SAMKO TIMBER LIMITED

Determined to Deliver Performance from top to bottom

Annual Report 2010

Rationale

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

With over eight hundreds m³ in processing capacity, we have one of the largest processing capacities in Indonesia and are among the top five tropical hardwood plywood producers globally.

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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 eight hundreds 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.

Today, we have 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

Dear Shareholders,

2010 is another challenging year as we recover gradually from the global financial crisis that hit the world in 2008 and has hindered our progress in the past years. The crisis has affected many industries, and we did not escape unscathed. Despite this difficult event, our Group remains as one of the largest plywood producers globally. We have shown our strength and resilience during these difficult periods.

Deconsolidation of Sumalindo

With effect from 30 March 2010, PT Sumalindo Lestari Jaya ("Sumalindo") ceased to be a subsidiary company of the Company and it was accounted for as an associate company since then. We had diluted our interest in Sumalindo following the completion of Sumalindo's rights issue in which our equity interest was reduced from 51.62% to 31.00%.

In the last two financial years, the adverse performance of Sumalindo had affected our financial position and performance. We have accounted for our equity loss in Sumalindo starting the 2nd quarter of 2010 and made a full provision of impairment of our investment in Sumalindo as at December 2010.

As we no longer consolidate Sumalindo and have no further commitments or obligations to them, any adverse performance of Sumalindo in the future will not have any material impact to our result and financial position.

Financial Review

For the financial year ended 31 December 2010 ("FY2010"), revenue for the Group decreased 21% from Rp2,797 billion to Rp2,205 billion. This decrease was due to the decrease of revenue from Sumalindo's sales (the effect of the deconsolidation of Sumalindo) and competition in the domestic market and slow recovery in the export market from 2008 world crisis.

Our gross profit increased by 144% in FY2010 compared to FY2009. The large increase was mainly due to Sumalindo's gross loss of Rp103 billion that was consolidated into our account in FY2009. Had the deconsolidation of Sumalindo taken place in FY2009, gross profit of the Group in this year would have improved by 13%. This improvement was attributed mainly to lower production costs as compared to that of FY2009.

Despite the challenges we are facing now, the Group believes that we will be able to overcome the challenges given our competitive strengths.

Other income for FY2010 decreased to Rp71 billion as compared to Rp280 billion in FY2009. The decrease was mainly due to lower exchange gain recognised and the effect of the deconsolidation of Sumalindo.

The Group reported a loss of Rp225 billion in FY2010 as compared to Rp825 billion in FY2009. Losses per share for FY2010 stood at Rp171 as compared to losses per share of Rp854 in FY2009. The Group's reported lower losses was attributable mainly to the effect of deconsolidating Sumalindo, better operating performance and lower amount of impairment of assets as compared to previous year.

Net asset value per share also decreased from Rp549 in FY2009 to Rp340 in FY2010. As at 31 December 2010, the Group's total assets stood at Rp1,188 billion.

Looking Ahead

The risk of foreign exchange fluctuation remains high in 2011. Export sales remain slow and soft and it may also be affected by the strengthening of the Rupiah. Nevertheless, the Group believes that the export momentum will continue to improve. We will also continue to focus on domestic and regional markets, where we have competitive advantages.

Chairman's Statement

FY2010 saw greater competition domestically, particularly from the third quarter of 2010. We expect the strong competition to continue for the next twelve months and this will put pressure on the pricing of our products and this may in turn affect our margin. We have started our downstream business, which includes improving the products mix, and will continue to expand in FY2011 as appropriate. We believe that the expansion in downstream will overcome some of these challenges. To further strengthen our position, we have started our upstream business, by planting our tree plantations to support our future logs requirements.

In FY2011, the Group will have a higher amount of bank loan obligations as compared to FY2010 as certain loans are maturing in 2011. In addition, the Group may require additional working capital to implement its strategies to generate more revenue and improve its margin. To overcome these challenges, the Group has started the discussion with lenders to restructure its bank loans so as to conserve cash for its business working capital needs.

Despite the challenges we are facing now, the Group believes that we will be able to overcome the challenges given our competitive strengths. 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. Moreover, we are well-positioned to fully maximise our economies of scale and quality focus. With our large market share and logistical strength, the Group has much more advantages as compared to other competitors to ride out these difficult times.

Overall, the Group believes that as one of the world's largest timber processing companies, Samko will be able to withstand the current economic challenges and emerge from the crisis. We are also determined to continue our journey towards constant improvement and sustainability of our market leadership. We will also continue to fulfill the demands of our customers by providing them with timber products and services of superior quality.

Acknowledgements

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

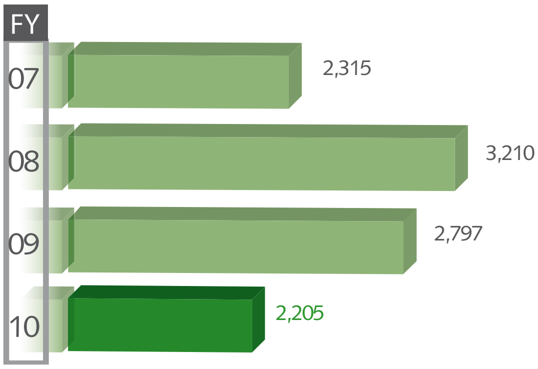
I would also like to express my heartfelt appreciation to our customers, suppliers, and business associates for their unwavering support. Our staff deserves greater appreciation for their deep commitment and invaluable contributions to the Group.

Last but not least, I would like to thank our shareholders for your continued belief in us. Your support in us will serve as a propelling force for Samko Timber to achieve greater success.

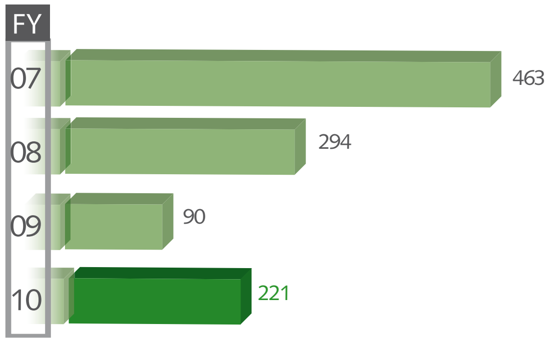
KOH BOON HONG
Chairman

Financial Highlights

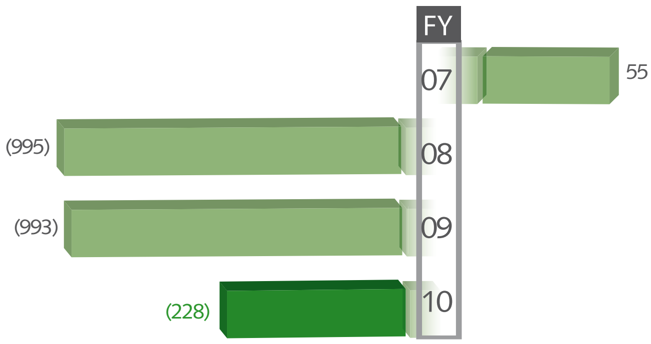
Revenue
Rp 'billion



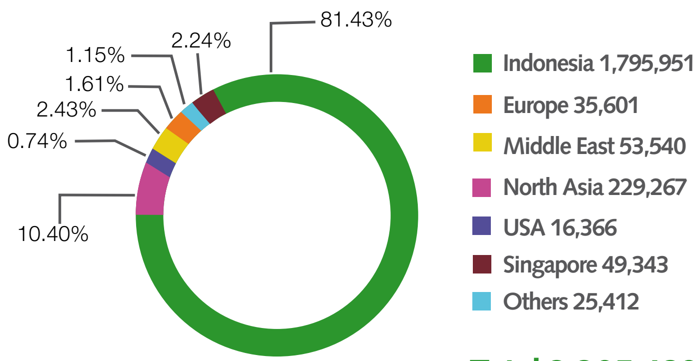
Gross Profit
Rp 'billion



(Loss)/profit After Tax
Rp 'billion



Revenue By Geography (2010)
Rp 'million



Total 2,205,480

Revenue By Product Segment (2010)
Rp 'million

	Primary processed timber products	Secondary processed timber products	Chemical glue	Elimination	Total
Revenue					
Sales to external customers	2,055,529	140,117	9,834	--	2,205,480
Inter-segment sales	108,739	5,868	32,142	(146,749)	--
Total sales	2,164,268	145,985	41,976	(146,749)	2,205,480

We will continue to focus on domestic and regional markets, where we have competitive advantages.

To further enhance our competitiveness in the markets, we have started our downstream business, which includes improving the products mix, and will continue to expand in FY2011 as appropriate.

Creating More
Growth Opportunities

As one of the leading timber processing companies in Indonesia, we have laid strategies and work plans in anticipation of future needs. Besides our current processing and downstream businesses, we also move into upstream business segment to ensure future sustainability of our raw material requirement, especially logs.

We will plant trees at our industrial forest plantations which will ensure availability of logs as well as to participate in fighting the global warming by doing tree planting efforts.

Capturing a greater market share...

Group Revenue

In FY2010, our Group revenue decreased by 21% or Rp592 billion, from Rp2,797 billion in FY2009 to Rp2,205 billion for this year. The decrease was mainly due to the effect of the deconsolidation of Sumalindo.

Although our Group revenue has decreased, our loss incurred was reduced from Rp993 billion in FY2009 to Rp228 billion in FY2010. The improvement was mainly attributed to better operating performance, lower amount of impairment of assets as compared to previous year and also the deconsolidation of Sumalindo.

Performance by Business Segment

In FY2010, sales from primary processed timber products decreased by 22% or Rp604 billion, from Rp2,768 billion in FY2009 to Rp2,164 billion this year. Sales from secondary processed timber products decreased by 10% or Rp16 billion, amounting to Rp146 billion as compared to Rp162 billion as recorded in FY2009. The decrease can be attributed mainly to the deconsolidation of Sumalindo and competition in the domestic market.

Performance by Geographical Market

Domestic sales in FY2010 has decreased by 14% or Rp296 billion to Rp1,843 billion as compared to Rp2,139 billion in FY2009. Export sales decreased by 45% or Rp295 billion to Rp363 billion as compared to Rp658 billion in FY2009.

Following our dilution of interest in Sumalindo on 30 March 2010, the revenue of Sumalindo ceased to be consolidated with our revenue from April 2010. Had we excluded the revenue of Sumalindo entirely for FY2010, our revenue would have been decreased by Rp68 billion or 3% of which, domestic sales contributed Rp56 billion and the remaining balance of Rp12 billion was from our export sales. In FY2010, we faced stronger competition in the domestic market, particularly in the last two quarters of the year. As a result, our annual domestic sales volume dropped 3% albeit a comparable 2009 average selling price.

For the same year ended, our export sales also reported a slight decrease. This was due mainly to different product mix in which the prices of these products were generally lower as compared to that of FY2009 and lower sales volume. However, our export sales volume improved on quarter to quarter basis in FY2010 and during the last quarter, our export sales volume improved by 13% as compared to that of the 3rd quarter of FY2010 and it reported the highest quarterly export sales volume in FY2010.

