SAMPOERNA KAYOE

THE CORNERSTONES OF SUSTAINABILITY

SAMKO TIMBER LIMITED

annual report 2019

CONTENTS

At **Sampoerna Kayoe**, we believe in the importance of maintaining balance between innovation and sustainability, between design and functionality, between dreams and hard work. When these balances are kept, *we know that our Unlimit Possibilities principle is working.*

COMPANY BACKGROUND

Samko Timber Limited ("**Samko**" or "**Samko Timber**") and its subsidiaries (the "**Group**") is Indonesia's leading, vertically integrated wood resource processor. Samko operates six timber processing plants, eleven satellite veneer plants and a chemical glue facility spread across Java, Sumatra and Sulawesi with an annual production capacity of +/-900,000 m^3; export to 33 countries.

With unrelenting focus on excellence at every stage of its supply chain, Samko has garnered international environmental accreditations as a testament of its long term commitment to quality and sustainability. The Research and Development department is tasked with ongoing process improvement, wood maximisation and product innovation, setting the stage for value creation and growth.

With close to 40 years of experience and industry knowledge condensed into its primary and secondary processed timber products, Samko's products are found in residential, commercial and industrial applications in the form of plywood, wood-decking, wood-doors, wood-flooring, piano and truck parts. Samko's products enjoy a dominant market share in Indonesia, and are distributed in 33 countries across the world, including the Asia Pacific region, Europe, the Middle East, the South East Asia, Australia and the United States of America.

CHAIRMAN STATEMENT

DEAR SHAREHOLDERS,

OVERVIEW OF THE YEAR

2019 was yet another year marked with political unrest. In the United States ("**US**"), Trump's third year of administration witnessed him becoming the fourth American president in history to be impeached. In the United Kingdom ("**UK**"), Brexit negotiations finally saw light at the end of the tunnel with UK leaving the European Union ("**EU**") on 31 January 2020. Protests were rattling many countries across the globe, particularly in Hong Kong, where months of anti-government protests began in June as citizens marched to protest the newly evoked extradition bill.

Global recovery from the economic slowdown was lacklustre. On the economic front, while there were positive surprises for growth in advanced economies, emerging markets and developing economies suffered weaker-than-expected activities. As such, global growth remained sluggish as it decelerated to an estimated 2.9%[1].

Hit by a weakening global economy, Indonesia's gross domestic product only expanded 5.02% in 2019 which was below the 5.3% target set by the government[2]. Slowing global trade amid the trade war has hurt Indonesia's important commodity exports, while national elections delayed investment decisions. Investment also remained sluggish, despite political uncertainty easing between the October and December period after the elections. From Rp14,481, the Rupiah appreciated slightly against the US Dollar to close at Rp13,901 as at 31 December 2019.

The Group's sales decreased 9% year-on-year ("**yoy**") to Rp3,955 billion mainly due to the decrease in export sales volume and lower average selling prices. Gross profit declined 23% yoy to Rp599 billion while gross profit margin decreased from 18% to 15% yoy due to lower contribution from higher margin export sales. Despite marginal increase in operation expenses and lower finance costs, the Group's net attributable profit declined 91% yoy to Rp5 billion.

STREAMLINING OPERATIONS & NEW PARTNERSHIP

As part of the Group's ongoing cost management initiative, the Board has conducted an evaluation on the cost effectiveness of the Group's current audit function and concluded with the appointment of Moore Stephens LLP as auditors of the Company in place of Ernst & Young LLP ("**EY**").

In addition, the Group has completed a capital reduction exercise to write off the accumulated losses in its bid to facilitate future equity-related fund-raising exercises to recapitalise and strengthen the balance sheet of the Company. The Company would also be in a better position to retain profits and enhance its ability to pay future dividends, when appropriate. The Board will take into consideration the present and future funding needs of the Company and the Group before declaring any dividends.

1 *IMF: coronavirus means 2020 growth will be lower than 2019, https://www.theguardian.com/business/2020/mar/04/imf-coronavirus-means-2020-growth-will-be-lower-than-2019*

2 *Indonesia's growth in the 4th quarter slows to weakest in 3 years, https://www.cnbc.com/2020/02/05/indonesia-economy-q4-gdp-growth-slows-to-weakest-in-3-years.html*

In September 2019, the Group announced that its wholly-owned subsidiary, PT Sempurna Graha Abadi ("**PT SGA**"), will acquire 51% stake in PT Sumber Graha Maluku ("**PT SGM**") and pay up to US$20.7 million to PT SGM's parent company PT Barito Wanabinar Indonesia ("**PT BWI**"). The deal will see PT SGM become an asset-holding vehicle that will acquire industrial forest plantations, forest concession rights of about 59,138 hectares in Indonesia, licences, plywood factories and other assets. This development will allow the Group to venture into upstream businesses as well as to expand its operations into new Indonesia locations.

LOOKING AHEAD

Before the US-China trade tensions start to ease with the signing of the first phase of a new trade deal in January 2020, the world was brought down to its knees with the novel coronavirus outbreak. The outbreak has since reached all continents and Indonesia was not spared. In view of the global supply chain disruption and declining global demand, the Organisation for Economic Co-operation and Development has cut its expectation for global growth in 2020 to 2.4%, and warned that it could fall as low as 1.5%[3]. The Indonesian government foresees the virus outbreak may slow Indonesia's growth this year and has announced a raft of measures, including the disbursement of 10.3 trillion rupiah (S$1 billion), to help domestic businesses and consumers counter the economic impact of the coronavirus[4].

The Group expects that there will be negative financial impact to the Group as domestic and export demands will be weak due to the epidemic. However, the extent and the duration of the impact cannot be ascertained at the moment as the situation remains fluid. The management will monitor the development of the COVID-19 situation closely and will adjust its existing business strategies to better mitigate the challenges posed by this unfortunate event.

Meanwhile, the Group will continue to focus on the modernisation of its production facilities to increase efficiency, productivity and product quality. On the domestic front, the Group will re-engineer its product positioning and streamline its distribution channel. The Group intends to penetrate new markets in South Asia, Middle East, Africa, Eastern and Western Europe while awaiting recovery from key overseas markets such as the US and South Korea.

