SAMKO TIMBER LIMITED

# The Inspiration to Innovate & Invent

Annual Report 2012

# 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 a tropical hardwood plywood producer 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,

The events of FY2012 have allowed the resilience and spirit of Samko Timber to shine through. We have faced many challenges both at home and abroad and with the support of everyone involved in the Samko Group, we have managed to emerge from FY2012 in a much stronger position than we were in the previous year. I am sure shareholders are pleased that Samko has achieved eight consecutive quarters of profitability after we re-structure our business in 2010.

## Overcoming Challenges

Indonesia's growth as a country over the past couple of years has been significant with the country recording economic growth of more than 6% for eight straight quarters[1]. Indonesia's strong consumption and inclination towards domestic demand have to some extent insulated the economy from weaknesses in the global economies.

Inflation apart, Indonesia's government decision to increase minimum wage will pose greater burden on businesses. Average increase of minimum wage in 2012 was estimated to be more than 10%[2], while minimum wage in 2013 is expected to increase by about 18%. This directly translates into higher operating expenses. Our management has anticipated this and has been working diligently behind the scenes to ensure that our operations are not affected and our workers are all taken care of. To overcome these challenges, we continue to constantly seek out new sources of income by introducing new products or penetrating new markets and increase our productivity in our operations.

## Laying the Foundation for Future Growth

Samko has greater aspirations beyond just doing better with the businesses we have now. We envisage to be a fully integrated timber player. In 2012, we acquired Bioforest Private Limited ("Bioforest"), which specialises in the research and cloning technology to produce seedlings with optimum qualities. Bioforest will help us to produce high quality tree seedlings for future processing. Besides going up stream, we also expanded downstream in 2012. We acquired 65% of PT Cipta Graha Kreasindo ("CGK"), which now allows Samko to offer house contracting solution to our customers to complement and enhance our wood-based housing materials sales. CGK's wood-based raw materials will largely be sourced primarily from the Group, thus giving us an added avenue source. With Bioforest and CGK, the Group now has upstream and downstream capabilities to complement our core business of timber processing.

Innovation has been a very integral part of Samko's culture and our Research and Development department remains one of the Group's key pillars for sustainable growth. At every turn, our employees are encouraged to maximise wood value through innovation and there are avenues in place which allows feedback to flow through, with the ultimate aim of further improvements in either our processes or products.

## Growth & Outlook

Domestically, we see a growing demand for housing in and around Jakarta and other parts of Indonesia as the domestic economy improves. Along with the greater housing demand, we are hopeful that the demand for our wood products, plywood and its variations like decking and roof trusses, will also increase.

In our export market, we intend to grow our reach as demand comes in from Japan, the Middle East and USA. There is demand in the market for the replacements for solid wood products with engineered wood products as the supply of quality logs and exotic species continues shrinking. Regionally, there is also bullish demand from China and India for logs as supply remains tight.

We believe our newer products such as pre-fab wooden houses and roof trusses will ride on the increasing constructing demand domestically, our high performing wood decking products using rubber wood will be accepted by the international markets who are look for sustainable eco-friendly products.

The foundation that we lay today will form the revenue driver of tomorrow. As long as we diligently carry out our strategies together and be vigilant to counter and mitigate challenges and risks along the way, we can confidently look forward to 2013 and beyond to reap our rewards of hard work.

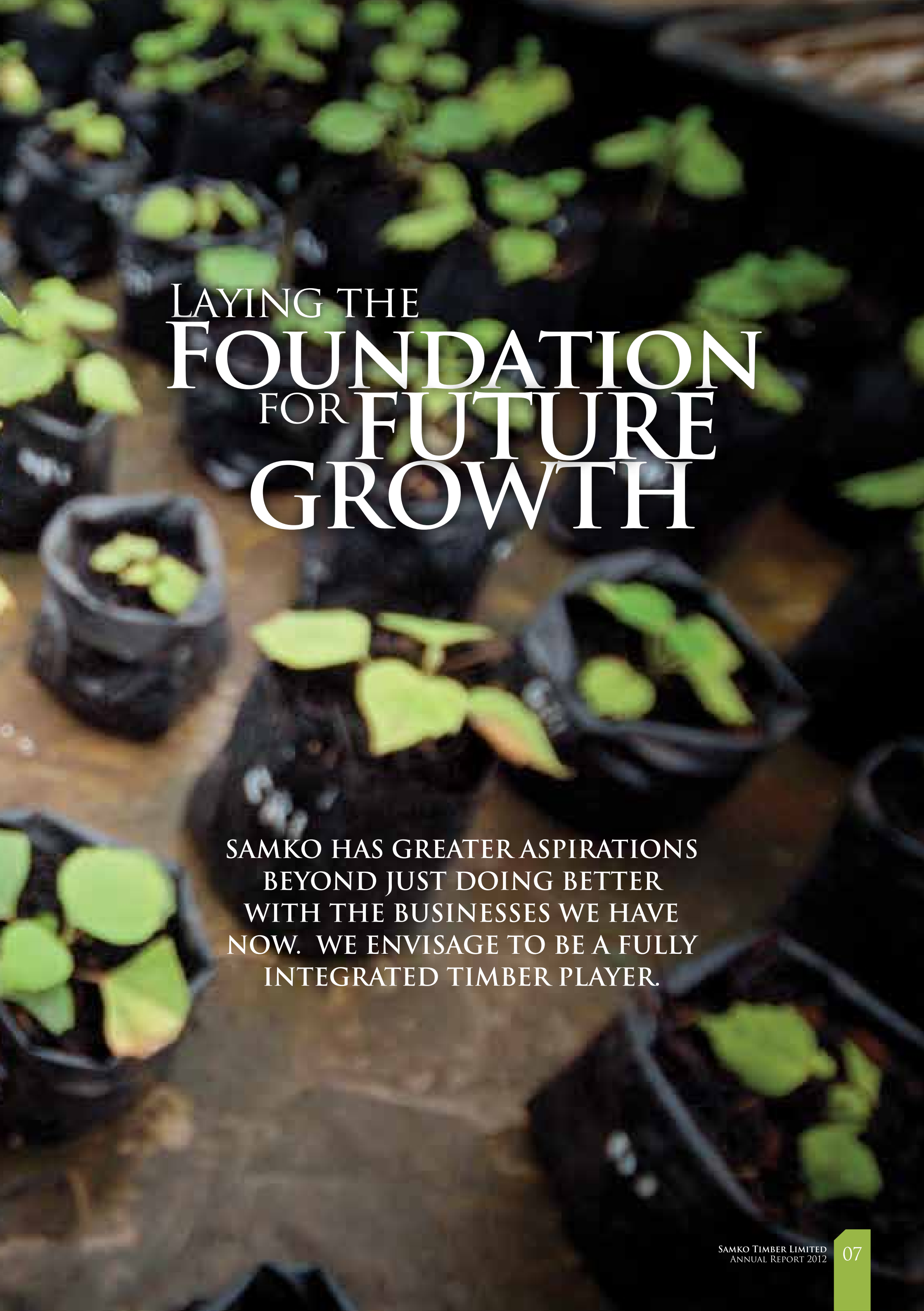
## Appreciation

On behalf of the Group, I would like to extend my sincerest appreciation to everyone involved with Samko Timber. We are proud and heartened by your belief and continued support in us and we will strive to achieve a greater reach and heights in the coming years.

**Koh Boon Hong**
*Chairman*

[1] http://www.bloomberg.com/news/2012-11-12/indonesia-mulls-minimum-wage-boost-amid-protests-southeast-asia.html
[2] http://www.wageindicator.org/main/minimum-wages/indonesia


CRI



# Laying the Foundation for Future Growth

**Samko has greater aspirations beyond just doing better with the businesses we have now. We envisage to be a fully integrated timber player.**

# CEO's Statement

### Dear Shareholders,

FY2012 marks a significant year in the Group's history as Samko has now reported eight consecutive quarters of profits after the deconsolidation of Sumalindo in 2010. The past two years have been exciting as we restructure our business and I am pleased to report that Samko has moved on to become wiser and better as evidenced by the clear and sustained turnaround in our results.

The Group's overall revenue grew 11% year-o-year to Rp2.76 trillion, with the domestic market contributing about 77% of total Group revenue as domestic sales were boosted by higher volumes and selling prices, riding on the back of strong local housing and construction demand. Whilst the Group's export sales volume have largely remained at the same level as FY2011, our export sales values have increased by 15% to Rp625.7 billion as a result of an increase in sales of higher value products and a more favourable foreign exchange rate.

Over the course of FY2012, the Group has improved our product mix, as we embarked on our new fully-integrated business model. We have introduced new products like Heveatech (proprietary wood decking) and pre-fab housing, both of which complements our processing facilities and caters directly to the strong housing and construction demand. The Group has also increased its efforts to achieve cost leadership in the market by adapting our production processes to use machinery designed in-house, resulting in further energy efficiency. In addition, our strategically located processing and satellite plants have also reduced our transport costs.

These measures, coupled with an increase in production volume and lower average production costs have resulted in an improvement in the Group's gross profit margin by 1.2 percentage points to 17.5%, which contributed to the 19% surge in our gross profit to Rp484.0 billion.

### Fully-integrated business model

As part of our efforts to transform into a fully-integrated timber processing Group, we targeted FY2012 as the year that we would be strengthening our position as a high-tech and innovative business, with FY2011 being a year of recovery.

In the second quarter of FY2012, Samko completed the 100% acquisition of Bioforest Private Limited ("Bioforest") from Temasek Life Sciences Ventures Private Limited. Bioforest specialises in the research to genetically duplicate elite tree candidates, or cloning technology, to produce seedlings with optimum qualities and characteristics as its mother tree. Bioforest will produce for Samko high quality tree seedlings for future processing.

Also in the second quarter of FY2012, Samko embarked on a strategic move to progress downstream in the business model through the 65% acquisition of a new subsidiary, PT Cipta Graha Kreasindo ("CGK"). CGK will, on behalf of the Group, provide construction and installation services into our products so as to induce the market to buy and experience our products superiority over the competitors'. This may also give us a faster access into the housing market.

Over the course of FY2012, these two new acquisitions have successfully been introduced to the Group's operations. With Bioforest and CGK, the Group now has upstream and downstream capabilities to complement our core business of timber processing.

As Samko moves into FY2013, the successful integration of our new business model will allow us to focus on extending our reach both domestically and internationally. At Samko, we are constantly looking for ways to improve our existing products while also introducing new products. The Group remains wholly committed to its core values of innovation, sustainability and quality. With the confidence provided by our fully-integrated business model and our traditionally strong core values, we are confident that we are on the right track for the expansion and growth of Samko.

## Appreciation

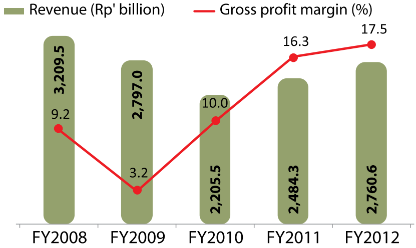
I would like to take this opportunity to extend my deepest appreciation to the Board of Directors and the key management team for their dedication, guidance and knowledge which has been crucial in the growth of Samko.

To the staff of Samko, I would like to thank you for your hard work and consistency in ensuring that Samko delivers only the best quality products.

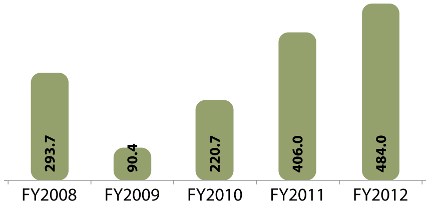
To our customers, supplier and business partners, thank you for your consistent support and belief in Samko.

To our shareholders, thank you for your unwavering support and confidence throughout the years. Your confidence instils positivity in us and we are encouraged by your trust to strive harder for another successful year.

