99.99	99.91
#	PT Kreatif Cipta Bersama (Indonesia)	Trading of agricultural, plantation and industrial products	99.99	99.91
#	PT Sari Alam Sejahtera (Indonesia)	Trading of construction materials	99.60	99.51
#	PT Anugrah Karunia Alam (Indonesia)	Retail of construction materials and wood for interior renovation, and trade of products in the wood industry	99.60	99.81

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For the financial year ended 31 December 2009

31. Investment in subsidiaries (cont'd)

	Name (Country of incorporation)	Principal activities	Percentage of effective equity interest held by the company 2009 %	2008 %
Subsidiaries held through PT Makmur Alam Lestari:				
#	PT Nusantara Makmur Sentosa (Indonesia)	Retail of construction materials and wood for interior renovation, and trade of goods in the wood industry	99.90	99.81
#	PT Kreasi Putra Pratama (Indonesia)	Supplier of mining, agricultural, handicraft printing and primary needs products and goods transportation services	99.90	99.81
#	PT Musi Rawas Lestari Makmur (Indonesia)	Production of veneers	99.99	99.90
#	PT Surya Sumber Rejeki (Indonesia)	Production of veneers	99.99	99.91
#	PT Agrindo Persada Lestari (Indonesia)	Trading of veneer plant	99.99	99.90
#	PT Alam Raya Makmur (Indonesia)	Production of veneers	99.90	99.81
#	PT Dinamika Maju Bersama (Indonesia)	Production of veneers	99.99	99.90
Subsidiaries held through PT Sumalindo Lestari Jaya Tbk:				
@	PT Karya Wijaya Sukses (Indonesia)	Logging of natural forests and trading of wood-based construction materials	50.59	50.59
@	PT Sumalindo Hutani Jaya (Indonesia)	Cultivation and logging of industrial forest plantations	–	30.97
@	PT Nityasa Prima (Indonesia)	Dormant	51.57	51.57
@	PT Inti Prona (Indonesia)	Dormant	51.10	51.10
@	PT Kalimantan Powerindo (Indonesia)	Supplier of electric power	51.61	51.61

31. Investment in subsidiaries (cont'd)

	Name (Country of incorporation)	Principal activities	Percentage of effective equity interest held by the company	
			2009 %	2008 %
Subsidiaries held through PT Sumalindo Lestari Jaya Tbk:				
@	PT Sumalindo Mitra Resindo (Indonesia)	Production and wholesale trading of chemical glues	30.97	30.97
@	PT Sumalindo Alam Lestari (Indonesia)	Production and wholesale trading of chemical glues	51.21	51.21
@	PT Essam Timber (Indonesia)	Logging of natural forests and trading of wood-based construction materials	51.62	51.62
@	PT Wana Kaltim Lestari (Indonesia)	Cultivation and logging of industrial forest plantations	50.80	50.80

@ Audited by Ernst & Young, Jakarta

Audited by Doli, Bambang, Sudarmadji & Dadang - a member of BKR International, Jakarta

& Audited by BDO Associate, Seychelles (formerly A.J. Shah & Associates, Seychelles)

Ω Unaudited

Notes to the Financial Statements

For the financial year ended 31 December 2009

31. Investment in subsidiaries (cont'd)

Disposal of PT Sumalindo Hutani Jaya

In November 2009, the Group's subsidiary, PT Sumalindo Lestari Jaya (SULI), disposed all of its interest in a subsidiary, PT Sumalindo Hutani Jaya (SHJ) for a total consideration of Rp7,202 million. Upon the disposal, SHJ is no longer consolidated to the Group's financial statements.

The carrying value of the identifiable assets and liabilities of PT Sumalindo Hutani Jaya as at the date of disposal were:

	2009 Rp'million
Property, plant and equipment	447
Biological assets	191,685
Intangible assets (Note 13)	51
Inventories	935
Other receivables	20
Prepayments	649
Cash and cash equivalents	2
Total assets	193,789
Trade and other payable	156,680
Deferred tax liabilities	33,196
Total liabilities	189,876
Net assets	3,913
Portion disposed by SULI (60% of net assets)	2,347
Gain arising from disposal	4,853
Total consideration	7,200

Cash inflow on disposal :

Cash received	7,200
Net cash disposed with the subsidiary company	(2)
Net cash inflow	7,198

Acquisition of PT Essam Timber

In June 2008, PT Sumalindo Lestari Jaya Tbk ("SULI") and its subsidiary, PT Kalimantan Powerindo ("KP") acquired 100% interest in PT Essam Timber ("Essam") by purchase of the existing shares of Essam from third parties at purchase consideration of Rp24,994 million. The acquisition is accounted for by applying the purchase method.

31. Investment in subsidiaries (cont'd)

Acquisition of PT Essam Timber (cont'd)

The carrying value of the identifiable assets and liabilities of Essam as at the date of acquisition were:

	2008 Rp'million
Property, plant and equipment	96,844
Intangible assets	470
Cash and cash equivalents	5
Trade and other receivables	85
Total assets	97,404
Trade and other payable	840
Provision for taxation	959
Long term borrowing (current portion)	189,343
Total liabilities	191,142
Net assets	(93,738)
Portion acquired by SULI and KP (100% of net assets)	(93,738)
Goodwill arising on acquisition (Note 14)	118,737
Total consideration	24,999

The total cost of the combination was Rp24,999 million, and was fully paid in cash.

