SAMKO TIMBER LIMITED

STEADY STRENGTH

Annual Report 2011

STRATEGIC LOCATIONS OF OPERATIONS IN INDONESIA

CONTENTS

COMPANY BACKGROUND

Samko Timber Limited ("Samko") is a vertically integrated sustainable wood resource processor, with a wide range of processed timber products. Samko is engaged in complementary supply chain activities spanning nursery cultivation for plantation and community farmers, production of plywood and veneer to research and development and enhancing distribution network.

Based in Indonesia and started from humble beginnings in the late 1970's, Samko is now one of the world's top five tropical hardwood plywood producers with more than 800,000m3 of plywood, veneer and secondary production capacity from consolidated operations across Indonesia from Java, Sumatra to Sulawesi.

Having attained more than 30 years of applied experience and trust in the industry, Samko has moved towards forward vertical integration or downstream of the supply chain as a value-add and to increase market share.

Operations

Samko's plywood and veneer mills are strategically located across Java, Sumatra and Sulawesi, close to wood sources and distribution centres.

CHAIRMAN'S MESSAGE

Dear Shareholders,

FY2011 is the turning point of the Group following the deconsolidation of Sumalindo as at 30 March 2010. Effects on the deconsolidation of Sumalindo could be seen from the four consecutive positive quarters during FY2011. Samko continued to build on its domestic market and brand name in the export markets.

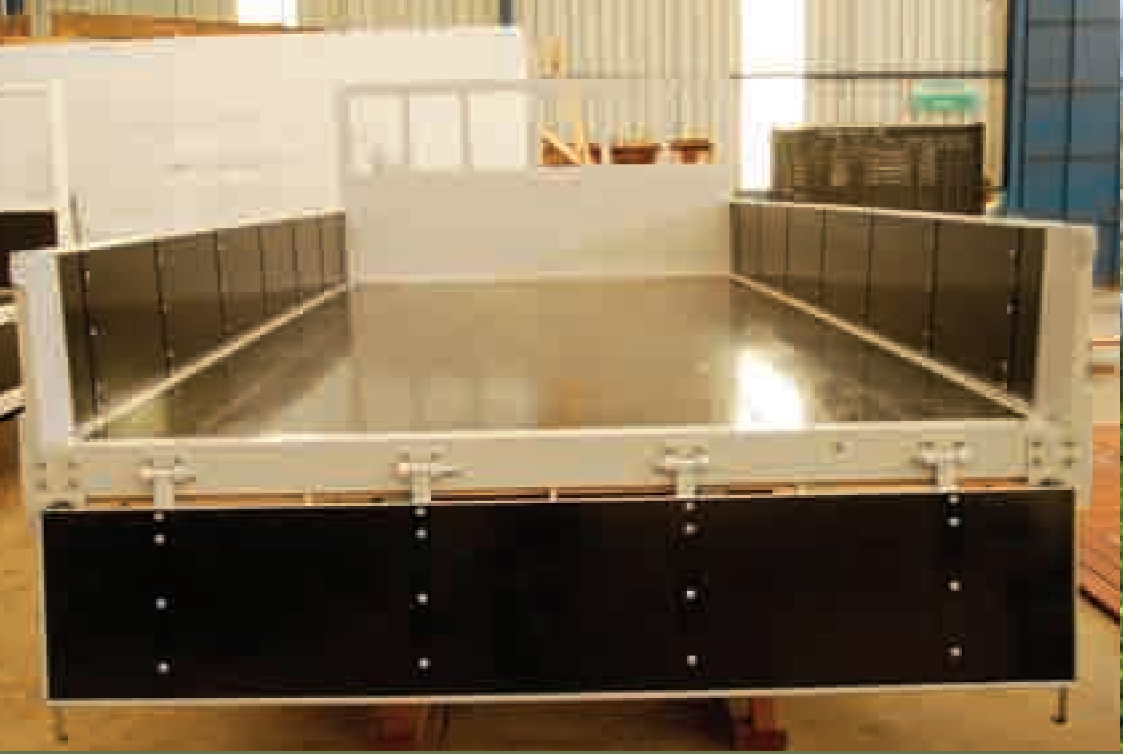
Building on a stable domestic market

Indonesia's natural gravitation towards domestic demand and strong consumption, coupled with investment growth, has insulated the economy from weaknesses in the global economies, particularly the Eurozone, and weakening demand from the United States. However, the nation could see a slow down on the capital inflows from adverse conditions globally thus restraining growth.

According to the OECD Economic Outlook 90 database as at November 2011, the nation's GDP grew 6.3% in 2011 and is expected to contract marginally to 6.1% in 2012 on the global slowdown. The strong growth raised Indonesia's GDP per capita to above US$3,000 in 2010 on the increasing middle class and affluence. The shift in income and demographic distribution in Indonesia, a nation with over 240 millions, will impact the consumer patterns. Demand for plywood remains strong in the domestic market, driven by construction and the housing policy.

It is estimated that construction volume will increase in the following years until 2014[1]. Housing remains as the Government's focus as population continues to grow. Population grew 2.9% in 2010 and about 3.9% in 2011.

[1] Widjajanto et al, A.W., 2011. The Construction Sector of Indonesia. 17th Asia Construct Conference, p.1.



Harnessing resources

Indonesia is a country rich in resources and Samko believes that corporations are accountable to the community and the sustainability of resources for long-term growth. As part of the Government's initiatives, large areas of land have been made available for plantation development. According to the Ministry of Forestry, about 12.3 million hectares of production forests which have been logged, has been made available for the development of timber plantations.

Smallholders or community farmers are highly encouraged to participate in the forest resource management scheme implemented by the Indonesian Government. One of the schemes, community plantation forest or HTR *(Hutan Tanaman Rakyat)* was launched in 2006, aims to establish a scale of more than 5 million hectares of new plantations by 2016[2]. Corporations may collaborate with the local rural communities in developing the community plantation forests. In the longer term, Samko will be looking at widening the upstream resources and capturing upstream value through a low-asset base programme which also provides the smallholders with the investment returns on harvest.

[2] Obidzinshi and Dermawan, K.O. and A.D., 2010. Smallholder timber plantation development in Indonesia: What is preventing progress?, International Forestry Review Vol. 12(4), 2010.

Poised for growth

With the turnaround and growth of Samko on track, the Group looks ahead on growing its domestic and export markets focusing on its key strengths of innovation and quality. The Group will look to improve productivity and yields. To further manage the cost of wood supply, the Group will also be exploring methods of securing a more consistent wood supply and identifying suitable upstream opportunities to capture upstream value.

Appreciation

I would like to thank the Board of Directors and the capable management team in their guidance and dedication to the Group. I would also like to extend my sincere appreciation to our customers, suppliers, business associates, partners and shareholders for their confidence in us and invaluable contributions.

We are humbled and encouraged by your belief and continued support. Samko Timber will work harder to achieve greater heights and success in the coming year.

Koh Boon Hong
Chairman

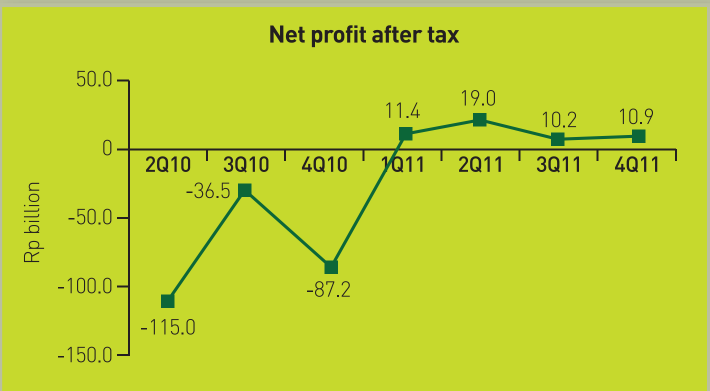
CREATING MORE GROWTH OPPORTUNITIES

CEO'S STATEMENT

Dear Shareholders,

FY2011 marks the first financial year after the deconsolidation of Sumalindo as at 30 March 2010. Samko reported four consecutive quarters of profits as opposed to losses in the previous year of FY2010.

Domestic market remains as the Group's largest market, contributing about 78% of the Group revenue. Domestic sales were boosted by the better domestic plywood pricing in FY2011. Whilst reports[3] have shown a weak global demand for Indonesian timber products on under developed timber export promotion, Samko has grown its export sales volume by 79% year-on-year ("Y-o-y") mainly to North Asia on strong demand from Japan for post-quake reconstruction. The tight supply on tropical logs is expected to drive further growth in the export markets and drive replacement solid wood products such as engineered wood products.



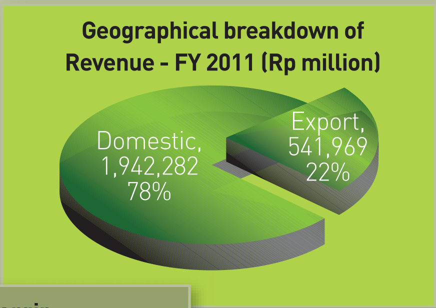
[3] Tropical Timber Market Report Volume 16 Number 23, 1st - 15th December 2011

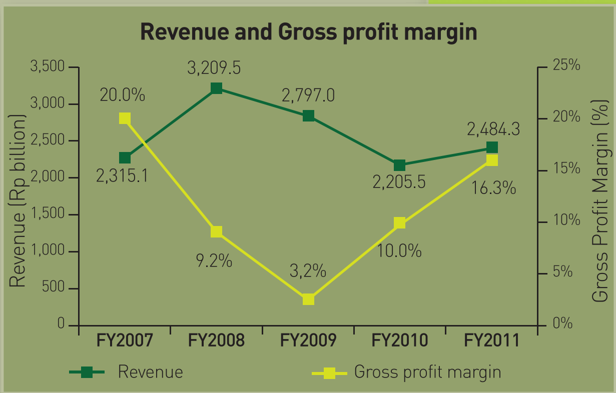
Steady growth and resilient business model

Having weathered through the financial impact in 2009 and losses from Sumalindo, the Group emerged stronger in FY2011, improving its Group structure by deconsolidating Sumalindo and refinancing some term loans for better debt and cash structure.

In October 2011, Samko's subsidiary PT Sumber Graha Sejahtera ("PT SGS") has taken on a 5-year Term Loan Facility with PT Bank OCBC NISP, in United States Dollar and Indonesian Rupiah currencies totalling about US$34.6 million for future capital expenditure and fully refinanced the existing financing facilities with Standard Chartered Bank and Indover Bank. The Group has strengthened its financial position and is in a better position for continued business expansion plans.

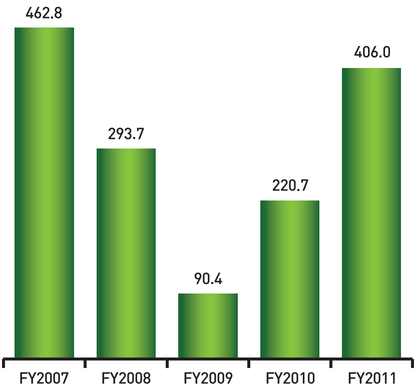
Through Samko's delivery on consistent quality of its products, the Group continued to build on its customer base and command better prices. The export segment registered a 49% increase in revenue from Rp362.7 billion in FY2010 to Rp542.0 billion in FY2011.