In terms of geographical segments, Indonesia remained our largest market with sales accounting for 81.4% or Rp1,796 billion of our group sales. North Asia generated Rp229 billion of sales in FY2010. This translated to 10.4% of group sales. Sales to the Middle East contributed about 2.4% or Rp54 billion to overall group sales.

Moving Towards Sustainable Growth

In FY2010, the Group recognised the negative impact of Sumalindo's results on our financial position and performance and has therefore decided to allow the dilution of our interest in Sumalindo, henceforth accounting Sumalindo as our associate company. The Group believes that this would be advantageous for the Group.

Furthermore, to strengthen our growth platform, we are consistently tapping into our broad knowledge and experience about the industry to develop better quality and value-added products.

We will continue to focus on domestic and regional markets, where we have competitive advantages. To further enhance our competitiveness in the markets, we have started our downstream business, which includes improving the products mix, and will continue to expand in FY2011 as appropriate. 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. Moreover, we are well-positioned to fully maximise our economies of scale and quality focus.

As one of the leading timber processing companies in Indonesia, we have laid strategies and work plans in anticipation of future needs. Besides our current processing and downstream businesses, we also move into upstream business segment to ensure future sustainability of our raw material requirement, especially logs. We will plant trees at our industrial forest plantations which will ensure availability of logs as well as to participate in fighting the global warming by doing tree planting efforts.

Creating More Growth Opportunities

We intend to focus on growing our market share in the Indonesian as well as export markets. We believe that our ability to produce various mixes of products, combined with an integral synergy from our upstream to downstream business will enhance our market share and provide us with more growth opportunity.

With a subsidiary 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 undoubtedly open up greater opportunities 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.

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.

CORPORATE GOVERNANCE AND FINANCIAL CONTENTS

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.

During the financial year ended 31 December 2010 ("FY2010"), the Board met four times to review the Company's quarterly and full-year results. Ad-hoc meetings are convened if there are matters requiring the Board's decision at the relevant times. The Company's Articles of Association (the "Articles") allow a board meeting to be conducted by way of a tele-conference.

The number of meetings held during FY2010 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	4	4	N.A	N.A	N.A	N.A	N.A	N.A
Aris Sunarko @ Ko Tji Kim	4	4	N.A	N.A	N.A	N.A	N.A	N.A
Koh Tji Kiong @ Amir Sunarko	4	2	N.A	N.A	N.A	N.A	N.A	N.A
Ali Gunawan Budiman	4	4	N.A	N.A	N.A	N.A	N.A	N.A
Michael Joseph Sampoerna	4	3	N.A	N.A	N.A	N.A	N.A	N.A
Eka Dharmajanto Kasih	4	4	N.A	N.A	N.A	N.A	N.A	N.A
Ng Cher Yan	4	4	4	4	1	1	1	1
Sim Idrus Munandar	4	4	4	4	1	1	1	1
Wee Ewe Lay Laurence John	4	4	4	4	1	1	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

Different individuals assumed the Chairman and CEO roles and the division of responsibilities between the Chairman and CEO has been clearly established:-

(a) To maintain effective supervision and ensure a balance of power and authority; and

(b) 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	

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.

In accordance with the Company's Articles of Association ("Articles"), 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.

During FY2010, the NC had met once to:-

(a) Assess and review the Board size and competency mix;

(b) Assess and evaluate effectiveness of the Board and the Board's performance as a whole;

(c) Assess and review the independence of each Independent Director, including those with multiple directorships in other companies; and

(c) Review and recommend the re-election of Directors retiring pursuant to the Articles and Section 153(6) of the Companies Act, Cap. 50 ("Act").

Accordingly, the NC has recommended to the Board the re-election of three Directors, Messrs Eka Dharmajanto Kasih, Ng Cher Yan and Wee Ewe Lay Laurence John, who are retiring by rotation under the Article 94 at the forthcoming AGM. The three Directors, being eligible, will be offering themselves for re-election. Each member of the NC has abstained from voting on any resolutions in respect of the assessment of his performance or re-election as Director.

The NC has also recommended the re-appointment of Mr Koh Boon Hong, who is over 70 years of age and retiring pursuant to Section 153(6) of the Act, 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, guided by its Terms of Reference, had decided on how the Board's performance is to be evaluated and has developed objective performance criteria, which address how the Board has enhanced long-term shareholders' value. The NC has also implemented a process for assessing the effectiveness of the Board as a whole, as well as the contribution of each Director to the effectiveness of the Board.

The evaluation of the Board's performance is carried out on an annual basis. Each Director assesses the Board's performance as a whole by providing feedback to the NC. When reviewing the Board's performance for FY2010, 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 and took note of the following points:-

(a) feedback received from the Directors and acted on their comments accordingly; and

(b) 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 also evaluated 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.

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.

During FY2010, the RC had met once to review and recommend 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 2011.

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

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, which have been automatically extended. However the renewal of these services agreements for a further three-year or other period will be subject to the RC's review and recommendation to the Board for approval subsequently. None of the non-Executive Directors is on a 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 19 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 has reviewed 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 for FY2010 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	99	–	–	1	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	98	–	2	100
Harry Handojo	Head of Java Operations	<$250,000	91	–	9	100
Wihartono	Group Financial Controller	<$250,000	98	–	2	100
The Victor Diputra	Head of Sulawesi Operations	<$250,000	97	–	3	100
Yusran Mustary	Head of Sumatra Operations	<$250,000	97	–	3	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.

There are no employees who are immediate family members of any of the Directors and/or the CEO whose remuneration exceeded $150,000 for the financial year ended 31 December 2010.

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 ensures 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 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 keeps 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.

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 Singapore Exchange Securities Trading Limited ("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.

The AC met four times during FY2010 to review the audit plan/report, the audit findings, the report on interested person transactions, including the reports on internal audit activities for the year and updates on the findings in relation thereto, and the announcements of the quarterly and full-year results before being approved by the Board for release to the SGX-ST.

As there are no non-audit services provided by the external auditors for the year under review, the AC is of the view that the objectivity and independence of the external auditors in 2010 were not prejudiced. The AC, having reviewed the appointment of different auditors for the Company's subsidiaries, is satisfied that these appointments would not compromise the standard and effectiveness of the audit of the Group. 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 an internal audit team to review the effectiveness of the Group's internal controls, including the adequacy of the Group's internal financial controls, operational and compliance controls. Internal 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 has been 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 Act, the Board has established a policy to inform shareholders promptly of all major developments that may impact materially on the Company and/or the Group.

The Board embraces openness and transparency in the conduct of the Group's affairs, whilst safeguarding the commercial interests of the Group. 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.

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 ("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.

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. Notifications of the 'closed window' periods are sent to all persons concerned.

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 Code.

In addition, the Directors, key officers and employees of the Group are discouraged from dealing in the Company's securities on short-term considerations.

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 subsisting at the end of FY2010 or have been entered into since the end of the previous financial year.

RISK MANAGEMENT

The Group's risk management policies are disclosed in the notes to the financial statement.

Directors' Report

The directors 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 2010.

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

Save as disclosed below, 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.

The following directors subscribed for rights issue of the Company during the financial year:

	Number of shares
Koh Boon Hong	12,750,000
Aris Sunarko @ Ko Tji Kim	31,225,000

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 as stated below:

	Direct interest			Deemed interest		
Name of director	At the beginning of financial year	At the end of financial year	At 21 January 2011	At the beginning of financial year	At the end of financial year	At 21 January 2011
Ordinary shares of the Company						
Koh Boon Hong	–	12,750,000	12,750,000	–	53,626,346	53,626,346
Aris Sunarko @ Ko Tji Kim	8,000,000	39,225,000	29,225,000	367,174,692	482,646,038	492,646,038
Koh Tji Kiong @ Amir Sunarko	–	–	–	367,174,692	482,646,038	482,646,038

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

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 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:

- Reviews the audit plans of the internal and external auditors of the Company, and reviews the internal auditors' evaluation of the adequacy of the Company's system of internal accounting controls and the assistance given by the Company's management to the external and internal auditors

- Reviews the quarterly and annual financial statements and the auditors' report on the annual financial statements of the Company before their submission to the board of directors

- Reviews effectiveness of the Company's material internal controls, including financial, operational and compliance controls and risk management via reviews carried out by the internal auditors

5. **Audit Committee (cont'd)**

- Meets with the external auditors, other committees, and management in separate executive sessions to discuss any matters that these groups believe should be discussed privately with the AC
- Reviews 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
- Reviews the cost effectiveness and the independence and objectivity of the external auditors
- Reviews the nature and extent of non-audit services provided by the external auditors
- Recommends to the board of directors the external auditors to be nominated, approves the compensation of the external auditors, and reviews the scope and results of the audit
- Reports actions and minutes of the AC to the board of directors with such recommendations as the AC considers appropriate
- Reviews interested person transactions in accordance with the requirements of the Singapore Exchange Securities Trading Limited's Listing Manual

The AC, having reviewed all non-audit services provided by the external auditors to the Group, is satisfied that the nature and extent of such services would not affect the independence of the external auditors. The AC has also conducted a review of interested person transactions.

The AC convened four 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	Ali Gunawan Budiman
Director	Director

28 March 2011

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 balance sheets, consolidated income statement, consolidated statement of comprehensive income, statements of changes in equity, and consolidated cash flow statement 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 2010 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

28 March 2011

Independent Auditors' Report

To the Members of Samko Timber Limited

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Samko Timber Limited, (the "Company") and its subsidiaries (collectively, the "Group") set out on pages 31 to 103 which comprise the balance sheets of the Group and the Company as at 31 December 2010, the statements of changes in equity of the Group and the Company and the consolidated income statement, consolidated statement of comprehensive income and consolidated statement of cash flows of the Group for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

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

Independent Auditors' Report

To the Members of Samko Timber Limited

Emphasis of Matter

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

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

Report on other legal and regulatory requirements

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

Ernst & Young LLP
Public Accountants and
Certified Public Accountants
Singapore

28 March 2011

Consolidated Income Statement

For the financial year ended 31 December 2010

	Notes	Group 2010 Rp'million	Group 2009 Rp'million
Revenue	4	2,205,480	2,796,975
Cost of sales		(1,984,805)	(2,706,563)
Gross profit		220,675	90,412
Other items of income			
Finance income	5	1,765	3,095
Other income	6	70,772	279,957
Other items of expenses			
Selling expenses		(88,137)	(131,825)
General and administrative expenses		(138,137)	(193,358)
Finance expenses	7	(58,897)	(173,339)
Other expenses	8	(85,943)	(680,492)
Share of result of an associate	31	(140,610)	–
Loss before tax	9	(218,512)	(805,550)
Income tax expense	10	(9,513)	(187,871)
Net loss for the year		(228,025)	(993,421)
Attributable to:			
Equity holders of the Company		(224,980)	(824,786)
Non-controlling interests		(3,045)	(168,635)
		(228,025)	(993,421)
Loss per share (in Rupiah)			
Basic	11	(171)	(854)
Diluted	11	(171)	(854)