Cash outflow on acquisition :

Net cash acquired with the subsidiary company	5
Cash paid	(24,999)
Net cash outflow	(24,994)

Acquisition of PT Wana Kaltim Lestari

In August 2008, PT Sumalindo Alam Lestari (SAL), a subsidiary of PT Sumalindo Lestari Jaya Tbk acquired 99.2% interest in PT Wana Kaltim Lestari (WKL) by purchase of the existing shares from third party at purchase consideration of Rp5,000 million. The acquisition is accounted for by applying the purchase method.

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For the financial year ended 31 December 2009

31. Investment in subsidiaries (cont'd)

Acquisition of PT Wana Kaltim Lestari (cont'd)

The carrying value of the identifiable assets and liabilities of WKL as at the date of acquisition were:

	2008 Rp'million
Intangible assets	250
Net assets	250
Portion acquired by SAL (99.2% of net assets)	250
Goodwill arising on acquisition (Note 14)	4,750
Total consideration	5,000

The total cost of the combination was Rp5,000 million, and was fully paid in cash.

Cash outflow on acquisition :

Net cash acquired with the subsidiary company	–
Cash paid	(5,000)
Net cash outflow	(5,000)

32. Commitments and contingencies

Capital commitments

As of 31 December 2009, the Group had capital commitments amounting to Rp1,053 million (2008: Rp2,842 million).

Operating lease commitments

The Group has various operating lease agreements for the rental of office and land. Office leases have an average life of between 3 and 5 years and contain renewable options. As of 1 March 2007 the contract extends till 28 February 2013. Lease terms do not contain escalation clauses or contingent rentals and do not contain restrictions on the Group's activities concerning dividends, additional debt or further leasing. Operating lease payments recognised in the profit and loss account for 2009 that were paid to this group amounted to Rp5,526 million and Rp6,354 million in 2008. Future minimum lease payments payable under non-cancellable operating leases as of 31 December 2009 and 2008 are as follows:

	Group	
	2009 Rp'million	**2008** Rp'million
Not later than one year	5,556	6,335
Later than one year but not later than five years	5,926	11,429
	11,482	17,764

33. Related party disclosures

An entity or individual is considered a related party of the Group for the purposes of the financial statements if:

(i) it possesses the ability (directly or indirectly) to control or exercise significant influence over the operating and financial decisions of the Group or vice versa; or

(ii) it is subject to common control or common significant influence.

In addition to those related party information disclosed elsewhere in the financial statements, the following significant transactions between the Group and related parties who are not members of the Group took place during the year at terms agreed between the parties.

	Group	
	2009	**2008**
	Rp'million	Rp'million
PT Pelayaran Nelly Dwi Putri		
- Freight charges	40,046	53,178
PT Nelly Jaya Pratama		
- Purchase of vener and spare parts	2,448	2,603
- Machinery rental expense	6,000	–
- Supply of veneer and sales commission	–	27,064
Hasan Holding Pte. Ltd.		
- Freight charges	–	7,278

PT Pelayaran Nelly Dwi Putri, PT Nelly Jaya Pratama and Hasan Holding Pte Ltd are wholly-owned by Sunarko family, who is related to a substantial shareholder of the Company.

	Group		Company	
	2009	**2008**	**2009**	**2008**
	Rp'million	Rp'million	Rp'million	Rp'million
PT Bioforest Indonesia				
- Advance payment for purchase of trees	10,323	5,450	–	–
First Goal International Ltd				
- Payable	94,743	110,365	94,743	110,365
PT Pelayaran Nelly Dwi Putri				
- Note payable	2,868	4,868	–	–

PT Bioforest Indonesia is controlled by Sunarko family, who is related to a substantial shareholder of the Company

First Goal International Ltd is controlled by Sampoerna family, who is related to a substantial shareholder of the Company.

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33. Related party disclosures (cont'd)

Compensation to key management personnel

	Group	
	2009	**2008**
	Rp'million	Rp'million
Short-term benefits		
- Directors	14,949	15,001
- Executive officers	6,308	6,625
	21,257	21,626

Compensation to key management personnel consist of salaries, bonus, and car allowance.

Operating lease commitments

Included within operating lease commitments in 2009 as disclosed in Note 32 is an amount payable for the office rental to PT Buana Sakti, a company which is owned by the Sampoerna Group.

The total amount of operating lease payments recognised in the profit and loss account for the financial year 31 December 2009 and 2008 that were paid to these related parties amounted to Rp729 million and Rp738 million, respectively. The rental amounts paid were lower than the prevailing market rental rates for similar real property, and were not on an arm's length basis. The lease agreement was terminated in December 2009.

Capital commitments with related parties

There was no capital commitment with related parties during 2009 and 2008.

Financial guarantee

The Company had granted financial guarantee to a bank for interest-bearing loan granted by the bank to a subsidiary (Note 26 (i)).

34. Financial risk management objectives and policies

The Group and the Company is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include interest rate risk, foreign currency risk, credit risk, and liquidity risk. The Board of directors sets and reviews policies and procedures for the management of these risks, which are executed by the Chief Financial Officer, Head of Treasury and Head of Credit Control. The Audit Committee provides independent oversight to the effectiveness of the risk management process. It is, and has been throughout the current and previous financial year the Group's policy that no derivatives shall be undertaken except for the use as hedging instruments where appropriate and cost-efficient. The Group and the Company do not apply hedge accounting.