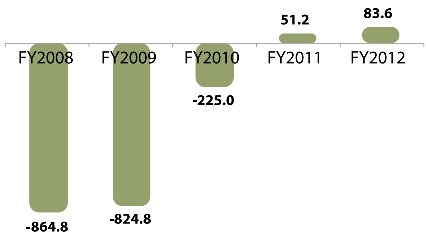
**Aris Sunarko**
*Chief Executive Officer*



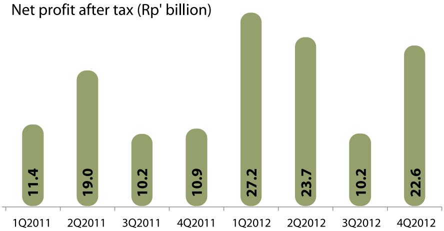

Gross profit (Rp'billion)



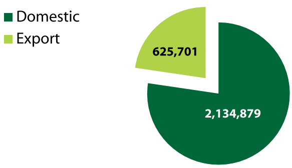

Net profit after tax to shareholders (Rp'billion)

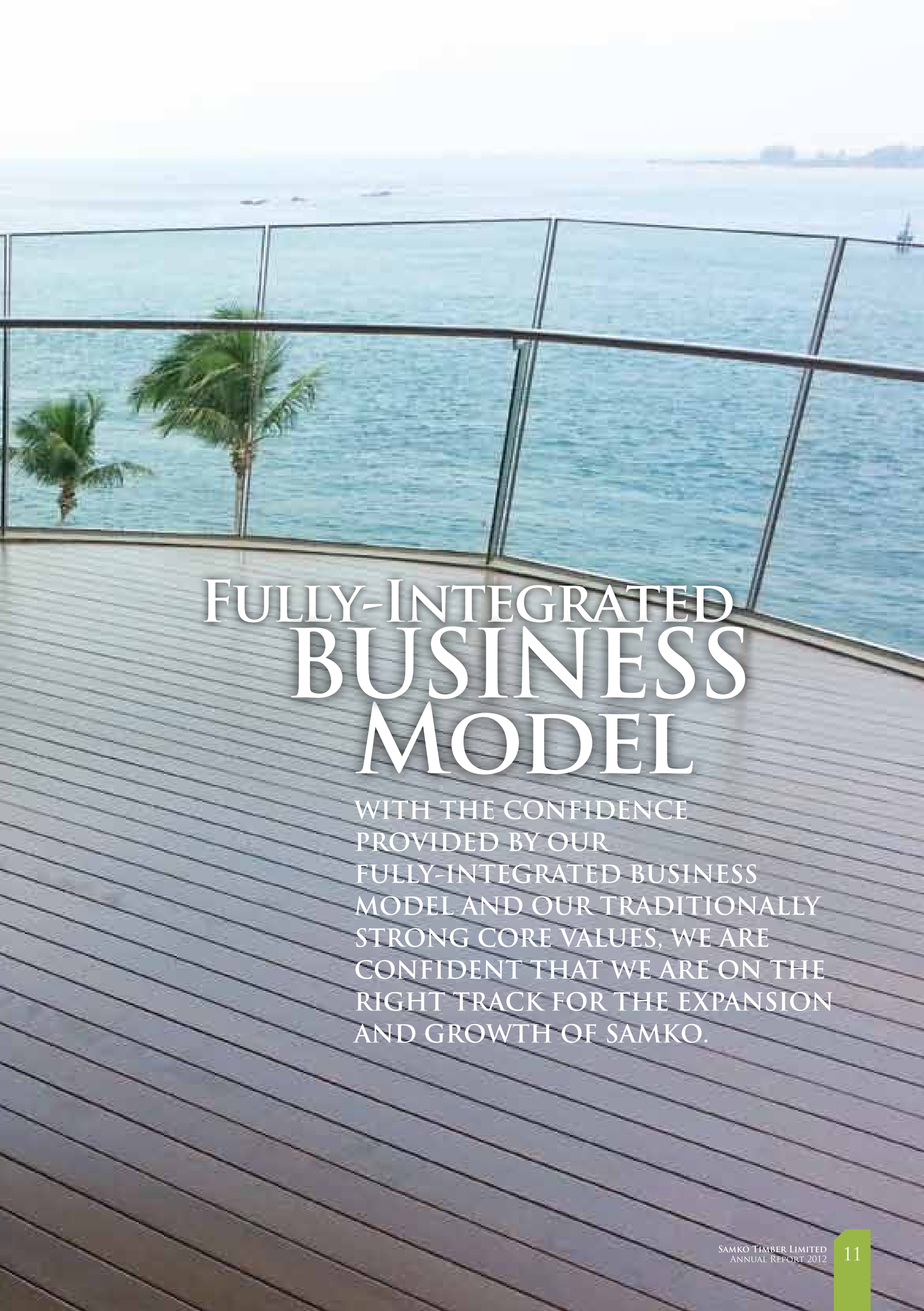



Net profit after tax (Rp' billion)




FY2012 Geographical Breakdown of Revenue



# Fully-Integrated BUSINESS MODEL

WITH THE CONFIDENCE PROVIDED BY OUR FULLY-INTEGRATED BUSINESS MODEL AND OUR TRADITIONALLY STRONG CORE VALUES, WE ARE CONFIDENT THAT WE ARE ON THE RIGHT TRACK FOR THE EXPANSION AND GROWTH OF SAMKO.

# 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%. 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.

2012

- Completes 100% acquisition of Bioforest.
- Completes 65% acquisition of PT Cipta Graha Kreasindo ("CGK"). CGK will, on behalf of the Group, provide construction and installation services into our products and also provide Samko faster access into the housing market.

# Sustainability Development and Corporate Social Responsibility

**"Samko strongly believes in giving back to society. Our commitment towards the preservation of Indonesia's resources could not have been possible without the assistance and strong support of the local communities that we are in."**

*Aris Sunarko, CEO, Samko Timber Limited*

Samko believes strongly in socially responsible practices and is committed to ensure the sustainability of its raw material sources. The Group strives to meet both national and international standards of sustainable forest management (SFM), which allows Samko to strike a fine balance between our needs while also ensuring the continued availability for long-term development.

In 2012, Samko was heavily involved in the following activities:

1. Contributing free seedlings to the local communities
2. Building a 1.1 km public asphalt road near one of Samko's factories in West Java
3. Offering scholarships for best performing students
4. Offering school fee support for low income families

With the long-term objective of cultivating a tree planting culture, Samko continues where we left off in 2011 by consistently contributing free seedlings to the local communities where we operate, thus promoting sustainable development while also creating employment opportunities at the same time. Samko also provides auxiliary works to local community such as patching or simple repair of imperfect veneers. These allow our local communities to improve their way of life through an enhanced income and local economy.

As recognition for our continuous efforts, Samko was again bestowed with the Prima Wana Mitra Trophies for its contribution towards Sustainable Tree Planting in December 2012. Samko was conferred eight trophies out of the twenty-four trophies available, attesting to the positive contributions that we have brought to our local communities.

In West Java, close to one of Samko's factories, we took the initiative to build a public asphalt road measuring 1.1 km. Since its completion, this public road has improved the daily convenience of not only Samko's employees but also the local community living around the immediate area as they enjoy the benefits of an easier commute.

Samko is also strongly dedicated to the continuous education of Indonesia's youth. On an annual basis, Samko selective sponsors children from low income families living around the Group's factories for their schooling expenses. For the better performing students, Samko also has in place a scholarship program which will allow these students to continue their education at a higher level.

Operationally, Samko is committed to ensuring the sustainability of our raw material sources. Samko is well aware of the environmental concerns surrounding the act of logging and we source our raw material mainly from plantation logs or logs which have met the requisite standards adopted by many governmental and non-governmental organizations. In fact, some of Samko's processing plants have already obtained the Forest Stewardship Council (FSC) chain-of-custody certification[1], which requires a stringent process of implementing a documentary tracking system to maintain records of suppliers, purchases, inputs, processing and outputs of chain-of-custody certified products.

This certification enables us to build a stronger brand identity and allows us to meet increasing demand for certified processed timber products. To maintain our consistently high standards, we regularly monitor and aim to achieve ongoing compliance requirements. Other factories of the Group are also equipped with the following quality and environmental certifications on an 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 Samko completes our transition into a fully integrated timber processing group, we will continue to ensure that we dedicate ourselves to our mission of improving the local community's quality of life.

*[1] 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 Haskojaya Abadi, PT Sumber Hutani Lestari and PT Pelayaran Nelly Dwi Puteri, and President Director of PT Sumber Graha Sejahtera.

## 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 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 Koh Tji Kiong @ Amir Sunarko

*Non-Independent and Non-Executive Director*

Mr Koh Tji Kiong @ Amir Sunarko 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 Panca Usaha Palopo Plywood, PT Pelayaran Nelly Dwi Puteri, PT Navatani Persada and Sumalindo.

## 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 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 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 Haskojaya Abadi, PT Sumber Hutani Lestari and PT Pelayaran Nelly Dwi Puteri, and President Director of PT Sumber Graha Sejahtera.

## 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 Iwan Lee
*Group Financial Controller*

Mr Iwan Lee joined the Group in 2008. Before seating as Group Financial Controller, he was a Senior Accounting Manager of the Group. He possess some 10 years in the accounting profession. Prior joining the Group, Mr Iwan Lee was the Audit Manager at PricewaterhouseCoopers, a public accounting firm in Jakarta. He holds a Bachelor of Economics degree from Trisakti University, Jakarta, Indonesia.

## Mr Untoro Angkwijaya
*Head of Distribution and Housing Component*

Mr Untoro Angkwijaya joined the Group in 1994. Before seating as Head of Distribution and Housing Component, he was the Chief Financial Officer of the Company. He possesses some 20 years of experience in the accounting profession and management. Prior joining the Group, Mr Untoro 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 Master of Business Administration (Finance) from the University of New South Wales, Australia.

## Mr Wihartono

*Deputy Head of Distribution and Housing Component*

Mr Wihartono joined the Group in 1995. Before seating as Deputy Head of Distribution and Housing Component, he was the Financial Controller of the Group. He possesses some 20 years in accounting and finance profession. Prior joining the Group, Mr Wihartono was Group Head of Johan Malonda & Rekan, a public accounting firm. He holds a Bachelor of Economics degree from Tarumanagara University, Jakarta, Indonesia.

## Mr Harry Handojo

*Head of Plantation Division*

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 Manager 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.

## Mr Yusran Mustary

*Head of Decking Division*

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 The Victor Diputra

*Head of Plywood Division*

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 Trenggono Purwosuprodjo

*Commissioner of a subsidiary and Chairman of the BRC*

Mr Trenggono Purwosuprodjo joined the Group in 2006, currently serving as a Commissioner for a subsidiary, PT Sumber Graha Sejahtera and Chairman of BRC. He possess some 40 years of working experiences serving as a commissioner or director of various companies, including Astra International Inc Group, Hasko Group, ASEAN Finance Corp Ltd, ASEAN Fund Ltd, Bank Utama, CBG Unit Citibank, Jakarta and PT Freeport Indonesia. He holds a Bachelor of Economics degree from the University of 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:**

Michael Joseph Sampoerna
(Non-Independent)

Eka Dharmajanto Kasih
(Non-Independent)

Koh Tji Kiong @ Amir Sunarko
(Non-Independent)

Ng Cher Yan
(Independent)

Sim Idrus Munandar
(Independent)

Wee Ewe Lay Laurence John
(Independent)

## BOARD RISK COMMITTEE

Trenggono Purwosuprodjo (Chairman)

Aris Sunarko @ Ko Tji Kim

Ng Cher Yan

Sim Idrus Munandar

Johan Yanto

## 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 #08-305/307
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

Lim Siew Koon
Date of Appointment:
Started from financial year ended
31 December 2012

## 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 "**CG 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 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 the review and monitoring of the Group's operations, including:-

- The review of the Group's financial performance;
- The approval of the nomination/appointment of Board Directors and key executives;
- The review and approval of annual budgets, major funding proposals, potential investment and divestment proposals, including material capital investments;
- Responsibility for corporate governance; and
- To ensure that the Group maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the Group's assets.

The following matters are specifically reserved for the Board's decision and approval:-

- Financial results announcements;
- Annual report and accounts;
- Corporate strategies and financial restructuring; and
- Major investment or acquisition/disposal proposals, including any other transactions of a material nature requiring announcement under the listing rules of the Singapore Exchange Securities Trading Limited ("SGX-ST").

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

**BOARD COMPOSITION AND BALANCE**

***Principle 2: Strong and independent element on the Board***

The Board consists of the following 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 disclosed on pages 16 to 17.

The NC was 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 CG Code. In its deliberation as to the independence of a Director, the NC took into account whether a Director has any 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 2012 ("FY2012"), the Board met four 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 FY2012 and the attendance by each member of the Board and Committees are as follows:-

| | Board | | Audit Committee | | Nomination Committee | | Remuneration Committee | | Board Risk Committee | |
|---|---|---|---|---|---|---|---|---|---|---|
| | No. of Meetings | | No. of Meetings | | No. of Meetings | | No. of Meetings | | No. of Meetings | |
| | Held | Attended | Held | Attended | Held | Attended | Held | Attended | Held | Attended |
| Koh Boon Hong | 4 | 4 | N.A | N.A | N.A | N.A | N.A | N.A | N.A | N.A |
| Aris Sunarko @ Ko Tji Kim | 4 | 4 | N.A | N.A | N.A | N.A | N.A | N.A | 1 | 1 |
| Michael Joseph Sampoerna | 4 | 4 | N.A | N.A | N.A | N.A | N.A | N.A | N.A | N.A |
| Eka Dharmajanto Kasih | 4 | 4 | N.A | N.A | N.A | N.A | N.A | N.A | N.A | N.A |
| Koh Tji Kiong @ Amir Sunarko | 4 | 3 | N.A | N.A | N.A | N.A | N.A | N.A | N.A | N.A |
| Ng Cher Yan | 4 | 4 | 5 | 5 | 1 | 1 | 1 | 1 | 1 | 1 |
| Sim Idrus Munandar | 4 | 4 | 5 | 5 | 1 | 1 | 1 | 1 | 1 | 1 |
| Wee Ewe Lay Laurence John | 4 | 4 | 5 | 5 | 1 | 1 | 1 | 1 | N.A | N.A |

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's and the CEO's 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 and duties as a Director of the Company adequately, taking into consideration each Director's number of listed company board representations and other principal commitments.

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 FY2012, 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

(d) 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 Ko Tji Kiong @ Amir Sunarko, Eka Dharmajanto Kasih and Wee Ewe Lay Laurence John, 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.