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

Consolidated
Statement of Comprehensive Income

For the financial year ended 31 December 2010

	Notes	Group	
		2010	**2009**
		Rp'million	Rp'million
Net loss for the year		(228,025)	(993,421)
Other comprehensive income		–	–
Total comprehensive income for the year - loss		(228,025)	(993,421)
Attributable to:			
Equity holders of the Company		(224,980)	(824,786)
Non-controlling interests		(3,045)	(168,635)
		(228,025)	(993,421)

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

Consolidated Balance Sheet

As at 31 December 2010

	Notes	Group 2010 Rp'million	Group 2009 Rp'million	Company 2010 Rp'million	Company 2009 Rp'million
Non-current assets					
Property, plant and equipment	12	649,418	1,843,458	517	928
Intangible assets	13	–	47,946	–	–
Goodwill	14	–	194,971	–	–
Investment in subsidiaries	30	–	–	587,234	1,356
Investment in an associate	31	–	–	–	–
Biological assets	15	2,450	216,714	–	–
Land use rights	16	62,682	93,465	–	–
Deferred tax assets	17	5,476	16,940	–	–
Other non-current assets	18	14,419	61,603	188	188
		734,445	2,475,097	587,939	2,472
Current assets					
Inventories	19	167,910	395,497	–	933
Trade and other receivables	20	72,005	263,681	61,070	631,588
Prepaid operating expenses		27,453	74,270	107	1,389
Advances to suppliers		90,301	113,359	–	–
Cash and cash equivalents	21	74,945	110,868	23,852	3,605
Restricted deposits	22	20,499	115,462	–	94,946
		453,113	1,073,137	85,029	732,461
Current liabilities					
Trade and other payables	23	166,742	419,394	27	96,753
Other liabilities	24	56,630	210,854	2,221	4,686
Advances from customers		64,535	190,589	–	–
Income tax payable		12,398	28,133	–	–
Short term bank borrowings	25	23,284	334,308	–	47,000
Loans and borrowings (current portion)	26	158,276	597,701	–	93,637
		481,865	1,780,979	2,248	242,076
Net current (liabilities)/ assets		(28,752)	(707,842)	82,781	490,385

Balance Sheet (cont'd)

As at 31 December 2010

	Notes	Group 2010 Rp'million	Group 2009 Rp'million	Company 2010 Rp'million	Company 2009 Rp'million
Non-current liabilities					
Loans and borrowings	26	185,008	827,698	–	–
Post-employment benefits	27	53,116	65,972	–	–
Deferred tax liabilities	17	6,318	68,284	–	–
Other liabilities	26	–	202,860	–	–
		244,442	1,164,814	–	–
Net assets		461,251	602,441	670,720	492,857
Equity attributable to equity holders of the Company					
Share capital	28	2,134,271	1,943,866	2,134,271	1,943,866
Accumulated losses		(1,985,162)	(1,760,182)	(1,463,551)	(1,451,009)
Restructuring reserves	29	309,050	309,050	–	–
		458,159	492,734	670,720	492,857
Non-controlling interests		3,092	109,707	–	–
		461,251	602,441	670,720	492,857

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

Consolidated
Statement of Changes in Equity

For the financial year ended 31 December 2010

Group

	Attributable to equity holders of the Company				Non-controlling interests	Total equity
	Share capital (Note 28)	Restructuring reserves (Note 29)	Accumulated losses	Equity attributable to equity holders of the Company, total		
	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million
Balance at 1 January 2010	1,943,866	309,050	(1,760,182)	492,734	109,707	602,441
Issuance of ordinary shares, net	190,405	–	–	190,405	–	190,405
Total comprehensive income for the year - loss	–	–	(224,980)	(224,980)	(3,045)	(228,025)
Effect of deconsolidation of a subsidiary	–	–	–	–	(103,570)	(103,570)
Balance at 31 December 2010	2,134,271	309,050	(1,985,162)	458,159	3,092	461,251
Balance at 1 January 2009	1,943,866	309,050	(935,396)	1,317,520	279,908	1,597,428
Total comprehensive income for the year - loss	–	–	(824,786)	(824,786)	(168,635)	(993,421)
Disposal of a subsidiary	–	–	–	–	(1,566)	(1,566)
Balance at 31 December 2009	1,943,866	309,050	(1,760,182)	492,734	109,707	602,441

Company

	Attributable to equity holders of the Company		
	Share capital (Note 28)	Accumulated losses	Total equity
	Rp'million	Rp'million	Rp'million
Balance at 1 January 2010	1,943,866	(1,451,009)	492,857
Issuance of ordinary shares, net	190,405	–	190,405
Total comprehensive income for the year - loss	–	(12,542)	(12,542)
Balance at 31 December 2010	2,134,271	(1,463,551)	670,720
Balance at 1 January 2009	1,943,866	(764,112)	1,179,754
Total comprehensive income for the year - loss	–	(686,897)	(686,897)
Balance at 31 December 2009	1,943,866	(1,451,009)	492,857

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

Consolidated Cash Flow Statement

For the financial year ended 31 December 2010

	Notes	2010 Rp'million	2009 Rp'million
Operating activities			
Loss before tax		(218,512)	(805,550)
Adjustments for:			
Share of result of an associate	31	140,610	–
Depreciation of property, plant and equipment	12	132,557	240,715
Interest expense	7	58,897	173,339
Impairment loss on property, plant and equipment	12	39,210	200,915
Inventories written-off due to fire incident	8	18,720	–
Post employment benefits expense	27	17,897	19,338
Inventories written-down	8	6,804	13,065
Amortisation of land use rights	16	4,940	8,302
Property, plant and equipment written-off due to fire incident	8	2,961	–
Amortisation of intangible assets	13	456	1,636
Allowance for bad debts	8	414	467
Gain on disposal of property, plant and equipment	6	(97)	(8,567)
Gain on sales of land use rights	6	(704)	(9,406)
Gain on changes in fair value of biological assets	15	(5,503)	(1,919)
Interest income	5	(1,765)	(3,095)
Foreign exchange gain		(48,838)	(221,807)
Impairment of goodwill	14	–	425,021
Amortisation of deferred losses on sales and lease back		–	3,452
Gain on disposal of a subsidiary		–	(4,853)
Operating cash flow before changes in working capital		148,047	31,053
Changes in working capital			
Inventories		(27,951)	130,736
Trade and other receivables		36,160	60,605
Prepaid operating expenses		34,798	(27,402)
Advances to suppliers		(10,807)	43,764
Trade and other payables		26,635	(17,658)
Other liabilities		(24,393)	39,529
Advances from customers		(6,969)	9,940
Other non-current assets		(15,122)	9,866
Cash flow from operating activities		160,398	280,433
Income taxes paid		(14,814)	(11,804)
Net cash flows from operating activities		145,584	268,629

Consolidated
Cash Flow Statement (cont'd)

For the financial year ended 31 December 2010

	Notes	2010 Rp'million	2009 Rp'million
Investing activities			
Proceeds from disposal of property, plant and equipment		2,486	23,713
Interest received		1,765	3,095
Proceeds from disposal of land use rights		789	9,565
Additions of biological assets	15	(753)	(3,261)
Additions of intangible assets	13	(1,072)	(7,842)
Additions to land use rights	16	(1,768)	(301)
Subscription of associate company's rights issue	30	(12,814)	–
Net cash outflows arising from the dilution of a subsidiary	30	(17,037)	–
Purchase of property, plant, and equipment		(33,463)	(89,243)
Disposal of a subsidiary, net of cash disposed	30	–	7,198
Net cash flows used in investing activities		(61,867)	(57,076)
Financing activities			
Proceeds from issuance of ordinary shares	28	190,405	–
Drawdown of short term bank borrowings		140,949	–
Repayment of short term bank borrowings		(192,085)	(59,897)
Repayment of loans and borrowings		(210,704)	(80,313)
Interest expense paid		(47,855)	(104,149)
Withdrawal of restricted deposits		94,744	–
Repayment of short term borrowing from a company related to a substantial shareholder		(94,744)	–
Placement of restricted deposits		(350)	(12,055)
Net cash flows used in financing activities		(119,640)	(256,414)
Net decrease in cash and cash equivalents		(35,923)	(44,861)
Cash and cash equivalents at 1 January	21	110,868	155,729
Cash and cash equivalents at 31 December	21	74,945	110,868

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

1. Corporate information

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 management, and trading. The principal activities of the subsidiaries are disclosed in Note 30 to the financial statement.

2. Summary of significant accounting policies

2.1 Going Concern

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

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

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

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

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

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

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

2.1 Going Concern (cont'd)

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

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

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.

2.3 Change in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Group has adopted all the new and revised standards and Interpretations of FRS (INT FRS) that are effective for annual periods beginning on or after 1 January 2010. The adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group and the Company except as disclosed below:

FRS 103 Business Combinations (revised) and FRS 27 Consolidated and Separate Financial Statements (revised)

The revised FRS 103 Business Combinations and FRS 27 Consolidated and Separate Financial Statements are applicable for annual periods beginning on or after 1 July 2009. As of 1 January 2010, the Group adopted both revised standards at the same time in accordance with their transitional provisions.

FRS 103 Business Combinations (revised)

The revised FRS 103 introduces a number of changes to the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. Changes in significant accounting policies resulting from the adoption of the revised FRS 103 include:

- Transaction costs would no longer be capitalised as part of the cost of acquisition but will be expensed immediately;

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

2.3 Change in accounting policies (cont'd)

FRS 103 Business Combinations (revised) (cont'd)

– Consideration contingent on future events are recognised at fair value on the acquisition date and any changes in the amount of consideration to be paid will no longer be adjusted against goodwill but recognised in profit or loss;

– The Group elects for each acquisition of a business, to measure non-controlling interest at fair value, or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets, and this impacts the amount of goodwill recognised; and

– When a business is acquired in stages, the previously held equity interests in the acquiree is remeasured to fair value at the acquisition date with any corresponding gain or loss recognised in profit or loss, and this impacts the amount of goodwill recognised.

– According to its transitional provisions, the revised FRS 103 has been applied prospectively. Assets and liabilities that arose from business combinations whose acquisition dates are before 1 January 2010 are not adjusted.

FRS 27 Consolidated and Separate Financial Statements (revised)

Changes in significant accounting policies resulting from the adoption of the revised FRS 27 include:

– A change in the ownership interest of a subsidiary that does not result in a loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss recognised in profit or loss;

– Losses incurred by a subsidiary are allocated to the non-controlling interest even if the losses exceed the non-controlling interest in the subsidiary's equity; and

– When control over a subsidiary is lost, any interest retained is measured at fair value with the corresponding gain or loss recognised in profit or loss.