The following sections provide details regarding the Group's and Company's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

34. Financial risk management objectives and policies (cont'd)

(a) ***Interest rate risk***

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Group's financial instruments will fluctuate because of changes in market interest rates. The Group's exposure to changes in interest rates relates primarily to the Group's short term bank borrowings, long-term borrowings and cash in bank.

The Group's policy is to manage its exposure to interest rate risks using a mix of fixed and variable rate borrowings. The objectives for the mix between fixed and variable rate borrowings are set to reduce the impact of an upward change in interest rate while enabling benefits to be enjoyed if interest rates fall.

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.

Surplus funds are placed with reputable banks and financial institutions which generate interest income for the Group. Information relating to the Group's interest rate exposure is disclosed in Note 26.

<u>Sensitivity analysis for interest rate risk</u>

The Group's borrowing interest rates are mainly floating rates. At the balance sheet date, if the US$ and IDR borrowing interest rates had been 100 basis points lower/higher with all other variables held constant, the Group's losses in 2009 and in 2008 would have been Rp16,262 million and Rp9,541 million lower/higher, respectively.

(b) ***Foreign currency risk***

Substantially all of the Group's export sales are denominated in US$. Products prices sold in domestic market are also influenced by the international prices of timber products which are denominated in US$.

The Group has practices that include the periodic review of the impact of movements in foreign exchange rates on profitability so that appropriate action is taken to mitigate these risks. The Group uses derivative financial instruments when it is available in the market to hedge foreign exchange exposure arising from US$ denominated loans. Derivative financial instrument require bank line which is quite often difficult for company operating in Indonesia given the limited risk appetite of the bank in providing US$/IDR swap facility. The Group does not use derivative financial instruments for trading or speculative purposes.

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34. Financial risk management objectives and policies (cont'd)

(b) ***Foreign currency risk (cont'd)***

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of the Group's net loss from a possible change in the Indonesian Rupiah exchange rate against US$, with all other variables held constant.

	Group	
	2009	**2008**
	Rp'million	Rp'million
	Loss, net of tax (Increase)/ decrease	Loss, net of tax (Increase)/ decrease
Strengthened 4%	48,552	54,828
Weakened 4%	(48,552)	(54,828)
Strengthened 8%	97,105	109,656
Weakened 8%	(97,105)	(109,656)
Strengthened 12%	145,658	164,483
Weakened 12%	(145,658)	(164,483)
Strengthened 16%	194,210	219,311
Weakened 16%	(194,210)	(219,311)

(c) ***Credit risk***

Credit risk is the risk of loss that may arise on outstanding financial instruments should counterparty default on its obligations.

The Group's exposures to credit risk are primarily attributable to receivables and bank balances. It is the Group's policy to monitor the financial standing of these receivables on an on-going basis to ensure that the Group is exposed to minimal credit risk. Bank balances are placed with credit worthy financial institutions. More than 95% of the Group's customers have been loyal customers for more than 5 years with good credit standing. The Group adopts prudent credit risk assessment on new and existing customers by implementing 'know-your-customer' policy.

Financial assets that are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired are creditworthy debtors with good payment record with the Group. Cash and cash equivalents, and derivatives that are neither past due nor impaired are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

Information regarding financial assets that are either past due or impaired is Trade and other receivables (Note 20) and Advances to suppliers.

34. Financial risk management objectives and policies (cont'd)

(d) ***Liquidity risk***

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of funds.

The Group's exposure to liquidity and cash flow risk arise mainly from general funding and business activities. Its objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and advances from related parties. The Group adopts prudent liquidity risk management by maintaining sufficient cash balances.

As at balance sheet date, approximately 53% (2008: 44%) of the Group's loan and borrowings (Notes 25 and 26) will mature in less than one year based on the carrying amount reflected in the financial statements. To mitigate liquidity risk, the Group had undertaken various measures as disclosed in Note 2.1. The Group will continue to monitor and address this risk by monitoring liquidity ratios (including projecting cash flow) and maintaining debt financing plans.

The following table sets out the carrying amount, by maturity, of the Group's financial instruments that are exposed to liquidity risk:

31 December 2009	**Within 1 year** Rp'million	**1-2 Years** Rp'million	**2-3 years** Rp'million	**3-4 Years** Rp'million	**4-5 Years** Rp'million	**More than 5 years** Rp'million	**Total** Rp'million
Trade and other payable	419,394	–	–	–	–	–	419,394
Notes payable	2,868	–	–	–	–	–	2,868
Short term bank borrowings	334,308	–	–	–	–	–	334,308
Interest bearing bank borrowings	506,903	254,048	145,689	106,203	94,000	166,233	1,273,076
Obligations under finance lease	86,470	50,899	10,626	–	–	–	147,995
Reforestation fund payable	1,460	–	–	–	–	–	1,460

31 December 2008	**Within 1 year** Rp'million	**1-2 Years** Rp'million	**2-3 years** Rp'million	**3-4 Years** Rp'million	**4-5 Years** Rp'million	**More than 5 years** Rp'million	**Total** Rp'million
Trade and other payable	437,052	–	–	–	–	–	437,052
Notes payable	4,868	–	–	–	–	–	4,868
Short term bank borrowings	416,162	–	–	–	–	–	416,162
Interest bearing bank borrowings	507,869	289,031	135,611	94,177	44,057	396,702	1,467,447
Obligations under finance lease	98,409	72,748	27,407	2,426	–	–	200,990
Reforestation fund payable	5,496	–	–	–	–	–	5,496

Notes to the Financial Statements

For the financial year ended 31 December 2009

35. Fair value of financial instruments

The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's-length transaction, other than in a forced or liquidation sale.