The NC has reviewed the independence of Messrs Ng Cher Yan, Wee Ewe Lay Laurence John and Sim Idrus Munandar, and was satisfied that there are no relationships which would deem any of them not to be independent. In reviewing the independence, the NC has considered the relationships identified by the CG Code and additionally, the Independent Directors are also independent of substantial shareholders of the Company.

**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 FY2012, 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 was satisfied that the Directors have spent adequate time on the Group's affairs to fulfill their responsibilities.

**ACCESS TO INFORMATION**

**Principle 6:** ***Board members should be provided with complete, adequate and timely information***

In order to enable the Board to function effectively and to fulfil its responsibilities, Management recognises its obligation to supply the Board and the four Board Committees with complete, adequate information in a timely manner. In addition, all relevant information on the Group's annual budgets, financial statements, material events and transactions complete with background and explanations are circulated to Directors as and when they arise. 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 FY2012, 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 2013 ("FY2013").

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

The Group had entered into a service contract with the CEO for an initial fixed period of three years commencing from 19 December 2007 (the "Initial Period"), which has been automatically extended for another three years from the expiry of the Initial Period. However the renewal of this service agreement for a further three-year or any other period is subject to the RC's review and recommendation to the Board for approval subsequently.

None of the non-Executive Directors is on a service contract with the Company.

## LEVEL AND MIX OF REMUNERATION

***Principle 8: Level of remuneration of directors to be appropriate and not excessive***

The Company's remuneration package for the CEO comprises both fixed and variable components. The fixed component includes 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. 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 the summary below and the notes to the financial statements under Directors' remuneration as set out on page 119.

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 FY2012 is shown below.

| Name of Director | Remuneration Band S$ | Salary % | Director Fees % | Performance Based Bonuses % | Other Benefits % | Total % |
|---|---|---|---|---|---|---|
| Koh Boon Hong | <$250,000 | - | 100 | - | - | 100 |
| Aris Sunarko @ Ko Tji Kim | $500,000 to <$750,000 | 100 | - | - | - | 100 |
| Ali Gunawan Budiman *(resigned on 31 March 2012)* | <$250,000 | 100 | - | - | - | 100 |
| Michael Joseph Sampoerna | <$250,000 | - | 100 | - | - | 100 |
| Eka Dharmajanto Kasih | <$250,000 | - | 100 | - | - | 100 |
| Koh Tji Kiong @ Amir Sunarko | <$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 FY2012 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 S$ | Salary % | Performance Based Bonuses % | Other Benefits % | Total % |
|---|---|---|---|---|---|---|
| Untoro Angkawijaya | Head of distribution and housing component division | $250,000 to <$500,000 | 89 | 10 | 1 | 100 |
| Wihartono | (a) Group Financial Controller *(from 1 January 2012 to 30 November 2012)* (b) Deputy head of distribution and housing component division *(with effect from 1 December 2012)* | <$250,000 | 84 | 15 | 1 | 100 |
| Johan Yanto | Chief Financial Officer | <$250,000 | 84 | 15 | 1 | 100 |
| Harry Handojo | Head of Plantation Division | <$250,000 | 81 | 18 | 1 | 100 |
| The Victor Diputra | Head of Decking Division | <$250,000 | 78 | 21 | 1 | 100 |
| Yusran Mustary | Head of Plywood Division | <$250,000 | 84 | 15 | 1 | 100 |
| Trenggono Purwosuprodjo | Commissioner of a subsidiary and Chairman of the BRC | <$250,000 | 88 | 11 | 1 | 100 |
| Iwan Lee | Group Financial Controller *(appointed on 1 December 2012)* | <$250,000 | 100 | - | - | 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 S$50,000 for the financial year ended 31 December 2012.

## 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 also ensures that a review of the effectiveness of the Group's internal controls is conducted at least annually;

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

(c) Reviewing the consolidated 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 (if any);

(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) Ensuring 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 five times during FY2012 to review the audit plan/report, the audit findings, the reports on interested person transactions, the reports on internal audit activities for the year, (including updates on the findings in relation thereto) and the proposed acquisition of Bioforest Private Limited, which SGX-ST had classified as an deemed interested person transaction, and the announcements of the quarterly and full-year results before being approved by the Board for release to the SGX-ST.

The AC has met with the external auditors, without the presence of the Company's Management. 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 2012 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. Accordingly, the AC has recommended the re-appointment of Messrs Ernst & Young LLP as external auditors for the ensuing year. The audit fees paid to the external auditors are disclosed on page 90.

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.

## RISK MANAGEMENT AND 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.

In connection with the recent amendments to the SGX-ST Listing Manual (specifically under Rules 719(1) and 1207(10)), and as announced on 8 August 2012, the Company had established a BRC to assist the Board and the other Board Committees to ensure that the Group maintains a robust and effective system of internal controls and to evaluate the adequacy of the Group's internal controls that address the Group's financial, operational and compliance risks.

The BRC consists of the following five members, who are the CEO, two Independent Non-Executive Directors and two key Executive Officers:-

| | |
|---|---|
| Trenggono Purwosuprodjo | *Chairman* |
| Aris Sunarko @ Ko Tji Kim | |
| Ng Cher Yan | |
| Sim Idrus Munandar | |
| Johan Yanto | |

The BRC had adopted written terms of reference defining its membership and its duties and responsibilities, which include:-

(a) monitoring of all material enterprise risks within the framework of enterprise risk management as approved by the Board. BRC recognises that there are responsibilities delegated by the Board to the other Board Committees and understands that the other Board Committees may emphasise specific risk monitoring through their respective activities;

(b) review and discuss with Management the Company's risk assessment and risk management practices and related guidelines, policies and processes, as well as the adequacy of resources to perform its risk management responsibilities under the risk governance;

(c) review and discuss with Management the Company's risk appetite and strategy relating to key risks, including credit risk, liquidity and funding risks, market risk, operational risk, compliance risk and information technology risk, as well as the guidelines, policies and processes for their control, monitor and mitigating actions;

(d) oversee the standards in relation to risk tolerances adopted by the Company. The standards will be reviewed annually to take into account changes in the internal and external environments as well as reports of the Audit Committee and findings from the internal auditor;

(e) meeting with the Chairman and/or other members of the other Board Committees to discuss the Company's corporate risk management framework and internal control areas;

(f) review and recommend to the Board the approval of any major transactions or decisions affecting the Company's risk profile or exposure, if any; and

(g) report to the Board regarding the BRC's regular findings and recommendations, including any major items covered by the BRC at each BRC meeting, and provide additional reports to the Board as the BRC may determine appropriate.

Based on the work performed by the internal audit team and the BRC during the financial year under review, as well as the statutory audit by the external auditors, and the assurance from Management, the Board with the concurrence of the AC, is of the opinion that the system of internal controls in place is adequate to address all material respects of the financial, operational and compliance risks within the current scope of the Group's business operations.

## INTERNAL AUDIT

### *Principle 13: Independent internal audit function*

The Company has an internal audit team, which is independent of the activities it audits. The Internal Auditor's ("**IA**") primary line of reporting is to the AC Chairman 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 listing requirements of SGX-ST. Copies of the Annual Report, the Circular and the Notices of the AGM and/or EGM, where applicable, are sent to every shareholder of the Company. The Notices of the general meetings are also published in a major local newspaper and announced via SGXNet.

Each distinct issue requiring shareholders' approval is proposed as a separate resolution at the general meetings. In addition, shareholders' participation is encouraged at the general meetings to ensure a high level of accountability and to be informed of the Group's strategy and goals. The AGM and/or EGM are 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 general meetings. The Board including the Chairmen of the AC, RC, NC and BRC, 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.

The Company allows any shareholder, who is unable to attend the general meetings in person, to appoint not more than two proxies to attend and vote in his/her place at the general meetings via proxy forms submitted in advance (i.e. not less than forty-eight (48) hours before the time appointed for holding the general meeting).

The proxy form is sent with the notice of general meetings to all shareholders. The Company is not implementing absentia voting methods such as by mail, e-mail or fax until security, integrity and other pertinent issues are satisfactorily resolved.

**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 FY2012 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 2012.

## 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
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)

| | Direct interest | | Deemed interest | |
|---|---|---|---|---|
| Name of director | At the beginning of financial year | At the end of financial year | At the beginning of financial year | At the end of financial year |
| Ordinary shares of the Company | | | | |
| Koh Boon Hong (1) & (2) | 12,750,000 | 12,750,000 | 43,526,346 | 43,903,346 |
| Aris Sunarko @ Ko Tji Kim (2) & (3) | 174,698,231 | 34,698,231 | 49,723,346 | 190,100,346 |
| Koh Tji Kiong @ Amir Sunarko (2) | 139,473,231 | 139,473,231 | 39,126,346 | 33,846,346 |

There was no change in any of the above-mentioned interests between the end of the financial year and 21 January 2013.

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 in 33,846,346 shares held by Hasan Holding Pte Ltd, by virtue of Section 7 of the Companies Act.

3. Mr. Koh Boon Hong and Mr. Aris Sunarko @ Ko Tji Kim are deemed to be interested in 5,657,000 shares held by Noah Shipping Pte Ltd, by virtue of Section 7 of the Companies Act.

4. Mr. Aris Sunarko @ Ko Tji Kim is deemed to be interested in the 150,597,000 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 date of appointment if later, or at the end of the financial year.

**4. Directors' contractual benefits**

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

**5. Audit Committee**

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

- 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;

- 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;

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

- Reports actions and minutes of the AC to the board of directors with such recommendations as the AC considers appropriate; and

- 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. **Auditor**

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

On behalf of the board of directors:

| | |
|---|---|
| Koh Boon Hong | Aris Sunarko @ Ko Tji Kim |
| Chairman | Director - Chief Executive Officer |

Singapore
25 March 2013

# STATEMENT BY DIRECTORS

We, Koh Boon Hong and Aris Sunarko @ Ko Tji Kim, 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 2012 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:

| | |
|---|---|
| Koh Boon Hong<br>Chairman | Aris Sunarko @ Ko Tji Kim<br>Director - Chief Executive Officer |

Singapore
25 March 2013

**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 45 to 129 which comprise the balance sheets of the Group and the Company as at 31 December 2012, 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.

***Auditor's 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 2012 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
25 March 2013

# CONSOLIDATED INCOME STATEMENT

For the financial year ended 31 December 2012

| | Notes | Group 2012 Rp'million | Group 2011 Rp'million |
|---|---|---|---|
| **Revenue** | 4 | 2,760,580 | 2,484,251 |
| Cost of sales | | (2,276,560) | (2,078,255) |
| **Gross profit** | | 484,020 | 405,996 |
| **Other items of income** | | | |
| Finance income | 5 | 1,138 | 2,010 |
| Other income | 6 | 18,721 | 3,375 |
| **Other items of expenses** | | | |
| Selling expenses | | (102,683) | (92,708) |
| General and administrative expenses | | (209,719) | (180,943) |
| Finance expenses | 7 | (46,829) | (48,221) |
| Other expenses | 8 | (29,773) | (13,651) |
| **Profit before tax** | 9 | 114,875 | 75,858 |
| Income tax expense | 10 | (31,118) | (24,343) |
| **Profit for the year** | | 83,757 | 51,515 |
| **Attributable to:** | | | |
| Owners of the Company | | 83,059 | 51,235 |
| Non-controlling interests | | 698 | 280 |
| | | 83,757 | 51,515 |
| **Earnings per share (in Rupiah)** | | | |
| Basic | 11 | 60 | 38 |
| Diluted | 11 | 60 | 38 |

*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 2012

| | Notes | Group 2012 Rp'million | Group 2011 Rp'million |
|---|---|---|---|
| **Profit for the year** | | 83,757 | 51,515 |
| **Other comprehensive income:** | | | |
| Foreign currency translation | | 2,171 | 237 |
| Total comprehensive income for the year | | 85,928 | 51,752 |
| **Total comprehensive income for the year attributable to:** | | | |
| Owners of the Company | | 85,207 | 51,472 |
| Non-controlling interests | | 721 | 280 |
| | | 85,928 | 51,752 |

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

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Notes | 2012 | 2011 | 2012 | 2011 |
| | | Rp'million | Rp'million | Rp'million | Rp'million |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 12 | 663,142 | 639,465 | 14 | 123 |
| Intangible assets | 13 | 38,315 | – | – | – |
| Investment in subsidiaries | 30 | – | – | 642,072 | 587,698 |
| Investment in an associate | 31 | – | – | – | – |
| Biological assets | 14 | 56,876 | 9,170 | – | – |
| Land use rights | 15 | 57,966 | 59,951 | – | – |
| Deferred tax assets | 16 | 29,761 | 12,230 | 3,661 | – |
| Other non-current assets | 17 | 17,988 | 16,841 | 40 | 188 |
| | | 864,048 | 737,657 | 645,787 | 588,009 |
| **Current assets** | | | | | |
| Inventories | 18 | 342,078 | 210,297 | – | – |
| Trade and other receivables | 19 | 127,539 | 85,728 | 67,784 | 71,868 |
| Prepaid operating expenses | | 35,027 | 29,086 | 76 | 72 |
| Advances to suppliers | 20 | 72,741 | 121,256 | – | – |
| Restricted deposits | 21 | 15,763 | 15,312 | – | – |
| Cash and cash equivalents | 22 | 90,350 | 95,028 | 1,487 | 756 |
| | | 683,498 | 556,707 | 69,347 | 72,696 |
| **Current liabilities** | | | | | |
| Trade and other payables | 23 | 195,644 | 174,623 | 3,380 | 27 |
| Other liabilities | 24 | 94,548 | 65,649 | 2,384 | 4,429 |
| Advances from customers | 25 | 31,808 | 63,834 | – | – |
| Income tax payable | | 30,166 | 31,002 | – | – |
| Loans and borrowings | 26 | 153,367 | 66,889 | – | – |
| | | 505,533 | 401,997 | 5,764 | 4,456 |
| **Net current assets** | | 177,965 | 154,710 | 63,583 | 68,240 |
| **Non-current liabilities** | | | | | |
| Loans and borrowings | 26 | 283,929 | 304,561 | – | – |
| Post-employment benefits | 27 | 91,340 | 68,249 | – | – |
| Deferred tax liabilities | 16 | 11,383 | 6,109 | – | – |
| | | 386,652 | 378,919 | – | – |
| **Net assets** | | 655,361 | 513,448 | 709,370 | 656,249 |