According to its transitional provisions, the revised FRS 27 has been applied prospectively, and does not impact the Group's consolidated financial statements in respect of transactions with non-controlling interests, attribution of losses to non-controlling interests and disposal of subsidiaries before 1 January 2010. The changes will affect future transactions with non-controlling interests.

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*
Amendment to FRS 32 *Financial Instruments: Presentation - Classification of Rights Issues*	1 February 2010
INT FRS 119 *Extinguishing Financial Liabilities with Equity Instruments*	1 July 2010
Revised FRS 24 *Related Party Disclosures*	1 January 2011
Amendments to INT FRS 114 *Prepayments of a Minimum Funding Requirement*	1 January 2011
INT FRS 115 *Agreements for the Construction of Real Estate*	1 January 2011
Amendment to FRS 107 *Disclosure – Transfer of Financial Assets*	1 July 2011
Amendment to FRS 12 *Deferred tax – Recovery of Underlying Assets*	1 January 2012

Except for the revised FRS 24, 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 24 is described below.

Revised FRS 24 Related Party Disclosures

The revised FRS 24 clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised FRS 24 expands the definition of a related party and would treat two entities as related to each other whenever a person (or a close member of that person's family) or a third party has control or joint control over the entity, or has significant influence over the entity. The revised standard also introduces a partial exemption of disclosure requirements for government-related entities. The Group is currently determining the impact of the changes to the definition of a related party has on the disclosure of related party transaction. As this is a disclosure standard, it will have no impact on the financial position or financial performance of the Group when implemented in 2011.

2.5 Basis of consolidation

Business combinations from 1 January 2010

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the end of the reporting period. 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.

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.

Business combinations are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

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

2.5 Basis of consolidation (cont'd)

Business combinations from 1 January 2010 (cont'd)

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with FRS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it is not be remeasured until it is finally settled within equity.

In business combinations achieved in stages, previously held equity interests in the acquiree are remeasured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any) is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree identifiable net assets.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill. The accounting policy for goodwill is set out in Note 2.9(a). In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in profit or loss on the acquisition date.

Business combinations before 1 January 2010

In comparison to the above mentioned requirements, the following differences applied:

Business combinations are accounted for by applying the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Adjustments to those fair values relating to previously held interests are treated as a revaluation and recognised in equity.

When the Group acquired 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.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent measurements to the contingent consideration affected goodwill.

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

2.6 Transactions with non-controlling interests

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company, and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated balance sheet, separately from equity attributable to owners of the Company.

Changes in the Company owners' ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the parent.

2.7 Foreign currency

(a) ***Transactions and balances***

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 end of the reporting period. 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 differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting period 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.

(b) ***Group companies***

The assets and liabilities of foreign operations are translated into Indonesia Rupiah at the rate of exchange ruling at the end of the reporting period and their profit or loss are translated at the exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

In the case of a partial disposal without loss of control of a subsidiary that includes a foreign operation, the proportionate share of the cumulative amount of the exchange differences are re-attributed to non-controlling interest and are not recognised in profit or loss. For partial disposals of associates or jointly controlled entities that are foreign operations, the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

The Group has elected to recycle the accumulated exchange differences in the separate component of other comprehensive income that arises from the direct method of consolidation, which is the method the Group uses to complete its consolidation.

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

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 reporting period.

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.

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

2.8 Property, plant and equipment (cont'd)

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 residual values, useful life and depreciation method are reviewed at each financial year end, and adjusted prospectively, if appropriate.

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 is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units.

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. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in 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.

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

2.9 Intangible assets (cont'd)

(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.

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. Summary of significant accounting policies (cont'd)

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.

2.13 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. An 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 carried 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 and is neither amortised nor tested individually for impairment. 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.

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

2.14 Associates (cont'd)

The profit or loss reflects the share of the results of operations of the associates. Where there has been a change recognised in other comprehensive income by the associates, the Group recognises its share of such changes in other comprehensive income. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associates.

The Group's share of the profit or loss of its associates is shown on the face of profit or loss after tax and non-controlling interests in the subsidiaries of associates.

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 the end of each reporting period 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 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

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.

Upon loss of significant influence over the associate, the Group measures any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the aggregate of the retained investment and proceeds from disposal is recognised in profit or loss.

2.15 Financial assets

Initial recognition and measurement

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. The Group determines the classification of its financial assets at initial recognition.

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.

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

2.15 Financial assets (cont'd)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

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

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by FRS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

The Group has not designated any financial assets upon initial recognition at fair value through profit or loss.

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.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

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

Non-derivative 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, less impairment. 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***

Non-derivative 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, less impairment. Gains and losses are recognised in profit or loss when the held-to-maturity investments are derecognised or impaired, and through the amortisation process.

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

2.15 Financial assets (cont'd)

Subsequent measurement (cont'd)

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

Available-for-sale financial assets include equity and debt securities. Equity investments classified as available-for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial assets are subsequently 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.

Derecognition

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.

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.

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

2.16 Impairment of financial assets

The Group assesses at each end of the reporting period whether there is any objective evidence that a financial asset is impaired.

(a) ***Financial assets carried at amortised cost***

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has 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. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in 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 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) ***Financial 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.

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

2.16 Impairment of financial assets (cont'd)

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

In the case of equity investments classified as available-for-sale, objective evidence of impairment include (i) significant financial difficulty of the issuer or obligor, (ii) information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in equity instrument may not be recovered; and (iii) a significant or prolonged decline in the fair value of the investment below its costs. Significant is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its acquisition cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from other comprehensive income and recognised in profit or loss. Reversals of impairment losses in respect of equity instruments are not recognised in profit or loss; increase in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increases can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed in profit or loss.

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.

Where necessary, allowance is provided for damaged, obsolete and slow moving items to adjust the carrying value of inventories to the lower of cost and net realisable value.

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. Summary of significant accounting policies (cont'd)

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 the end of each reporting period 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*

Initial recognition and measurement

Financial liabilities are recognised on the balance sheet when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial liabilities at initial recognition.

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

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Subsequent to initial recognition, financial liabilities 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 liabilities are recognised in profit or loss.

The Group has not designated any financial liabilities upon initial recognition at fair value through profit or loss.

Other financial liabilities

After initial recognition, other financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

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

2.20 Financial liabilities (cont'd)

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. 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 profit or loss.

2.21 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.

Financial guarantees are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, financial guarantees are recognised as income in profit or loss over the period of the guarantee. If it is probable that the liability will be higher than the amount initially recognised less amortisation, the liability is recorded at the higher amount with the difference charged to profit or loss.

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

2.22 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. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

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

2.24 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.

2.25 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.

2.26 Income taxes

(a) ***Current income tax***

Currents income 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 end of the reporting period, in the countries where the Group operates and generates taxable income.

Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

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

2.26 Income taxes (cont'd)

(b) ***Deferred tax***

Deferred tax is provided using the liability method on temporary differences at the end of the reporting period 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 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 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 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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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 the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of each reporting period.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

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

2.26 Income taxes (cont'd)

(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.

2.27 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.

2.28 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.

2.29 Contingencies

A contingent liability is:

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or

(b) a present obligation that arises from past events but is not recognised because:

(i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(ii) The amount of the obligation cannot be measured with sufficient reliability.

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

2.29 Contingencies (cont'd)

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

Contingent liabilities and assets are not recognised on the balance sheet of the Group, except for contingent liabilities assumed in a business combination that are present obligations and which the fair values can be reliably determined.

2.30 Related parties

A party is considered to be related to the Group if:

(a) The party, directly or indirectly through one or more intermediaries,

- (i) controls, is controlled by, or is under common control with, the Group;
- (ii) has an interest in the Group that gives it significant influence over the Group; or
- (iii) has joint control over the Group;

(b) The party is an associate;

(c) The party is a jointly-controlled entity;

(d) The party is a member of the key management personnel of the Group or its parent;

(e) The party is a close member of the family of any individual referred to in (a) or (d); or

(f) The party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) The party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party 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 end of each reporting period. 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 periods.

3.1 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 have the most significant effect on the amounts recognised in the financial statements:

(a) ***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 2010 was Rp12,398 million (2009: Rp28,133 million) and Rp6,318 million (2009: Rp68,284 million), respectively.

(b) ***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 2010 was Rp5,476 million (2009: Rp16,940 million).

(c) ***Determination of functional currency***

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. In determining the functional currencies of the entities in the Group, judgment is required to determine the currency that mainly influences sales prices for goods and services and of the country whose competitive forces and regulations mainly determines the sales prices of its goods and services. The functional currencies of the entities in the Group are determined based on management's assessment of the economic environment in which the entities operate and the entities' process of determining sales prices.

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

3.2 Key sources of estimation uncertainty (cont'd)

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period, 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.

(a) ***Useful lives of property, plant and equipment***

The cost of property, plant and equipment are depreciated on a straight-line method over the estimated economic useful lives. Management 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 developments could impact the economic useful lives 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 2010 was Rp649,418 million (2009: Rp1,843,458 million).

(b) ***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.

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

The Group assesses at the end of each reporting period 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 end of the reporting period is disclosed in Note 20 to the financial statements.

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

3.2 Key sources of estimation uncertainty (cont'd)

(d) ***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 2010 amounted to Rp53,116 million (2009: Rp65,972 million).

4. Revenue

	Group	
	2010	**2009**
	Rp'million	Rp'million
Domestic sales	1,842,756	2,139,215
Export sales	362,724	657,760
	2,205,480	2,796,975

5. Finance income

	Group	
	2010	**2009**
	Rp'million	Rp'million
Interest income from:		
Fixed deposit	1,118	2,112
Current account	647	983
	1,765	3,095

6. Other income

	Group	
	2010	**2009**
	Rp'million	Rp'million
Foreign exchange gain, net	43,025	255,212
Insurance claim	21,443	–
Gain on changes in fair value of biological assets	5,503	1,919
Gain on sales of land use rights	704	9,406
Gain on disposal of property, plant and equipment	97	8,567
Gain on disposal of a subsidiary	–	4,853
	70,772	279,957

7. Finance expenses

	Group	
	2010	**2009**
	Rp'million	Rp'million
Interest expense on:		
Bank borrowings	55,826	156,952
Finance lease	921	14,818
Others	2,150	1,569
	58,897	173,339

8. Other expenses

	Group	
	2010	**2009**
	Rp'million	Rp'million
Impairment loss on property, plant and equipment	39,210	200,915
Inventories written-off due to fire incident	18,720	–
Tax penalties	8,733	13,144
Inventories written-down	6,804	13,065
Amortisation of land use rights	4,940	8,302
Property, plant and equipment written-off due to fire incident	2,961	–
Retrenchment expenses	1,459	4,247
Allowance for bad debts	414	467
Impairment of goodwill	–	425,021
Expenses associated to idle non-current assets	–	9,417
Amortisation of deferred losses on sales and lease back	–	3,452
Others	2,702	2,462
	85,943	680,492

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	
	2010	**2009**
	Rp'million	Rp'million
Factory overhead	(521,176)	(854,485)
Salaries and employees' benefits	(404,924)	(461,504)
Depreciation of property, plant and equipment	(132,557)	(240,715)
Transportation charges	(75,115)	(106,347)
Non-audit fees paid and payable to the auditor of the Company	–	(92)

10. Income tax expense

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

The major components of income tax expense for the years ended 31 December 2010 and 2009 are:

	Group	
	2010	**2009**
	Rp'million	Rp'million
Current income tax:		
Current income tax	9,647	6,055
Under provision in respect of previous years	682	11,403
	10,329	17,458
Deffered income tax:		
Deferred income tax	(816)	170,988
Effect of reduction in tax rate	–	(575)
	(816)	170,413
Income tax expense recognised in profit or loss	9,513	187,871

10. Income tax expense (cont'd)

(b) ***Relationship between tax expense and accounting loss (cont'd)***

The reconciliation between tax expense and the product of accounting loss multiplied by the applicable corporate tax rate for the years ended 31 December 2010 and 2009 are as follows:

	Group	
	2010	**2009**
	Rp'million	Rp'million
Loss before tax	(218,512)	(805,550)
Tax at domestic rates applicable in the countries where the Group operates	(53,610)	(222,480)
Income not subject to taxation	(409)	(667)
Non-deductible expenses	42,819	190,987
Deferred tax assets not recognised	19,433	65,821
Unrecoverable deferred tax assets	725	156,606
Effect of reduction in tax rate	–	(13,472)
Under provision in respect of previous year	682	11,403
Others	(127)	(327)
Income tax expense recognised in profit or loss	9,513	187,871

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

As of 31 December 2010, the Group has tax losses of approximately Rp611,517 million (2009: Rp984,738 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.