In the next three years, new investments on revitalizing the forest plantations, the forest concessions and the plywood factories from the new venture with PT BWI will be the main growth driver of the Group. In addition, the Group's commitment in sourcing raw material from sustainable sources as well as sustainable forest management, evident with the certification from the Forest Stewardship Council ("**FSC**") and the Programme for the Endorsement of Forest Certification ("**PEFC**"), will be the Group's pillar of success. We believe Sampoerna Kayoe is on track to become one of the biggest and sustainable engineered wood manufacturers in the world.

APPRECIATION

On behalf of the Board, I would like to thank Mr Koh Tji Beng @ Ambran Sunarko, who has stepped down as Non-Independent and Non-Executive Director of the Company in April 2019, for his invaluable contribution to the Group. We wish him success in his future endeavours.

I would also like to express our appreciation to our shareholders, staffs, business partners and customers for their dedication and support.

Our Group will continue to strive in the present while building a pathway for the future.

Eka Dharmajanto Kasih
Non-Executive Chairman

3 *Coronavirus Could Cost the Global Economy $2.7 Trillion. Here's How,*
https://www.bloomberg.com/graphics/2020-coronavirus-pandemic-global-economic-risk/

4 *Coronavirus: Indonesia rolls out measures to minimise the outbreak's impact on economy,*
https://www.straitstimes.com/asia/se-asia/coronavirus-indonesia-rolls-out-measures-to-minimise-the-outbreaks-impact-on-economy

CEO STATEMENT

DEAR SHAREHOLDERS,

I am pleased to present to you the annual report of Samko Timber Limited for the financial year ended 31 December 2019 ("**FY2019**"). 2019 was a yet another tumultuous year for the Group but I am proud to have witnessed the Group traverse through adversities in my fourth year as the Chief Executive Officer with the support of like-minded Board and a steadfast team of co-workers.

FINANCIAL REVIEW

For FY2019, the Group's sales decreased by 9% year-on-year ("**yoy**") to Rp3,955 billion. The increase in the sales volume for domestic markets by 2% was insufficient to cushion the decrease in the sales volume for export markets amid a slowdown in export demand over the year, which brought the overall sales volume down by 8% in FY2019. Lower sales was also caused by lower average selling price by 7% in FY2019 as compared to FY2018. The composition of our domestic sales to overall sales increased from 51% in FY2018 to 56% in FY2019.

The Group's gross profit declined 23% from Rp773 billion in FY2018 to Rp599 billion in FY2019 due mainly to lower sales revenue from the export segment with higher margin offset by a lower unit production costs incurred as a result of higher production volume. As a result, the Group's profitability declined as gross profit margin decreased 3 percentage points from 18% for FY2018 to 15% for FY2019.

In FY2019, other income increased 53% yoy to Rp47 billion which mainly came from foreign exchange gain of Rp11 billion, gain on change in fair value of biological assets of Rp7 billion, recovery of advance payments to suppliers of Rp2 billion, income from insurance claim of Rp3 billion, and sales of scrap of Rp3 billion, respectively. The weakening of US Dollar has resulted in unrealized foreign exchange gain due to translation of our US Dollar denominated loans.

The Group's selling expenses for FY2019 increased by 9% yoy to Rp152 billion mainly due to higher freight costs because of the changes in the term of delivery from Free on Board ("**FOB**") to Cost and Freight ("**CNF**"), higher spending on marketing and travelling expenses and staff costs associated to our customers in order to stimulate export market demand.

General and administrative expenses decreased 9% yoy to Rp355 billion due mainly to lower professional fees.

Finance expenses, which relate mainly to interest expense, increased 14% yoy to Rp106 billion mainly due to drawdown of additional loans for working capital.

In FY2019, other expenses were derived mainly from workers separation expenses and amortisation of land use rights, while other expenses in FY2018 came mainly from foreign exchange losses mostly on the back of depreciating IDR, allowance for doubtful receivables and advance to suppliers, workers separation expenses, amortisation of land use rights, tax penalties and loss from change in fair value of biological assets.

As a result of the above, the Group recorded a lower net attributable profit for FY2019 of Rp5 billion as compared to Rp64 billion in FY2018.

OPERATIONAL REVIEW

During the period under review, the Group continued to streamline its operations and implement measures to reduce costs and strengthen its balance sheet.

As part of ongoing good corporate governance initiatives as well as to manage its overall business costs and expenses amidst the challenging business climate, the Board has reviewed the appointment of auditors of the Group. The proposed review allowed the Group to benchmark audit fees and realise cost efficiencies. With the blessing of our shareholders, the Group has appointed Moore Stephens LLP as auditors of the Company in place of Ernst & Young LLP ("**EY**"). The management would like to take this opportunity to express their appreciation for the past services rendered by EY.

The Group also undergone a capital reduction exercise in FY2019 to write off the accumulated losses with a view to restructure the finances of the Company. This serves to rationalise the balance sheet of the Company to accurately reflect the financial position of the Company. In addition, the capital reduction will facilitate future equity-related fund-raising exercises to recapitalise and strengthen the balance sheet of the Company.

As a prominent player in the global timber market, the Group is aware of the need to stay competitive. In 2019, the Group's research and development ("**R&D**") team continued to make headways in the modernisation of our production facilities through technology advances and improvements of timber manufacturing processes. The efforts allowed us to increase production quantity as well as improve production quality with relatively lower costs. The initiative also enabled the Group to continually develope our products in order to meet the market demand.

On 16 September 2019, the Group's wholly-owned subsidiary, PT Sumber Graha Sejahtera ("**PT SGS**"), struck a partnership with PT Barito Wanabinar Indonesia ("**PT BWI**"), a company incorporated in the Republic of Indonesia and a subsidiary of PT Barito Pacific Tbk ("**Barito Pacific**"). Barito Pacific is listed on the Indonesia Stock Exchange and its core businesses comprise power generation and petrochemical production. It also carries on other business activities in the fields of forestry, plantation, mining, industry, property, trade, renewable energy and transportation. PT SGS has nominated PT Sempurna Graha Abadi ("**PT SGA**"), a subsidiary of the Company, to acquire 51% stake in PT BWI's subsidiary, PT Sumber Graha Maluku ("**PT SGM**") for a consideration of US$20.7 million. The partnership will allow the Group to expand its business upstream in the management and operation of industrial forest plantations and forestry concession rights as well as increasing the Group's plywood processing capacity.