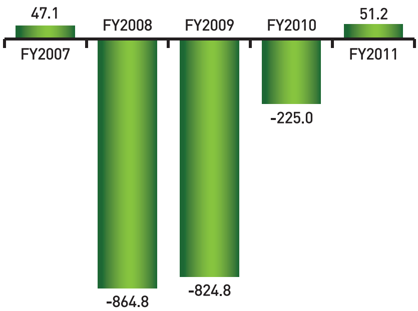


Export product mix commanding better margins have also contributed towards an 84% increase in gross profit from Rp220.7 billion in FY2010 to Rp406.0 billion in FY2011. The increase in export volume during FY2011 has also contributed towards the 6.3 percentage points increase in gross profit margin from 10.0% in FY2010 to 16.3% in FY2011.

Gross profit (Rp billion)



Net profit after tax to shareholders (Rp billion)



The export sales segment will continue to expand on shortage in tropical wood supply especially in China and India. However, whilst demand is sustainable in the short-term, strong demand in the export markets may lead to further competition in the long-term which may thin export pricing margins. Domestic market, which is the Group's largest market, will be driven by the housing and construction sectors fuelling immediate growth.

Progressing into the new financial year of 2012, Samko will continue to focus on growing its market share in the domestic and export markets with the introduction of a wider range of products and synergy from its upstream and downstream businesses. All positive circumstances withstanding, the Group remains committed to the Samko's expansion.

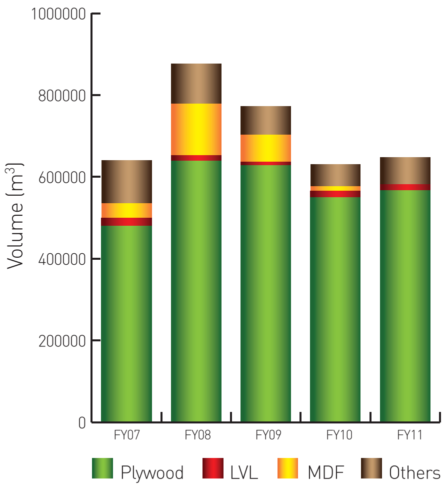
Moving forward to a better tomorrow

Plywood remains as Samko's largest revenue share, contributing about 83% of Group's revenue and 88% of the Group's total volume. The Group's main product mix is made up of plywood, Laminated Veneer Lumber (LVL) and other products. The Group's product mix included Medium Density Fibreboard (MDF) prior to the second quarter of 2010.

Samko's passion in developing sustainable wood resources and products led to its latest eco-friendly engineered wood product, Heveatech. Heveatech was launched in FY2011 and is mainly used for decking wood, largely used outdoors. Per its namesake, Heveatech is derived from rubberwood, which otherwise is not highly sought after due to its lower quality. However, with its advanced technology and strong R&D, Samko has transformed the rubberwood product into a first class quality wood. The product of Heveatech is therefore eco-friendly as rubberwood would generally be burnt for its low demand after a rubber tree depletes its useful life.

Through the Group's core values of innovation, sustainability and quality, Samko will progress forward.

Product mix volume (m^3)



Appreciation

I would like to take this opportunity to extend my deepest appreciation to the Board of Directors and the rest of the management team in their continued support, dedication and commitment to the growth of the Group.

Also, not forgetting our customers, suppliers and business partners, I would like to thank them for their consistent support.

It has been a challenging year, in turning the Group around and I greatly appreciate the hard work, commitment and input from all at Samko.

To our shareholders, thank you for your unwavering support throughout the cycles and the confidence in us. We are encouraged by your trust to strive harder for another successful year.

Aris Sunarko
Chief Executive Officer

MILESTONES

Established since 1978, Samko Timber has grown steadily through the changing business and political landscapes. Samko started as a downstream processed timber products manufacturer without any upstream plantations and natural forest concessions. The first processing plant began in Sulawesi, producing 12,000m^3 of plywood annually. Through organic expansion and acquisitions, Samko Timber is now one of the leading wood processing companies in Indonesia, with total production capacity of more than 800,000m^3 per annum.

2008

Listed on the Main Board of the SGX-ST in February

2009

- Established Samko Trading Pte Ltd to enhance Samko's distribution capabilities, mainly for export markets.

2010

- Rights Issue to exercise to further strengthen Group's capital structure
- At first quarter 2010, we deconsolidated Sumalindo through dilution of our 51.62% shareholding to become 31.25%. Sumalindo was in a less favourable financial condition and the deconsolidation strengthens our company's financial position.
- Our subsidiary PT Sumber Graha Sejahtera secured a joint-venture agreement with PT Wahana Sekar Agro to jointly develop a timber plantation in West Java.

2011

- We established Samkowood Products Sdn Bhd, a wholly-owned subsidiary, to market our products in Malaysia.
- We commenced the development of our own industrial forest plantation in Jambi to sustain our future needs of raw material.
- We announced proposed acquisition of Bioforest from Temasek Life Sciences. Bioforest is a bio-technology company that focus in the research and development of high performance tree species for our plantations.

  Bioforest is in the business of producing tree seedling for the plantation industry and is able to genetically duplicate elite tree candidate, producing seedlings which exhibit desirable characteristics as the mother tree. The proposed acquisition, once completed, will help transform Samko into a fully integrated timber processor with innovative upstream capabilities.
- Established Samko USA LLC, with 51% equity interest, in USA

SUSTAINABILITY DEVELOPMENT AND CORPORATE SOCIAL RESPONSIBILITY

"We aim to create products that look and feel beautiful through responsible means, strengthen communities and most importantly, preserve Indonesia's priceless natural heritage."

Samko encourages sustainable development through community involvement. Since 2001, the Group has dedicated itself to the mission of contributing to sustainable environment, providing employment and improving the local community's quality of life through various initiatives. Among others, the Group has implemented:

1. Cooperation with the local community in incubating tree seedlings
2. Providing free tree seedlings and imparting tree planting know how to the local community
3. Tree purchasing scheme from the local community

The objective is to cultivate a tree planting culture for sustainable development and also to increase work opportunities for the community, thus improving the income and the local economy. As at end 2011, more than 33 million seeds have been given by Samko to the local community for free. Logs were purchased from these communities when required.

28 November 2011 was Indonesia Plant Trees Day 2011 and trophies were given to selected companies with outstanding contribution to the program of "One Billion Trees". Samko was bestowed with the "Prima Wana Mitra" Trophies for its contribution towards Sustainable Tree Planting. The Group was conferred nine trophies out of the twenty one trophies presented at the event for its contribution

to sustainable tree planting, seedling donations and assistance to farmers or smallholders in planting the trees. The Group strives to continue these successful programs as part of its corporate social responsibilities.

Besides the above, Samko provides auxiliary works to local community such as patching or simple repair of imperfect veneers as a mean to supplement their income. On annual basis, the Group also selectively sponsors children from low income family living around the Group's factories for their schooling expenses.

On the operations front, Samko is committed to ensure the sustainability of its raw material sources. Many governmental and non-governmental organizations and consumer groups have adopted environmental standards restricting sources of logs harvested for use in the production of processed timber products unless it meets the standards. Samko is well aware of the environmental concerns about the impact of logging and it sources its raw material mainly from plantation logs or those logs meeting the required standards. Some of our processing plants have obtained Forest Stewardship Council (FSC)# chain-of-custody certification and this certification enables us to build brand identity and to meet increasing demand for certified processed timber products. To maintain such certification, we constantly monitor and strive to satisfy certain ongoing compliance requirements, including surveillance audit. During the course of such review, corrective actions are taken in any areas of non-compliance. Certain factories of the Group are also equipped with the following quality and environmental certifications on ongoing basis:

- Japan Agricultural Standard (JAS)
- CE Mark
- Wood Sourcing Verification (WSV)
- ISO9001
- ISO14001
- Timber Legality Assessment System (TLAS)
- California Airborne Resource Board (CARB) Phase-2
- Corporate member of Green Building Council Indonesia (GBCI)

As the Group gradually moving upstream in the long-term, it will also strive to meet both national and international standards of sustainable forest management (SFM), which balances today's needs while also ensures the continued availability of resources. The Group aims to obtain FSC certification for SFM in the future.

"In addition to ensuring raw material supply for our timber processing plant, we see that this partnership is a win-win solution between forest farmers, local government and the Company. We believe that sustainable performance could only be achieved with community support," said Mr. Aris Sunarko.

FSC is a non-profit organisation devoted to encouraging the responsible management of the world's forests. The FSC certification means that the Company adheres to internationally recognised sustainable forest management practices.

BOARD OF DIRECTORS

Mr Koh Boon Hong
Non-Executive Chairman

Mr Koh Boon Hong founded the Group in 1978 and has served on the Board of Samko Timber Limited 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 Aris Sunarko @ Ko Tji Kim
Chief Executive Officer and Executive Director

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 the acquisition of PT Putra Sumber Utama Timber in 1993. Mr Sunarko is currently also the President Commissioner of PT Putra Sumber Utama Timber, PT Haskojaya Abadi, PT Putra Sumber Kimindo, PT Sumber Hutani Lestari and PT Pelayaran Nelly Dwi Puteri, and President Director of PT Sumber Graha Sejahtera and PT Panca Usaha Palopo Plywood.

Mr Michael Joseph Sampoerna
Non-Independent and 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 nine other companies in Singapore and is the President Commissioner of PT Sumber Graha Sejahtera (PT SGS) and PT Sampoerna Agro Tbk.

Mr Koh Tji Kiong @ Amir Sunarko
Non-Independent and Non-Executive Director

Mr Koh Tji Kiong @ Amir Sunarko, 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 PT Putra Sumber Utama Timber 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 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 Sumber Graha Sejahtera, PT Nelly Jaya Pratama, PT Haskojaya Abadi, PT Putra Sumber Kimindo, PT Pelayaran Nelly Dwi Puteri, PT Navatani Persada and Sumalindo.

Mr Eka Dharmajanto Kasih

Non-Independent and 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 PT Sumber Graha Sejahtera, 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 Sim Idrus Munandar

Independent and Non-Executive Director

Mr Sim Idrus Munandar was appointed to the Board in December 2007. He is also a commissioner of PT Sumber Sawit Sejahtera and PT Catur Manunggal Hidup Sejahtera. Prior to 2005, he was 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 at the Sekolah Tinggi Ekonomi (STIE) Jayakarta since 1981.