11. Loss per share

Basic loss per share is calculated by dividing net loss attributable to shareholders by the weighted average number of ordinary shares outstanding during the financial year.

Basic loss per share for the years ended 31 December 2010 and 2009 were computed based on the weighted average number of shares after adjusting for the effect of Company's rights issue completed in January 2010 (Note 28).

Diluted loss per share is calculated by dividing net loss attributable to shareholders by the weighted average number of ordinary shares outstanding during the financial year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

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

	Group	
	2010	**2009**
	Rp'million	Rp'million
Loss attributable to owners of the Company used in computation of earnings per share	(224,980)	(824,786)
	Number of shares	**Number of shares**
Weighted average number of ordinary shares used for basic and dilluted earnings per share computation	1,318,445,197	965,399,597

12. Property, plant and equipment

Group

						Construction in Progress		Leased Assets			
	Buildings and improve-ments	Machinery & heavy equipment	Electrical installations	Vehicles	Furniture, fixtures & equipment	Buildings	Machinery	Machinery & heavy equipment	Vehicles	Provision for impairment	Total
	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million
Cost											
At 1 January 2010	628,534	1,851,165	25,829	34,892	50,850	25,491	117,480	350,684	5,876	–	3,090,801
Additions	530	12,321	23	1,071	3,336	9,798	12,738	–	599	–	40,416
Disposals	(3,362)	(16,235)	–	–	(600)	(451)	(18)	–	–	–	(20,666)
Reclassifications	15,480	43,374	1,162	2,705	230	(3,430)	(41,033)	(18,663)	(3,851)	–	(4,026)
Effect of deconsolidation of a subsidiary (Note 30)	(376,808)	(645,019)	–	(6,057)	(5,258)	(28,687)	(51,592)	(275,060)	(526)	–	(1,389,007)
At 31 December 2010	264,374	1,245,606	27,014	32,611	48,558	2,721	37,575	56,961	2,098	–	1,717,518
Accumulated depreciation											
At 1 January 2010	115,201	687,152	10,067	24,763	20,405	–	–	121,890	1,762	266,103	1,247,343
Additions	19,220	73,641	2,878	2,795	11,830	–	–	21,409	784	39,210	171,767
Disposals	(1,016)	(13,713)	–	–	(587)	–	–	–	–	–	(15,316)
Reclassifications	–	3,424	–	248	–	–	–	(6,227)	(1,471)	–	(4,026)
Effect of deconsolidation of a subsidiary (Note 30)	(48,959)	(116,664)	–	(3,377)	–	–	–	(106,444)	(427)	(55,797)	(331,668)
At 31 December 2010	84,446	633,840	12,945	24,429	31,648	–	–	30,628	648	249,516	1,068,100
Net carrying amount											
At 31 December 2010	179,928	611,766	14,069	8,182	16,910	2,721	37,575	26,333	1,450	(249,516)	649,418

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

Group (cont'd)

	Buildings and improvements	Machinery & heavy equipment	Electrical installations	Vehicles	Furniture, fixtures & equipment	Construction in Progress: Buildings	Construction in Progress: Machinery	Leased Assets: Machinery & heavy equipment	Leased Assets: Vehicles	Provision for impairment	Total
	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	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	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)	–	(2,000)	–	–	(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	65,188	896,054
Depreciation charge for the year	29,940	141,866	2,721	4,056	7,156	–	–	54,138	838	200,915	441,630
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	266,103	1,247,343
Net carrying amount											
At 31 December 2009	513,333	1,164,013	15,762	10,129	30,445	25,491	117,480	228,794	4,114	(266,103)	1,843,458

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

Company

	Furniture, fixtures & equipment Rp'million	Electrical installations Rp'million	Total Rp'million
2010			
Cost			
At 1 January 2010	1,527	119	1,646
Additions	–	–	–
At 31 December 2010	1,527	119	1,646
Accumulated depreciation			
At 1 January 2010	665	53	718
Depreciation charge for the year	382	29	411
At 31 December 2010	1,047	82	1,129
Net carrying amount			
At 31 December 2010	480	37	517
2009			
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 for 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

Buildings & improvements, machinery & heavy equipment with aggregate net book value of Rp335,402 million in 2010 (2009: Rp1,113,116 million) are pledged as collateral for interest bearing loans (Note 26).

As at 31 December 2010, the Group has idle machinery & heavy equipment with a net carrying amount of Rp144,242 million (2009: Rp139,972 million). An impairment provision of Rp144,242 million in 2010 (2009: Rp112,087 million), 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 consolidated statement of comprehensive income.

13. Intangible assets

	Group	
	2010	**2009**
	Rp'million	Rp'million
Cost:		
At 1 January	51,679	43,888
Additions during the year	1,072	7,842
Disposals of a subsidiary (Note 30)	–	(51)
At 31 December	52,751	51,679
Accumulated amortisation:		
At 1 January	3,733	2,097
Current year charge	456	1,636
At 31 December	4,189	3,733
	48,562	47,946
Effect of deconsolidation of a subsidiary (Note 30)	(48,562)	–
Net carrying amount	–	47,946

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. 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 (Sumalindo), PT Essam Timber (Essam) and PT Wana Kaltim Lestari (WKL). The carrying amount of goodwill is:

	Group	
	2010	**2009**
	Rp'million	Rp'million
Cost:		
At 1 January	959,449	959,449
Addition during the year	–	–
At 31 December	959,449	959,449
Less: impairment		
At 1 January	764,478	339,457
Addition during the year	–	425,021
At 31 December	764,478	764,478
	194,971	194,971
Effect of deconsolidation of a subsidiary (Note 30)	(194,971)	–
Net carrying amount	–	194,971

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

	Group	
	2010	**2009**
	Rp'million	Rp'million
Forest concession rights and manufacturing plants of Sumalindo	835,837	835,837
Forest concession rights of Essam	118,737	118,737
Forest plantation of WKL	4,750	4,750
Forest plantation of AHL	125	125
Sub total	959,449	959,449
Less : impairment	(764,478)	(764,478)
	194,971	194,971
Effect of deconsolidation of a subsidiary (Note 30)	(194,971)	–
	–	194,971

14. Goodwill (cont'd)

The recoverable amounts of the previous year's goodwill had 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.

The calculations of value in use for the year ended 31 December 2009 was most sensitive to the following assumptions:

Budgeted gross margins – Gross margins of Sumalindo and Essam, are mainly based on sustainable average margin in the last five years for Sumalindo preceding the start of the budget period. As Essam has insignificant prior years' sales, management has reviewed and adopted similar margin with Sumalindo. These are increased over the budget period for anticipated efficiency improvements. The budgeted gross margin determined for the purpose of value in use calculation was 14%.

Growth rates – The growth rate of Sumalindo is determined based on the sustainable growth rate of 11% 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% 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.

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 RN Adnan 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	
	2010	**2009**
	Rp'million	Rp'million
At fair value		
At 1 January	216,714	403,219
Addition during the year	753	3,261
Deduction from disposals of a subsidiary	–	(191,685)
Gain on changes in fair value	5,503	1,919
	222,970	216,714
Effect of deconsolidation of a subsidiary (Note 30)	(220,520)	–
At 31 December	2,450	216,714

16. Land use rights

	Group	
	2010	**2009**
	Rp'million	Rp'million
Cost:		
At 1 January	139,490	140,507
Additions	1,768	301
Disposals	(85)	(1,318)
At 31 December	141,173	139,490
Accumulated amortisation:		
At 1 January	46,025	38,882
Amortisation	4,940	8,302
Disposals	–	(1,159)
At 31 December	50,965	46,025
	90,208	93,465
Effect of deconsolidation of a subsidiary (Note 30)	(27,526)	–
Net carrying amount	62,682	93,465

17. Deferred tax

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

	Group	
	2010	**2009**
	Rp'million	Rp'million
Deferred tax assets		
Temporary difference on employees' benefits obligation	9,233	3,659
Unutilised tax losses	2,259	9,710
Temporary difference on amortisation of land use rights	3,390	2,290
Allowance for inventory obsolescence	97	28
Temporary difference between accounting and tax base accumulated depreciation	(4,179)	2,790
Temporary difference on accounting and tax treatment of finance lease	(5,324)	(5,443)
Allowance for doubtful accounts	–	3,849
Others	–	57
Total deferred tax assets, net	5,476	16,940
Deferred tax liabilities		
Temporary difference between accounting and tax base accumulated depreciation	5,065	57,681
Temporary difference on accounting and tax treatment of finance lease	2,524	(3,256)
Temporary difference on amortisation of land use rights	(206)	(1,744)
Sales and lease back	(212)	(212)
Temporary difference on employees' benefits obligation	(853)	(13,776)
Effect of change in value of biological assets	–	35,258
Effect of fair value on net asset of subsidiary acquired by the Group	–	11,478
Effect of discounting of loans	–	33
Allowance for doubtful accounts	–	(10,608)
Unutilised tax losses	–	(6,361)
Allowance for inventory obsolescence	–	(209)
Total deferred tax liabilities, net	6,318	68,284

Unrecognised tax losses

At the end of the reporting period, the Group has tax losses of approximately Rp602,480 million (2009: Rp920,454 million) that are available for offset against future taxable profits of the companies in which the losses arose, for which no deferred tax asset is recognised due to uncertainty of its recoverability. The use of these tax losses is subject to the agreement of the tax authorities and compliance with certain provisions of the tax legislation of the respective countries in which the companies operate.