# CONSOLIDATED BALANCE SHEET
As at 31 December 2012

| | Notes | Group 2012 Rp'million | Group 2011 Rp'million | Company 2012 Rp'million | Company 2011 Rp'million |
|---|---|---|---|---|---|
| **Equity attributable to owners of the Company** | | | | | |
| Share capital | 28 | 2,188,645 | 2,134,271 | 2,188,645 | 2,134,271 |
| Accumulated losses | | (1,850,868) | (1,933,927) | (1,479,275) | (1,478,022) |
| Other reserves | | 311,435 | 309,287 | – | – |
| | | 649,212 | 509,631 | 709,370 | 656,249 |
| **Non-controlling interests** | | 6,149 | 3,817 | – | – |
| **Total equity** | | 655,361 | 513,448 | 709,370 | 656,249 |

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

## Group

| | Attributable to equity holders of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Share capital (Note 28)** | **Restructuring reserves (Note 29)** | **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 2012 | 2,134,271 | 309,050 | 237 | (1,933,927) | 509,631 | 3,817 | 513,448 |
| Issue of new shares during the year | 54,374 | – | – | – | 54,374 | – | 54,374 |
| Acquisition of new subsidiaries | – | – | – | – | – | (139) | (139) |
| Capital contribution from NCI | – | – | – | – | – | 1,750 | 1,750 |
| Total comprehensive income for the year | – | – | 2,148 | 83,059 | 85,207 | 721 | 85,928 |
| Balance at 31 December 2012 | 2,188,645 | 309,050 | 2,385 | (1,850,868) | 649,212 | 6,149 | 655,361 |
| | | | | | | | |
| Balance at 1 January 2011 | 2,134,271 | 309,050 | – | (1,985,162) | 458,159 | 3,092 | 461,251 |
| Additional non-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 |

(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 2012

**Company**

| | Share capital (Note 28) | Accumulated losses | Total equity |
|---|---|---|---|
| | Rp'million | Rp'million | Rp'million |
| Balance at 1 January 2012 | 2,134,271 | (1,478,022) | 656,249 |
| Issue of new shares during the year | 54,374 | – | 54,374 |
| Total comprehensive income for the year - loss | – | (1,253) | (1,253) |
| Balance at 31 December 2012 | 2,188,645 | (1,479,275) | 709,370 |
| | | | |
| 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 |

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

| | Notes | Group 2012 Rp'million | Group 2011 Rp'million |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before tax | | 114,875 | 75,858 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | 12 | 99,359 | 93,948 |
| Interest expense | 7 | 44,072 | 44,435 |
| Post-employment benefits expense | 27 | 26,746 | 20,736 |
| Foreign exchange loss | | 14,659 | 4,249 |
| Amortisation of land use rights | 15 | 4,768 | 4,707 |
| Allowance for doubtful receivables | 8 | 3,857 | 1,237 |
| Amortisation of intangible assets | 13 | 873 | – |
| Gain on disposal of property, plant and equipment | 6 | (1,375) | (1,176) |
| Interest income | 5 | (1,138) | (2,010) |
| Gain on change in fair value of biological assets | 6 | (9,177) | (524) |
| **Operating cash flow before changes in working capital** | | 297,519 | 241,460 |
| **Changes in working capital** | | | |
| Inventories | | (131,686) | (42,387) |
| Trade and other receivables | | (39,681) | (14,515) |
| Prepaid operating expenses | | (2,664) | 5,279 |
| Advances to suppliers | | 22,392 | (31,262) |
| Trade and other payables | | 21,021 | 7,881 |
| Other liabilities | | 25,753 | 8,297 |
| Advances from customers | | (32,026) | (701) |
| Other non-current assets | | (1,147) | 8,014 |
| **Cash flow from operating activities** | | 159,481 | 182,066 |
| Income taxes paid | | (49,418) | (19,618) |
| Post-employment benefit paid | | (3,795) | (5,603) |
| **Net cash flows from operating activities** | | 106,268 | 156,845 |
| **Investing activities** | | | |
| Purchase of property, plant, and equipment (Note (i)) | | (120,819) | (80,018) |
| Additions of biological assets | 14 | (22,962) | (6,196) |
| Additions to land use rights | 15 | (2,783) | (1,976) |
| Net cash inflow acquisition of subsidiaries | 30 | 21,688 | – |
| Capital contribution from non-controlling interest | | 1,750 | – |
| Interest received | | 1,138 | 2,010 |
| Proceeds from disposal of property, plant and equipment | | 606 | – |
| Payment of other non-current assets | | – | (10,436) |
| **Net cash flows used in investing activities** | | (121,382) | (96,616) |

# CONSOLIDATED CASH FLOW STATEMENT
For the financial year ended 31 December 2012

| | Notes | Group 2012 Rp'million | Group 2011 Rp'million |
|---|---|---|---|
| **Financing activities** | | | |
| Proceeds from loans and borrowings | | 276,649 | 463,934 |
| Repayments of loans and borrowings | | (240,073) | (487,978) |
| Interest paid | | (37,221) | (47,066) |
| Proceeds from sale and lease back transactions - finance lease arrangements | | 9,925 | 25,778 |
| Withdrawal of restricted deposits | | – | 20,524 |
| Placement of restricted deposits | | – | (15,338) |
| **Net cash flows provided by/(used in) financing activities** | | 9,280 | (40,146) |
| Net (decrease)/ increase in cash and cash equivalents | | (5,834) | 20,083 |
| Effect of exchange rate changes on cash and cash equivalents | | 1,156 | – |
| Cash and cash equivalents at 1 January | | 95,028 | 74,945 |
| Cash and cash equivalents at 31 December | 22 | 90,350 | 95,028 |

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

Property, plant and equipment were purchased by :-

| | 2012 | 2011 |
|---|---|---|
| Cash payment | 120,819 | 80,018 |
| Finance lease | 15,295 | 43,549 |
| | 136,114 | 123,567 |

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

## 1. General

Corporate information

Samko Timber Limited (the "Company") is a limited liability company which is incorporated in the Republic of Singapore in December 2005 and is 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 #08-305/307, The Plaza, Singapore 199591.

The principal activities of the Company are investment holding and general wholesale trade. The principal activities of the subsidiaries are disclosed in Note 30.

## 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 2012. 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. Summary of significant accounting policies (cont'd)**

2.3 ***Standards issued but not yet effective***

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

| *Description* | *Effective for annual periods beginning on or after* |
|---|---|
| Amendments to FRS 1 *Presentation of Items of Other Comprehensive Income* | 1 July 2012 |
| Revised FRS 19 *Employee Benefits* | 1 January 2013 |
| FRS 113 *Fair Value Measurement* | 1 January 2013 |
| Amendments to FRS 107 *Disclosure – Offsetting Financial Assets and Financial Liabilities* | 1 January 2013 |
| Improvement to FRSs 2012 | |
| - Amendment to FRS 1 *Presentation of Financial Statements* | 1 January 2013 |
| - Amendment to FRS 16 *Property, Plant and Equipment* | 1 January 2013 |
| - Amendment to FRS 32 *Financial Instruments: Presentation* | 1 January 2013 |
| Amendments to FRS 32 *Offsetting Financial Assets and Financial Liabilities* | 1 January 2014 |
| Revised FRS 27 *Separate Financial Statements* | 1 January 2014 |
| Revised FRS 28 *Investments in Associates and Joint Ventures* | 1 January 2014 |
| FRS 110 *Consolidated Financial Statements* | 1 January 2014 |
| FRS 111 *Joint Arrangements* | 1 January 2014 |
| FRS 112 *Disclosure of Interests on Other Entities* | 1 January 2014 |

Except for the Amendments to FRS 1, FRS 111, Revised FRS 28 and FRS 112, the directors expect that the adoption of the other standards and interpretations above will have no material impact on the financial statements in the period of initial application. The nature of the impending changes in accounting policy on adoption of the Amendments to FRS 1, FRS 111, Revised FRS 28 and FRS 112 are described below.

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

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

Amendments to FRS 1 *Presentation of Items of Other Comprehensive Income*

The Amendments to FRS 1 *Presentation of Items of Other Comprehensive Income* (OCI) is effective for financial periods beginning on or after 1 July 2012.

The Amendments to FRS 1 changes the grouping of items presented in OCI. Items that could be reclassified to profit or loss at a future point in time would be presented separately from items which will never be reclassified. As the Amendments only affect the presentations of items that are already recognised in OCI, the Group does not expect any impact on its financial position or performance upon adoption of this standard.

FRS 111 *Joint Arrangements* and Revised FRS 28 *Investments in Associates and Joint Ventures*

FRS 111 *Joint Arrangements* and Revised FRS 28 *Investments in Associates and Joint Ventures* are effective for financial periods beginning on or after 1 January 2014.

FRS 111 classifies joint arrangements either as joint operations or joint ventures. Joint operation is a joint arrangement whereby the parties that have rights to the assets and obligations for the liabilities whereas joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

FRS 111 requires the determination of joint arrangement's classification to be based on the parties' rights and obligations under the arrangement, with the existence of a separate legal vehicle no longer being the key factor. FRS 111 disallows proportionate consolidation and requires joint ventures to be accounted for using the equity method. The revised FRS 28 was amended to describe the application of equity method to investments in joint ventures in addition to associates.

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

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

FRS 112 *Disclosure of Interests in Other Entities*

FRS 112 *Disclosure of Interests in Other Entities* is effective for financial periods beginning on or after 1 January 2014.

FRS 112 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. FRS 112 requires an entity to disclose information that helps users of its financial statements to evaluate the nature and risks associated with its interests in other entities and the effects of those interests on its financial statements. As this is a disclosure standard, it will have no impact to the financial position and financial performance of the Group when implemented in 2014.

### 2.4 *Basis of consolidation*

#### (a) *Basis of consolidation*

Basis of consolidation 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.

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

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

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

#### (a) *Basis of consolidation (cont'd)*

<u>Basis of consolidation from 1 January 2010 (cont'd)</u>

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.

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.

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

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

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

Basis of consolidation from 1 January 2010 (cont'd)

- 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.

(b) ***Business combination***

Business combination from 1 January 2010

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.

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

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

(b) ***Business combination (cont'd)***

Business combination from 1 January 2010 (cont'd)

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.

Business combination prior to 1 January 2010

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

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

– Business combinations achieved in stages were accounted for as separate steps. Adjustments to those fair values relating to previously held interests are treated as a revaluation and recognised in equity. Any additional acquired share of interest did not affect previously recognised goodwill.

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

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

(b) ***Business combination (cont'd)***

Business combination prior to 1 January 2010 (cont'd)

– 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's 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, property, plant and equipment 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 2.22. 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.

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 |
| Vehicles | : | 4 to 8 years |
| Furniture, fixtures and equipment | : | 4 to 10 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.

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

### 2.7 *Property, plant and equipment (cont'd)*

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.

### 2.8 *Intangible assets*

#### (a) *Goodwill*

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

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

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

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

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

2.8 ***Intangible assets (cont'd)***

(b) ***Other intangible assets***

Intangible assets acquired separately are measured initially at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial acquisition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in profit or loss in the year in which the expenditures is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

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

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

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

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

### 2.9 *Biological assets*

Biological assets are stated at fair value less estimated point-of-sales costs, with any resultant gain or loss recognised in the profit or loss.

### 2.10 *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.

### 2.11 *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.

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 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.

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

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

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.

2.12 ***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.

2.13 ***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

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

### 2.13 *Associates (cont'd)*

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 the profit attributable to equity holders of the associate and, therefore is the profit or loss after tax and non-controlling interests in the subsidiaries of associates.

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

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

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

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

2.14 ***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.

**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.

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

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

**Subsequent measurement (cont'd)**

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

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

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

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

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

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

(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

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

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

**Subsequent measurement (cont'd)**

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

are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial assets are subsequently measured at fair value. Any gains or losses from changes in fair value of the financial asset are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised.

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

**Derecognition**

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

**Regular way purchase or sale of a financial asset**

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

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

### 2.15 *Impairment of financial assets*

The Group assesses at each reporting date 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 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 been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in profit or loss.

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

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

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

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

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

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.

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.

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

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

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

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.

2.16 ***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.