OUTLOOK & FUTURE STRATEGIES

The novel coronavirus outbreak since the beginning of 2020 is an unfortunate event affecting millions of people globally. The epidemic, which has now spread to all continents, is having a growing impact on the global economy. The United Nations' trade and development agency, UNCTAD, envisaged a slowdown in the global economy to under 2% for this year[1]. Furthermore, the next phases of the outbreak are profoundly uncertain as the situation is still evolving. Disruption in global supply and demand and the weakening consumer sentiments will inevitably affect our domestic and overseas businesses, but we believe that this situation will eventually blow over and the Group will emerge stronger than before.

1 *Coronavirus update: COVID-19 likely to cost economy $1 trillion during 2020, says UN trade agency, https://news.un.org/en/story/2020/03/1059011*

In the short to mid-term, there are some positive developments which may help alleviate some pressure. The Indonesian government is cognisant of the threat posed by the epidemic and has swiftly unveiled a US$725 million stimulus package in a bid to protect its economy from the impact of the coronavirus outbreak. The government plans to issue another stimulus package focusing on easing rules for imports and exports to dampen the disruption being felt by supply chains nationwide[2]. This was on top of the government's plan to spend more than US$400 billion on the building of new infrastructure as President Joko Widodo heads into his second presidential term with a stronger mandate[3].

Samko Timber currently owns 18 production facilities that operate as wood processing facilities, chemical glue producer and veneer satellite factories. Our facilities currently have the combined production capacity of 1,000,000 m^3 per annum. During the year, the total production output increased from 850,000 m^3 to approximately 900,000 m^3 annually, translating into a utilisation rate of more than 94%. Simultaneously, the Group is undertaking steps to fully automate our facilities to further increase production output. Via the partnership with PT BWI, the Group's total production capacity is set to reach 1,100,000 m^3 annually.

Currently, approximately 90% of the Group's supply comes from community forests and plantations forest. The Group is actively exploring options in securing the log supplies as supplies and prices of raw materials are still the key challenges of our business. Through the partnership with PT BWI, the Group will have control over forestry concession rights of approximately 59,138 hectares in Maluku Utara Regency in Maluku Province, Indonesia. Approximately 35,000 hectares of the forestry concession area has been planted with sengon, red samama, white samama and other species of timber wood. There will be more room to increase our supply when we maximise the usage of the forestry concession area.

APPRECIATION

It has always been the Group's vision to champion a sustainable future for all. Therefore, every year, the Group channels all its efforts into the development of a strong business and operating model, enabling us to continuously expand our processing capacity while maintaining sustainability in production. As we conclude one decade and enter into another decade, our Group would like to extend our appreciation to all our business partners, customers and shareholders who have been accompanying us on our journey throughout the years.

I would like to extend my gratitude to our Board members for guiding the Group dutifully with their valuable foresight and knowledge.

Last but not least, I would like to take this opportunity to thank our management team and staffs for their dedication and contributions to the Group.

Riko Setyabudhy Handoko
Executive Director and Chief Executive Officer

2,3 *Indonesia Unveils Stimulus Package to Combat Coronavirus Impact, https://www.aseanbriefing.com/news/indonesia-unveils-stimulus-package-to-combat-coronavirus-impact/*

High Quality Plywood that is Known Across the Globe

Sampoerna Kayoe's Plywood are flat, and dimensionally stable. Our plywood also have smooth surface, superior strength, durability, and have been exported to more than 30 countries.

MILESTONE

1978
- Mr Koh Boon Hong (Hasan Sunarko), Founder of Samko, started business activity in plywood and veneer production

1989
- Acquisition of PT PUPP (PT Panca Usaha Palopo Plywood) shares (processing facilities in Palopo – Sulawesi)

1993
- Acquisition of PT PSUT (PT Putra Sumber Usaha Timber) shares (processing facilities in Jambi – Sumatera)

1999
- Establishment of PT SGS (PT Sumber Graha Sejahtera) (processing facilities in Tangerang – Banten/Jawa Barat)

2002
- Acquisition of PT SLJ Global Tbk (PT Sumalindo Lestari Jaya Tbk) shares

2004
- Establishment of PT SUB (PT Sejahtera Usaha Bersama)

2005
- Establishment of Samko Timber Limited (Holding Company in Singapore)

2006
- Samko Timber Limited take over PT SGS (PT Sumber Graha Sejahtera) shares, the Holding Company in Indonesia
- Sampoerna Forestry Limited acquired 42.6% Samko Timber Limited shares

2008
- Listing of Samko Timber Limited shares in SGX – Singapore (IPO)

2009
- Establishment of Samko Trading Pte. Ltd. (Distribution Company in Singapore)

2010
- Completion of the First Rights Issue of Samko Timber Limited
- Deconsolidation of PT SLJ Global Tbk through a dilution of our 51.62% shareholding to 31%. SLJ was in a less favorable financial condition and the deconsolidation strengthens Samko's financial position
- Commencement of joint venture between our subsidiary, PT Sumber Graha Sejahtera and PT Wahana Sekar Agro to jointly develop a timber plantation in West Java

2011
- Establishment of Samkowood Products Sdn. Bhd. (Distribution Company in Malaysia)
- Commencement of the development of our own industrial forest plantation in Jambi to sustain our future needs of raw material
- Announcement of proposed acquisition of Bioforest Pte. Ltd. from Temasek Life Sciences. Bioforest Pte. Ltd. is a bio-technology company that focuses in the research and development of high performance tree species for our plantations
- Establishment of Samko USA LLC (Distribution Company in USA)

2012
- Completion of the 100% acquisition of Bioforest Pte. Ltd.
- Completion of the 65% acquisition of PT Cipta Graha Kreasindo ("**CGK**"). CGK will, on behalf of Samko provide construction and installation services into our products and also provides Samko faster access into the housing market

2013
- Strengthening the capital structure of Samko Trading Pte. Ltd. by way of debt to equity conversion by Samko

2014
- Securing the license and approval from the Minister of Forestry of the Republic of Indonesia for a concession of industrial timber plantation (HTI Forestry License) at Central Bangka

2015
- Establishment of PT Nusantara Mitra Sejahtera, a Joint Venture Company between Samko Trading Pte. Ltd. and partner from Japan for Wood Truck Body production

Opening the Door to a Greener Tomorrow

Since 2001, Sampoerna Kayoe has supported the planting of more than 67 million trees across the country. While we keep our resources sustainable, you will get dimensionally stable and fully customizable doors.