Mr Ng Cher Yan

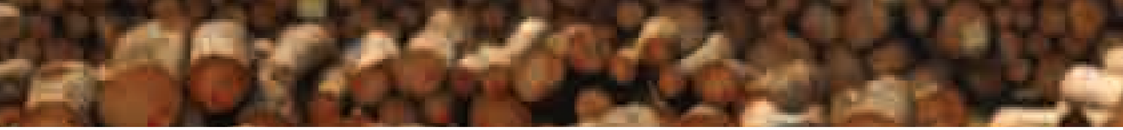
Independent and Non-Executive Director

Mr Ng Cher Yan was appointed to the Board in December 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 Wee Ewe Lay Laurence John

Independent and Non-Executive Director

Mr Laurence John Wee Ewe Lay was appointed to the Board in December 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 23 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.



SENIOR MANAGEMENT TEAM

At the helm of a Group committed to the long term sustainable growth, is a team of experienced management executives led by CEO, Mr Aris Sunarko. The Team has demonstrated its strengths in the successful expansion, turnaround and execution of clear marketing and sales strategies.

Mr Aris Sunarko
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 the acquisition of PT Putra Sumber Utama Timber in 1993. Mr Sunarko is currently also the President Commissioner of PT Putra Sumber Utama Timber, PT Haskojaya Abadi, PT Putra Sumber Kimindo, PT Sumber Hutani Lestari and PT Pelayaran Nelly Dwi Puteri, and President Director of PT Sumber Graha Sejahtera and PT Panca Usaha Palopo Plywood.

Mr Johan Yanto
Chief Financial Officer

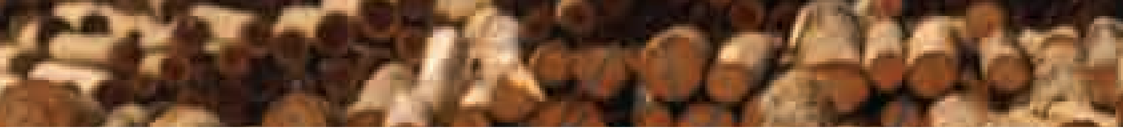
Mr Johan Yanto joined the Group in November 2011. He possesses some 20 years of experience in the accounting profession and management. Prior to joining the Group, Mr Yanto was Finance Director of PT Evans Indonesia (subsidiary of M.P. Evans Group PLC). His other professional experience includes Sinarmas Group, Merck & Co, PriceWaterhouse Cooper, Arthur Andersen Co. He holds a Bachelor of Economics degree from the Tarumanagara University and a Masters of Management from the University of Indonesia.

Mr Wihartono
Group Financial Controller

Mr Wihartono joined the Group in 1995 as Financial Controller of PT Putra Sumber Utama Timber, 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 Untoro Angkawijaya
Head of Trading & Distribution

Mr Untoro Angkawijaya joined the Group in 1994. Before seating as Head of Trading and Distribution, he was the Chief Financial Officer of the Company. He possesses some 20 years of experience in the accounting profession and 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 Koh Tji Kiong @ Amir Sunarko
Head of Kalimantan Operations

Mr Koh Tji Kiong @ Amir Sunarko, 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 PT Putra Sumber Utama Timber from 1993 until his election as a member of its Board of Commissioners in 2005. Mr Sunarko possesses approximately 23 years of experience serving as a commissioner or director of various companies in the timber industry, including PT Nelly Jaya Pratama, PT Haskojaya Abadi, PT Putra Sumber Kimindo, PT Pelayaran Nelly Dwi Puteri, PT Navatani Persada and Sumalindo.

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. 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 Diputra is also the President Director of PT Sejahtera Usaha Bersama.

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.

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, where he was initially appointed as Project Manger and responsible for the implementation and development of new business plans. In 1999, Mr Handojo was promoted to General Manager of PT Putra Sumber Utama Timber. He holds a Bachelor of Engineering degree from the Institute of Technology, Surabaya, Indonesia.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Non-Executive Chairman:

Koh Boon Hong

Executive Director:

Aris Sunarko @ Ko Tji Kim
(Chief Executive Officer)

Non-Executive Directors:

Koh Tji Kiong @ Amir Sunarko
(Non-Independent)

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

AUDITORS

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

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

Following the re-designation of Mr Koh Tji Kiong @ Amir Sunarko ("Mr Amir") as a Non-Executive Director with effect from 1 March 2012 and the resignation of Mr Ali Gunawan Budiman ("Mr Ali") as an Executive Director of the Company with effect from 31 March 2012, the Board now consists of the following eight members, seven of whom are non-executive Directors, including three independent Directors:-

Non Executive Chairman:
Koh Boon Hong

Executive Director:

Aris Sunarko @ Ko Tji Kim	*Chief Executive Officer*

Non Executive Directors:
Koh Tji Kiong @ Amir Sunarko
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 16 and 17 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 2011 ("FY2011"), the Board met five times to review the Company's quarterly and full-year results and to consider proposed corporate actions by the Company. Ad-hoc meetings are convened if there are matters requiring the Board's decisions 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 FY2011 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	5	4	N.A	N.A	N.A	N.A	N.A	N.A
Aris Sunarko @ Ko Tji Kim	5	5	N.A	N.A	N.A	N.A	N.A	N.A
Koh Tji Kiong @ Amir Sunarko	5	2	N.A	N.A	N.A	N.A	N.A	N.A
Ali Gunawan Budiman (resigned on 31 March 2012)	5	5	N.A	N.A	N.A	N.A	N.A	N.A
Michael Joseph Sampoerna	5	4	N.A	N.A	N.A	N.A	N.A	N.A
Eka Dharmajanto Kasih	5	5	N.A	N.A	N.A	N.A	N.A	N.A
Ng Cher Yan	5	5	4	4	1	1	1	1
Sim Idrus Munandar	5	5	4	4	1	1	1	1
Wee Ewe Lay Laurence John	5	5	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 ("AGM");

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

(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 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 FY2011, 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 Aris Sunarko @ Ko Tji Kim, Michael Joseph Sampoerna and Sim Idrus Munandar, who are retiring by rotation under 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 FY2011, 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 fulfil 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 FY2011, 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 2012 ("FY2012").

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

The Group had entered into separate service contracts with the CEO, Mr Amir and Mr Ali for an initial fixed period of three years commencing from 19 December 2007 (the "Initial Period"), which have been automatically extended for another three years from the expiry of the Initial Period. However the renewal of these service agreements for a further three-year or any other period will be subject to the RC's review and recommendation to the Board for approval subsequently.

The service contracts with Mr Amir and Mr Ali were terminated, following:-

- Mr Amir's re-designation as a Non-Executive Director with effect from 1 March 2012; and
- Mr Ali's resignation as an Executive Director of the Company with effect from 31 March 2012.

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 package for the CEO comprised both fixed and variable components. The variable component is an annual salary supplement equivalent to one month of his 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 CEO does not receive any Directors' fee, whilst the Non-Executive Directors are paid Directors' fees, subject to the shareholders' approval at the AGM. Following Mr Amir's re-designation as a Non-Executive Director, the Directors' fees payable for FY2012 shall include the fee payable to Mr Amir. 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 32 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 FY2011 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	100	-	-	-	100
Koh Tji Kiong @ Amir Sunarko	$500,000 and ←$750,000	100	-	-	-	100
Ali Gunawan Budiman *(resigned on 31 March 2012)*	$250,000 and ←$500,000	85	-	15	-	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 paid in FY2011 to the Group's key Executive Officers (excluding Executive Directors) in the Company and in the Group's subsidiaries, excluding any associated companies.

Name of Key Executive Officers	Position	Remuneration Band	Salary %	Performance Based Bonuses %	Other Benefits %	Total %
Untoro Angkawijaya	(a) Chief Financial Officer *(from 1 January 2011 to 15 November 2011)* (b) Head of distribution and housing component division *(with effect from 16 November 2011)*	$250,000 to ←$500,000	83	11	6	100
Harry Handojo	Head of Java Operations	←$250,000	70	23	7	100
Wihartono	Group Financial Controller	←$250,000	70	22	8	100
The Victor Diputra	Head of Sulawesi Operations	←$250,000	69	23	8	100
Yusran Mustary	Head of Sumatra Operations	←$250,000	75	17	10	100
Johan Yanto	Chief Financial Officer *(appointed on 15 November 2011)*	←$250,000	96	-	4	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 2011.

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, financial 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 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 AC, through the assistance of the internal auditor, reviews the effectiveness of the Group's internal controls;

(b) Reviewing the Group'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 highlight and 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 any 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 FY2011 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 2011 were not prejudiced. The AC is satisfied that the appointment of external auditors is in compliance with the requirements of Rule 712 of the SGX-ST Listing Manual. , the AC has recommended the re-appointment of Messrs Ernst &Young LLP as external auditors for the ensuing year.

In accordance with the requirements of Rule 715 of the SGX-ST Listing Manual, 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.

As the Lead Independent Director, the AC Chairman's scope of work also include leading the AC in its' role in reviewing 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 Officer 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 Group's assets. The AC has been assigned to oversee and ensure that such a 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 Board and the AC have reviewed the adequacy of the Group's internal controls that address the Group's financial, operational and compliance risks. Based on the review conducted, the Board and the AC are of the opinion that, in the absence of any evidence to the contrary, the system of internal controls in place are adequate in meeting the current scope of the Group's business operations.

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 his functions and duties. 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 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 FY2011 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.

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 2011.

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

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

3. Directors' Interests in Shares and Debentures

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

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

Name of director	Direct Interest At the beginning of financial year	Direct Interest At the end of financial year	Deemed Interest At the beginning of financial year	Deemed Interest At the end of financial year
Ordinary shares of the Company				
Koh Boon Hong (1) & (2)	12,750,000	12,750,000	53,626,346	43,526,346
Aris Sunarko				
@ Ko Tji Kim (2) & (3)	39,225,000	174,698,231	482,646,038	49,723,346
Koh Tji Kiong				
@ Amir Sunarko (2)	–	139,473,231	482,646,038	39,126,346

There was no change in any of the above-mentioned interests between the end of the financial year and 21 January 2012.

Notes:

1. Mr. Koh Boon Hong is deemed interested in the 4,400,000 shares held by Ms See Kim Hua

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

   (a) 5,280,000 shares held by Noah Shipping Pte Ltd, and

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

3. Mr. Aris Sunarko @ Ko Tji Kim is deemed to be interested in the 10,597,000 shares held by First Fortuna Holdings Pte Ltd, by virtue of Section 7 of the Company Act.

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

- 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

5. Audit Committee (cont'd)

- 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.

6. 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

Singapore
28 March 2012

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 2011 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

Singapore
28 March 2012

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF SAMKO TIMBER LIMITED

Report on the financial statements

We have audited the accompanying financial statements of Samko Timber Limited, (the "Company") and its subsidiaries (collectively, the "Group") set out on pages 42 to 118 which comprise the balance sheets of the Group and the Company as at 31 December 2011, the statements of changes in equity of the Group and the Company and the consolidated income statement, consolidated statement of comprehensive income and consolidated cash flow statement of the Group for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Chapter 50 (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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the 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 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 2011 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.