2.17 ***Inventories***

Inventories are stated at the lower of cost or net realisable value. Cost incurred in bringing the inventories to their present location and condition are accounted for using the average method for finished goods, work in progress and raw materials and first-in, first-out method for indirect materials and spare parts.

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

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

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

2.18 ***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.

2.19 ***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:

***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.

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

### 2.19 *Financial liabilities (cont'd)*

***Financial liabilities at fair value through profit or loss (cont'd)***

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.

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

2.21 ***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.

2.22 ***Borrowing costs***

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.23 ***Employee 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.

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

### 2.23 *Employee benefits (cont'd)*

#### (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.

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

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

2.23 ***Employee benefits (cont'd)***

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

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.

2.24 ***Leases***

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

***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.

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

2.24 ***Leases (cont'd)***

***As lessee (cont'd)***

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

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

2.25 ***Revenue***

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, 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:

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

2.26 ***Income taxes***

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

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

- 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.

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

### 2.26 *Income taxes (cont'd)*

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

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.

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.

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

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

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

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.

2.27 ***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 37, including the factors used to identify the reportable segments and the measurement basis of segment information.

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

2.28 ***Share capital and share issue expenses***

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

2.29 ***Contingencies***

A contingent liability is:

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

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

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

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

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)**

2.30 ***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 judgments and estimates

The preparation of the Group's financial statements requires management to make judgments, 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 judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

#### (a) *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. The Group based its assumptions and estimates on parameters available when the financial statements was prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

## 3. Significant accounting judgments and estimates (cont'd)

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

(a) ***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 31.

(b) ***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 19.

(c) ***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

**3. Significant accounting estimates and judgments (cont'd)**

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

(c) ***Useful lives of property, plant and equipment (cont'd)***

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 2012 was 663,142 million (2011: Rp639,465 million).

(d) ***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 2012 was 30,166 million (2011: Rp31,002 million) and Rp11,383 million (2011: Rp6,109 million), respectively.

(e) ***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 2012 was Rp29,761 million (2011: Rp12,230 million).

(f) ***Biological assets***

Certain assumptions are made in the valuation of biological assets and the calculation required the use of estimates in relation to the future cash flows and the suitable discount rate as disclose in Note 14.

## 3. Significant accounting estimates and judgments (cont'd)

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

#### (g) *Employee benefits*

The determination of obligation and provision for post-employment benefits of employees is dependent on the selection of certain assumptions used by actuaries in calculating such amount. Those assumptions are described in Note 27 and include, among others, discount rate and salary incremental rate. Actual results that differ from the Group's assumptions are accumulated and amortised over future periods, and therefore generally affect the recognised expense and recorded obligation. Significant differences in actual experience or significant changes in assumptions may materially affect the Group's obligation for post-employment benefits. Post-employment liabilities as of 31 December 2012 amounted to Rp91,340 million (2011: Rp68,249 million).

## 4. Revenue

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| | Rp'million | Rp'million |
| Domestic sales | 2,134,879 | 1,942,282 |
| Export sales | 625,701 | 541,969 |
| | 2,760,580 | 2,484,251 |

## 5. Finance income

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| | Rp'million | Rp'million |
| Interest income from: | | |
| Fixed deposit | 284 | 1,284 |
| Current account | 854 | 726 |
| | 1,138 | 2,010 |

## 6. Other income

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| | Rp'million | Rp'million |
| Gain on change in fair value of biological assets | 9,177 | 524 |
| Insurance claim | 7,070 | – |
| Gain on disposal of property, plant and equipment | 1,375 | 1,176 |
| Foreign exchange gain, net | – | 1,675 |
| Miscellaneous income | 1,099 | – |
| | 18,721 | 3,375 |

## 7. Finance expenses

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| | Rp'million | Rp'million |
| Interest expense on: | | |
| Bank borrowings | 40,776 | 41,362 |
| Finance lease | 3,296 | 3,073 |
| Others | 2,757 | 3,786 |
| | 46,829 | 48,221 |

## 8. Other expenses

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| | Rp'million | Rp'million |
| Foreign exchange loss, net | 17,010 | – |
| Amortisation of land use rights | 4,768 | 4,707 |
| Allowance for doubtful receivables | 3,857 | 1,237 |
| Tax penalties | 3,265 | 6,171 |
| Amortisation of intangible assets | 873 | – |
| Others | – | 1,536 |
| | 29,773 | 13,651 |

## 9. Profit before tax

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

| | Group | |
|---|---|---|
| | 2012 | 2011 |
| | Rp'million | Rp'million |
| Audit fees paid to: | | |
| - Auditor of the Company | 1,141 | 954 |
| - Other auditors | 1,865 | 1,904 |
| Factory overhead | 623,056 | 516,063 |
| Salaries and employees' benefits | 567,656 | 479,404 |
| Depreciation of property, plant and equipment (Note 12) | 99,359 | 93,948 |
| Transportation charges | 87,367 | 81,215 |

There were no non-audit fees paid to auditor of the Company and other auditors during the financial year ended 2012 and 2011.

## 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 | |
|---|---|---|
| | 2012 | 2011 |
| | Rp'million | Rp'million |
| **Current income tax:** | | |
| Current year | 45,131 | 31,310 |
| Under provision in respect of previous years | 294 | – |
| | 45,425 | 31,310 |
| **Deferred income tax** | (14,307) | (6,967) |
| Income tax expense recognised in profit or loss | 31,118 | 24,343 |

## 10. Income tax expense (cont'd)

### (b) *Relationship between tax expense and accounting profit*

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

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| | Rp'million | Rp'million |
| Profit before tax | 114,875 | 75,858 |
| Tax at domestic rates applicable in the countries where the Group operates | 27,309 | 17,650 |
| Income not subject to taxation | (430) | (520) |
| Non-deductible expenses | 9,906 | 14,264 |
| Utilisation of fiscal losses which were not recognised as deferred tax assets in previous years | (3,079) | (5,685) |
| Utilisation of other timing differences which were not recognised in the previous year | (7,170) | – |
| Recognition of deferred tax assets on prior year fiscal losses | (2,100) | (2,899) |
| Deferred tax assets not recognised for the current year tax losses | 5,894 | 1,267 |
| Under provision in respect of previous year | 294 | – |
| Others | 494 | 266 |
| Income tax expense recognised in profit or loss | 31,118 | 24,343 |

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

<u>Tax losses</u>

As of 31 December 2012, the Group has tax losses of approximately Rp464,985 million (2011: Rp542,754 million) that is available for offset against future taxable profits, subjected to a maximum of five years period. Out of these tax losses, approximately Rp401,992 million (2011: Rp529,996 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 in the country in which the Company and its subsidiaries operate.

## 11. Earnings per share

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

Diluted earnings per share is calculated by dividing net profit 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 profit and share data used in the computation of basic and diluted earnings per share for the years ended 31 December:

| | **Group** | |
|---|---|---|
| | **2012** | **2011** |
| | Rp'million | Rp'million |
| Profit attributable to owners of the Company used in computation of earnings per share | 83,059 | 51,235 |
| | **Number of shares** | **Number of shares** |
| Weighted average number of ordinary shares used for basic and dilluted earnings per share computation | 1,377,240,357 | 1,347,243,843 |

## 12. Property, plant and equipment

### Group

| | Buildings and improve-ments | Machinery and heavy equipment | Electrical installations | Vehicles | Furniture, fixtures and equipment | Construction in Progress: Buildings | Construction in Progress: Machinery | Leased Assets: Machinery and heavy equipment | Leased Assets: 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 2012 | 286,607 | 1,230,064 | 28,094 | 39,641 | 54,138 | 8,375 | 53,533 | 47,719 | 1,510 | 1,749,681 |
| Additions | 1,524 | 5,449 | 1,797 | 5,376 | 6,016 | 28,859 | 78,693 | 8,400 | – | 136,114 |
| Disposals | – | 585 | – | (618) | (1,775) | – | (17,105) | – | – | (18,913) |
| Reclassifications | 20,034 | (97,404) | 1,730 | 1,203 | (102) | (20,443) | (27,493) | 1,579 | (1,510) | (122,406) |
| Translation reserve | – | 24 | – | – | 6 | – | – | – | – | 30 |
| Acquisition of a subsidiary (Note 30) | – | 19 | – | – | 313 | – | – | – | – | 332 |
| At 31 December 2012 | 308,165 | 1,138,737 | 31,621 | 45,602 | 58,596 | 16,791 | 87,628 | 57,698 | – | 1,744,838 |
| **Accumulated depreciation and impairment** | | | | | | | | | | |
| At 1 January 2012 | 97,289 | 923,960 | 15,852 | 27,183 | 37,561 | – | – | 7,579 | 792 | 1,110,216 |
| Depreciation charge for the year | 14,183 | 63,344 | 3,154 | 3,659 | 5,627 | – | – | 9,336 | 56 | 99,359 |
| Disposals | – | (3,283) | – | (470) | (1,748) | – | – | – | – | (5,501) |
| Reclassifications | – | (120,383) | (227) | 580 | (1,297) | – | – | (231) | (848) | (122,406) |
| Translation reserve | – | 24 | – | – | 4 | – | – | – | – | 28 |
| At 31 December 2012 | 111,472 | 863,662 | 18,779 | 30,952 | 40,147 | – | – | 16,684 | – | 1,081,696 |
| **Net carrying amount** | | | | | | | | | | |
| At 31 December 2012 | 196,693 | 275,075 | 12,842 | 14,650 | 18,449 | 16,791 | 87,628 | 41,014 | – | 663,142 |

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

### Group (cont'd)

| | Buildings and improve-ments | Machinery and heavy equipment | Electrical installations | Vehicles | Furniture, fixtures and equipment | Construction in Progress: Buildings | Construction in Progress: Machinery | Leased Assets: Machinery and heavy equipment | Leased Assets: 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)

### Company

| | Furniture, fixtures and equipment Rp'million | Electrical installations Rp'million | Total Rp'million |
|---|---|---|---|
| **2012** | | | |
| **Cost** | | | |
| At 1 January 2012 | 1,542 | 119 | 1,661 |
| Addition | – | – | – |
| At 31 December 2012 | 1,542 | 119 | 1,661 |
| **Accumulated depreciation** | | | |
| At 1 January 2012 | 1,426 | 112 | 1,538 |
| Depreciation charge for the year | 102 | 7 | 109 |
| At 31 December 2012 | 1,528 | 119 | 1,647 |
| **Net carrying amount** | | | |
| At 31 December 2012 | 14 | – | 14 |
| **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 |

Assets pledged as security

Buildings and improvements, machinery and heavy equipment with aggregate net book value of Rp379,496 million in 2012 (2011: Rp388,535 million) are pledged as collateral for interest bearing loans (Note 26).

## 13. Intangible assets

| | Group | |
|---|---|---|
| | 2012<br>Rp'million | 2011<br>Rp'million |
| **Cost:** | | |
| At 1 January | – | – |
| Additions from acquisition of a subsidiary | 39,016 | – |
| At 31 December | 39,016 | – |
| **Accumulated amortisation:** | | |
| At 1 January | – | – |
| Amortisation | 873 | – |
| At 31 December | 873 | – |
| Effect of translation difference | 172 | – |
| **Net carrying amount** | 38,315 | – |

The Group obtained a technical know-how from its acquisition of Bioforest as completed on 12 June 2012 (Note 30). Based on the technical know-how, the Group has developed the technology to genetically duplicate elite tree candidates, thereby producing seedlings that have the same desirable characteristics as the mother tree. This technology is applicable for certain tree species, which are popular trees used in the plywood industry in Indonesia.

The group has engaged an independent valuer to determine the fair value of Bioforest's intangible assets. As at 31 December 2012, the fair value of the intangible has been determined to be Rp39,016 million on a provisional basis as the final results of the independent valuation have not been finalised by the date the financial statements was authorised for issue. Intangible assets arising from this acquisition will be adjusted accordingly on a retrospective basis when the valuation is finalised.

The valuation of the intangible assets is calculated based on the discounted cash flow model whereby the fair value is calculated using cash flows arising from the intangible assets as the developed technology for the remaining useful life of the assets, less all applicable contributory asset charges.

This asset is amortised using the straight line method over the period of 10 years starting from the acquisition date and the amortisations has been included in profit or loss.

## 14. Biological Assets

The Group's plantation forest are recognised and measured at fair value less estimated point-of-sale costs at harvest. The valuation of the biological assets is calculated by the independent valuer based on the discounted cash flow model whereby the fair value is calculated using cash flows from continuous operations, assuming sustainable forest management plans, taking into account the growth

## 14. Biological Assets (cont'd)

potential from their industrial forest plantations. The yearly harvest made from the forecasted tree growth is multiplied by actual wood pines and the cost of fertilizer, before the deduction of harvesting. The fair value is measured as the present value of the harvest from one growth cycle based on the productive forestland.