2016

- Appointment of Mr Riko Setyabudhy Handoko, as the new CEO of Samko Timber Limited
- Completion of Second Rights Issue of Samko Timber Limited, in this rights issue exercise, Sampoerna Forestry Limited subscribed for certain number of new shares issued by Samko Timber Limited, and subsequently become the holder of approximately 64% shares of Samko Timber Limited
- Disposal of all shares of PT SLJ Global Tbk (PT Sumalindo Lestari Jaya Tbk)

2017

- Completion of reorganisation of the Group, including Merger of PT SGS (PT Sumber Graha Sejahtera), a direct subsidiaries of the Company, and its 13 subsidiaries, whereby PT SGS become the surviving company
- Disposal of one factory of PT SGS (PT Sumber Graha Sejahtera) (processing facilities in Tangerang - Banten)
- Launching of our new brand, i.e. "Sampoerna Kayoe"

2018

- Completion of second phase reorganisation of the Group, i.e. Merger of PT SGS (PT Sumber Graha Sejahtera), a direct subsidiary of the Company and its 2 subsidiaries, whereby PT SGS become the surviving company
- New brand launch, i.e. "Sampoerna Kayoe" with the campaign theme 'Unlimit Possibilities' and 'Sustainability'

2019

- Samko Timber Limited, through its wholly owned subsidiary, PT Sempurna Graha Abadi, has entered into an agreement with PT Barito Wanabinar Indonesia and PT Sumber Graha Maluku, to subscribe 51% shares in PT Sumber Graha Maluku (and its subsidiaries), a group of companies engaging in the business of industrial forest plantations and plywood factories, which holding the forestry concession rights of approximately 59,138 hectares in Maluku Utara Province, Indonesia.

Not only the
possibility of innovating
but also in maintaining the
sustainability of our
natural resources

At **Sampoerna Kayoe**, we believe in the importance of maintaining balance between innovation and sustainability, between design and functionality, between dreams and hard work. When these balances are kept, *we know that our Unlimit Possibilities principle is working.*

BOARD OF DIRECTORS

Mr Eka Dharmajanto Kasih

Non-Independent and Non-Executive Chairman

Aged 69, Mr Eka Dharmajanto Kasih has served on the Board since April 2006. Prior to joining the Group, 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.

Date of first appointment as a director:
26 April 2006

Date of last re-election as a director:
28 April 2017

Present Directorship:

Other Listed Companies

PT Sampoerna Agro Tbk
Commissioner

PT Apexindo Pratama Tbk
Commissioner

Other Principal Commitments:

MK 3 Investment Pte Ltd
Chairman

Templeton Pte Ltd
Non Executive Director

PT Union Sampoerna
Commisioner

Sampoerna Forestry Limited
Director

PT Sampoerna Strategic
Commissioner

PT Sampoerna Investama
Commissioner

Past Directorships in listed companies held over the preceding three years:
Nil

Mr Riko Setyabudhy Handoko

Executive Director and Chief Executive Officer

Aged 47, Mr Riko Setyabudhy Handoko has served on the Board since June 2016. He holds a Master of Business Administration from the INSEAD, France and Singapore and a Bachelor of Economics from the Trisakti University, Indonesia. Before joining the Group, Mr Handoko worked for Kimberly Clark Corporation in Asia Pacific from 2009. He held several positions with Kimberly Clark Corporation such as Group General Manager Asia and Managing Director for China and India for Kimberly Clark Professional, and Managing Director Taiwan for Kimberly Clark International. Prior to that, Mr Handoko also worked for Asia Pulp and Paper ("**APP**") and served as Global Tissue BU Director. In that role, he led APP's consumer and professional tissue businesses from 2003 to 2008.

Date of first appointment as a director:
27 June 2016

Date of last re-election as a director:
26 April 2019

Present Directorship:

Other Listed Companies

Nil

Other Principal Commitments:
Nil

Past Directorships in listed companies held over the preceding three years:
Nil

Mr Michael Joseph Sampoerna

Non-Independent and Non-Executive Director

Aged 41, Mr Michael Joseph Sampoerna has served on the Board since August 2007. He possesses extensive Board and management experience, having previously served on the Board of various local and overseas companies, including as President Director of PT H.M. Sampoerna Tbk. Mr Sampoerna studied at Millfield School in Somerset, England then attended London School of Economics focusing on business and finance.

Date of first appointment as a director:
30 August 2007

Date of last re-election as a director:
27 April 2018

Present Directorship:
Other Listed Companies
PT Sampoerna Agro Tbk
President Commissioner

Other Principal Commitments:
PT Sampoerna Strategic
Director
PT Sampoerna Investama
Director
Putera Sampoerna Foundation
Member of the Board of Patrons
PT Sampoerna Telekomunikasi Indonesia
President Commissioner

Past Directorships in listed companies held over the preceding three years:
Nil

Mr Ng Cher Yan

Independent and Non-Executive Director

Aged 61, Mr Ng Cher Yan was appointed to the Board in December 2007. He started his career with an international accounting firm and is currently practicing as a Chartered Accountant in PLUS LLP. Mr Ng holds directorships in several companies listed on the Singapore Exchange Trading Securities Limited. Mr Ng holds a Bachelor of Accountancy from the National University of Singapore and is also qualified as a Chartered Accountant in Australia. Mr Ng is a fellow member of the Institute of Chartered Accountants in Singapore, and a member of the Institute of Chartered Accountants in Australia.

Date of first appointment as a director:
14 December 2007

Date of last re-election as a director:
26 April 2019

Present Directorship:
Other Listed Companies
Vicplas International Ltd
Independent Director
MoneyMax Financial Services Ltd
Independent Director
Bull Will Co. Ltd.
Non Executive Director
Serial System Ltd
Independent Director

Other Principal Commitments:
PLUS LLP
Partner

Past Directorships in listed companies held over the preceding three years:
Mermaid Maritime Public Co Ltd
Independent Director

Mr Sim Idrus Munandar

Independent and Non-Executive Director

Aged 65, Mr Sim Idrus Munandar was appointed to the Board in December 2007. 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 had been a lecturer at the Sekolah Tinggi Ekonomi (STIE) Jayakarta since 1981 to 2014.