Financial instruments whose carrying amount approximates fair value

Management has determined that the carrying amount of cash and cash equivalents, trade and other receivables, trade and other payable and bank loans based on their nominal amounts, reasonably approximate their fair value because these are mostly short term in nature bear floating interest rates and are re-priced frequently.

Financial instruments carried at amounts other than fair values

As at the balance sheet date, the Group did not have significant financial assets and liabilities that are carried at amounts other than fair values.

36. Capital management

The primary objective of the Group's capital management is to ensure that the Group's ability to operate as a going concern and to maintain healthy capital structure in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2009 and 2008.

One of the method the Group monitors its capital is the gearing ratio. The ratio is calculated based on net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio between 50% and 75%. The Group includes within net debt, loans and borrowings, trade and other payables, other liabilities, less cash and cash equivalents. Capital includes equity attributable to the equity holders of the parent.

	Group	
Description	**2009 Rp'million**	**2008 Rp'million**
Loans and borrowings (Notes 25 and 26)	1,778,507	2,094,963
Trade and other payable (Note 23)	419,394	437,052
Other liabilities (Note 24)	401,444	292,714
Less: cash and cash equivalents (Note 21)	(110,868)	(157,186)
Less: restricted deposits (Note 22)	(115,462)	(110,390)
Net debt	**2,373,015**	**2,557,153**
Equity attributable to the owners of the parent	492,733	1,317,520
Capital and net debt	**2,865,748**	**3,874,673**
Gearing ratio	**83%**	**66%**

36. Capital management (cont'd)

As disclosed in Note 2.1, the Group had undertaken, inter alia, the rights issue after the balance sheet date. The effect of the rights issue to the Group's gearing ratio had the exercise taken place as at 31 December 2009 is as follows:

Description	Group 2009 Rp'million
Loans and borrowings (Notes 25 and 26)	1,778,507
Less: subsequent repayment through rights issue	(140,672)
	1,637,835
Trade and other payable (Note 23)	419,394
Other liabilities (Note 24)	401,444
Less: cash and cash equivalents (Note 21)	(110,868)
Less: restricted deposits (Note 22)	(115,462)
Total net debt	**2,232,343**
Equity attributable to the owners of the parent	492,733
Add: proceed from rights issue	190,243
Total capital	**682,976**
Capital and net debt	**2,915,319**
Gearing ratio	**76%**

The Group will continue to monitor and address capital funding needs by monitoring its liquidity and gearing ratios (including projecting cash flow) and maintaining debt financing plans.

37. Segment information

Reporting format

The primary segment reporting format is determined to be business segments as the Group's risk and rates of return are affected predominantly by differences in the products produced. The secondary segment is reported geographically. The operating businesses are organised and managed separately according to the nature of the products provided, with each segment representing a strategic business unit that offers different products, and serves different markets.

Business segments

Primary processed timber products segment includes primary plywood, laminated veneer lumber, medium density fibre board, piano parts and logs.

Secondary processed timber products segment includes processed plywood such as film-faced plywood, fancy plywood, paper overlay plywood and truck bodies.

Chemical glue segment includes urea formaldehyde resin, melamine formaldehyde resin and phenol formaldehyde resin.

Notes to the Financial Statements

For the financial year ended 31 December 2009

37. Segment information (cont'd)

Geographical segments

Sales to external customers disclosed in geographical segments are based on the geographical location of the customers.

Allocation basis and transfer pricing

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, income tax and deferred tax assets and liabilities, finance income, investment in associate, interest-bearing loans and related expenses.

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenues, segment expenses and results include transfers between business segments. Those transfers are eliminated on consolidation.

(a) ***Business segments***

The following table presents revenue and results information regarding the Group's business segments for the financial year ended 31 December 2009 and 2008:

Year ended 31 December 2009	**Primary processed timber products** Rp'million	**Secondary processed timber products** Rp'million	**Chemical glue** Rp'million	**Elimination** Rp'million	**Total** Rp'million
Revenue:					
Sales to external customers	2,632,093	159,939	4,943	–	2,796,975
Inter-segment sales	136,183	1,771	28,964	(166,918)	–
Total sales	2,768,276	161,710	33,907	(166,918)	2,796,975
Results:					
Segment results	(203,963)	(25,881)	(4,990)	63	(234,771)
Other expense	(661,708)	(17,633)	(1,151)	–	(680,492)
Other income	269,948	12,372	(2,300)	(63)	279,957
Finance expense	(171,135)	(2,181)	(23)	–	(173,339)
Finance income	3,048	41	6	–	3,095
Loss before tax	(763,810)	(33,282)	(8,458)	–	(805,550)
Tax	(179,993)	(8,172)	294	–	(187,871)
Loss, net of tax	(943,803)	(41,454)	(8,164)	–	(993,421)
Assets and liabilities as at 31 December 2009:					
Segment assets	3,397,439	101,994	39,814	(7,953)	3,531,294
Deferred tax assets	16,940	–	–	–	16,940
Total assets	3,414,379	101,994	39,814	(7,953)	3,548,234