18. Other non-current assets

	Group	
	2010	**2009**
	Rp'million	Rp'million
Tax recoverable	4,838	51,355
Advances for purchase of property, plant and equipment	2,195	1,947
Guarantee deposits - net	722	871
Others	6,664	7,430
	14,419	61,603

19. Inventories

	Group	
	2010	**2009**
	Rp'million	Rp'million
Balance sheet:		
Raw materials	32,087	84,265
Work in progress	35,853	39,159
Finished goods	40,692	122,240
Indirect materials and spare parts	51,246	127,521
Materials in transit	8,032	22,312
	167,910	395,497
Income statement:		
Inventories recognised as an expense in cost of sales	1,126,353	1,483,251
Inventories written-down in other expense	6,804	13,065
Inventories written-off in other expense	18,720	–

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

20. Trade and other receivables

	Group		Company	
	2010	**2009**	**2010**	**2009**
	Rp'million	Rp'million	Rp'million	Rp'million
Trade receivables				
- Third parties	50,404	124,355	–	674
- Related parties	12,750	12,750	–	–
- Subsidiary companies	–	–	2,322	–
Other receivables				
- Third parties	8,851	126,321	–	410
- Related parties	–	255	243	254
- Subsidiary companies	–	–	58,505	630,250
Total trade and other receivables	72,005	263,681	61,070	631,588
Add:				
- Cash and cash equivalents (Note 21)	74,945	110,868	23,852	3,605
- Restricted deposits (Note 22)	20,499	115,462	–	94,946
- Tax recoverable (Note 18)	4,838	51,355	–	–
- Guarantee deposits - net (Note 18)	722	871	188	188
Total loans and receivables	173,009	542,237	85,110	730,327

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).

Other receivables from related parties and subsidiary companies are unsecured, interest free and is repayable on demand.

At the end of the reporting period, trade receivables arising from export sales amounting to Rp5,187 million (2009: Rp57,904 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	
	2010	**2009**	**2010**	**2009**
	Rp'million	Rp'million	Rp'million	Rp'million
61 -90 days	2,074	3,360	511	–
More than 90 days	17,448	36,017	1,022	–
Total	19,522	39,377	1,533	–

20. Trade and other receivables (cont'd)

Receivables that are impaired

The Group's receivables that are impaired at the end of the reporting period and the movement of the allowance accounts used to record the impairment are as follows:

	Group		Company	
	2010	**2009**	**2010**	**2009**
	Rp'million	Rp'million	Rp'million	Rp'million
Trade receivables	–	15,806	–	–
Less: Allowance for impairment	–	(15,806)	–	–
Other receivables	414	–	414	739,012
Less: Allowance for impairment	(414)	–	(414)	(123,860)
Total	–	–	–	615,152
Movement in allowance accounts:				
At 1 January	15,806	15,339	123,860	–
Charge for the year	414	467	414	123,860
Reclassification (Note 30)	–	–	(123,860)	–
Effect of deconsolidation of a subsidiary (Note 30)	(14,819)	–	–	–
At 31 December	1,401	15,806	414	123,860

Trade and other receivables are denominated in the following currencies at 31 December:

	Group		Company	
	2010	**2009**	**2010**	**2009**
	Rp'million	Rp'million	Rp'million	Rp'million
Indonesian Rupiah	60,789	195,741	10,528	487,490
United States dollars	11,193	67,459	43,042	143,616
Singapore dollars	23	481	7,500	482
	72,005	263,681	61,070	631,588

21. Cash and cash equivalents

	Group		Company	
	2010	**2009**	**2010**	**2009**
	Rp'million	Rp'million	Rp'million	Rp'million
Cash on hand	1,831	3,059	14	13
Cash in banks	68,014	95,203	23,838	3,586
Short-term deposits	5,100	12,606	–	6
	74,945	110,868	23,852	3,605
Interest rate per annum	0.10% - 6%	0.10% - 6.25%	0.10%	0.10%

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

Cash and cash equivalents are denominated in the following currencies at 31 December:

	Group		Company	
	2010	**2009**	**2010**	**2009**
	Rp'million	Rp'million	Rp'million	Rp'million
Indonesian Rupiah	40,100	74,307	–	–
United States Dollars	31,759	34,616	22,081	2,573
Singapore Dollar	2,443	1,032	1,749	1,032
Others	643	913	22	–
	74,945	110,868	23,852	3,605

22. Restricted deposits

	Group		Company	
	2010	**2009**	**2010**	**2009**
	Rp'million	Rp'million	Rp'million	Rp'million
Indonesian Rupiah	12,400	12,055	–	–
United States Dollars	8,099	103,407	–	94,946
	20,499	115,462	–	94,946
Interest rate per annum	0.09% - 5.50%	0.10% - 5.50%	–	0.10% - 0.20%

23. Trade and other payables

	Group		Company	
	2010	**2009**	**2010**	**2009**
	Rp'million	Rp'million	Rp'million	Rp'million
Trade payable				
- Third parties	156,206	291,539	–	260
- Related parties	10,536	11,985	–	–
- Subsidiary company	–	–	27	–
Liabilities for purchase of machineries	–	577	–	–
Other payable				
- Third party	–	18,800	–	–
- Related party	–	96,493	–	96,493
Total trade and other payables	166,742	419,394	27	96,753
Add:				
- Other liabilities (Note 24)	56,630	210,854	2,221	4,686
- Short term bank borrowings (Note 25)	23,284	334,308	–	47,000
- Loans and borrowings (Note 26)	343,284	1,425,399	–	93,637
Total financial liabilities carried at amortised cost	589,940	2,389,955	2,248	242,076

Trade and other payables are denominated in the following currencies:

Indonesian Rupiah	85,314	176,600	27	–
United States Dollars	79,389	233,972	–	96,753
Singapore dollars	629	–	–	–
Others	1,410	8,822	–	–
	166,742	419,394	27	96,753

Trade payable - third parties

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.

Trade payable – related parties

These amounts are trade related, unsecured, non-interest bearing and repayable on demand.

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 party

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	
	2010	2009	2010	2009
	Rp'million	Rp'million	Rp'million	Rp'million
Accrued expenses				
- Salaries and wages	11,917	12,011	613	–
- Freight	9,123	33,611	–	–
- Interests	1,620	59,606	–	1,807
- Claims and commissions	267	595	–	452
- Others	18,104	51,835	1,573	2,394
Deferred income	–	30,973	–	–
Value added tax payable	12,578	19,918	–	–
Other	3,021	2,305	35	33
	56,630	210,854	2,221	4,686

25. Short term bank borrowings

The details of short term bank borrowings are as follows:

	Group		Company	
	2010	2009	2010	2009
	Rp'million	Rp'million	Rp'million	Rp'million
(a) Rp47,500 million working capital facility. Interest is payable at 12% per annum.	23,284	23,284	–	–
(b) 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	–	–
(c) 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	–	–
(d) US$3,000,000 packing loan facility. Interest is payable at 8.5% per annum.	–	27,448	–	–
(e) US$3,000,000 working capital facility. Interest is payable at 5.25% per annum below the bank's best lending rate	–	25,968	–	–

25. Short term bank borrowings (cont'd)

	Group		Company	
	2010	**2009**	**2010**	**2009**
	Rp'million	Rp'million	Rp'million	Rp'million
(f) 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	–	47,000
	23,284	334,308	–	47,000

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.

As at 31 December 2009, 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. Subsequently, in March 2011, the subsidiaries have been deconsolidated following the dilution of the Group's effective interest (Note 30).

26. Loans and borrowings

	Group		Company	
	2010	**2009**	**2010**	**2009**
	Rp'million	Rp'million	Rp'million	Rp'million
Current				
Interest bearing bank borrowings	155,813	506,903	–	93,637
Obligation under finance lease	1,203	86,470	–	–
Reforestation fund payable	1,260	1,460	–	–
Notes payable	–	2,868	–	–
	158,276	597,701	–	93,637
Non-current				
Interest bearing bank borrowings	185,008	766,173	–	–
Obligation under finance lease	–	61,525	–	–
	185,008	827,698	–	–
	343,284	1,425,399	–	93,637

26. Loans and borrowings (cont'd)

(i) ***Interest bearing bank borrowings***

	Group 2010 Rp'million	Group 2009 Rp'million
Within one year	155,813	506,903
Between two and five years	185,008	599,941
Later than five years	–	166,232
	340,821	1,273,076

	Group 2010 Rp'million	Group 2009 Rp'million	Company 2010 Rp'million	Company 2009 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 5.95% per annum.	213,815	256,150	–	–
(b) US$33,190,000 term loan, repayable on a monthly basis, commencing on May 2006 and due on December 2011. Interest is payable at the Bank's cost of fund plus 4.0% per annum	92,106	143,256	–	–
(c) US$ 5,000,000 term loan, repayable in 48 monthly instalments that started December 2007. Interest is payable at 2.75% SIBOR	28,825	34,648	–	–
(d) Rp60,888 million term loan, repayable on quarterly instalments, commencing November 2004. Interest is payable at a range of 12% to 13% per annum.	6,075	18,840	–	–
(e) US$15,000,000 term loan payable on quarterly instalments starting June 2008. Interest is at LIBOR plus 5.95% per annum.	–	144,704	–	–

26. Loans and borrowings (cont'd)

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

	Group		Company	
	2010	**2009**	**2010**	**2009**
	Rp'million	Rp'million	Rp'million	Rp'million
(f) 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	–	–
(g) 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	–	–
(h) US$33,000,000 loan repayable in 18 months upon following the first utilisation date. Interest is payable at Libor plus 4.0% per annum	–	93,637	–	93,637
(i) US$ 8,000,000 term loan, repayable in 36 monthly instalments starting March 2008. Interest is payable at 10.0% per annum.	–	58,153	–	–
(j) 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	–	–
(k) 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	–	–

26. Loans and borrowings (cont'd)

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

	Group		Company	
	2010	**2009**	**2010**	**2009**
	Rp'million	Rp'million	Rp'million	Rp'million
(l) 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	–	–
	340,821	1,273,076	–	93,637

As a result of the restructuring of the loan of PT Sumalindo Lestari Jaya Tbk. (Sumalindo) 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 Sumalindo 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 acertain subsidiaries for loan (a), (b) and (d);
- A corporate guarantee from the Company for loan (b)
- Land use rights, buildings, machineries, inventories, account receivables and time deposits (a) - (d);
- Shares of certain subsidiaries and an associate company (b).

During the year ended 31 December 2010, a subsidiary of the Company has reported that certain conditions (financial ratio covenants) as set out in its lending contracts with one of its lenders, have not been complied with. Management is in discussion with the lender to rectify the matters. The lender has continued to support the subsidiary. The subsidiary has been servicing the repayment of the principal and interest of the said loans as and when they fall due.

As at 31 December 2009, 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. Subsequently, in March 2011, the subsidiaries have been deconsolidated following the dilution of the Group's effective interest (Note 30).