Date of first appointment as a director:
14 December 2007

Date of last re-election as a director:
27 April 2018

Present Directorship:
Other Listed Companies
Kencana Agri Limited
Independent Director

Other Principal Commitments:
Nil

Past Directorships in listed companies held over the preceding three years:
Nil

Mr Wee Ewe Lay Laurence John

Independent and Non-Executive Director

Aged 62, Mr Wee Ewe Lay Laurence John 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 33 years. He is currently the Director of Quahe Woo & Palmer LLC where he joined on 1 July 2015. Mr Wee currently also holds directorship appointments in several other Singapore companies, including AL Assets Pte Ltd and Cecilanda Private Limited.

Date of first appointment as a director:
14 December 2007

Date of last re-election as a director:
27 April 2018

Present Directorship:
Other Listed Companies
Nil

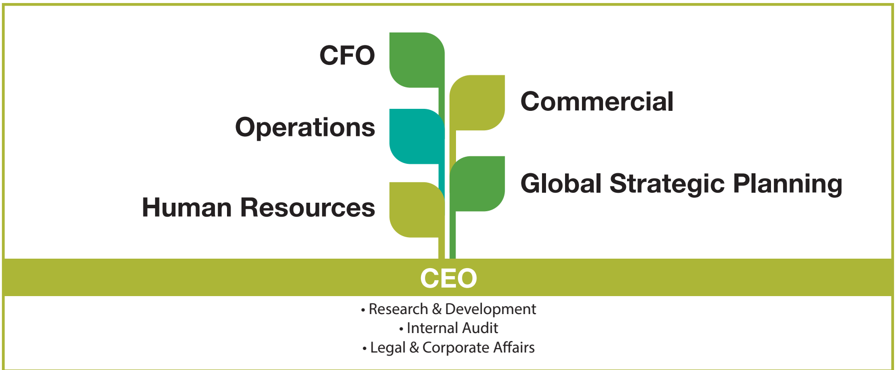
Other Principal Commitments:
Quahe Woo & Palmer LLC
Director

Past Directorships in listed companies held over the preceding three years:
Nil

So Many Possibilities, One Sustainable Future

Sampoerna Kayoe produces innovative and world-class engineered wood solutions while ensuring sustainable natural resources. Whatever possibilities you are unlimiting in your projects, the future of our planet is assured.

SENIOR MANAGEMENT & ORGANIZATION STRUCTURE



Under the new Senior Management Organization Structure, the Group will be led by the CEO (i.e. Mr Riko Setyabudhy Handoko), who will get direct reporting from nine Senior Managers, namely:

- *Chief Financial Officer and Head of Finance & Accounting Division*
  Mr Johanes Ibrahim Tjendana
- *Head of Operations Division*
  Mr Rudiyanto Tan
- *Head of Commercial Division*
  Mr Edward Tombokan
- *Head of Human Resources Division*
  Mr Fredson Kotamena
- *Head of Research and Development Division*
  Mr Yusran Mustary
- *Head of Internal Audit Division*
  Mr Hendry Susanto
- *Head of Legal and Corporate Affairs Division*
  Mr Arief Zakaria
- *Head of Performance Management & Strategic Enhancement Division*
  Mr Alvin Puspowidjono
- *Head of Supply Chain Management Division*
  Mr Andrew Wardoyo

Mr Riko Setyabudhy Handoko is the Executive Director and Chief Executive Officer of Samko Timber Limited. He joined the Group in 2016. Before joining the Group, Mr Handoko worked for Kimberly Clark Corporation in Asia Pacific from 2009. He held several positions with Kimberly Clark Corporation such as Group General Manager Asia and Managing Director for China and India for Kimberly Clark Professional, and Managing Director Taiwan for Kimberly Clark International. Prior to that, Mr Handoko also worked for Asia Pulp and Paper ("**APP**") and served as Global Tissue BU Director. In that role, he led APP's consumer and professional tissue businesses from 2003 to 2008. Mr Handoko graduated from Trisakti University Jakarta with a bachelor's degree in economics and accounting. He also received his Master of Business Administration from INSEAD in 2002.

Mr Johanes Ibrahim Tjendana joined the Group in 2018. He holds a Bachelor of Accounting degree from Trisakti University Jakarta in 1995. He started his carrier as an Auditor in Arthur Andersen/Prasetio Utomo & Co. until 1998. Mr Johanes possesses 20 years of experience at senior management level in various palm oil companies. Previously served at PT SMART Tbk (2004-2014) with the last position as Vice President Finance and Accounting and before joining the Group, Mr Johanes was Finance Director in Kencana Group. (Note: Mr Johanes Ibrahim Tjendana is replacing the previous Chief Financial Officer and Head of Finance and Accounting Division of the Company, i.e. Mrs Ronawati Wongso, who has left the Company in February 2018, and since then her position was temporarily filled-in by Mr Tio I Huat, who was internally the Group Financial Controller, and acting as the Head of Finance and Accounting Division of the Company for the meantime.)

Mr Rudiyanto Tan has joined the Group in 2015 and is responsible for managing Operations Division. Before joining the Group, Mr Tan was a General Manager in PT Holcim Tbk, one of the largest cement producers in the world. He spent 10 years in Holcim and held various positions across sales and marketing division. Prior to that, He had consulting experience with McKinsey & Company. He holds a Bachelor of Engineering degree from Bandung Institute of Technology, Indonesia and an executive Master of Business Administration from INSEAD and TsingHua University.