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 2012

CONSOLIDATED INCOME STATEMENT

For the financial year ended 31 December 2011

	Notes	Group 2011 Rp'million	Group 2010 Rp'million
Revenue	4	2,484,251	2,205,480
Cost of sales		(2,078,255)	(1,984,805)
Gross profit		405,996	220,675
Other items of income			
Finance income	5	2,010	1,765
Other income	6	3,375	70,772
Other items of expenses			
Selling expenses		(92,708)	(88,137)
General and administrative expenses		(180,943)	(138,137)
Finance expenses	7	(48,221)	(58,897)
Other expenses	8	(13,651)	(85,943)
Share of result of an associate	29	–	(140,610)
Profit/(loss) before tax	9	75,858	(218,512)
Income tax expense	10	(24,343)	(9,513)
Profit/(loss) for the year		51,515	(228,025)
Attributable to:			
Owners of the Company		51,235	(224,980)
Non-controlling interests		280	(3,045)
		51,515	(228,025)
Earnings/(loss) per share (in Rupiah)			
Basic	11	38	(171)
Diluted	11	38	(171)

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 2011

	Notes	Group 2011 Rp'million	Group 2010 Rp'million
Profit/(loss) for the year		51,515	(228,025)
Other comprehensive income:			
Foreign currency translation		237	–
Total comprehensive income for the year – (loss)		51,752	(228,025)
Attributable to:			
Owners of the Company		51,472	(224,980)
Non-controlling interests		280	(3,045)
		51,752	(228,025)

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

CONSOLIDATED BALANCE SHEET

As at 31 December 2011

		Group		Company	
	Notes	2011	2010	2011	2010
		Rp'million	Rp'million	Rp'million	Rp'million
Non-current assets					
Property, plant and equipment	12	639,465	649,418	123	517
Investment in subsidiaries	28	–	–	587,698	587,234
Investment in an associate	29	–	–	–	–
Land use rights	13	59,951	62,682	–	–
Deferred tax assets	14	12,230	5,476	–	–
Other non-current assets	15	26,011	16,869	188	188
		737,657	734,445	588,009	587,939
Current assets					
Inventories	16	210,297	167,910	–	–
Trade and other receivables	17	85,728	72,005	71,868	61,070
Prepaid operating expenses		29,086	27,453	72	107
Advances to suppliers	18	121,256	90,301	–	–
Restricted deposits	19	15,312	20,499	–	–
Cash and cash equivalents	20	95,028	74,945	756	23,852
		556,707	453,113	72,696	85,029
Current liabilities					
Trade and other payables	21	174,623	166,742	27	27
Other liabilities	22	65,649	56,630	4,429	2,221
Advances from customers	23	63,834	64,535	–	–
Income tax payable		31,002	12,398	–	–
Loans and borrowings (current portion)	24	66,889	181,560	–	–
		401,997	481,865	4,456	2,248
Net current assets/(liabilities)		154,710	(28,752)	68,240	82,781

CONSOLIDATED BALANCE SHEET

As at 31 December 2011

		Group		Company	
	Notes	2011	2010	2011	2010
		Rp'million	Rp'million	Rp'million	Rp'million
Non-current liabilities					
Loans and borrowings	24	304,561	185,008	–	–
Post-employment benefits	25	68,249	53,116	–	–
Deferred tax liabilities	14	6,109	6,318	–	–
		378,919	244,442	–	–
Net assets		513,448	461,251	656,249	670,720
Equity attributable to owners of the Company					
Share capital	26	2,134,271	2,134,271	2,134,271	2,134,271
Accumulated losses		(1,933,927)	(1,985,162)	(1,478,022)	(1,463,551)
Other reserves		309,287	309,050	–	–
		509,631	458,159	656,249	670,720
Non-controlling interests		3,817	3,092	–	–
		513,448	461,251	656,249	670,720

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 2011

Group

	Attributable to equity holders of the Company						
	Share capital (Note 26)	Restructuring reserves (Note 27)	Foreign currency translation reserve[1]	Accumulated losses	Equity attributable to owners of the Company, total	Non-controlling interests	Total equity
	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million
Balance at 1 January 2011	2,134,271	309,050	–	(1,985,162)	458,159	3,092	461,251
Additional controlling interest from a new subsidiary	–	–	–	–	–	445	445
Total comprehensive income for the year	–	–	237	51,235	51,472	280	51,752
Balance at 31 December 2011	2,134,271	309,050	237	(1,933,927)	509,631	3,817	513,448
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

(1) Foreign currency translation reserve

The foreign currency translation reserve represents exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

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 2011

Company

	Share capital (Note 26)	Accumulated losses	Total equity
	Rp'million	Rp'million	Rp'million
Balance at 1 January 2011	2,134,271	(1,463,551)	670,720
Total comprehensive income for the year - loss	–	(14,471)	(14,471)
Balance at 31 December 2011	2,134,271	(1,478,022)	656,249
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

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 2011

	Notes	2011 Rp'million	2010 Rp'million
Operating activities			
Profit/(loss) before tax		75,858	(218,512)
Adjustments for:			
Depreciation of property, plant and equipment	12	93,948	132,557
Interest expense	7	48,221	58,897
Post employment benefits expense-net	25	15,133	14,523
Amortisation of land use rights	13	4,707	4,940
Allowance for bad debts	8	1,237	414
Foreign exchange loss/(gain)		463	(48,838)
Gain on disposal of property, plant and equipment	6	(1,176)	(97)
Interest income	5	(2,010)	(1,765)
Share of result of an associate	29	–	140,610
Impairment loss on property, plant and equipment	12	–	39,210
Inventories written-off due to fire incident	8	–	18,720
Inventories written-down	8	–	6,804
Property, plant and equipment written-off due to fire incident	8	–	2,961
Amortisation of intangible assets		–	456
Gain on sales of land use rights	6	–	(704)
Operating cash flow before changes in working capital		236,381	150,176
Changes in working capital			
Inventories		(42,387)	(27,951)
Trade and other receivables		(14,515)	36,160
Prepaid operating expenses		5,279	34,798
Advances to suppliers		(31,262)	(10,807)
Trade and other payables		7,881	26,635
Other liabilities		8,297	(24,393)
Advances from customers		(701)	(6,969)
Other non-current assets		7,490	(17,251)
Cash flow from operating activities		176,463	160,398
Income taxes paid		(19,618)	(14,814)
Net cash flows from operating activities		156,845	145,584

CONSOLIDATED CASH FLOW STATEMENT

For the financial year ended 31 December 2011

	Notes	2011 Rp'million	2010 Rp'million
Investing activities			
Purchases of property, plant, and equipment		(80,018)	(33,463)
Additions to land use rights	13	(1,976)	(1,768)
Interest received		2,010	1,765
Payments of other non-current assets		(16,632)	(753)
Proceeds from disposal of property, plant and equipment		–	2,486
Proceeds from disposal of land use rights		–	789
Additions of intangible assets		–	(1,072)
Subscription of associate company's rights issue	28	–	(12,814)
Net cash outflows arising from the dilution of a subsidiary	28	–	(17,037)
Net cash flows used in investing activities		(96,616)	(61,867)
Financing activities			
Proceeds from issuance of ordinary shares	26	–	190,405
Proceeds from loans and borrowings		463,934	140,949
Repayments of loans and borrowings		(487,978)	(402,789)
Proceeds from sale and lease back transactions - finance lease arrangements		25,778	–
Interest expense paid		(47,066)	(47,855)
Withdrawals of restricted deposits		20,524	94,744
Repayment of short term borrowing from a company related to a substantial shareholder		–	(94,744)
Placements of restricted deposits		(15,338)	(350)
Net cash flows used in financing activities		(40,146)	(119,640)
Net increase/(decrease) in cash and cash equivalents		20,083	(35,923)
Cash and cash equivalents at 1 January		74,945	110,868
Cash and cash equivalents at 31 December	20	95,028	74,945
Non-cash transaction:			
Increase in property, plant and equipment through finance lease		39,771	–

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).

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 is of general wholesale trade. The principal activities of the subsidiaries are disclosed in Note 28.

2. Summary of significant accounting policies

2.1 ***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.

2.2 ***Changes 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 2011. The adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group and the Company.

2.3 ***Standard issued but not yet effective***

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

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

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

Description	*Effective for annual periods beginning on or after*
Amendments to FRS 107 Disclosures – Transfers of Financial Assets	1 July 2011
Amendments to FRS 12 Deferred Tax: Recovery of Underlying Assets	1 January 2012
Amendments to FRS 1 Presentation of Items of Other Comprehensive Income	1 July 2012
Revised FRS 19 Employee Benefits	1 January 2013
Revised FRS 27 Separate Financial Statements	1 January 2013
Revised FRS 28 Investments in Associates and Joint Ventures	1 January 2013
FRS 110 Consolidated Financial Statements	1 January 2013
FRS 111 Joint Arrangements	1 January 2013
FRS 112 Disclosure of Interests in Other Entities	1 January 2013
FRS 113 Fair Value Measurements	1 January 2013

The directors expect that the adoption of the standards and interpretations above will have no material impact on the financial statements in the period of initial application.

2.4 ***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.

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

2.4 ***Basis of consolidation (cont'd)***

Business combinations from 1 January 2010 (cont'd)

Losses within a subsidiary are attributable to the non-controlling interests even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- De-recognises the assets (including goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost;
- De-recognises the carrying amount of any non-controlling interest;
- De-recognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the deconsolidation received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;
- Reclassifies the Group's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Business combinations before 1 January 2010

Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisition of non-controlling interests, prior to 1 January 2010, was accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.
- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further losses were attributed to the Group, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the owners of the Company.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying value of such investments as at 1 January 2010 has not been restated.

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

2.4 ***Basis of consolidation (cont'd)***

Business combinations before 1 January 2010 (cont'd)

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.

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 a 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's 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 2.8. 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.

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.

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

2.4 ***Basis of consolidation (cont'd)***

Business combinations before 1 January 2010 (cont'd)

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. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been 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 adjustments to the contingent consideration were recognised as part of goodwill.

2.5 ***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 Company.

2.6 ***Foreign currency***

The Group's consolidated financial statements are presented in Indonesia Rupiah, which is also the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

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

2.6 *Foreign currency (cont'd)*

(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) *Consolidated financial statements*

For consolidation purpose, 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.

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

2.7 ***Property, plant and equipment***

All items of property, plant and equipment are initially recorded at cost. Subsequent to recognition are measured at cost less accumulated depreciation and any accumulated impairment losses. The cost includes the cost of replacing part of the property, plant and equipment and borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying property, plant and equipment. The accounting policy for borrowing costs is set out in Note 2.21. 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.

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 profit or loss as incurred.

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.

The residual value, 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. Summary of significant accounting policies (cont'd)

2.8 *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.

2.9 *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.

2.10 *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 indication exists, or when an annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount.

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

2.10 ***Impairment of non-financial assets (cont'd)***

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 or group of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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, recent market transactions are taken into account, if available. If no such transactions can be identified, 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.

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in profit or loss in those expense categories consistent with the function of the impaired asset, 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.

For assets excluding goodwill, 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. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. 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 profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

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

2.11 ***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.