37. Segment information (cont'd)

(a) ***Business segments (cont'd)***

Year ended 31 December 2009	Primary processed timber products Rp'million	Secondary processed timber products Rp'million	Chemical glue Rp'million	Elimination Rp'million	Total Rp'million
Segment liabilities	1,036,644	31,913	3,426	(1,114)	1,070,869
Provision for tax	27,760	69	304	–	28,133
Short term and long term loans and borrowings	1,743,523	34,984	–	–	1,778,507
Deferred tax liabilities	63,574	1,571	3,139	–	68,284
Total liabilities	2,871,501	68,537	6,869	(1,114)	2,945,793
Other segment information:					
Depreciation	228,322	3,842	8,551	–	240,715
Amortisation of deferred losses on sale and leaseback	3,452	–	–	–	3,452
Amortisation of land use rights	8,073	205	24	–	8,302
Post employment benefits expense	8,322	235	(55)	–	8,502
Capital expenditure on property, plant and equipment	98,021	–	–	–	98,021
Loss arising from fair value of biological asset	(1,919)	–	–	–	(1,919)

Year ended 31 December 2008	Primary processed timber products Rp'million	Secondary processed timber products Rp'million	Chemical glue Rp'million	Elimination Rp'million	Total Rp'million
Revenue:					
Sales to external customers	2,998,366	196,978	14,195	–	3,209,539
Inter-segment sales	135,328	–	47,212	(182,540)	–
Total sales	3,133,694	196,978	61,407	(182,540)	3,209,539
Results:					
Segment results	(80,581)	(12,692)	2,835	210	(90,228)
Other expense	(793,868)	(24,747)	2,990	–	(815,625)
Other income	55,843	–	–	(210)	55,633
Finance expense	(175,622)	(4,037)	(289)	–	(179,948)
Finance income	3,580	19	4	–	3,603
Loss before tax	(990,648)	(41,457)	5,540	–	(1,026,565)
Tax	21,977	10,295	(902)	–	31,370
Loss, net of tax	(968,671)	(31,162)	4,638	–	(995,195)

Notes to the Financial Statements

For the financial year ended 31 December 2009

37. Segment information (cont'd)

(a) Business segments (cont'd)

Year ended 31 December 2008	Primary processed timber products	Secondary processed timber products	Chemical glue	Elimination	Total
	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million
Assets and liabilities as at 31 December 2008:					
Segment assets	4,440,080	152,317	63,215	(7,079)	4,648,533
Deferred tax assets	170,467	6,601	–	–	177,068
Total assets	4,610,547	158,918	63,215	(7,079)	4,825,601
Segment liabilities	979,769	38,036	16,711	(14,980)	1,019,536
Provision for tax	21,319	261	899	–	22,479
Short term and long term loans and borrowings	2,049,253	45,710	–	–	2,094,963
Deferred tax liabilities	86,698	–	4,497	–	91,195
Total liabilities	3,137,039	84,007	22,107	(14,980)	3,228,173
Other segment information:					
Depreciation	202,990	3,934	4,703	–	211,627
Amortisation of deferred losses on sale and leaseback	438	–	–	–	438
Amortisation of land use rights	5,525	274	24	–	5,823
Post employment benefits expense	16,453	(188)	31	–	16,296
Capital expenditure on property, plant and equipment	493,591	3,140	–	–	496,731
Loss arising from fair value of biological asset	35,024	–	–	–	35,024

(b) *Geographical segments*

All of the Group's assets are located in Indonesia, other than Rp101,989 million (2008: Rp128,981 million) of assets located in Singapore.

The following table presents revenue information regarding the Group's geographical segments for years ended 31 December:

Region	2009	2008
	Rp'million	Rp'million
Indonesia	2,135,409	2,154,546
North Asia	252,549	471,198
United States of America	124,735	129,609
Middle East	115,676	110,606
Europe	107,912	158,520
Others	60,694	185,060
	2,796,975	3,209,539

38. Industry condition of the subsidiaries

The operations of the Company's subsidiaries may be affected by future economic conditions in Indonesia that may contribute to volatility in currency values and negatively impact economic growth. Economic improvements and sustained recovery are dependent upon several factors, such as fiscal and monetary actions being undertaken by the Indonesia Government and others actions that are beyond the control of the Group.

The Group also anticipates that due to the challenging operating market, selling price of timber products may be further pressurized, while material costs remain high. Therefore, the Group believes that margins for the year ahead are likely to stay under pressure.

In response to the industry condition, the Group has implemented and will continue to implement the following measures:

- Capture a greater market share in Indonesia with the Group's competitive strengths to sustain market leadership and capitalise on growth opportunities in Asia
- Set up measures to control costs and enhance production efficiency
- Expand into upstream and downstream segments of the value chain to enhance margins
- Improve the Group's liquidity and build on the strong balance sheet at the same time including rescheduling of its current maturity debts and various fund raising options including some asset divestments of our subsidiaries
- Manage cash flow to sustain current working capital facilities and maintain the required working capital necessary to keep operations going and meet all financial obligations
- Improve the system, procedures and policies to achieve optimum results

The Group believes that, as the leading timber processing company in Indonesia, the Group will be in a better position to withstand the current economic challenges.

39. Event Occurring After the Balance Sheet Date

- In January 2010, the Company completed its rights issue of 449,081,281 new shares at an issue price of S$0.065 for each right share, on the basis of one right issued for every two existing shares held by shareholders. Following this rights issue exercise, the numbers of shares increase from 898,162,562 shares to 1,347,243,843 shares.