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

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| | Rp'million | Rp'million |
| **At fair value** | | |
| At 1 January | 9,170 | 2,450 |
| Additions during the year | 22,962 | 6,196 |
| Acquisition of a subsidiary (Note 30) | 15,567 | – |
| Gain on change in fair value | 9,177 | 524 |
| **At 31 December** | 56,876 | 9,170 |

### Fair value determination

The fair value of biological assets is estimated with reference to a professional valuation using the present value of expected net cash flows from the biological assets. The valuations are based on following significant assumptions:

(a) The economic life of each standing tree is 6 - 7 years;
(b) Yield is 164 - 180 meter cubic per hectare;
(c) Average inflation rate is 5.1% per annum;
(d) Discount rate is 7.04% per annum; and
(e) Market price is derived from the proportion of log price (20%) and woodchips price (80%)

As at 31 December 2012, the fair value of biological asset which has been pledged as collateral for interest bearing loans (Note 26) amounted to Rp15,825 million (2011: Rp4,080 million).

### Financial risk management strategies related to agricultural activities

The Group is exposed to financial risk in respect of agricultural activity. The agricultural activity of the Group consists of the management of biological assets to produce marketable output. The primary financial risk associated with this activity occurs due to the length of time between expending cash on the purchase or planting and maintenance of biological assets and on harvesting and ultimately receiving cash from the sale of the marketable output. The Group plans for cash flow requirements for such activities and manages its debt and equity portfolio actively.

## 15. Land use rights

| | Group | |
|---|---|---|
| | 2012 | 2011 |
| | Rp'million | Rp'million |
| **Cost:** | | |
| At 1 January | 84,841 | 82,865 |
| Additions | 2,783 | 1,976 |
| At 31 December | 87,624 | 84,841 |
| **Accumulated amortisation:** | | |
| At 1 January | 24,890 | 20,183 |
| Amortisation | 4,768 | 4,707 |
| At 31 December | 29,658 | 24,890 |
| **Net carrying amount** | 57,966 | 59,951 |

Land use rights with the aggregate carrying amount of Rp44,019 million in 2012 (2011: Rp45,726 million) are pledged as collateral for interest bearing loans (Note 26).

## 16. Deferred tax

Deferred tax as at 31 December relates to the following:

| | Group | | | | Company | |
|---|---|---|---|---|---|---|
| | Consolidated balance sheet | | Consolidated income statement | | Balance sheet | |
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | Rp'million | Rp'million | Rp'million | Rp'million | Rp'million | Rp'million |
| **Deferred tax assets:** | | | | | | |
| Unutilised tax losses | 14,076 | 3,190 | 10,886 | 931 | 3,554 | – |
| Difference in employees' benefits obligation | 17,015 | 7,740 | 9,275 | (1,493) | – | – |
| Difference in amortisation of land use rights | 5,419 | 4,217 | 1,202 | 827 | – | – |
| Allowance for inventory obsolescence | 97 | – | 97 | (97) | – | – |
| Effect of change in value of biological assets | 411 | – | 411 | – | – | – |
| Difference in accounting and tax treatment of finance lease | (2,787) | (2,956) | 169 | 2,368 | – | – |
| Difference in depreciation for tax purposes | (4,470) | 39 | (4,509) | 4,218 | 107 | – |
| | 29,761 | 12,230 | | | 3,661 | – |

## 16. Deferred tax (cont'd)

| | Group | | | | Company | |
|---|---|---|---|---|---|---|
| | Consolidated balance sheet | | Consolidated income statement | | Balance sheet | |
| | 2012 Rp'million | 2011 Rp'million | 2012 Rp'million | 2011 Rp'million | 2012 Rp'million | 2011 Rp'million |
| **Deferred tax liabilities:** | | | | | | |
| Difference in depreciation for tax purposes | (4,952) | (8,837) | 3,885 | (3,772) | – | – |
| Difference in accounting and tax treatment of finance lease | (3,474) | (3,751) | 277 | (1,227) | – | – |
| Effect of change in value of biological assets | (2,705) | (131) | (2,574) | (131) | – | – |
| Difference in intangible assets | (1,909) | – | 141 | – | – | – |
| Difference in amortisation of land use rights | 317 | 374 | (57) | 168 | – | – |
| Difference in employees' benefits obligation | 1,399 | 5,507 | (4,108) | 4,654 | – | – |
| Allowance for inventory obsolescence | – | 97 | (97) | 97 | – | – |
| Other | (59) | 632 | (691) | 424 | – | – |
| | (11,383) | (6,109) | | | – | – |
| Deferred tax expense | | | 14,307 | 6,967 | | |

## 17. Other non-current assets

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 Rp'million | 2011 Rp'million | 2012 Rp'million | 2011 Rp'million |
| Payment for acquiring industrial forest plantation right | 10,436 | 10,436 | – | – |
| Prepaid rental | 2,689 | 4,166 | – | – |
| Guarantee deposits – net | 2,183 | 744 | 40 | 188 |
| Tax recoverable | – | 54 | – | – |
| Others | 2,680 | 1,441 | – | – |
| | 17,988 | 16,841 | 40 | 188 |

## 18. Inventories

| | Group | |
|---|---|---|
| | 2012 | 2011 |
| | Rp'million | Rp'million |
| **Balance sheet:** | | |
| Raw materials | 44,868 | 18,311 |
| Work in progress | 80,495 | 61,048 |
| Finished goods | 125,641 | 56,038 |
| Indirect materials and spare parts | 68,380 | 62,600 |
| Goods in transit | 22,694 | 12,300 |
| | 342,078 | 210,297 |
| **Income statement:** | | |
| Inventories recognised as an expense in cost of sales | 1,183,462 | 1,166,758 |

Inventories with the aggregate carrying amount Rp225,115 million in 2012 (2011: Rp126,003 million) are pledged as collateral for interest bearing loans (Note 26).

## 19. Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | Rp'million | Rp'million | Rp'million | Rp'million |
| Trade receivables | | | | |
| - Third parties | 120,862 | 77,291 | 55 | – |
| - Related parties | – | 4,027 | – | – |
| Other receivables | | | | |
| - Third parties | 6,416 | 4,165 | – | – |
| - Related parties | 261 | 245 | 262 | 245 |
| - Subsidiary companies | – | – | 67,467 | 71,623 |
| Total trade and other receivables | 127,539 | 85,728 | 67,784 | 71,868 |
| Add: | | | | |
| - Cash and cash equivalents (Note 22) | 90,350 | 95,028 | 1,487 | 756 |
| - Restricted deposits (Note 21) | 15,763 | 15,312 | – | – |
| - Tax recoverable (Note 17) | – | 54 | – | – |
| - Guarantee deposits – net (Note 17) | 2,183 | 744 | 40 | 188 |
| Total loans and receivables | 235,835 | 196,866 | 69,311 | 72,812 |

## 19. 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 receivables with the aggregate carrying amount Rp104,834 million in 2012 (2011: Rp66,376 million) are pledged as collateral for interest bearing loans (Note 26).

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

At the end of the reporting period, trade receivables arising from export sales amounting to Rp16,797 million (2011: Rp12,688 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 Rp2,473 million (2011: Rp9,469 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 | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| | Rp'million | Rp'million | Rp'million | Rp'million |
| 61 -90 days | 309 | 3,419 | – | – |
| More than 90 days | 2,164 | 6,050 | 66,791 | – |
| Total | 2,473 | 9,469 | 66,791 | – |

## 19. 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 | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| | Rp'million | Rp'million | Rp'million | Rp'million |
| Trade receivables | 2,512 | 2,150 | – | – |
| Less: Allowance for impairment | (2,512) | (2,150) | – | – |
| Other receivables | 418 | 418 | 418 | 418 |
| Less: Allowance for impairment | (418) | (418) | (418) | (418) |
| Total | – | – | – | – |
| Movement in allowance accounts: | | | | |
| At 1 January | 2,568 | 1,401 | 418 | 414 |
| Charge for the year | 934 | 1,237 | – | 4 |
| Written-off | (572) | (70) | – | – |
| At 31 December | 2,930 | 2,568 | 418 | 418 |

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| | Rp'million | Rp'million | Rp'million | Rp'million |
| Indonesian Rupiah | 103,310 | 70,957 | – | – |
| United States Dollar | 23,495 | 14,514 | 58,402 | 64,893 |
| Singapore Dollar | 55 | – | 9,382 | 6,975 |
| Malaysian Ringgit | 679 | 257 | – | – |
| | 127,539 | 85,728 | 67,784 | 71,868 |

## 20. Advances to suppliers

| | Group | |
|---|---|---|
| | 2012 | 2011 |
| | Rp'million | Rp'million |
| For the procurement of: | | |
| Logs | 39,385 | 88,408 |
| Property, plant and equipment | 20,385 | 20,438 |
| Spare parts | 2,995 | 4,111 |
| Veneers | 310 | 1,789 |
| Others | 9,666 | 6,510 |
| | 72,741 | 121,256 |

## 21. Restricted deposits

| | Group | |
|---|---|---|
| | 2012 | 2011 |
| | Rp'million | Rp'million |
| Indonesia Rupiah | 8,501 | 8,502 |
| United States Dollar | 7,262 | 6,810 |
| | 15,763 | 15,312 |

This represents escrow accounts opened and maintained with a lender and are pledged as collateral for interest bearing loans (Note 26).

## 22. Cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | Rp'million | Rp'million | Rp'million | Rp'million |
| Cash on hand | 1,601 | 2,741 | 1 | 1 |
| Cash in banks | 84,507 | 45,670 | 1,486 | 755 |
| Short-term deposits | 4,242 | 46,617 | – | – |
| | 90,350 | 95,028 | 1,487 | 756 |
| Interest rate per annum | 0.25%-5.25% | 0.1%-6.5% | 0.65% | 0.1% |

Short-term deposits 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 earn interests at the respective short-term deposit rates.

## 22. Cash and cash equivalents (cont'd)

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | Rp'million | Rp'million | Rp'million | Rp'million |
| Indonesian Rupiah | 40,305 | 78,561 | – | – |
| United States Dollar | 28,262 | 15,348 | 372 | 247 |
| Singapore Dollar | 21,276 | 1,028 | 1,107 | 502 |
| Others | 507 | 91 | 8 | 7 |
| | 90,350 | 95,028 | 1,487 | 756 |

## 23. Trade and other payables

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | Rp'million | Rp'million | Rp'million | Rp'million |
| Trade payable | | | | |
| - Third parties | 189,154 | 167,507 | – | – |
| - Related parties | 6,490 | 6,611 | – | – |
| - Subsidiary company | – | – | 24 | 27 |
| Liabilities for purchase of Machineries | – | 505 | – | – |
| Other payables | | | | |
| - Subsidiary company | – | – | 3,356 | – |
| Total trade and other payables | 195,644 | 174,623 | 3,380 | 27 |
| Add: | | | | |
| - Other liabilities (Note 24) | 94,548 | 65,649 | 2,384 | 4,429 |
| - Loans and borrowings (Note 26) | 437,296 | 371,450 | – | – |
| Total financial liabilities carried at amortised cost | 727,488 | 611,722 | 5,764 | 4,456 |

## 23. Trade and other payables (cont'd)

Trade and other payables are denominated in the following currencies:

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| | Rp'million | Rp'million | Rp'million | Rp'million |
| Indonesian Rupiah | 87,154 | 74,144 | 52 | 27 |
| United States Dollar | 107,820 | 97,013 | 3,328 | – |
| Singapore Dollar | 117 | 1,423 | – | – |
| Others | 553 | 2,043 | – | – |
| | 195,644 | 174,623 | 3,380 | 27 |

Trade payable - third parties

These amounts 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.

## 24. Other liabilities

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| | Rp'million | Rp'million | Rp'million | Rp'million |
| Accrued expenses | 72,174 | 52,770 | 2,255 | 3,931 |
| Value added tax payable | 20,028 | 10,622 | – | – |
| Other | 2,346 | 2,257 | 129 | 498 |
| | 94,548 | 65,649 | 2,384 | 4,429 |

## 25. Advances from customers

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| | Rp'million | Rp'million |
| Local | 16,974 | 31,938 |
| Export | 14,834 | 31,896 |
| | 31,808 | 63,834 |

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

## 26. Loans and borrowings

| | Group 2012 Rp'million | Group 2011 Rp'million |
|---|---|---|
| ***Current*** | | |
| Interest bearing loans | 138,836 | 56,151 |
| Obligation under finance lease | 13,221 | 8,998 |
| Reforestation fund payable | 1,310 | 1,740 |
| | 153,367 | 66,889 |
| ***Non-current*** | | |
| Interest bearing loans | 274,455 | 291,468 |
| Obligation under finance lease | 9,474 | 13,093 |
| | 283,929 | 304,561 |
| **Total loans and borrowings** | 437,296 | 371,450 |

### (i) *Interest bearing loans*

| | Group 2012 Rp'million | Group 2011 Rp'million |
|---|---|---|
| Within one year | 138,836 | 56,151 |
| Between two and five years | 274,455 | 291,468 |
| | 413,291 | 347,619 |
| (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. The loan includes financial covenants which require a group of subsidiaries to maintain EBITDA to debt service ratio not less than 1.5 times, adjusted leverage ratio not more than 2.5 times, consolidated debt to EBITDA not more than 3 times and loan to value ratio not more than 66.67%. | 346,756 | 297,496 |
| (b) Rp30,000 million working capital facility. Interest is payable at 11.5% per annum (2011: 12% per annum). | 27,000 | 29,200 |
| (c) S$5,000,000 (2011: S$3,000,000) convertible loan maturity in June 2014. Interest is payable at 9% per annum. | 39,535 | 20,923 |
| | 413,291 | 347,619 |
| Effective interest rate per annum | 5.8%-11.5% | 5.5%-13.8% |

**26. Loans and borrowings (cont'd)**

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

The convertible loan of S$5,000,000 (2011: 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 when the Company intends to change in the legal and or beneficial ownership of the entity.