2.12 ***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 included as income as part of the Group's share of results of the associate in the period in which the investment is acquired.

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.

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

2.12 ***Associates (cont'd)***

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.

2.13 ***Financial assets***

Initial recognition and measurement

Financial assets are recognised 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)

2.13 ***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.

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

2.13 *Financial assets (cont'd)*

(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.

(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.

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

2.13 ***Financial assets (cont'd)***

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.

2.14 ***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.

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

2.14 ***Impairment of financial assets (cont'd)***

(a) ***Financial assets carried at amortised cost (cont'd)***

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.

(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.

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

2.14 ***Impairment of financial assets (cont'd)***

(c) ***Available-for-sale financial assets (cont'd)***

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, 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.

2.15 ***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.

2.16 ***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.

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

2.16 ***Inventories (cont'd)***

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.

2.17 ***Provisions***

Provisions are recognised when the Group has a present obligation (legal or constructive) 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.

2.18 ***Financial liabilities***

Initial recognition and measurement

Financial liabilities are recognised 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 plus in the case of financial liabilities, not at fair value through profit or loss plus directly attributable transaction costs.

Subsequent measurement

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

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

2.18 *Financial liabilities (cont'd)*

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.

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. Summary of significant accounting policies (cont'd)

2.19 ***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 in accordance with the terms of a debt instrument.

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.

2.20 ***Interest bearing loans and borrowings***

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the profit and loss account when the liabilities are derecognised as well as through the amortisation process.

2.21 ***Borrowing costs***

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

2.22 Employment benefits

(a) ***Defined contribution plan***

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. In particular, the Singapore companies in the Group make contributions to the Central Provident Fund scheme in Singapore, a defined contribution pension scheme. Contributions to national pension schemes are recognised as an expense in the period in which the related service is performed.

(b) ***Termination benefits***

Termination benefits are payable when employment is terminated before the normal retirement date in accordance with the provision of the employment contract and/or local labour laws.

(c) ***Employee leave entitlement***

Employee entitlements to annual leave are recognised when they accrue to employees. The estimated liability for annual leave is recognised for services rendered by employees up to the balance sheet date.

(d) ***Pension benefits***

The Group operates a defined benefit pension plan for severance and service benefits, which is required under the local labour laws and is unfunded. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised as income or expense when the net cumulative unrecognised actuarial gains and losses for each individual plan at the end of the previous reporting year exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plans.

The past service cost is recognised as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognised immediately.

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

2.22 ***Employment benefits (cont'd)***

(d) ***Pension benefits (cont'd)***

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognised reduced by past service cost not yet recognised and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate of cumulative unrecognised net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

If the asset is measured at the aggregate of cumulative unrecognised net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan, net actuarial losses of the current period and past service cost of the current period are recognised immediately to the extent that they exceed any reduction in the present value of those economic benefits. If there is no change or an increase in the present value of the economic benefits, the entire net actuarial losses of the current period and past service cost of the current period are recognised immediately.

Similarly, net actuarial gains of the current period after the deduction of past service cost of the current period exceeding any increase in the present value of the economic benefits stated above are recognised immediately if the asset is measured at the aggregate of cumulative unrecognised net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. If there is no change or a decrease in the present value of the economic benefits, the entire net actuarial gains of the current period after the deduction of past service cost of the current period are recognised immediately.

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

2.23 ***Leases***

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

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.

As lessee

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.

2.24 ***Revenue***

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assess its revenue arrangement to determine if it is acting as principle or agent. The Group has concluded that it is acting as a principle in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

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

2.24 ***Revenue (cont'd)***

(a) ***Sales of goods***

Revenue from sales of goods is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customer, usually on delivery of goods. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

(b) ***Interest income***

Interest income is recognised using the effective interest method.

2.25 ***Income taxes***

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

Current 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 at 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.

(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

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

2.25 ***Income taxes (cont'd)***

(b) ***Deferred tax (cont'd)***

- 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 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 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.

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

2.25 ***Income taxes (cont'd)***

(b) ***Deferred tax (cont'd)***

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 taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it incurred during the measurement period or in profit or loss.

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

2.26 ***Segment reporting***

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the management of the Company who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 35, including the factors used to identify the reportable segments and the measurement basis of segment information.

2.27 ***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.

2.28 ***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.

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. Summary of significant accounting policies (cont'd)

2.29 ***Related parties***

A related party is defined as follows:

(a) A person or a close member of that person's family is related to the Group and Company if that person:

(i) Has control or joint control over the Company;

(ii) Has significant influence over the Company; or

(iii) Is a member of the key management personnel of the Group or Company or of a parent of the Company.

(b) An entity is related to the Group and the Company if any of the following conditions applies :

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company;

(vi) The entity is controlled or jointly controlled by a person identified in (a);

(vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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 2011 was Rp31,002 million (2010: Rp12,398 million) and Rp6,109 million (2010: Rp6,318 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 2011 was Rp12,230 million (2010: Rp5,476 million).

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

3.1 *Judgments made in applying accounting policies (cont'd)*

(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.

3.2 *Key sources of estimation uncertainty*

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 2011 was Rp639,465 million (2010: Rp649,418 million).

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

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

(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. Property, plant and equipment and investment in an associate 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.

The carrying amount of the Group's property, plant, and equipment and investment in an associate at the end of the reporting period is disclosed in Notes 12 and 29 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 17 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 25 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 2011 amounted to Rp68,249 million (2010: Rp53,116 million).

4. Revenue

	Group	
	2011	**2010**
	Rp'million	Rp'million
Domestic sales	1,942,282	1,842,756
Export sales	541,969	362,724
	2,484,251	2,205,480

5. Finance income

	Group	
	2011	**2010**
	Rp'million	Rp'million
Interest income from:		
Fixed deposit	1,284	1,118
Current account	726	647
	2,010	1,765

6. Other income

	Group	
	2011	2010
	Rp'million	Rp'million
Foreign exchange gain, net	1,675	43,025
Gain on disposal of property, plant and equipment	1,176	97
Insurance claim	–	21,443
Gain on sales of land use rights	524	6,207
	3,375	70,772

7. Finance expenses

	Group	
	2011	2010
	Rp'million	Rp'million
Interest expense on:		
Bank borrowings	41,362	55,826
Finance lease	3,073	921
Others	3,786	2,150
	48,221	58,897

8. Other expenses

	Group	
	2011	2010
	Rp'million	Rp'million
Tax penalties	6,171	8,733
Amortisation of land use rights	4,707	4,940
Allowance for bad debts	1,237	414
Impairment loss on property, plant and equipment	–	39,210
Inventories written-off due to fire incident	–	18,720
Inventories written-down	–	6,804
Property, plant and equipment written-off due to fire incident	–	2,961
Retrenchment expenses	–	1,459
Others	1,536	2,702
	13,651	85,943

9. Profit/(loss) before tax

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

	Group	
	2011	**2010**
	Rp'million	Rp'million
Audit fees:		
- Auditor of the Company	954	955
- Other auditors	1,904	1,718
Salaries and employees' benefits	479,404	404,924
Depreciation of property, plant and equipment (Note 12)	93,948	132,557

There were no non-audit fees paid to auditor of the Company and other auditors during the financial years ended 2011 and 2010.

10. Income tax expense

(a) *Major components of income tax expense*

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

	Group	
	2011	**2010**
	Rp'million	Rp'million
Current income tax:		
Current year	31,310	9,647
Under provision in respect of previous years	–	682
	31,310	10,329
Deferred income tax	(6,967)	(816)
Income tax expense recognised in profit or loss	24,343	9,513

10. Income tax expense (cont'd)

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

A reconciliation between tax expense and the product of accounting profit/(loss) multiplied by the applicable corporate tax rate for the financial years ended 31 December can be analysed as follows:

	Group	
	2011	**2010**
	Rp'million	Rp'million
Profit/(loss) before tax	75,858	(218,512)
Tax at domestic rates applicable in the countries where the Group operates	17,650	(53,610)
Income not subject to taxation	(520)	(409)
Non-deductible expenses	14,264	42,819
Utilisation of fiscal losses which were not recognised as deferred tax assets in previous years	(5,685)	–
Recognition of deferred tax assets on prior year fiscal losses	(2,899)	–
Deferred tax assets not recognised for the current year tax losses	1,267	19,433
Under provision in respect of previous year	–	682
Unrecoverable deferred tax assets	–	725
Others	266	(127)
Income tax expense recognised in profit or loss	24,343	9,513

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

Tax losses

As of 31 December 2011, the Group has tax losses of approximately Rp542,754 million (2010: Rp611,517 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. Earning/(loss) per share

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

Loss per share for the year ended 31 December 2010 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 26).

Diluted earnings/(loss) per share is calculated by dividing net profit/(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 earnings/(loss) per share for the years ended 31 December:

	Group	
	2011	**2010**
	Rp'million	Rp'million
Profit/(loss) attributable to owners of the Company used in computation of earnings per share	51,235	(224,980)
	Number of shares	**Number of shares**
Weighted average number of ordinary shares used for basic and dilluted earnings/(loss) per share computation	1,347,243,843	1,318,445,197

12. Property, plant and equipment

Group

						Construction in Progress		Leased Assets		
	Buildings and improve-ments	Machinery and heavy equipment	Electrical installations	Vehicles	Furniture, fixtures and equipment	Buildings	Machinery	Machinery and heavy equipment	Vehicles	Total
	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million
Cost										
At 1 January 2011	264,374	1,245,606	27,014	32,611	48,558	2,721	37,575	56,961	2,098	1,717,518
Additions	14,637	11,900	631	7,203	5,224	14,258	29,943	39,771	–	123,567
Disposals	(137)	(66,848)	–	(592)	(13)	–	–	–	–	(67,590)
Reclassifications	7,733	39,406	449	419	369	(8,604)	(13,985)	(49,013)	(588)	(23,814)
At 31 December 2011	286,607	1,230,064	28,094	39,641	54,138	8,375	53,533	47,719	1,510	1,749,681
Accumulated depreciation and impairment										
At 1 January 2011	84,446	883,356	12,945	24,429	31,648	–	–	30,628	648	1,068,100
Depreciation charge for the year	12,879	61,139	2,907	3,174	5,919	–	–	7,617	313	93,948
Disposals	(36)	(27,556)	–	(420)	(6)	–	–	–	–	(28,018)
Reclassifications	–	7,021	–	–	–	–	–	(30,666)	(169)	(23,814)
At 31 December 2011	97,289	923,960	15,852	27,183	37,561	–	–	7,579	792	1,110,216
Net carrying amount										
At 31 December 2011	189,318	306,104	12,242	12,458	16,577	8,375	53,533	40,140	718	639,465

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

Group (cont'd)

						Construction in Progress		Leased Assets		
	Buildings and improve-ments	Machinery and heavy equipment	Electrical installations	Vehicles	Furniture, fixtures and equipment	Buildings	Machinery	Machinery and heavy equipment	Vehicles	Total
	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 28)	(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 and impairment										
At 1 January 2010	115,201	953,255	10,067	24,763	20,405	–	–	121,890	1,762	1,247,343
Depreciation charge for the year	19,220	73,641	2,878	2,795	11,830	–	–	21,409	784	132,557
Impairment loss	–	39,210	–	–	–	–	–	–	–	39,210
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 28)	(48,959)	(172,461)	–	(3,377)	–	–	–	(106,444)	(427)	(331,668)
At 31 December 2010	84,446	883,356	12,945	24,429	31,648	–	–	30,628	648	1,068,100
Net carrying amount										
At 31 December 2010	179,928	362,250	14,069	8,182	16,910	2,721	37,575	26,333	1,450	649,418

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

Company

	Furniture, fixtures and equipment Rp'million	Electrical installations Rp'million	Total Rp'million
2011			
Cost			
At 1 January 2011	1,527	119	1,646
Additions	15	–	15
At 31 December 2011	1,542	119	1,661
Accumulated depreciation			
At 1 January 2011	1,047	82	1,129
Depreciation charge for the year	379	30	409
At 31 December 2011	1,426	112	1,538
Net carrying amount			
At 31 December 2011	116	7	123
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

Assets pledges as security

Buildings and improvements, machinery and heavy equipment with aggregate net book value of Rp388,535 million in 2011 (2010: Rp471,470 million) are pledged as collateral for interest bearing loans (Note 24).