  The net proceeds from the rights issue are used to repaid the Company's bank loans and support the Group's working capital.

- On 30 March 2010, the Company's subsidiary, PT Sumalindo Lestari Jaya Tbk (SULI), completed its right issue in respect of 1,236,022,311 ordinary shares for an offer price of Rp100 per share on the basis of one right issued for very one existing shares held by shareholders. Management decided to subscribe its rights for 128,137,791 additional shares.

  Following this right issue exercise, the Group's effective interest in SULI decreased from 51.62% to 30.99%. Upon the completion of right issue, SULI will be treated as an associate and de-consolidated from the Group's financial statements.

40. Authorisation of Financial Statements for Issue

The financial statements for the year ended 31 December 2009 were authorised for issue in accordance with a resolution of the directors on 7 April 2010.

Shareholders' Information

As at 25 March 2010

DISTRIBUTION OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 - 999	25	2.59	2,004	0.00
1,000 - 10,000	419	43.37	2,168,387	0.16
10,001 - 1,000,000	494	51.14	53,459,278	3.97
1,000,001 AND ABOVE	28	2.90	1,291,614,174	95.87
TOTAL	**966**	**100.00**	**1,347,243,843**	**100.00**

TWENTY LARGEST SHAREHOLDERS

	NAME	NO. OF SHARES	%
1	UOB KAY HIAN PTE LTD	894,830,997	66.42
2	SGSS FOREST PRODUCTS PTE LTD	100,226,000	7.44
3	HSBC (SINGAPORE) NOMINEES PTE LTD	75,554,325	5.61
4	CITIBANK NOMINEES SINGAPORE PTE LTD	41,454,500	3.08
5	HASAN HOLDINGS PTE LTD	33,846,346	2.51
6	UNITED OVERSEAS BANK NOMINEES PTE LTD	33,663,000	2.50
7	ARIS SUNARKO @ KO TJI KIM	27,225,000	2.02
8	NOAH SHIPPING PTE LTD	15,380,000	1.14
9	DBS NOMINEES PTE LTD	15,242,006	1.13
10	KOH BOON HONG	12,750,000	0.94
11	NATALIA TANWIR TAN	7,808,000	0.58
12	DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	4,438,000	0.33
13	SEE KIM HUA	4,400,000	0.32
14	KOH HANG HENG	2,439,000	0.18
15	AVVENTURA HOLDINGS LIMITED	2,352,500	0.17
16	KIM ENG SECURITIES PTE. LTD.	2,255,000	0.17
17	LIM & TAN SECURITIES PTE LTD	2,208,000	0.16
18	RAFFLES NOMINEES (PTE) LTD	2,114,500	0.16
19	CHYE CHIA CHOW	1,886,000	0.14
20	TAN JUI YAK	1,630,000	0.12
	TOTAL	**1,281,703,174**	**95.14**

SHAREHOLDERS' INFORMATION AS AT *25 MARCH 2009*
[Rule 1207 (9)]

To state the number of holders of each class of equity securities (as defined in the Listing Manual) and the voting rights attaching to each class

Class of equity securities	Number of equity securities	Voting Rights
Ordinary Shares	1,347,243,843	One vote per share

There are no treasury shares held in the issued share capital of the Company

SUBSTANTIAL SHAREHOLDERS
(As recorded in the Register of Substantial Shareholders)

	Direct Interest	%	Deemed Interest	%
SGSS Forest Products Pte Ltd [(1)]	433,419,692	32.17	-	-
Aris Sunarko @ Ko Tji Kim [(1) & (2)]	39,225,000	2.91	482,646,038	35.82
Koh Tji Kiong @ Amir Sunarko [(1) & (2)]	-	-	482,646,038	35.82
Piniaty Liawanto [(1)]	-	-	433,419,692	32.17
Sampoerna Forestry Limited	533,962,305	39.63	-	-

Notes:

(1) Mr Aris Sunarko @ Ko Tji Kim and his brother, Mr Koh Tji Kiong @ Amir Sunarko, and their sister-in-law, Ms Piniaty Liawanto, who each own one third of the issued share capital of SGSS Forest Products Pte Ltd ("SGSS"). Mr Aris Sunarko @ Ko Tji Kim, Mr Koh Tji Kiong @ Amir Sunarko and Ms Piniaty Liawanto are deemed to be interested in the shares held by SGSS.

(2) Mr Aris Sunarko @ Ko Tji Kim and Mr Koh Tji Kiong @ Amir Sunarko are deemed to be interested by virtue of Section 7 of the Companies Act, in the following shares:-

(a) 15,380,000 shares held by Noah Shipping Pte Ltd; and

(b) 33,846,346 shares held by Hasan Holdings Pte Ltd.

PERCENTAGE OF SHAREHOLDING IN PUBLIC'S HANDS

20.36% of the Company's shares are held in the hands of public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of the SGX-ST.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Samko Timber Limited ("the Company") will be held at Parkroyal on Beach Road, Singapore, Plaza Ballroom 3, 7500 Beach Road, Singapore 199591, on Friday, 30 April 2010, at 3.00 p.m. for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and the Audited Accounts of the Company for the year ended 31 December 2009 together with the Auditors' Report thereon. **(Resolution 1)**

2. To re-elect the following Directors of the Company retiring pursuant to Article 94 of the Articles of Association of the Company:

   Mr Aris Sunarko @ Ko Tji Kim **(Resolution 2)**
   Mr Koh Tji Kiong @ Amir Sunarko **(Resolution 3)**
   Mr Sim Idrus Munandar **(Resolution 4)**

   Messrs Aris Sunarko @ Ko Tji Kim and Koh Tji Kiong @ Amir Sunarko will, upon re-election as Directors of the Company, remain as the Executive Directors of the Company and will be considered non-independent.