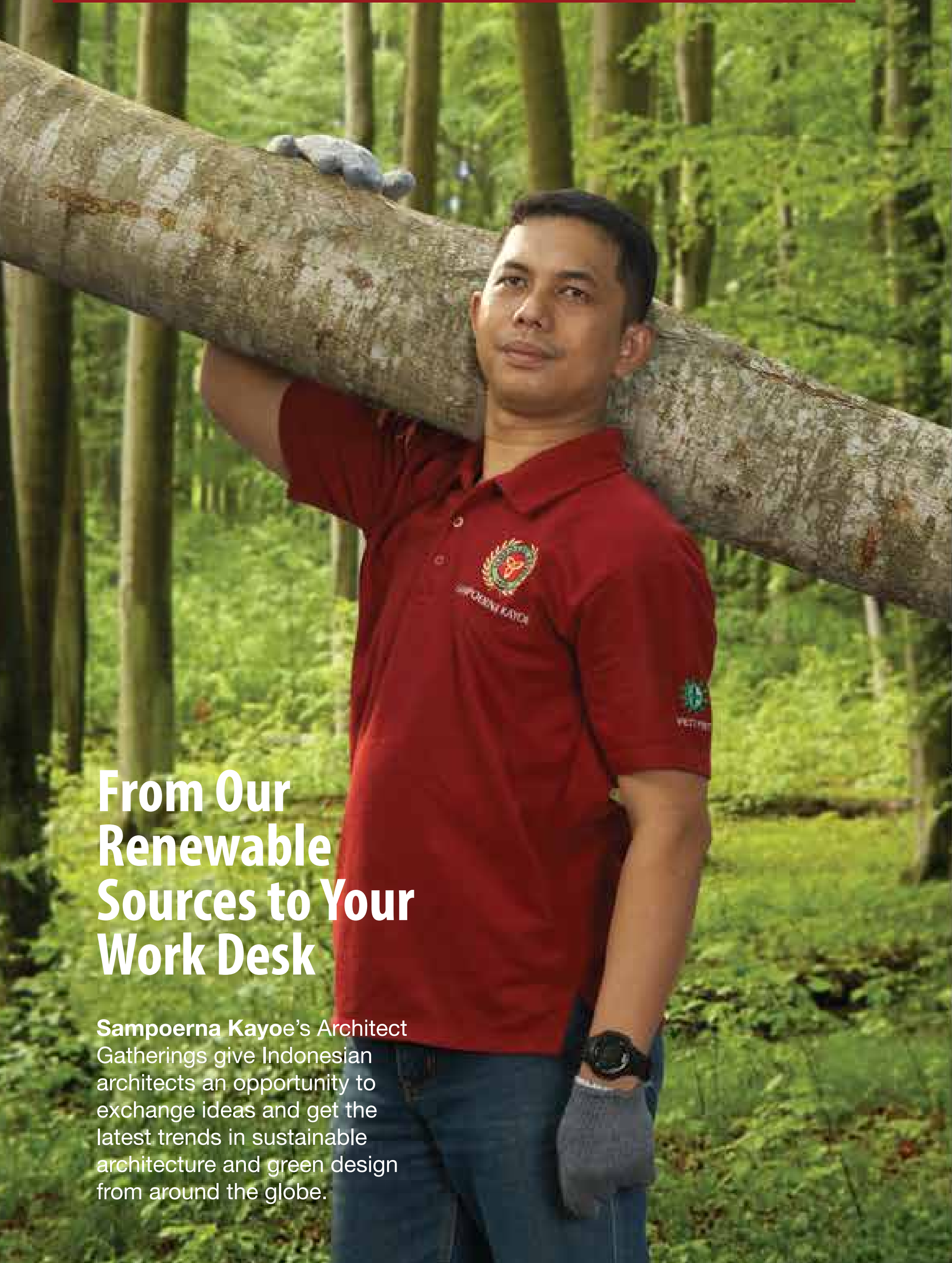
Mr Yusran Mustary joined the Group in 1997 and is responsible to the Research and Development Division. He possesses 22 years of experience in the timber industry. Mr Mustary started his career in PT Wijaya Triutama Plywood Industry in 1988 and left as Manager in 1994. Prior to joining the Group, he was the General Manager of PT Basirih Industrial Corporation from 1994 to 1997. Mr Mustary holds a Diploma 3 Civil Technical Engineering from Hasanudin University, Ujung Pandang, Indonesia.

Mr Edward Tombokan joined the Group in 2017 and is managing Commercial Division. Prior to joining the Group, Mr Tombokan possesses 13 years of experience in Pulp and Paper industry. He held several different positions under APP such as General Manager of APP Vietnam, Deputy Mill Head at PT Indah Kiat Pulp and Paper Tbk and Senior Vice President of Sales at Asia Pulp and Paper. Before that, Mr Tombokan spent some years at Corporate Finance of PT Enseval Tbk in Treasury Division. He holds a Bachelor of Science in Business Administration degree major in Marketing from University of Arizona, United States of America.

Mr Fredson Kotamena joined the Group in 2012 and is responsible for the Human Resources Division. He holds Bachelor of Marine Engineering Degree from Pattimura University, and a Master of Education Degree from Pelita Harapan University, Indonesia. He is HR Professional specialize in Organization Development, People Development & Talent Management with extensive work experiences in Manufacturing and Consumer Distribution business sector at Orang Tua Group, and Natural Resources Industry business sector such as Pulp & Paper, Palm Oil Plantation, and EPC, as well as Airplane and Shipping Management business sector, at Royal Golden Eagle International.

Mr Hendry Susanto joined the Group in 2016 and is the Head of Internal Audit Division. Before joining the Group, he was a Department Head of Internal Audit in PT Sampoerna Strategic from 2011. Prior to that, He had worked in PT Siemens Indonesia and KPMG. He holds a Bachelor of Accounting degree from Gadjah Mada University, Indonesia.

Mr Arief Zakaria joined the Group in 2013 as Head of Legal and Corporate Affairs Division. He holds a Bachelor of Law degree from Parahyangan Catholic University, Bandung, Indonesia, and possesses extensive experiences as professional lawyer for more than 10 years, practicing in general corporate, company acquisition, banking and financing. Before serving the Group, Mr Zakaria was joining respectively Lubis, Ganie, Surowidjojo Law Firm (LGS), and Assegaf Hamzah & Partners Law Firm (AHP), both are one of the largest and leading law firms in Indonesia. Mr Zakaria has also possessed the experiences to serve as head of legal division of PT Bank OCBC Indonesia, and Deputy Notary of the Notary Public of some private foreign joint-venture banks in Indonesia, including, among others, Deutsche Bank AG, Jakarta branch, PT Sanwa Indonesia Bank, PT Bank Societe Generale Indonesia, and PT Bank Credit Lyonnais Indonesia.



From Our Renewable Sources to Your Work Desk

Sampoerna Kayoe's Architect Gatherings give Indonesian architects an opportunity to exchange ideas and get the latest trends in sustainable architecture and green design from around the globe.

Mr Andrew Wardoyo has been with the group since November of 2019. He earned a Master of Engineering from the University of Toronto in 2009. Prior to joining the Group, Andrew served as a Chief Executive Officer of The Door Store of America Inc. The Door Store is a subsidiary company of one of the oldest wooden door manufacturers in Asia. Previously, Mr Wardoyo served as the Chief Operations Officer at PT. Dian Bahari Sejati for 4 years. PT. Dian Sejati owns, manages, and operates Offshore Support Vessels. His career also allowed him to serve as Floating Crane Operations Manager at PT Mitra Bahtera Segara Sejati Tbk (MBSS), a publicly listed company focused on coal logistics and transshipment services. Mr Wardoyo possesses management experience focusing largely on ensuring operational excellence, logistics and supply chain compliance and efficiency across various industries.