The interest bearing loans are secured as follows:

(a) Short term working capital facilities: secured over the land use rights, buildings, machinery, inventories and account receivables of certain subsidiaries;

(b) Long term bank borrowings:

- Guarantee undertaking from two major shareholders of the Company, the Company and certain subsidiaries;

- Secured over the land use rights, buildings, machinery, inventories, account receivables, bank balances 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; and

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

(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.

## 26. Loans and borrowings (cont'd)

### (ii) *Obligation under finance lease (cont'd)*

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

| | Group | | | |
|---|---|---|---|---|
| | 2012 Rp'million | | 2011 Rp'million | |
| | Minimum payments | Present value of minimum payments | Minimum payments | Present value of minimum payments |
| Within one year | 15,663 | 13,221 | 11,193 | 8,998 |
| Between two and five years | 10,372 | 9,474 | 13,739 | 13,093 |
| Total minimum lease payments | 26,035 | 22,695 | 24,932 | 22,091 |
| Less: interest | (3,340) | – | (2,841) | – |
| Present value of minimum lease payments | 22,695 | 22,695 | 22,091 | 22,091 |
| Effective interest rate per annum | 15% - 16% | | 8% - 16% | |

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

The net book value of assets under finance lease amounts to Rp41,014 million for the financial year ended 31 December 2012 (2011: Rp40,858 million).

### (iii) *Reforestation fund payable*

In financial year 2000, a subsidiary, Arangan Hutani Jaya ("AHL"), obtained a non-interest bearing loan from the Department of Forestry of the Republic of Indonesia arising from the reforestation fund, which shall be payable semi-annually until 2014. The loan is used for reforestation activities of Commercial Forest Estate by a group of farmers and is secured by biological asset, property, plant and equipment, receivable, inventory, and corporate guarantee from PT Putra Sumber Utama Timber, a subsidiary.

## 27. Post-employment benefits

The Group and its subsidiaries calculate and record post-employment benefits for its qualified employees based on Labour Law No. 13/2003 dated March 2003. The number of employees entitled to the benefits as at 31 December 2012 was 7,091 people (2011: 7,642 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 | |
|---|---|---|
| | **2012** | **2011** |
| | Rp'million | Rp'million |
| ***Net benefit expense:*** | | |
| Current service costs | 18,100 | 12,600 |
| Interest costs | 6,962 | 6,086 |
| Amortisation of past service costs and actuarial losses | 1,807 | 1,028 |
| Curtailments effect or termination | (123) | (48) |
| Present value of additional employment | – | 1,070 |
| Net benefit expense | 26,746 | 20,736 |
| ***Benefit liability:*** | | |
| Beginning of the year | 68,249 | 53,116 |
| Addition from acquisition of a subsidiary (Note 30) | 140 | – |
| Expenses during the year | 26,746 | 20,736 |
| Actual payments during the year | (3,795) | (5,603) |
| | 91,340 | 68,249 |
| Present value of post-employment benefits obligation | 175,678 | 119,348 |
| Unrecognised past service cost vested | (334) | (356) |
| Unrecognised actuarial losses | (84,004) | (50,743) |
| Liability recognised in balance sheet | 91,340 | 68,249 |

## 27. Post-employment benefits (cont'd)

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

| | Group | |
|---|---|---|
| | 2012 | 2011 |
| | Rp'million | Rp'million |
| Beginning of the year | 68,249 | 53,116 |
| Current service cost | 18,100 | 12,600 |
| Interest cost | 6,962 | 6,086 |
| Past service costs and actuarial losses | 1,807 | 1,028 |
| Addition from acquisition of a subsidiary (Note 30) | 140 | – |
| Benefits paid | (3,795) | (5,603) |
| Effect of curtailment or termination | (123) | (48) |
| Present value of additional employment | – | 1,070 |
| | 91,340 | 68,249 |

The cost of providing post-employment benefits is calculated by an independent actuary, using the following key assumptions:

| | Group | |
|---|---|---|
| | 2012 | 2011 |
| Discount rate per annum | 6.2%-6.4% | 7.78% |
| 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 |

## 28. Share capital

| | Group and Company | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | Number of shares | Rp'million | Number of shares | Rp'million |
| ***Issued and fully paid*** | | | | |
| At 1 January | 1,347,243,843 | 2,134,271 | 1,347,243,843 | 2,134,271 |
| Issuance of ordinary shares | 54,201,621 | 54,374 | – | – |
| At 31 December | 1,401,445,464 | 2,188,645 | 1,347,243,843 | 2,134,271 |

## 28. Share capital (cont'd)

In June 2012, the Company issued 54,201,621 new shares at issue price of S$0.01362 per share as the consideration for its acquisition of a new subsidiary as disclosed in Note 30.

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

## 29. Restructuring reserves

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| | Rp'million | Rp'million |
| Balance at beginning and the end of year | 309,050 | 309,050 |

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

## 30. Investment in subsidiaries

| | Company | |
|---|---|---|
| | **2012** | **2011** |
| | Rp'million | Rp'million |
| ***Cost:*** | | |
| 1 January | 2,001,573 | 2,001,109 |
| Addition during the year | 54,374 | 464 |
| 31 December | 2,055,947 | 2,001,573 |
| ***Provision for impairment:*** | | |
| At 1 January and 31 December | (1,413,875) | (1,413,875) |
| ***Net carrying amount*** | 642,072 | 587,698 |

## 30. 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 2012 | 2011 |
|---|---|---|---|---|
| @ | 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 |
| # | Bioforest Pte Ltd (Singapore) | Production and marketing of elite tree seedlings and provision of consultation services | 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 Sentosa (Indonesia) | Production of plywood and veneers | 99.98 | 99.89 |
| & | PT Makmur Alam Lestari (Indonesia) | Production of veneers | 99.92 | 99.92 |

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

### *Acquisition of Bioforest Pte Ltd*

On 12 June 2012 (the "acquisition date"), the Company acquired the entire equity interest in Bioforest Pte Ltd ("Bioforest"), a bio-technology company established in 2006 in Singapore to develop micropropogation systems to enable mass production of tree seedling for the plantation industry. Upon the acquisition, Bioforest became a subsidiary of the Company.

## 30. Investment in subsidiaries (cont'd)

### *Acquisition of Bioforest Pte Ltd (cont'd)*

The Company has acquired Bioforest to create synergies with the Group's operations and to support the Company's long term strategy to move upstream into tree planting. The acquisition will transform the Group into a fully integrated timber product player. It is expected that Bioforest's seedling technology will enable the Company to secure sufficient quality seedlings to support its plantation program, and at a cheaper price compared to open market purchases.

The fair value of the identifiable assets and liabilities of Bioforest as at the acquisition date were:

| | **Fair value recognised on acquisition** Rp'million |
|---|---|
| Property, plant and equipment | 332 |
| Intangible assets | 2,652 |
| Biological assets | 15,567 |
| Inventories | 95 |
| Receivable and prepayments | 3,212 |
| Cash and cash equivalents | 21,652 |
| | 43,510 |
| Other liabilities | 276 |
| Advance from customer | 23,147 |
| Provision for taxation | 28 |
| Post-employment benefits | 140 |
| | 23,591 |
| Net identifiable assets at fair value | 19,919 |
| Non-controlling interest | 139 |
| Intangible assets arising from acquisition | 36,364 |
| Defered tax liability arising from acquisition | (2,048) |
| | 54,374 |
| Consideration transferred for the acquisition | |
| Equity instrument issued (54,201,621 ordinary share of the Company) | 54,374 |

## 30. Investment in subsidiaries (cont'd)

***Acquisition of Bioforest Pte Ltd (cont'd)***

Effect of the acquisition of Bioforest on cash flows

| | Rp'million |
|---|---|
| Total consideration for 100% equity interest acquired | 54,374 |
| Less: non-cash consideration | (54,374) |
| Consideration settle in cash | – |
| Less: Cash and cash equivalent of a subsidiary acquired | (21,652) |
| Net cash inflow on acquisition | 21,652 |

Provisional accounting of the acquisition of Bioforest

The Group has engaged an independent valuer to determine the fair value of Bioforest's intangible assets. As at 31 December 2012, the fair value of the intangible assets has been determined to be Rp39,016 million on a provisional basis as the final results of the independence valuation have not been finalised by the date the financial statements was authorised for issue. Intangible assets arising from this acquisition will be adjusted accordingly on a retrospective basis when the valuation is finalised.

***Acquisition of PT Cipta Graha Kreasindo***

In June 2012 (the "acquisition date"), the Group's subsidiary acquired 65% equity interest in PT Cipta Graha Kreasindo ("CGK"), a company incorporated in Indonesia. Upon the acquisition, CGK became a subsidiary of the Group.

CGK will be used as the company to carry out the business of constructing housing and buildings with wood based emphasis. CGK will source its wood based materials primarily from the Group, thus giving the Group an added avenue for growth. The venture is in line with the Group's strategy of going downstream.

## 30. Investment in subsidiaries (cont'd)

### *Acquisition of PT Cipta Graha Kreasindo (cont'd)*

The fair value of the identifiable assets and liabilities of CGK as at the acquisition date were:

| | **Fair value recognised on acquisition** Rp'million |
|---|---|
| Net identifiable assets at fair value | 103 |
| Portion acquired by the Group | 65% |
| Net identifiable assets acquired at fair value with cash consideration | 67 |
| Effect of the acquisition of CGK on cash flows | |
| Total consideration for 65% equity interest acquired | 67 |
| Less: Cash and cash equivalent of a subsidiary acquired | (103) |
| Net cash inflow on acquisition | (36) |

## 31. Investment in an associate

| | **Group** | |
|---|---|---|
| | **2012** Rp'million | **2011** Rp'million |
| ***At equity*** | | |
| At 1 January | 73,275 | 73,275 |
| Change during the year | – | – |
| 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*** | – | – |

## 31. Investment in an associate (cont'd)

| Name (Country of incorporation) | Principal activities | Percentage of effective equity interest held by the company 2012 | 2011 |
|---|---|---|---|
| PT Sumalindo Lestari Jaya Tbk ("Sumalindo") (Indonesia). Audited by Purwantono, Suherman & Surja, Jakarta - a member of Ernst & Young Global Limited | Forest exploration, industrial timber estate and utilisation of forest products | 31 | 31 |

In January 2013, Sumalindo completed its debt to equity exercise by issuing 639,356,400 new ordinary shares to its creditors. This transaction was approved in the extraordinary shareholder meeting on 18 December 2012. Upon completion of this exercise, the Group's effective equity interest is diluted from 31% to 24.6%.

The summarised unaudited financial information of the associate, not adjusted for the proportion of ownership interest held by the Group, is as follows:

| | 2012 Rp'million | 2011 Rp'million |
|---|---|---|
| ***Assets and liabilities:*** | | |
| Total assets | 1,482,482 | 1,659,667 |
| Total liabilities | (1,776,810) | (1,663,017) |
| Net liabilities | (294,328) | (3,350) |
| ***Results:*** | | |
| Revenue | 310,035 | 408,729 |
| Loss for the year | 335,310 | (293,475) |

## 32. Commitments and contingencies

***Capital commitments***

As of 31 December 2012 and 2011, the Group has no material commitments.

***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 5 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 2012 amounted to Rp4,999 million (2011: Rp3,607 million).

In January 2012, the Group entered into a non-cancellable office lease agreement with a related 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 | |
|---|---|---|
| | **2012** | **2011** |
| | Rp'million | Rp'million |
| Not later than one year | 3,867 | 6,407 |
| Later than one year but not later than five years | 6,027 | 6,454 |
| | 9,894 | 12,861 |

## 32. Commitments and contingencies (cont'd)

***Contingent liability***

In January 2013, Sumalindo, an associate, Mr. Amir Sunarko, a Non-executive Director of the Company, and PT Sumber Graha Sejahtera ("SGS"), a subsidiary, have received a summons from the South Jakarta Court with regard to a tort claim filed by a shareholder of Sumalindo regarding certain corporate actions undertook by Sumalindo in 2009 and 2010.

The action will not have any impact to the Company's investment in Sumalindo as the carrying cost of the investment has been fully impaired since March 2010 and the Company has no further obligation to the associated company.

SGS' management has appointed a legal counsel to assist them in handling this case and is of the view that the claim against SGS is without merit and no provision of any material costs is provided. SGS will disclaim any liability and is defending the action.

## 33. Related party disclosures

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

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

In addition to those related party information disclosed elsewhere in the financial statements, the following 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.

## 33. Related party disclosures (cont'd)

| | Group | |
|---|---|---|
| | 2012 | 2011 |
| | Rp'million | Rp'million |
| PT Pelayaran Nelly Dwi Putri | | |
| • Freight charges | 21,478 | 21,316 |
| PT Wahana Sekar Agro | | |
| • Cooperation for cultivation of trees | 10,024 | 2,721 |
| PT Buana Sakti | | |
| • Office rental deposit | 3,067 | 744 |
| Bioforest Private Limited | | |
| • Acquisition of Bioforest | 17,541 | – |
| • Payment for purchase of trees | 2,030 | 4,873 |
| PT National Sago Prima | | |
| • Construction of houses | 675 | – |
| PT Nelly Jaya Pratama | | |
| • Purchase of property, plant and equipment | – | 25,000 |
| 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 the Sunarko family, which is related to a substantial shareholder of the Company.