   Mr Sim Idrus Munandar will, upon re-election as the Director of the Company, remain as Chairman of the Nominating Committee, a member of the Audit and Remuneration Committees and will be considered independent.

3. To re-appoint Mr Koh Boon Hong, a director of the Company retiring under Section 153(6) of the Companies Act, Cap. 50, to hold office from the date of this Annual General Meeting until the next Annual General Meeting of the Company. [See Explanatory Note (i)] **(Resolution 5)**

   Mr Koh will, upon re-appointment as a Director of the Company, remain as the Non-Executive Chairman of the Company and will be considered non-independent.

4. To approve the payment of Directors' fees of S$188,000 for the year ending 31 December 2010, payable quarterly in arrears. (2009: S$175,000) **(Resolution 6)**

5. To re-appoint Messrs Ernst & Young LLP as the Auditors of the Company and to authorise the Directors of the Company to fix their remuneration. **(Resolution 7)**

6. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without any modifications:

7. **Authority to issue shares**

That pursuant to Section 161 of the Companies Act, Cap. 50 and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited, the Directors of the Company be authorised and empowered to:

(a) (i) issue shares in the Company ("shares") whether by way of rights, bonus or otherwise; and/or

(ii) make or grant offers, agreements or options (collectively, "Instruments") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) options, warrants, debentures or other instruments convertible into shares,

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors of the Company may in their absolute discretion deem fit; and

(b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any Instruments made or granted by the Directors of the Company while this Resolution was in force,

provided that:

(1) the aggregate number of shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) to be issued pursuant to this Resolution shall not exceed fifty per centum (50%) of the total number of issued shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares to be issued other than on a pro rata basis to shareholders of the Company shall not exceed twenty per centum (20%) of the total number of issued shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below);

(2) (subject to such calculation as may be prescribed by the Singapore Exchange Securities Trading Limited) for the purpose of determining the aggregate number of shares that may be issued under sub-paragraph (1) above, the total number of issued shares (excluding treasury shares) shall be based on the total number of issued shares (excluding treasury shares) in the capital of the Company at the time of the passing of this Resolution, after adjusting for:

(a) new shares arising from the conversion or exercise of any convertible securities;

(b) new shares arising from exercising share options or vesting of share awards which are outstanding or subsisting at the time of the passing of this Resolution; and

(c) any subsequent bonus issue, consolidation or subdivision of shares;

(3) (until 31 December 2010 or such other expiration date as may be determined by Singapore Exchange Securities Trading Limited), the limit on the aggregate number of shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) of fifty per cent (50%) of the total number of issued shares (excluding treasury shares) in the capital of the Company set out in sub-paragraph (1) above, shall be increased to 100%, for purposes of enabling the Company to undertake pro-rata renounceable rights issues;

Notice of Annual General Meeting

(4) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the Singapore Exchange Securities Trading Limited for the time being in force (unless such compliance has been waived by the Singapore Exchange Securities Trading Limited) and the Articles of Association of the Company; and

(5) unless revoked or varied by the Company in a general meeting, such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier. [See Explanatory Note (ii)] **(Resolution 8)**

By Order of the Board

Yeo Poh Noi Caroline
Secretary
Singapore, 14 April 2010

Explanatory Notes:

(i) The effect of the Ordinary Resolution 5 proposed in item 3 above, is to re-appoint a director of the Company who is over 70 years of age.

(ii) The Ordinary Resolution 8 in item 7 above, if passed, will empower the Directors of the Company, effective until the conclusion of the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue shares, make or grant Instruments convertible into shares and to issue shares pursuant to such Instruments, up to a number not exceeding, in total, 50% of the total number of issued shares (excluding treasury shares) in the capital of the Company, of which up to 20% may be issued other than on a pro-rata basis to shareholders. The 50% limit referred to in the preceding sentence may be increased to 100% for the Company to undertake pro-rata renounceable rights issues subject to timeline stated below.

For determining the aggregate number of shares that may be issued, the total number of issued shares (excluding treasury shares) will be calculated based on the total number of issued shares (excluding treasury shares) in the capital of the Company at the time this Ordinary Resolution is passed after adjusting for new shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time when this Ordinary Resolution is passed and any subsequent bonus issue, consolidation or subdivision of shares.

The 100% renounceable pro-rata rights issue limit is one of the new measures implemented by the SGX-ST as stated in a press release entitled "SGX introduces further measures to facilitate fund raising" dated 19 February 2009 and which became effective on 20 February 2009 until 31 December 2010. The effectiveness of these measures will be reviewed by the SGX-ST at the end of the period. It will provide the Directors with an opportunity to raise funds and avoid prolonged market exposure by reducing the time taken for shareholders' approval, in the event the need arises. Minority shareholders' interests are mitigated as all shareholders have equal opportunities to participate and can dispose their entitlements through trading of nil-paid rights if they do not wish to subscribe for their rights shares. It is subject to the condition that the Company makes periodic announcements on the use of the proceeds as and when the funds are materially disbursed and provides a status report on the use of proceeds in the annual report.