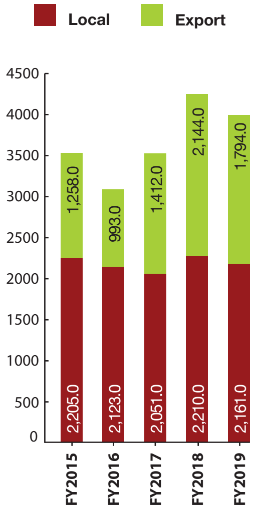
Mr Alvin Puspowidjono has been with the group since 2018. He holds a Bachelor of Psychology from the University of New South Wales, Australia, having graduated in 2010. Prior to joining the Group, Mr Puspowidjono was in Asia Pulp and Paper, Sinarmas Group. He began his career as a business analyst overseeing their pulp operations, following which, he advanced to roles in sales management and product management in the Photocopier Paper business. In 2017 – 2018, Mr Puspowidjono earned a scholarship program to pursue his MBA degree in Saïd Business School, University of Oxford.

FINANCIAL HIGHLIGHTS

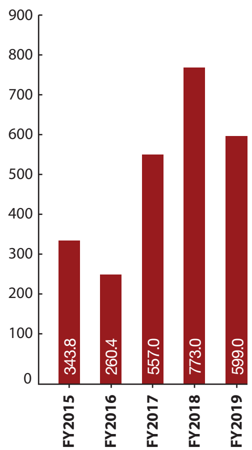
Maintaining Sustainability Through Innovation

Driven by our commitment towards sustainability, Sampoerna Kayoe has developed an innovative technology that allows us to turn rubber plantation waste into high quality processed timber products.

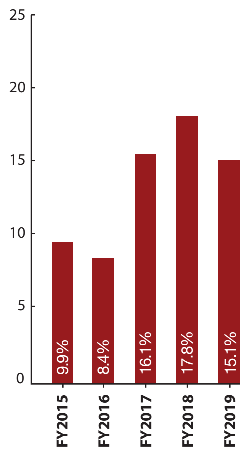
REVENUE
(Rp 'billion)



GROSS PROFIT
(Rp 'billion)



GROSS MARGIN



SUSTAINABLE DEVELOPMENT AND CORPORATE SOCIAL RESPONSIBILITY

At Samko Timber, we believe in possibilities, we also believe in the need to break the limits that surround them. And this is exactly what we do. From the forest where our timber comes from to the projects that utilize them, this spirit will always exist. Enabling us to break limitations and turn possibilities into reality.

Therefore, we are committed to integrating Sustainable Development ("**SD**") and Corporate Social Responsibility ("**CSR**") into the manner in which we conduct all of our daily business activities. The welfare of the communities around the areas of the Company's operations and environmental sustainability form a part of the Company's product development and business growth strategy. We are committed to benefiting the community and the environment around the Company's operations areas. To do so, we continuously source out environmentally responsible and efficient business practices that can empower the communities in which we operate in. Our Group's dedication to finding a balance between business development, social progress and responsible environmental management is demonstrated by the following certifications we have attained:

- Japan Agricultural Standard ("**JAS**")
- Indonesian Timber Legality Assessment System ("**TLAS**") / Sistem Verifikasi Legalitas Kayu ("**SVLK**")
- ISO9001
- ISO14001
- Verification of Legal Compliance ("**VLC**") from Rainforest Alliance
- California Airborne Resource Board ("**CARB**") Phase 2 & US EPA
- Singapore Green Label from Singapore Environment Council
- Corporate member of Green Building Council Indonesia
- Chain of Custody Forest Stewardship Council ("**CoC-FSC**")
- CE Marking

With these certifications the Group is able to strengthen its brand identity as well as explore new avenues that the Group can utilize to meet the rapidly increasing demand for certified processed timber products. In addition, the Group continuously engages in monitoring efforts to ensure that we live up to the standards that we have set for ourselves and continue to produce high quality products.

Satisfying Present Needs Without Compromising The Future

As one of the biggest group companies in Indonesia, we require an extensive and varied supply of logs. All of Samko Timber's log is sourced from legal concession areas in Indonesia, with 90% of our wood sourced from community forests (Hutan Rakyat) and plantation forests (Hutan Tanaman Industri). Currently, we have approximately 1500 suppliers who are actively involved in developing and shaping the industry of our plywood. We run an annual seed distribution program that targets surrounding communities with the aim of supporting them plant timber trees. This program secures our raw materials, improves the livelihoods of local communities, and also ensures continuity of forest growth. We procure logs from community farmers (in community forests located in Java, Bali, Sulawesi and Sumatera) and through third-party suppliers (in natural forests). We take it upon ourselves to create new commercial growing areas and seek out new sources of plantation wood. We are stringent in ensuring that our raw materials are supplied only by vendors who have met the requisite operating and technical standards imposed by the various governmental and nongovernmental organisations.

We have obtained the CoC-FSC for our facility and SLIMF FSC for our raw materials in Jambi. We support smallholder cooperatives to apply for and guide them to obtaining SLIMF-FSC certification. Through this program, we ensure that our suppliers maintain a healthy forest with responsible management plans, while we receive a steady and sustainable supply of FSC-certified raw materials. These

SLIMF-FSC certified logs will then be processed in our CoC-FSC certified facility in Jambi to produce FSC certified products. Our certifications in Jambi are only the beginning of our sustainability journey and are testament to our commitment in being a responsible industry player. Towards the end of 2019, we started to expand our support of smallholder cooperatives to our suppliers in the Jombang and Salatiga regions, with the aim of building a wider family of suppliers whose raw materials are FSC certified.

Waste management is one of the key focus areas in our environmental management efforts. The underlying concept of our waste management is to 'reduce, reuse, recycle' and we partner up with institutions that are also consistent with this policy. We are mindful of handling different types of waste carefully to prevent pollution and safety hazards and continue to comply with the relevant prevailing regulations in waste management. We continuously enhance efficiency in our production process to increase our recovery rate to minimize waste. We utilize most of that waste as feedstock for our boilers to power our plants and decompose the rest in several landfills. Waste oil produced from our production machinery are stored in a temporary shelter for hazardous waste before it is handled by our licensed third-party waste processors.