Prior to June 2012, Bioforest Private Limited was controlled by the Sunarko family, which is related to a substantial shareholder of the Company. As disclosed in Note 30, Bioforest has been acquired by the Company in June 2012 and became a subsidiary.

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

### Compensation to key management personnel

| | Group | |
|---|---|---|
| | 2012 | 2011 |
| | Rp'million | Rp'million |
| Short-term benefits | | |
| - Directors | 5,954 | 11,670 |
| - Executive officers | 16,420 | 13,890 |
| | 22,374 | 25,560 |

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

## 33. Related party disclosures (cont'd)

### Commitments with related parties

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 26).

## 34. Financial risk management objectives and policies

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

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

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

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

## 34. 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.

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

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 after tax in 2012 would have been Rp3,370 million higher/ lower (2011: Rp2,875 million lower/ higher).

### (b) *Foreign currency risk*

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

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 instruments require bank line which is quite often difficult for companies 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.

<u>Sensitivity analysis for foreign currency risk</u>

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

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

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

Sensitivity analysis for foreign currency risk (cont'd)

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| | Rp'million | Rp'million |
| | Profit after tax | Profit after tax |
| Strengthened 4% | 6,017 | 6,499 |
| Weakened 4% | (6,017) | (6,499) |
| Strengthened 8% | 12,034 | 12,998 |
| Weakened 8% | (12,034) | (12,998) |
| Strengthened 12% | 18,051 | 19,497 |
| Weakened 12% | (18,051) | (19,497) |
| Strengthened 16% | 24,068 | 25,995 |
| Weakened 16% | (24,068) | (25,995) |

### (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 a 'know-your-customer' policy.

Financial assets that are neither past due nor impaired

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

Information regarding financial assets that are either past due or impaired is disclosed in Note 19 (Trade and other receivables).

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

### (d) *Liquidity risk*

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

The Group's 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 35% (2011: 18%) of the Group's loans and borrowings (Note 26) 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 2012 | Within 1 year | 1-2 Years | 2-3 years | 3-4 Years | 4-5 Years | Total undiscounted financial liabilities |
|---|---|---|---|---|---|---|
| | Rp'million | Rp'million | Rp'million | Rp'million | Rp'million | Rp'million |
| Trade and other payables | 195,644 | – | – | – | – | 195,644 |
| Interest bearing loans | 176,921 | 109,220 | 78,464 | 137,520 | – | 502,125 |
| Obligations under finance lease | 15,664 | 7,842 | 2,529 | – | – | 26,035 |
| Reforestation fund payable | 1,310 | – | – | – | – | 1,310 |

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

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

| 31 December 2011 | Within 1 year | 1-2 Years | 2-3 years | 3-4 Years | 4-5 Years | Total undiscounted financial liabilities |
|---|---|---|---|---|---|---|
| | Rp'million | Rp'million | Rp'million | Rp'million | Rp'million | Rp'million |
| Trade and other payables | 174,623 | – | – | – | – | 174,623 |
| Interest bearing loans | 90,326 | 91,530 | 65,002 | 76,746 | 133,646 | 457,250 |
| Obligations under finance lease | 10,964 | 10,663 | 3,305 | – | – | 24,932 |
| Reforestation fund payable | 1,740 | – | – | – | – | 1,740 |

## 35. Fair value of financial instruments

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

*Financial instruments whose carrying amount approximates fair value*

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

*Financial instruments carried at amounts other than fair values*

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

## 36. Capital management

Capital includes debt and equity items as disclosed in the table below.

The primary objective of the Group's capital management is to ensure the Group's ability to operate as a going concern and to maintain a 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 2012 and 2011.

One of the methods the Group uses to monitor 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 not exceeding 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.

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| **Description** | Rp'million | Rp'million |
| Loans and borrowings (Note 26) | 437,296 | 371,450 |
| Trade and other payables (Note 23) | 195,644 | 174,623 |
| Other liabilities (Note 24) | 94,548 | 65,649 |
| Less: Restricted deposits (Note 21) | (15,763) | (15,312) |
| Less: Cash and cash equivalents (Note 22) | (90,350) | (95,028) |
| Net debt | 621,375 | 501,382 |
| Equity attributable to the owners of the Company | 649,212 | 509,631 |
| Capital and net debt | 1,270,587 | 1,011,013 |
| Gearing ratio | 49% | 50% |

## 37. Segment information

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

1. 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.

2. 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.

## 37. Segment information (cont'd)

| | SGS division | | ST division | | Adjustments and eliminations | | Notes | Per consolidated financial statements | |
|---|---|---|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | | 2012 | 2011 |
| | Rp'million | Rp'million | Rp'million | Rp'million | Rp'million | Rp'million | | Rp'million | Rp'million |
| **Revenue:** | | | | | | | | | |
| External customers | 2,028,436 | 1,880,714 | 732,144 | 603,537 | – | – | | 2,760,580 | 2,484,251 |
| Inter-segment | 645,739 | 513,480 | – | – | (645,739) | (513,480) | | – | – |
| Total revenue | 2,674,175 | 2,394,194 | 732,144 | 603,537 | (645,739) | (513,480) | | 2,760,580 | 2,484,251 |
| **Results:** | | | | | | | | | |
| Finance income | 912 | 1,574 | 226 | 436 | – | – | | 1,138 | 2,010 |
| Finance expenses | (40,235) | (43,759) | (6,580) | (4,428) | (14) | (34) | | (46,829) | (48,221) |
| Depreciation | (97,673) | (92,691) | (1,578) | (848) | (108) | (409) | | (99,359) | (93,948) |
| Amortisation of land use rights | (4,768) | (4,707) | – | – | – | – | | (4,768) | (4,707) |
| Post-employment benefit expenses | (26,007) | (19,594) | (739) | (1,142) | – | – | | (26,746) | (20,736) |
| Tax expenses | (31,534) | (21,165) | (3,245) | (3,178) | 3,661 | – | | (31,118) | (24,343) |
| Segment profit | 75,642 | 52,249 | 9,224 | 14,419 | (1,109) | (15,153) | A | 83,757 | 51,515 |
| **Assets:** | | | | | | | | | |
| Deferred tax assets | 23,306 | 11,891 | 2,794 | 339 | 3,661 | – | | 29,761 | 12,230 |
| Segment assets | 1,417,265 | 1,220,594 | 256,034 | 184,574 | (125,753) | (110,804) | B | 1,547,546 | 1,294,364 |
| **Liabilities:** | | | | | | | | | |
| Short term and long term liabilities | 370,134 | 320,358 | 67,162 | 51,092 | – | | | 437,296 | 371,450 |
| Income tax payable | 24,061 | 27,438 | 6,105 | 3,564 | – | – | | 30,166 | 31,002 |
| Deferred tax liabilities | 11,377 | 6,103 | 6 | 6 | – | – | | 11,383 | 6,109 |
| Segment liabilities | 895,328 | 797,161 | 223,312 | 163,555 | (226,455) | (179,800) | C | 892,185 | 780,916 |

**37. 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 to arrive at "profit after tax" presented in the consolidated income statements:

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| | Rp'million | Rp'million |
| Unrealised profit/(loss) from inter-segment sales | 67 | (682) |
| Unallocated corporate expenses, net | (1,176) | (14,471) |
| | (1,109) | (15,153) |

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

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| | Rp'million | Rp'million |
| Assets managed by corporate department | 5,351 | 1,001 |
| Inter-segment assets | (131,104) | (111,805) |
| | (125,753) | (110,804) |

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

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| | Rp'million | Rp'million |
| Liabilities managed by corporate department | (6,005) | (4,455) |
| Inter-segment liabilities | (220,450) | (175,345) |
| | (226,455) | (179,800) |

**37. 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 | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| | Rp'million | Rp'million | Rp'million | Rp'million |
| Indonesia | 2,092,892 | 1,884,444 | 777,936 | 708,426 |
| North Asia | 566,510 | 462,174 | – | – |
| Singapore | 36,121 | 54,031 | 38,363 | 160 |
| United States of America | 20,576 | 11,296 | – | – |
| Malaysia | 19,202 | 40,781 | – | – |
| Timor Leste | 10,545 | 8,938 | – | – |
| Others | 14,734 | 22,587 | – | – |
| | 2,760,580 | 2,484,251 | 816,299 | 708,586 |

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

**38. Authorisation of financial statements for issue**

The financial statements for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the directors on 25 March 2013.

# SHAREHOLDERS' INFORMATION
As at 18 March 2013

| Class of equity securities | Number of equity securities | Voting Rights |
|---|---|---|
| Ordinary Shares | 1,401,445,464 | 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 | 2.75 | 2,957 | 0.00 |
| 1,000 - 10,000 | 406 | 37.18 | 2,178,126 | 0.16 |
| 10,001 - 1,000,000 | 619 | 56.68 | 60,966,136 | 4.35 |
| 1,000,001 - and above | 37 | 3.39 | 1,338,298,245 | 95.49 |
| | 1,092 | 100.00 | 1,401,445,464 | 100.00 |

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

| | Direct Interest | % | Deemed Interest | % |
|---|---|---|---|---|
| Aris Sunarko @ Ko Tji Kim (1) | 34,698,231 | 2.48 | 190,100,346 | 13.56 |
| Koh Tji Kiong @ Amir Sunarko (2) | 139,473,231 | 9.95 | 33,846,346 | 2.42 |
| Cindy Sunarko | 138,473,230 | 9.88 | - | - |
| Sampoerna Forestry Limited | 557,961,305 | 39.81 | - | - |
| First Fortuna Holdings Pte Ltd | 150,597,000 | 10.75 | - | - |

**Notes:**

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

(a) 5,657,000 shares held by Noah Shipping Pte Ltd;
(b) 33,846,346 shares held by Hasan Holdings Pte Ltd; and
(c) 150,597,000 shares held by First Fortuna Holdings Pte Ltd.

(2) Mr Koh Tji Kiong @ Amir Sunarko is deemed to be interested in the 33,846,346 shares held by Hasan Holdings Pte Ltd, by virtue of Section 7 of the Companies Act.

## PERCENTAGE OF SHAREHOLDING IN PUBLIC'S HANDS

*23.09% 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 | 1,017,982,997 | 72.64 |
| 2 | Citibank Nominees Singapore Pte Ltd | 57,303,500 | 4.09 |
| 3 | Temasek Life Sciences Ventures Private Limited | 52,701,621 | 3.76 |
| 4 | HSBC (Singapore) Nominees Pte Ltd | 42,797,275 | 3.05 |
| 5 | Hasan Holdings Pte Ltd | 33,846,346 | 2.42 |
| 6 | Aris Sunarko @ Ko Tji Kim | 17,225,000 | 1.23 |
| 7 | DBS Nominees Pte Ltd | 13,488,006 | 0.96 |
| 8 | United Overseas Bank Nominees Pte Ltd | 13,482,000 | 0.96 |
| 9 | Koh Boon Hong | 12,750,000 | 0.91 |
| 10 | First Fortuna Holding Pte Ltd | 10,597,000 | 0.76 |
| 11 | Natalia Tanwir Tan | 7,808,000 | 0.56 |
| 12 | DBS Vickers Securities (S) Pte Ltd | 6,713,000 | 0.48 |
| 13 | Noah Shipping Pte Ltd | 5,657,000 | 0.40 |
| 14 | See Kim Hua @ Tan Kim Hua | 4,400,000 | 0.31 |
| 15 | Phillip Securities Pte Ltd | 4,178,500 | 0.30 |
| 16 | DMG & Partners Securities Pte Ltd | 3,397,000 | 0.24 |
| 17 | Lily Leo | 2,829,000 | 0.20 |
| 18 | Bank of Singapore Nominees Pte Ltd | 2,490,000 | 0.18 |
| 19 | Horng Jiin Shuh @ Hung Ching Hsu | 2,305,000 | 0.16 |
| 20 | OCBC Securities Private Ltd | 2,157,000 | 0.15 |

*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, 26 April 2013, 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 2012 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 Ko Tji Kiong @ Amir Sunarko **(Resolution 2)**
   Mr Eka Dharmajanto Kasih **(Resolution 3)**
   Mr Wee Ewe Lay Laurence John **(Resolution 4)**

   *Mr Ko Tji Kiong @ Amir Sunarko will, upon re-election as a Director of the Company, remain as a Non-Executive Director and will be considered non-independent.*

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

   *Mr Wee Ewe Lay Laurence John will, upon re-election as a Director of the Company, remain as the Chairman of the Remuneration Committee and a member of the Audit and Nominating 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$223,000 for the year ending 31 December 2013, payable quarterly in arrears (2012: S$220,300). **(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, 11 April 2013

**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, #08-305/307, The Plaza, Singapore 199591 not less than forty-eight (48) hours before the time appointed for holding the Meeting.

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**SAMKO TIMBER LIMITED**

7500A Beach Road #08-305/307 The Plaza, Singapore 199591
Tel: (65) 6298 2189    Fax: (65) 6298 2187
Website: www.samkotimber.com