26. Loans and borrowings (cont'd)

(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			
	2010		2009	
	Rp'million		Rp'million	
	Minimum payments	Present value of minimum payments	Minimum payments	Present value of minimum payments
Within one year	1,305	1,203	98,831	86,470
Between two and five years	–	–	62,805	61,525
Total minimum lease payments	1,305	1,203	161,636	147,995
Less: interest	(102)	–	(13,641)	–
Present value of minimum lease payments	1,203	1,203	147,995	147,995

	Group			
	2010		2009	
	Rp'million		Rp'million	
	Minimum payments	Present value of minimum payments	Minimum payments	Present value of minimum payments
Interest rate per annum	6.0% - 11.0%		5.0% - 12.0%	
Effective interest rate per annum	6.0% - 11.0%		5.9% - 11.4%	

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

The net book value of assets under finance lease amounts to Rp27,783 million for the financial year ended 31 December 2010 (2009: Rp232,908 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 2010 and 2009, balance of the loan is considered due and demandable since AHL has been in breach with respect to the principal payment schedule.

26. 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	
	2010	**2009**
	Rp'million	Rp'million
Within one year	–	2,868

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 2010 was 8,082 people (2009: 12,114 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	
	2010	**2009**
	Rp'million	Rp'million
Components of provision for post-employment benefits		
Current service costs	12,320	11,216
Interest costs	4,891	7,816
Amortisation of past service costs and actuarial losses	524	1,442
Curtailments effect or termination	(366)	(3,383)
Present value of additional employment	528	2,247
	17,897	19,338
Employee benefits liabilities		
Beginning of the year	65,972	54,434
Expenses during the year	17,897	19,338
Actual payments during the year	(3,374)	(7,800)
	80,495	65,972
Effect of deconsolidation of a subsidiary (Note 30)	(27,379)	–
	53,116	65,972

27. Post-employment benefits (cont'd)

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

	Group	
	2010	**2009**
	Rp'million	Rp'million
Present value of post employment benefits obligation	111,665	100,293
Unrecognised past service cost vested	(378)	(3,217)
Unrecognised actuarial losses	(30,792)	(31,104)
	80,495	65,972
Effect of deconsolidation of a subsidiary (Note 30)	(27,379)	–
Liability recognised in balance sheet	53,116	65,972

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

	Group	
	2010	**2009**
	Rp'million	Rp'million
Beginning of the year	65,972	54,434
Current service cost	12,320	11,216
Interest cost	4,891	7,816
Past service costs and actuarial losses	524	1,442
Benefits paid	(3,374)	(7,800)
Effect of curtailment or termination	(366)	(3,383)
Present value of additional employment	528	2,247
	80,495	65,972
Effect of deconsolidation of a subsidiary (Note 30)	(27,379)	–
	53,116	65,972

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	
	2010	**2009**
Discount rate per annum	9%	10.5% - 11.5%
Mortality table	TMI II – 1999	TMI II – 1999
Rates of increase in compensation per annum	10%	8% - 10%
Average expected retirement age	55 years	55 years

28. Share capital

	Group and Company			
	2010		2009	
	Number of shares	Rp'million	Number of shares	Rp'million
Issued and fully paid				
At 1 January	898,162,562	1,943,866	898,162,562	1,943,866
Issuance of ordinary shares	449,081,281	190,405	–	–
At 31 December	1,347,243,843	2,134,271	898,162,562	1,943,866

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

Out of the net proceeds from the rights issue above:

- approximately Rp140,263 million has been used for the repayment of short term borrowing and term loan;
- approximately Rp50,142 million has been used for the Group's general corporate and working capital purposes.

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.

29. Restructuring reserves

	2010	2009
	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. Investment in subsidiaries

	Company	
	2010	**2009**
	Rp'million	Rp'million
Cost:		
1 January	1,291,109	1,291,109
Addition during the year	710,000	–
31 December	2,001,109	1,291,109
Provision for impairment:		
1 January	1,289,753	–
Addition during the year	262	1,289,753
Reclassification from bad debt allowance (Note 20)	123,860	–
At 31 December	1,413,875	1,289,753
Net carrying amount	587,234	1,356

The principal subsidiaries of the Group are as follow:

	Name (Country of incorporation)	Principal activities	Percentage of effective equity interest held by the company 2010 %	2009 %
@	PT Sumber Graha Sejahtera (Indonesia)	Production of plywood, laminated veneer lumber wood panels and wood based furniture	99.98	99.98
#	Samko Trading Pte Ltd (Singapore)	Trading	100.00	100.00
@	PT Panca Usaha Palopo Plywood (Indonesia)	Production of plywood, sawn timber, wood mouldings and construction materials	98.45	98.44
@	PT Putra Sumber Utama Timber (Indonesia)	Production of plywood and laminated veneer lumber, wood mouldings and building material components	99.58	99.21
@	PT Sejahtera Usaha Bersama (Indonesia)	Production of plywood and building materials	99.98	99.98
&	PT Makmur Alam Lestari (Indonesia)	Production of veneers	99.92	99.91
@	PT Sumalindo Lestari Jaya Tbk (Indonesia)	Forest exploration, industrial timber estate and utilisation of forest products	31.25	51.62

\# *Audited by Ernst & Young LLP Singapore*
@ *Audited by Ernst & Young, Jakarta*
& *Audited by Tanubrata Sutanto Fahmi & Rekan, Jakarta – a member of BDO International Limited*

30. Investment in subsidiaries (cont'd)

Deconsolidation of PT Sumalindo Lestari Jaya Tbk ("Sumalindo")

In February 2010, Sumalindo undertook right issue process for 1,236,022,311 new shares on the basis of one right share for every one existing share. The Group subscribed part of its entitlement with total consideration of Rp12,814 million or 128,137,791 shares.

Following the subscription of the subscribed rights shares, the Group's effective interest in Sumalindo was diluted from 51.62% to 31%. Accordingly, Sumalindo ceased as a subsidiary of the Group and was treated as an associate company in March 2010.

The carrying value of the identifiable assets and liabilities of Sumalindo as at the date of deconsolidation were:

	2010 Rp'million
Non-current assets	
Property, plant and equipment	1,057,339
Intangible assets	48,562
Goodwill	123,407
Biological assets	220,520
Land use rights	27,526
Deferred tax assets	6,048
Other non-current assets	54,662
Total non-current assets	1,538,144
Current assets	
Inventories	230,014
Trade and other receivables	155,102
Prepaid operating expenses	12,019
Advances to suppliers	31,182
Cash and cash equivalents	17,037
Total current assets	445,354

30. Investment in subsidiaries (cont'd)

Deconsolidation of PT Sumalindo Lestari Jaya Tbk ("Sumalindo") (cont'd)

	2010
	Rp'million
Current liabilities	
Trade and other payable	184,543
Other liabilities	140,873
Advances from customers	119,085
Income tax payable	11,250
Short term bank borrowings	254,051
Loans and borrowings - current portion	293,388
Total current liabilities	1,003,190
Non-current liabilities	
Loans and borrowings - non-current portion	534,453
Post-employment benefits	27,379
Deferred tax liabilities	55,734
Other liabilities	202,860
Non-controlling interests of Sumalindo's subsidiaries	50,810
Total non-current liabilities	871,236
Net assets	109,072
Portion owned by the Group (51.63% of net assets)	56,312
Goodwill portion attached to investment	71,484
Net assets classified as investment in an associate	127,796

For the purpose of consolidated statement of cash flow, the balance of cash and cash equivalent of Rp17,037 million was presented under investing activities as 'Net cash outflows arising from the dilution of a subsidiary'.

30. Investment in subsidiaries (cont'd)

Disposal of PT Sumalindo Hutani Jaya ("SHJ")

In November 2009, the Group's subsidiary, Sumalindo, disposed all of its interest in a subsidiary, SHJ for a total consideration of Rp7,200 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 SHJ 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 Sumalindo (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

31. Investment in an associate

	Group 2010 Rp'million
At equity	
At 1 January	–
Reclassification of investment from a subsidiary due to cease in control (Note 30)	127,796
Addition from subscription of new shares from right issue (Note 30)	12,814
Gain on dilution resulted from new shares issued by an associate	3,597
Share of loss during the year	(70,932)
At 31 December	73,275
Less provision for impairment attributable to:	
- Goodwill portion attached to investment in an associate	(71,484)
- Net assets allocated to the Group	(1,791)
Net carrying amount	–

Total share of loss and impairment of investment for the year was presented under account "Share of result on an associate" in profit or loss.

The summarised financial information of the associate from the date of the associate ceased as the Group's subsidiaries (Note 30), not adjusted for the proportion of ownership interest held by the Group, is as follow:

	2010 Rp'million
Assets and liabilities:	
Total assets	1,712,461
Total liabilities	(1,706,733)
Net assets	5,728
Results:	
Revenue	451,315
Loss for the year	(226,947)

32. Commitments and contingencies

Capital commitments

As of 31 December 2010, the Group had capital commitments amounting to Rp25,000 million to a related party (Note 33) (2009: Rp1,053 million).

Operating lease commitments – as lessee

The Group has various operating lease agreements for the rental of office. 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 as an expense in the profit or loss for the financial year ended 31 December 2010 amounted to Rp3,587 million (2009: Rp5,526 million).

Future minimum lease payments payable under non-cancellable operating leases at the end of the reporting period are as follows:

	Group	
	2010	**2009**
	Rp'million	Rp'million
Not later than one year	3,417	5,556
Later than one year but not later than five years	2,999	5,926
	6,416	11,482

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	
	2010	**2009**
	Rp'million	Rp'million
PT Pelayaran Nelly Dwi Putri		
- Freight charges	21,681	40,046
PT Nelly Jaya Pratama		
- Purchase of vener and spare parts	–	2,448

33. Related party disclosures (cont'd)

	Group		Company	
	2010	**2009**	**2010**	**2009**
	Rp'million	Rp'million	Rp'million	Rp'million
PT Bioforest Indonesia				
- Advance payment for purchase of trees	16,243	10,323	–	–
First Goal International Ltd				
- Payable	–	94,743	–	94,743
PT Pelayaran Nelly Dwi Putri				
- Note payable	–	2,868	–	–

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

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.

Compensation to key management personnel

	Group	
	2010	**2009**
	Rp'million	Rp'million
Short-term benefits		
- Directors	11,243	14,949
- Executive officers	6,370	6,308
	17,613	21,257

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 or loss account for the financial year 31 December 2009 that were paid to these related parties amounted to Rp729 million. 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.

33. Related party disclosures (cont'd)

Capital commitments with related parties

The Group entered into sales and purchase agreements to acquire land use rights, property, plant and equipment of PT Nelly Jaya Pratama, a wholly-owned company by Sunarko family with a total consideration of Rp25,000 million. The transaction has been approved in the Extraordinary General Meeting in August 2010. Up to the date of this report date, the transaction has not been realised due to certain conditions have not been satisfied. Both parties have agreed to extend the agreement period to June 2012.