13. Land use rights

	Group	
	2011	2010
	Rp'million	Rp'million
Cost:		
At 1 January	82,865	139,490
Additions	1,976	1,768
Disposals	–	(85)
At 31 December	84,841	141,173
Accumulated amortisation:		
At 1 January	20,183	46,025
Amortisation	4,707	4,940
At 31 December	24,890	50,965
Total	59,951	90,208
Effect of deconsolidation of a subsidiary (Note 28)	–	(27,526)
Net carrying amount	59,951	62,682

Land use rights with the aggregate carrying amount of Rp45,726 million (2010: Rp59,300 million) are pledged as collateral for interest bearing loans (Note 24).

14. Deferred tax

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

	Group	
	2011	2010
	Rp'million	Rp'million
Deferred tax assets		
Temporary difference on employees' benefits obligation	7,740	9,233
Temporary difference on amortisation of land use rights	4,217	3,390
Unutilised tax losses	3,190	2,259
Temporary difference between accounting and tax base accumulated depreciation	39	(4,179)
Allowance for inventory obsolescence	–	97
Temporary difference on accounting and tax treatment of finance lease	(2,956)	(5,324)
Total deferred tax assets, net	12,230	5,476

14. Deferred tax (cont'd)

	Group	
	2011	2010
	Rp'million	Rp'million
Deferred tax liabilities		
Temporary difference between accounting and tax base accumulated depreciation	8,837	5,065
Temporary difference on accounting and tax treatment of finance lease	3,751	2,524
Sales and lease back	–	(212)
Allowance for inventory obsolescence	(97)	–
Temporary difference on amortisation of land use rights	(374)	(206)
Temporary difference on employees' benefits obligation	(5,507)	(853)
Other	(501)	–
Total deferred tax liabilities, net	6,109	6,318

Unrecognised tax losses

At the end of the reporting period, the Group has tax losses of approximately Rp529,996 million (2010: Rp602,480 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.

15. Other non-current assets

	Group		Company	
	2011	2010	2011	2010
	Rp'million	Rp'million	Rp'million	Rp'million
Payment for acquiring forest concession right	10,436	–	–	–
Prepaid rental	4,166	–	–	–
Guarantee deposits - net	744	722	188	188
Tax recoverable	54	4,838	–	–
Advances for purchase of property, plant and equipment	–	2,195	–	–
Others	10,611	9,114	–	–
	26,011	16,869	188	188

16. Inventories

	Group	
	2011	2010
	Rp'million	Rp'million
Balance sheet:		
Raw materials	18,311	32,087
Work in progress	61,048	35,853
Finished goods	56,038	40,692
Indirect materials and spare parts	62,600	51,246
Materials in transit	12,300	8,032
	210,297	167,910
Income statement:		
Inventories recognised as an expense in cost of sales	1,166,758	1,126,353
Inventories written-down in other expenses	–	6,804
Inventories written-off in other expenses	–	18,720

Inventories with the aggregate carrying amount of Rp126,003 million in 2011 (2010: Rp72,233 million) are pledged as collateral for interest bearing loans (Note 24).

17. Trade and other receivables

	Group		Company	
	2011	2010	2011	2010
	Rp'million	Rp'million	Rp'million	Rp'million
Trade receivables				
- Third parties	77,291	50,404	–	–
- Related parties	4,027	12,750	–	–
- Subsidiary companies	–	–	–	2,322
Other receivables				
- Third parties	4,165	8,851	–	–
- Related parties	245	–	245	243
- Subsidiary companies	–	–	71,623	58,505
Total trade and other receivables	85,728	72,005	71,868	61,070
Add:				
- Cash and cash equivalents (Note 20)	95,028	74,945	756	23,852
- Restricted deposits (Note 19)	15,312	20,499	–	–
- Tax recoverable (Note 15)	54	4,838	–	–
- Guarantee deposits - net (Note 15)	744	722	188	188
Total loans and receivables	196,866	173,009	72,812	85,110

17. Trade and other receivables (cont'd)

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

Trade receivable with the aggregate carrying amount of Rp66,376 million in 2011 (2010: Rp38,976 million) are pledged as collateral for interest bearing loans (Note 24). 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 Rp4,664 million (2010: Rp5,187 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

The Group has trade receivables amounting to Rp9,469 million (2010: Rp19,552 million) that are past due date at the balance sheet date but not impaired. These receivables are unsecured and the analysis of their aging at the balance sheet date is as follows:

	Group		Company	
	2011	2010	2011	2010
	Rp'million	Rp'million	Rp'million	Rp'million
61 -90 days	3,419	2,074	–	511
More than 90 days	6,050	17,448	–	1,022
Total	9,469	19,522	–	1,533

17. Trade and other receivables (cont'd)

Receivables that are impaired

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

	Group		Company	
	2011	2010	2011	2010
	Rp'million	Rp'million	Rp'million	Rp'million
Trade receivables	2,150	–	–	–
Less: Allowance for impairment	(2,150)	–	–	–
Other receivables	418	414	418	414
Less: Allowance for impairment	(418)	(414)	(418)	(414)
Total	–	–	–	–
Movement in allowance accounts:				
At 1 January	1,401	15,806	414	123,860
Charge for the year	1,237	414	4	414
Written-off	(70)	–	–	–
Reclassification (Note 28)	–	–	–	(123,860)
Effect of deconsolidation of a subsidiary (Note 28)	–	(14,819)	–	–
At 31 December	2,568	1,401	418	414

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

	Group		Company	
	2011	2010	2011	2010
	Rp'million	Rp'million	Rp'million	Rp'million
Indonesian Rupiah	70,957	60,789	–	10,528
United States dollars	14,514	11,193	64,893	43,042
Singapore dollars	–	23	6,975	7,500
Malaysian Ringgit	257	–	–	–
	85,728	72,005	71,868	61,070

18. Advances to suppliers

	Group	
	2011	2010
	Rp'million	Rp'million
For the procurement of:		
Logs	88,408	73,599
Property, plant and equipment	20,438	1,915
Spare parts	4,111	4,672
Veneers	1,789	2,076
Others	6,510	8,039
	121,256	90,301

19. Restricted deposits

	Group	
	2011	2010
	Rp'million	Rp'million
Indonesia Rupiah	8,502	12,400
United States Dollars	6,810	8,099
	15,312	20,499
Interest rate per annum	0%	0.1% - 5.5%

This represents escrow accounts opened and maintained with a lender and are pledged as collateral for interest bearing loans (Note 24).

20. Cash and cash equivalents

	Group		Company	
	2011	2010	2011	2010
	Rp'million	Rp'million	Rp'million	Rp'million
Cash on hand	2,741	1,831	1	14
Cash in banks	45,670	68,014	755	23,838
Short-term deposits	46,617	5,100	–	–
	95,028	74,945	756	23,852
Interest rate per annum	0.1%-6.5%	0.1%-6%	0.1%	0.1%

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.

20. Cash and cash equivalents (cont'd)

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

	Group		Company	
	2011	2010	2011	2010
	Rp'million	Rp'million	Rp'million	Rp'million
Indonesian Rupiah	78,561	40,100	–	–
United States Dollars	15,348	31,759	247	22,081
Singapore Dollar	1,028	2,443	502	1,749
Others	91	643	7	22
	95,028	74,945	756	23,852

21. Trade and other payables

	Group		Company	
	2011	2010	2011	2010
	Rp'million	Rp'million	Rp'million	Rp'million
Trade payable				
- Third parties	167,507	156,206	–	–
- Related parties	6,611	10,536	–	–
- Subsidiary company	–	–	27	27
Liabilities for purchase of machineries	505	–	–	–
Total trade and other payables	174,623	166,742	27	27
Add:				
- Other liabilities (Note 22)	65,649	56,630	4,429	2,221
- Loans and borrowings (Note 24)	371,450	366,568	–	–
Total financial liabilities carried at amortised cost	611,722	589,940	4,456	2,248

21. Trade and other payables (cont'd)

Trade and other payables are denominated in the following currencies:

	Group		Company	
	2011	2010	2011	2010
	Rp'million	Rp'million	Rp'million	Rp'million
Indonesian Rupiah	74,144	85,314	27	27
United States Dollars	97,013	79,389	–	–
Singapore dollars	1,423	629	–	–
Others	2,043	1,410	–	–
	174,623	166,742	27	27

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 unsecured, non-interest bearing and repayable on demand.

22. Other liabilities

	Group		Company	
	2011	2010	2011	2010
	Rp'million	Rp'million	Rp'million	Rp'million
Accrued expenses	52,770	41,031	3,931	2,186
Value added tax payable	10,622	12,578	–	–
Other	2,257	3,021	498	35
	65,649	56,630	4,429	2,221

23. Advances from customers

	Group	
	2011	2010
	Rp'million	Rp'million
Local	31,938	29,292
Export	31,896	35,243
	63,834	64,535

This account represents advances received from customers for sales of the Group's products.