Notes:

1. A Member entitled to attend and vote at the Annual General Meeting (the "Meeting") is entitled to appoint a proxy to attend and vote in his/her stead. A proxy need not be a Member of the Company.

2. The instrument appointing a proxy must be deposited at the Registered Office of the Company at 7500A Beach Road, #14-308/312 The Plaza, Singapore 199591 not less than forty-eight (48) hours before the time appointed for holding the Meeting.

SAMKO TIMBER LIMITED
(Company Registration No.: 200517815M)
(Incorporated in the Republic of Singapore)

PROXY FORM
(Please see notes overleaf before completing this Form)

I/We, ...

of ....

being a member/members of **Samko Timber Limited** (the "Company"), hereby appoint:

Name	**NRIC/Passport No.**	**Proportion of Shareholdings**	
		No. of Shares	**%**
Address			

and/or (delete as appropriate)

Name	**NRIC/Passport No.**	**Proportion of Shareholdings**	
		No. of Shares	**%**
Address			

or failing the person, or either or both of the persons, referred to above, the Chairman of the Meeting as my/our proxy/proxies to vote for me/us on my/our behalf at the Annual General Meeting (the "Meeting") of the Company to be held on 30 April 2010 at 3.00 p.m. and at any adjournment thereof. I/We direct my/our proxy/proxies to vote for or against the Resolutions proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given or in the event of any other matter arising at the Meeting and at any adjournment thereof, the proxy/proxies will vote or abstain from voting at his/her discretion. The authority herein includes the right to demand or to join in demanding a poll and to vote on a poll.

(Please indicate your vote "For" or "Against" with a tick [√] within the box provided.)

No.	**Resolutions relating to:**	**For**	**Against**
1	Directors' Report and Audited Accounts for the year ended 31 December 2009		
2	Re-election of Mr Aris Sunarko @ Ko Tji Kim as a Director		
3	Re-election of Mr Koh Tji Kiong @ Amir Sunarko as a Director		
4	Re-election of Mr Sim Idrus Munandar as a Director		
5	Re-appointment of Mr Koh Boon Hong as a Director		
6	Approval of Directors' fees amounting to S$188,000 for the year ending 31 December 2010		
7	Re-appointment of Ernst & Young LLP as Auditors		
8	Authority to issue shares		

Dated this .... day of 2010

Total number of Shares in:	No. of Shares
(a) CDP Register	
(b) Register of Members	

....
Signature of Shareholder(s)
or, Common Seal of Corporate Shareholder

Notes :

1. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in Section 130A of the Companies Act, Chapter 50 of Singapore), you should insert that number of Shares. If you have Shares registered in your name in the Register of Members, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members, you should insert the aggregate number of Shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the Shares held by you.

2. A member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint one or two proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.

3. Where a member appoints two proxies, the appointments shall be invalid unless he/she specifies the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy.

4. Completion and return of this instrument appointing a proxy shall not preclude a member from attending and voting at the Meeting. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the meeting in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under the instrument of proxy to the Meeting.

5. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 7500A Beach Road, #14-308/312 The Plaza, Singapore 199591, not less than 48 hours before the time appointed for the Meeting.

6. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its common seal or under the hand of an officer or attorney duly authorised. Where the instrument appointing a proxy or proxies is executed by an attorney on behalf of the appointor, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument.

7. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Meeting, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.

General:

The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible, or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of Shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have Shares entered against his name in the Depository Register as at 48 hours before the time appointed for holding the Meeting, as certified by The Central Depository (Pte) Limited to the Company.

Corporate Information

BOARD OF DIRECTORS

Non-Executive Chairman:
Koh Boon Hong

Executive Directors:
Aris Sunarko @ Ko Tji Kim (Chief Executive Officer)
Koh Tji Kiong @ Amir Sunarko
Ali Gunawan Budiman

Non-Executive Directors:
Michael Joseph Sampoerna (Non-Independent)
Eka Dharmajanto Kasih (Non-Independent)
Ng Cher Yan (Independent)
Sim Idrus Munandar (Independent)
Wee Ewe Lay Laurence John (Independent)

AUDIT COMMITTEE

Ng Cher Yan (Chairman)
Sim Idrus Munandar
Wee Ewe Lay Laurence John

NOMINATION COMMITTEE

Sim Idrus Munandar (Chairman)
Ng Cher Yan
Wee Ewe Lay Laurence John

REMUNERATION COMMITEE

Wee Ewe Lay Laurence John (Chairman)
Ng Cher Yan
Sim Idrus Munandar

SECRETARY

Yeo Poh Noi Caroline

REGISTERED OFFICE

7500A Beach Road
#14-308/312 The Plaza
Singapore 199591
Tel : 6298 2189
Fax : 6298 2187

SHARE REGISTRAR

Boardroom Corporate & Advisory Services Pte. Ltd.
50 Raffles Place
32-01 Singapore Land Tower
Singapore 048623

AUDITOR

Ernst & Young LLP
One Raffles Quay
North Tower, Level 18
Singapore 048583

AUDIT PARTNER-IN-CHARGE

Yee Woon Yim
Date of Appointment:
24 August 2007

Samko Timber Limited
Company Registration No. 200517815M

7500A Beach Road
#14-308/312 The Plaza,
Singapore 199591
Tel: 6298 2189
Fax: 6298 2187