In June 2010, the Group entered into a charter and freight service agreement with PT Pelayaran Nelly Dwi Putri ("PNDP") for provision of charter and freight services namely, (i) time charter services, (ii) spot charter services of barges and tug boat to transport logs and methanol on an ad hoc basis, (iii) over ship charter of finished goods and (iv) freight services to transport finished goods. Under the agreement, PNDP will provide the services to the Group for a period of three years. The transaction has been approved in the Extraordinary General Meeting in August 2010. The freight charges recognised in the profit or loss account amounted to Rp7,577 million.

Financial guarantee

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

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 reviews and agrees 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.

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

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

The Group's policy is to manage interest cost using a mix of fixed and floating rate borrowings. The objectives for the mix between fixed and floating 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.

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

(a) ***Interest rate risk (cont'd)***

Sensitivity analysis for interest rate risk

The Group's borrowing interest rates are mainly floating rates. At the end of each reporting period, 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 2010 would have been Rp3,641 million (2009: Rp16,074 million) lower/higher.

(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.

Sensitivity analysis for foreign currency risk

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

	Group	
	2010	**2009**
	Rp'million Loss, net of tax (Increase)/ decrease	Rp'million Loss, net of tax (Increase)/ decrease
Strengthened 4%	8,237	48,552
Weakened 4%	(8,237)	(48,552)
Strengthened 8%	16,474	97,105
Weakened 8%	(16,474)	(97,105)
Strengthened 12%	24,712	145,658
Weakened 12%	(24,712)	(145,658)
Strengthened 16%	32,949	194,210
Weakened 16%	(32,949)	(194,210)

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

(c) ***Credit risk***

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

The Group's and the Company's exposures to credit risk are primarily from trade and other 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 with 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 disclosed in Note 20 (Trade and other receivables) and Advances to suppliers.

(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 and the Company'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 50% (2009: 53%) 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.

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

(d) ***Liquidity risk (cont'd)***

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

31 December 2010	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 payables	166,742	–	–	–	–	–	166,742
Notes payable	–	–	–	–	–	–	–
Short term bank borrowings	23,284	–	–	–	–	–	23,284
Interest bearing bank borrowings	155,813	28,807	156,201	–	–	–	340,821
Obligations under finance lease	1,203	–	–	–	–	–	1,203
Reforestation fund payable	1,260	–	–	–	–	–	1,260

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 payables	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

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 payables 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 2010 and 2009.

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 Company.

	Group	
Description	**2010**	**2009**
	Rp'million	Rp'million
Loans and borrowings (Notes 25 and 26)	366,568	1,759,707
Trade and other payables (Note 23)	166,742	419,394
Other liabilities (Note 24)	56,630	210,854
Less: cash and cash equivalents (Note 21)	(74,945)	(110,868)
Less: restricted deposits (Note 22)	(20,499)	(115,462)
Net debt	494,496	2,163,625
Equity attributable to the owners of the Company	458,159	492,734
Capital and net debt	952,655	2,656,359
Gearing ratio	52%	81%

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.

37. Segment information (cont'd)

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.

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.

37. Segment information (cont'd)

(a) ***Business segments***

The following table presents revenue and results information regarding the Group's business segments for the financial year ended 31 December 2010 and 2009:

Year ended 31 December 2010	**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	2,055,529	140,117	9,834	–	2,205,480
Inter-segment sales	108,739	5,868	32,142	(146,749)	–
Total sales	2,164,268	145,985	41,976	(146,749)	2,205,480
Results:					
Segment results	4,908	(11,955)	1,448	–	(5,599)
Finance income	1,759	4	2	–	1,765
Other income	69,284	1,488	–	–	70,772
Finance expense	(56,590)	(2,276)	(31)	–	(58,897)
Other expense	(66,598)	(12,606)	(6,739)	–	(85,943)
Share of results of an associate	(140,610)	–	–	–	(140,610)
Loss before tax	(187,847)	(25,345)	(5,320)	–	(218,512)
Income tax (expenses)/ benefit	(12,797)	1,354	1,930	–	(9,513)
Net loss for the year	(200,644)	(23,991)	(3,390)	–	(228,025)
Assets and liabilities as at 31 December 2010:					
Segment assets	1,110,622	62,714	39,627	(30,881)	1,182,082
Deferred tax assets	5,476	–	–	–	5,476
Total assets	1,116,098	62,714	39,627	(30,881)	1,187,558
Segment liabilities	312,928	24,193	8,728	(4,826)	341,023
Provision for tax	12,248	15	135	–	12,398
Short term and long term loans and borrowings	337,743	28,825	–	–	366,568
Deferred tax liabilities	4,892	217	1,209	–	6,318
Total liabilities	667,811	53,250	10,072	(4,826)	726,307
Other segment information:					
Depreciation	(125,307)	(2,938)	(4,312)	–	(132,557)
Amortisation of land use rights	(4,642)	(274)	(24)		(4,940)
Post employment benefits expense	(17,552)	(297)	(48)	–	(17,897)
Capital expenditure on property, plant and equipment	40,409	–	7	–	40,416
Gain arising from fair value of biological asset	5,503	–	–	–	5,503

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
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)
Finance income	3,048	41	6	–	3,095
Other income	269,948	12,372	(2,300)	(63)	279,957
Finance expense	(171,135)	(2,181)	(23)	–	(173,339)
Other expense	(661,708)	(17,633)	(1,151)	–	(680,492)
Loss before tax	(763,810)	(33,282)	(8,458)	–	(805,550)
Income tax (expenses)/ benefit	(179,993)	(8,172)	294	–	(187,871)
Net loss for the year	(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
Segment liabilities	1,055,444	31,913	3,426	(1,114)	1,089,669
Provision for tax	27,760	69	304	–	28,133
Short term and long term loans and borrowings	1,724,723	34,984	–	–	1,759,707
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	(19,158)	(235)	55	–	(19,338)
Capital expenditure on property, plant and equipment	98,021	–	–	–	98,021
Gain arising from fair value of biological asset	1,919	–	–	–	1,919

37. Segment information (cont'd)

(b) ***Geographical segments***

All of the Group's assets are located in Indonesia, other than Rp85,734 million (2009: Rp101,989million) of assets located in Singapore.

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

Region	**2010**	**2009**
	Rp'million	Rp'million
Indonesia	1,795,951	2,135,409
North Asia	229,267	252,549
Middle East	53,540	115,676
Singapore	49,343	8,298
United States of America	16,366	124,735
Europe	35,601	107,912
Others	25,412	52,396
	2,205,480	2,796,975

38. Authorisation of financial statements for issue

The financial statements for the year ended 31 December 2010 were authorised for issue in accordance with a resolution of the directors on 28 March 2011.

Shareholders' Information

As at 22 March 2011

Distribution of shareholdings

Size of shareholdings	Number of shareholders	%	Number of shares	%
1 - 999	25	2.82	2,501	0.00
1,000 - 10,000	400	45.04	2,001,898	0.15
10,001 - 1,000,000	433	48.76	45,638,245	3.39
1,000,001 and above	30	3.38	1,299,601,199	96.46
Total	**888**	**100.00**	**1,347,243,843**	**100.00**

Twenty largest shareholders

	Name	Number of shares	%
1	UOB Kay Hian Pte Ltd	903,947,997	67.10
2	SGSS Forest Products Pte Ltd	100,226,000	7.44
3	HSBC (Singapore) Nominees Pte Ltd	93,063,850	6.91
4	Citibank Nominees Singapore Pte Ltd	47,520,500	3.53
5	Hasan Holdings Pte Ltd	33,846,346	2.51
6	Aris Sunarko @ Ko Tji Kim	17,225,000	1.28
7	Noah Shipping Pte Ltd	15,380,000	1.14
8	United Overseas Bank Nominees Pte Ltd	13,323,000	0.99
9	Koh Boon Hong	12,750,000	0.95
10	DBS Nominee Pte Ltd	12,041,006	0.89
11	First Fortuna Holdings Pte Ltd	10,000,000	0.74
12	Natalia Tanwir Tan	7,808,000	0.58
13	See Kim Hua	4,400,000	0.33
14	DBS Vickers Securities (S) Pte Ltd	4,162,000	0.31
15	Raffles Nominees (Pte) Ltd	2,597,000	0.19
16	Koh Hang Heng	2,439,000	0.18
17	Chye Chia Chow	1,886,000	0.14
18	OCBC Securities Private Ltd	1,710,000	0.13
19	Horng Jiin Shuh @ Hung Ching Hsu	1,639,000	0.12
20	Daniel Budiman	1,600,000	0.12
		1,287,564,699	95.58

Shareholders' Information

As at 22 March 2011

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) & (3)]	29,225,000	2.17	492,646,038	36.57
Koh Tji Kiong @ Amir Sunarko [(1) & (2)]	–	–	482,646,038	35.82
Piniaty Liawanto [(1)]	–	–	433,419,692	32.17
Sampoerna Forestry Limited	543,009,305	40.31	–	–

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") and are deemed to be interested in the shares held by SGSS.

(2) Mr Aris Sunarko @ Ko Tji Kim and his brother, 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) 33,846,346 shares held by Hasan Holdings Pte Ltd; and

(b) 15,380,000 shares held by Noah Shipping Pte Ltd.

(3) Mr Aris Sunarko @ Ko Tji Kim is deemed to be interested in the 10,000,000 shares held by First Fortuna Holdings Pte Ltd, by virtue of Section 7 of the Company Act.

Percentage of shareholding in public's hands

19.69% 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 1, 7500 Beach Road, Singapore 199591 on Friday, 29 April 2011 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 2010 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 Eka Dharmajanto Kasih **(Resolution 2)**
   Mr Ng Cher Yan **(Resolution 3)**
   Mr Wee Ewe Lay Laurence John **(Resolution 4)**

   Mr Eka Dharmajanto Kasih will, upon re-election as a Director of the Company, remain as a Non-Executive Director of the Company and will be considered non-independent.

   Mr Ng Cher Yan will, upon re-election as a Director of the Company, remain as the Chairman of the Audit Committee and a member of the Remuneration and Nomination Committees and will be considered independent.

   Mr Wee Ewe Lay Laurence John will, upon re-election as a Director of the Company, remain as the Chairman of the Remuneration Committee and a member of the Audit and Nomination 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)**

4. To approve the payment of Directors' fees of S$188,000 for the year ending 31 December 2011, payable quarterly in arrears. (2010: S$188,000). **(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) 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

(4) 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, 13 April 2011

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.

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.

Notes:

1. A Member entitled to attend and vote at the Annual General Meeting (the "Meeting") is entitled to appoint not more than two proxies 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 29 April 2011 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 2010		
2	Re-election of Mr Eka Dharmajanto Kasih as a Director		
3	Re-election of Mr Ng Cher Yan as a Director		
4	Re-election of Mr Wee Ewe Lay Laurence John 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 2011		
7	Re-appointment of Ernst & Young LLP as Auditors		
8	Authority to issue new shares		

Dated this __________ day of __________________ 2011

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 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.

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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