24. Loans and borrowings

	Group	
	2011	2010
	Rp'million	Rp'million
Current		
Interest bearing loans	56,151	179,097
Obligation under finance lease	8,998	1,203
Other	1,740	1,260
	66,889	181,560
Non-current		
Interest bearing loans	291,468	185,008
Obligation under finance lease	13,093	–
	304,561	185,008
Total loans and borrowings	371,450	366,568

(i) *Interest bearing loans*

	Group	
	2011	2010
	Rp'million	Rp'million
Within one year	56,151	179,097
Between two and five years	291,468	185,008
	347,619	364,105

24. Loans and borrowings (cont'd)

(i) *Interest bearing loans (cont'd)*

		Group	
		2011	2010
		Rp'million	Rp'million
(a)	US$17,000,000 and Rp155,150 million term loan payable on 20 quarterly instalments commencing January 2012. Interest for US$ and Rp loan is at LIBOR plus 5.25% and JIBOR plus 4.75% per annum, respectively.	297,496	–
(b)	Rp30,000 million working capital facility. Interest is payable at 12% per annum.	29,200	–
(c)	S$3,000,000 convertible loan maturity in June 2014. Interest is at 9% per annum.	20,923	–
(d)	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
(e)	US$33,190,000 term loan, repayable on a monthly basis, commencing on May 2006 and due on December 2011. Interest is payable at the Bank's cost of fund plus 4.0% per annum.	–	92,106
(f)	US$ 5,000,000 term loan, repayable in 48 monthly instalments that started December 2007. Interest is payable at 2.75% SIBOR per annum.	–	28,825
(g)	Rp24,000 million working capital facilities. Interests are payable at 12% per annum.	–	23,284
(h)	Rp60,888 million term loans, repayable on quarterly instalments, commencing November 2004. Interest is payable at a range of 12% - 13% per annum.	–	6,075
		347,619	364,105
Effective interest rate per annum		5.5%-13.8%	5.3%-15.1%

The convertible loan of S$3,000,000 carries an option which allows the lender to subscribe for new shares in a subsidiary if the subsidiary is unable to repay its obligation loan at maturity date, and or when the entity is undertaking a public offering and or the Company intends to change in the legal and or beneficial ownership of the entity.

The interest bearing loans are secured as follows:

- Guarantee undertaking from two major shareholders of the Company, the Company and certain subsidiaries (a), (c), (d), (e) and (f);

24. Loans and borrowings (cont'd)

(i) *Interest bearing loans (cont'd)*

- Land use rights, buildings, machineries, inventories, trade receivables, bank balance of certain subsidiaries. All other assets of these subsidiaries are on negative pledge to the financial institution and some restriction on dividend payment is imposed on them (a) – (h);
- Shares of certain subsidiaries and an associate company (d).

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, had not been complied with. Subsequently in 2011, the Group has refinanced the entire loans with a new lender under a new terms and conditions, and the Group is now in compliance with the new set of covenants.

(ii) *Obligation under finance lease*

The Group has finance leases 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			
	2011 Rp'million		2010 Rp'million	
	Minimum payments	Present value of minimum payments	Minimum payments	Present value of minimum payments
Within one year	11,193	8,998	1,305	1,203
Between two and five years	13,739	13,093	–	–
Total minimum lease payments	24,932	22,091	1,305	1,203
Less: interest	(2,841)	–	(102)	–
Present value of minimum lease payments	22,091	22,091	1,203	1,203
Interest rate per annum	8.0% - 16.0%		6.0% - 11.0%	
Effective interest rate per annum	8.0% - 16.0%		6.0% - 11.0%	

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

The net book value of assets under finance lease amounts to Rp40,858 million for the financial year ended 31 December 2011 (2010: Rp27,783 million).

25. 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 2011 was 7,642 people (2010: 8,082 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 income statement and "post-employment benefits" in the consolidated balance sheets.

	Group	
	2011	**2010**
	Rp'million	Rp'million
Net benefit expense:		
Current service costs	12,600	12,320
Interest costs	6,086	4,891
Amortisation of past service costs and actuarial losses	1,028	524
Curtailments effect or termination	(48)	(366)
Present value of additional employment	1,070	528
Net benefit expense	20,736	17,897
Benefit liabilities:		
Beginning of the year	53,116	65,972
Expenses during the year	20,736	17,897
Actual payments during the year	(5,603)	(3,374)
	68,249	80,495
Effect of deconsolidation of a subsidiary (Note 28)	–	(27,379)
	68,249	53,116
Present value of post employment benefits obligation	119,348	111,665
Unrecognised past service cost vested	(356)	(378)
Unrecognised actuarial losses	(50,743)	(30,792)
	68,249	80,495
Effect of deconsolidation of a subsidiary (Note 28)	–	(27,379)
Liability recognised in balance sheet	68,249	53,116

25. Post-employment benefits (cont'd)

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

	Group	
	2011	2010
	Rp'million	Rp'million
Beginning of the year	53,116	65,972
Current service cost	12,600	12,320
Interest cost	6,086	4,891
Past service costs and actuarial losses	1,028	524
Benefits paid	(5,603)	(3,374)
Effect of curtailment or termination	(48)	(366)
Present value of additional employment	1,070	528
	68,249	80,495
Effect of deconsolidation of a subsidiary (Note 28)	–	(27,379)
	68,249	53,116

The cost of providing post-employment benefits is calculated by an independent actuary, PT KAIA Magna Consulting. The actuarial valuation was carried out using the following key assumptions:

	Group	
	2011	2010
Discount rate per annum	7.78%	9%
Mortality table	TMI II – 1999	TMI II – 1999
Rates of increase in compensation per annum	10%	10%
Retirement age	55 years old	55 years old

26. Share capital

	Group and Company			
	2011		2010	
	Number of shares	Rp'million	Number of shares	Rp'million
Issued and fully paid				
At 1 January	1,347,243,843	2,134,271	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	1,347,243,843	2,134,271

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.

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.

27. Restructuring reserves

	Group	
	2011	2010
	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.

28. Investment in subsidiaries

	Company	
	2011	2010
	Rp'million	Rp'million
Cost:		
1 January	2,001,109	1,291,109
Addition during the year	464	710,000
31 December	2,001,573	2,001,109
Provision for impairment:		
1 January	1,413,875	1,289,753
Addition during the year	–	262
Reclassification from bad debt allowance (Note 17)	–	123,860
At 31 December	1,413,875	1,413,875
Net carrying amount	587,698	587,234

28. Investment in subsidiaries (cont'd)

The principal subsidiaries of the Group are as follow:

	Name (Country of incorporation)	Principal activities	Percentage of effective equity interest held by the company	
			2011 %	2010 %
@	PT Sumber Graha Sejahtera (Indonesia)	Production of plywood, laminated veneer lumber wood panels and wood based furniture	99.99	99.99
#	Samko Trading Pte Ltd (Singapore)	Wholesale of plywood, sawn timber, logs and related products	100.00	100.00
@	PT Panca Usaha Palopo Plywood (Indonesia)	Production of plywood, sawn timber, wood mouldings and construction materials	98.45	98.45
@	PT Putra Sumber Utama Timber (Indonesia)	Production of plywood and laminated veneer lumber, wood mouldings and building material components	99.58	99.58
@	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	99.92

Audited by Ernst & Young LLP Singapore

@ Audited by Ernst & Young, Jakarta

& Audited by Tanubrata Sutanto Fahmi & Rekan, Jakarta – a member of BDO International Limited

28. Investment in subsidiaries (cont'd)

Incorporation of Samko USA LLC

On 5 December 2011, the Company had subscribed for shares in a new subsidiary in USA with total consideration of USD 51,000 for 51% interest. The Group incorporates Samko USA LLC for the purpose of marketing and selling in the North American market.

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 31.25%. 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	123,487
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

28. 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
Long term loans and borrowings - current portion	293,388
Total current liabilities	1,003,190
Non-current liabilities	
Long term 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 (51.62% 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 equivalents of Rp17,037 million was presented under investing activities as 'Net cash outflows arising from the dilution of a subsidiary'.

29. Investment in an associate

	Group	
	2011	2010
	Rp'million	Rp'million
At equity		
At 1 January	73,275	–
Reclassification of investment in a subsidiary (Note 28)	–	127,796
Addition from subscription of new shares from right issue (Note 28)	–	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	73,275
Less provision for impairment attributable to:		
- Goodwill portion attached to investment in an associate	(71,484)	(71,484)
- Net assets allocated to the Group	(1,791)	(1,791)
Net carrying amount	–	–

Name (Country of incorporation)	Principal activities	Percentage of effective equity interest held by the company	
		2011	2010
		%	%
PT Sumalindo Lestari Jaya Tbk (Indonesia). Audited by Ernst & Young, Jakarta.	Forest exploration, industrial timber estate and utilisation of forest products	31.25	31.25

Total share of loss, gain on dilution and impairment of investment in 2010 was presented under account "Share of result on an associate" in profit or loss.

The summarised unaudited financial information of the associate from the date of the associate ceased as the Group's subsidiaries (Note 28), not adjusted for the proportion of ownership interest held by the Group, is as follow:

	2011	2010
	Rp'million	Rp'million
Assets and liabilities:		
Total assets	1,659,667	1,712,461
Total liabilities	(1,663,017)	(1,706,733)
Net (liabilities)/assets	(3,350)	5,728
Results:		
Revenue	408,729	451,315
Loss for the year	(293,475)	(226,947)

30. 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 31).

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 1 and 4 years and contain renewable options. 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 2011 amounted to Rp3,607 million (2010: Rp3,587 million).

In January 2012, the Group entered into a non-cancellable office lease agreement with a relate party, PT Buana Sakti, for a period of three years commencing on 10 January 2012.

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

	Group	
	2011	**2010**
	Rp'million	Rp'million
Not later than one year	6,407	3,417
Later than one year but not later than five years	6,454	2,999
	12,861	6,416

31. 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 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.

31. Related party disclosures (cont'd)

	Group 2011 Rp'million	Group 2010 Rp'million
PT Nelly Jaya Pratama		
• Purchase of property, plant and equipment	25,000	–
PT Pelayaran Nelly Dwi Putri		
• Freight charges	21,316	21,681
PT Bioforest Indonesia		
• Payment for purchase of trees	4,873	4,873
PT Wahana Sekar Agro		
• Cooperation for cultivation of trees	2,721	–
PT Buana Sakti		
• Office rental deposit	744	–
Noah Shipping Pte Ltd		
• Consulting service for transhipment	419	–

PT Pelayaran Nelly Dwi Putri, PT Nelly Jaya Pratama and Noah Shipping Pte Ltd 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.

PT Buana Sakti and PT Wahana Sekar Agro are controlled by Sampoerna family, who is related to a substantial shareholder of the Company.

Compensation to key management personnel

	Group 2011 Rp'million	Group 2010 Rp'million
Short-term benefits		
- Directors	11,670	11,243
- Executive officers	13,890	6,370
	25,560	17,613

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

31. Related party disclosures (cont'd)

Commitments with related parties

(i) 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 was approved in the Extraordinary General Meeting in August 2010. The transaction has been completed at the end of 2011.

(ii) 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.

Financial guarantee

The Company has granted financial guarantee to the lenders for interest bearing loans for certain subsidiaries (Note 24).

32. 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 loans and borrowings and cash in bank.

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

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

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.

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 borrowing interest rates had been 100 basis points lower/ higher with all other variables held constant, the Group's profit/ (loss) in 2011 would have been Rp2,875 million higher/ lower (2010: Rp3,641 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 profit/(loss) from a reasonably possible change in the Indonesian Rupiah exchange rate against US$, with all other variables held constant.

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

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

	Group	
	2011	2010
	Rp'million	Rp'million
	Profit, net of tax Increase/(decrease)	Loss, net of tax (Increase)/decrease
Strengthened 4%	6,499	8,237
Weakened 4%	(6,499)	(8,237)
Strengthened 8%	12,998	16,474
Weakened 8%	(12,998)	(16,474)
Strengthened 12%	19,497	24,712
Weakened 12%	(19,497)	(24,712)
Strengthened 16%	25,995	32,949
Weakened 16%	(25,995)	(32,949)

(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 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.

<u>Financial assets that are neither past due nor impaired</u>

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.

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

(c) *Credit risk (cont'd)*

Information regarding financial assets that are either past due or impaired is disclosed in Note 17 (Trade and other receivables).

(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 18% (2010: 50%) of the Group's loan and borrowings (Note 24) will mature in less than one year based on the carrying amount reflected in the financial statements. The Group will continue to monitor and address this risk by monitoring liquidity ratios (including projecting cash flow) and maintaining debt financing plans.

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

31 December 2011	Within 1 year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	More than 5 years	Total
	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million
Trade and other payables	174,623	–	–	–	–	–	174,623
Interest bearing loans	56,151	43,301	64,932	60,190	123,045	–	347,619
Obligations under finance lease	8,998	9,878	3,215	–	–	–	22,091
Other	1,740	–	–	–	–	–	1,740

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

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

31 December 2010	Within 1 year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	More than 5 years	Total
	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million
Trade and other payables	166,742	–	–	–	–	–	166,742
Interest bearing loans	179,097	28,807	156,201	–	–	–	364,105
Obligations under finance lease	1,203	–	–	–	–	–	1,203
Other	1,260	–	–	–	–	–	1,260

33. 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.

34. 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 2011 and 2010.

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 restricted deposits, cash and cash equivalents. Capital includes equity attributable to the equity holders of the Company.

Description	Group	
	2011	2010
	Rp'million	Rp'million
Loans and borrowings (Note 24)	371,450	366,568
Trade and other payables (Note 21)	174,623	166,742
Other liabilities (Note 22)	65,649	56,630
Less: restricted deposits (Note 19)	(15,312)	(20,499)
Less: cash and cash equivalents (Note 20)	(95,028)	(74,945)
Net debt	501,382	494,496
Equity attributable to the owners of the Company	509,631	458,159
Capital and net debt	1,011,013	952,655
Gearing ratio	50%	52%

35. Segment information

During the financial year, the Group changed its reportable segmental information from 1) primary processed timber products, 2) secondary processed timber products and 3) chemical glue business segments to that of 1) SGS division and 2) ST division. The change better reflects the operating segments of the Group where these internal components are evaluated for performance and allocation of resources. The comparatives have been reclassified to conform with the current year's presentation.

For management purposes, the Group is organised into business divisions based on their products and services, and has two reportable segments as follows:

I. SGS division – refers to the operations of PT Sumber Graha Sejahtera group of entities. This division principally in the business of manufacturing and sales of 1) primary processed timber products (main) such as general plywood and laminated veneer lumber and 2) secondary processed timber products such as truck, piano body parts and decking.

II. ST division – refers to the operations of Samko Trading Pte Ltd group of entities. This division principally trade in all types of timber products manufactured by the division, SGS division and third parties. This division also produces mainly secondary timber products such as doors and windows.

Except as indicated above, no operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss after tax which in certain respects, as explained in the table below, is measured differently from profit or loss after tax in the consolidated financial statements. Group corporate expenses are managed on a group basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

35. Segment information (cont'd)

	SGS division		ST division		Adjustments and eliminations		Notes	Per consolidated financial statements	
	2011	2010	2011	2010	2011	2010		2011	2010
	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million		Rp'million	Rp'million
Revenue:									
External customers	1,880,714	2,103,169	603,537	102,311	–	–		2,484,251	2,205,480
Inter-segment	513,480	58,414	–	–	(513,480)	(58,414)		–	–
Total revenue	2,394,194	2,161,583	603,537	102,311	(513,480)	(58,414)		2,484,251	2,205,480
Results:									
Finance income	1,574	1,355	436	13	–	397		2,010	1,765
Finance expenses	(43,759)	(57,889)	(4,428)	(654)	(34)	(354)		(48,221)	(58,897)
Depreciation	(92,691)	(132,094)	(848)	(52)	(409)	(411)		(93,948)	(132,557)
Amortisation of land use rights	(4,707)	(4,940)	–	–	–	–		(4,707)	(4,940)
Post employment benefit expenses	(19,594)	(17,800)	(1,142)	(97)	–	–		(20,736)	(17,897)
Share of results from an associate	–	(140,610)	–	–	–	–		–	(140,610)
Tax expenses	(21,165)	(9,353)	(3,178)	(160)	–	–		(24,343)	(9,513)
Segment profit/(loss)	52,249	(215,499)	14,419	137	(15,153)	(12,663)	A	51,515	(228,025)
Assets:									
Deferred tax assets	11,891	5,429	339	47	–	–		12,230	5,476
Segment assets	1,220,594	1,122,334	184,574	80,126	(110,804)	(14,902)	B	1,294,364	1,187,558
Liabilities:									
Loans and borrowings	320,358	343,246	51,092	23,322	–	–		371,450	366,568
Provision for tax	27,438	12,231	3,564	167	–	–		31,002	12,398
Deferred tax liabilities	6,103	6,318	6	–	–	–		6,109	6,318
Segment liabilities	797,161	751,170	163,555	73,762	(179,800)	(98,625)	C	780,916	726,307

35. Segment information (cont'd)

Revenue and other non-current assets information based on the geographical location of the customers and assets respectively are as follows:

Notes: Nature of adjustments and elimination to arrive at amounts reported in the consolidated financial statements

A The following items are deducted from segment profit/(loss) to arrive at "profit/(loss) after tax" presented in the consolidated income statements:

	Group	
	2011	2010
	Rp'million	Rp'million
Profit from inter-segment sales	(682)	(120)
Corporate expenses, net	(14,471)	(12,543)
	(15,153)	(12,663)

B The following items are deducted from segment assets to arrive at total assets reported in consolidated balance sheet:

	Group	
	2011	2010
	Rp'million	Rp'million
Assets managed by corporate department	1,001	24,547
Inter-segment assets	(111,805)	(39,449)
	(110,804)	(14,902)

C The following items are deducted from segment liabilities to arrive at total liabilities reported in consolidated balance sheet:

	Group	
	2011	2010
	Rp'million	Rp'million
Liabilities managed by corporate department	(4,455)	(2,248)
Inter-segment liabilities	(175,345)	(96,377)
	(179,800)	(98,625)

35. Segment information (cont'd)

Geographical information

Revenue and other non-current assets information based on the geographical location of the customers and assets respectively are as follows:

	Revenue		Non-current assets	
	2011	2010	2011	2010
	Rp'million	Rp'million	Rp'million	Rp'million
Indonesia	1,884,444	1,795,951	699,256	711,557
North Asia	462,174	229,267	–	–
Singapore	54,031	49,343	160	543
Malaysia	40,781	11,615	–	–
Middle East	20,388	53,540	–	–
United States of America	11,296	16,366	–	–
Others	11,137	49,398	–	–
	2,484,251	2,205,480	699,416	712,100

Non-current assets information presented above consist of property, plant and equipment and land use rights as presented on the consolidated balance sheet.

36. Authorisation of financial statements for issue

The financial statements for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the directors on 28 March 2012.

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
Statistics of shareholdings

Size of Shareholding			Number of Shareholders	%	Number of Shares	%
1	-	999	30	2.56	2,957	0.00
1,000	-	10,000	422	36.07	2,287,126	0.17
10,001	-	1,000,000	683	58.38	64,018,136	4.75
1,000,001	-	above	35	2.99	1,280,935,624	95.08
			1,170	100.00	1,347,243,843	100.00

Substantial shareholders
(As recorded in the Register of Substantial Shareholders)

	Direct Interest	%	Deemed Interest	%
Aris Sunarko @ Ko Tji Kim (1) & (2)	174,698,231	12.97	49,723,346	3.69
Koh Tji Kiong @ Amir Sunarko (1)	139,473,231	10.35	39,126,346	2.90
Cindy Sunarko	138,473,230	10.28	-	-
Sampoerna Forestry Limited	554,866,305	41.19	-	-

Notes:

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

(a) 5,280,000 shares held by Noah Shipping Pte Ltd; and

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

(2) Mr Aris Sunarko @ Ko Tji Kim is deemed to be interested in the 10,597,000 shares held by First Fortuna Holdings Pte Ltd, by virtue of Section 7 of the Companies Act

SHAREHOLDERS' INFORMATION

As at 16 March 2011

PERCENTAGE OF SHAREHOLDING IN PUBLIC'S HANDS

20.25% 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.

Twenty largest shareholders

No.	Name of shareholders	Number of shares	%
1.	UOB Kay Hian Pte Ltd	1,015,106,997	75.35
2.	HSBC (Singapore) Nominees Pte Ltd	53,365,275	3.96
3.	Citibank Nominees Singapore Pte Ltd	50,647,500	3.76
4.	Hasan Holdings Pte Ltd	33,846,346	2.51
5.	Aris Sunarko @ Ko Tji Kim	17,225,000	1.28
6.	DBS Nominees Pte Ltd	13,500,006	1.00
7.	United Overseas Bank Nominees Pte Ltd	13,482,000	1.00
8.	Koh Boon Hong	12,750,000	0.95
9.	First Fortuna Holdings Pte Ltd	10,597,000	0.79
10.	Natalia Tanwir Tan	7,808,000	0.58
11.	DBS Vickers Securities (S) Pte Ltd	5,383,000	0.40
12.	Noah Shipping Pte Ltd	5,280,000	0.39
13.	See Kim Hua	4,400,000	0.33
14.	Phillip Securities Pte Ltd	4,138,500	0.31
15.	DMG & Partners Securities Pte Ltd	3,184,000	0.24
16.	OCBC Securities Private Ltd	2,133,000	0.16
17.	Tjahya Tjugiarto	2,112,000	0.16
18.	Tang Suay Tuen	2,000,000	0.15
19.	Chye Chia Chow	1,886,000	0.14
20.	Horng Jiin Shuh @ Hung Ching Hsu	1,831,000	0.14
		1,260,675,624	93.60

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, Level 4, 7500 Beach Road, Singapore 199591 on Friday, 27 April 2012 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 2011 together with the Auditors' Report thereon. **(Resolution 1)**

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

   Mr Aris Sunarko @ Ko Tji Kim **(Resolution 2)**
   Mr Michael Joseph Sampoerna **(Resolution 3)**
   Mr Sim Idrus Munandar **(Resolution 4)**

   Mr Aris Sunarko @ Ko Ji Kim will, upon re-election as a Director of the Company, remain as an Executive Director and will be considered non-independent.

   Mr Michael Joseph Sampoerna will, upon re-election as a Director of the Company, remain as a Non-Executive Director and will be considered non-independent.

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

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

4. To approve the payment of Directors' fees of S$220,300 for the year ending 31 December 2012, payable quarterly in arrears. (2011: 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, 12 April 2012

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.

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