For subsequent years, we have been participating in the Indonesian Government's Program for Pollution Control, Evaluation, and Rating ("**PROPER**") for our assembly plants in Balaraja and Jambi, who constantly monitor by Indonesian Government. We continue our participation in the PROPER program and always give our best effort to maintain the ratings which have been achieved previously. In 2019, we have received the Blue rating PROPER awards, indicate we always take seriously to comply for government standards and guidance regarding environment management. To us, PROPER is the standardized guideline for all factories on how to manage the environment, beyond the mandatory environmental management and monitoring work.

Business With a Conscience

With the protection of both the environment and surrounding communities as our priority, the Group conducts our business in a manner which places people at the core of what we do. Being a labour-intensive industry operating mostly in developing and remote regions, forced labour and child labour are prominent risks faced by our industry. In Indonesia, the use of both forced labour and child labour are strictly prohibited by law. We have a strict policy against forced labour and child labour of any form in all of our operations. We oppose exploitation of children and ensure that all employees are in their productive age pursuant to government regulations, namely a minimum age of 18 years according to Law No. 13 of 2003, this is confirmed by the Standard Operating Procedure No. HR-02-01-R0-2015 in Recruitment and Selection.

All our employees sign employment contracts voluntarily upon entry into the company to guarantee employee rights and we do not unlawfully withhold theirs' wages or keep in our custody any important documents. We require work applicants to submit a copy of their family card and identity card for verification to ensure that they comply with government regulations on minimum working age.

As we are committed in the development of our employees as well, our Group has various training programs in place to equip our employees with the necessary hard and soft skills required to excel at their respective roles. Training and educational programs conducted throughout 2019 included managerial skills, non-technical skills, technical skills and functional skills. We are committed to providing various types of training to our employees as part of their development and in 2019 more than 77% of total employees received formal training. In addition, we regularly and consistently conduct employee performance assessments. Every employee has goals and performance indicators to be reviewed periodically. The aim is to evaluate our employees' performance, give feedback for self-development to set future goals, and to identify relevant training in order to improve employee performance. For the development of our employees' soft skills, the Group actively encourages our employees to build a sense of responsibility and discipline. In the near future, we plan to shift the focus to teamwork and consider the personal challenges and issues which employees may face in delivering their work.

We treat every employee in a fair and equal manner regardless of their background, ethnicity, religion or race. All policies, guidelines and company rules are universally applicable to all position levels to facilitate building a corporation based on integrity, transparency, and professional behaviour. We give the same opportunities for everyone in terms of career path. Every employee has equal rights in career achievement and optimal self-actualization. With regard to occupational health and safety, the Group reinforces the importance of compliance with standard working procedure for all employees in the organization. We comply with manpower laws and government regulations by paying competitive wages to employees. In addition to salary, there are other benefits covered such as: health insurance, BPJS Kesehatan (Government Health Security), BPJS Ketenagakerjaan (Government National Social Security), pension fund for permanent employees, maternity leave and childbirth benefits.

The Group is well aware of the need to keep all our stakeholders, whom are scattered across Indonesia, engaged. As such, the Group is committed to supporting community-based activities which are not only in line with our business objectives, but beneficial to the communities within our areas of operations as well. Dedicated to SD and CSR, the Group is involved in various voluntary activities throughout the year:

- Contributing free seedlings to local communities to foster a green culture
- Offering scholarships to best performing students
- Offering school fees support for low income families
- Contributing to the construction of public facilities, including mosques, churches, health clinics, and roads in the vicinity of our factories
- Contributing funds or parcels of religious offerings to low income families during festive periods such as Ramadan or Hari Raya Idhul Fitri
- Partnership with local communities to reused and recycle wood wastes
- Supporting various social activities conducted surrounding our factories

As a responsible timber processing Group, we are committed to ensuring the long-term sustainability of the environment, the communities we operate in, and our business venture in a just and ethical manner. More information regarding the Group's efforts in adopting sustainable growth strategies can be found in our Sustainability Report for 2019.

CORPORATE GOVERNANCE STATEMENT

INTRODUCTION

The board of directors (the "**Board**" or the "**Directors**") of Samko Timber Limited (the "**Company**" and together with its subsidiaries, the "**Group**") recognized the importance of sound corporate governance practices and is committed to setting and maintaining high standard of corporate governance to ensure greater corporate transparency, accountability, performance and integrity.

This report describes the key aspects of the Company's corporate governance framework and practices that were in place throughout the financial year ended 31 December 2019 ("**FY2019**"), with specific reference made to the principles and provisions of the revised Code of Corporate Governance 2018 (the "**Code**") and accompanying Practice Guidance issued in August 2018, which form part of the continuing obligations of the Listing Rules of the Singapore Exchange Securities Trading Limited ("**SGX-ST**"), through effective self-regulatory corporate practices to protect and enhance the interests and value of its shareholders.

The Board is pleased to confirm that for FY2019, the Company has adhered to the principles and provisions as set out in the Code (except where otherwise explained). Where there were variations in the Company's corporate governance practices from the provisions, appropriate explanations as to how the Company's practices were consistent with the intent of the principles in question are provided in the relevant sections of this report. The Company will continue to assess its needs and implement appropriate practices accordingly.

(I) BOARD MATTERS

<u>THE BOARD'S CONDUCT OF ITS AFFAIRS</u>

Principle 1: The company is headed by an effective Board which is collectively responsible and works with Management for the long-term success of the company.

<u>Provision 1.1</u>

Principle Duties of the Board

The Board oversees the business affairs of the Group and is responsible for setting the strategic direction of the Group establishing goals for management team of the Company ("**Management**"). In addition, the Board works with Management to achieve these goals set for the Group.

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:

i. The review of the Group's financial performance;
ii. Consider sustainability issues as part of the Group's strategic formulation;
iii. Responsibility for corporate governance;
iv. Establish a framework of prudent and effective controls which enable risks to be assessed and managed;
v. Review management performance;
vi. Set the Group's corporate values and standards which include ethical standards and ensure that obligations to shareholders and others are understood and met; and
vii. Ensure that the Group maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the Group's assets.

All Directors exercise reasonable diligence and independent judgement when making decisions and are obliged to act honestly and consider the best interests of the Company at all times.

CORPORATE GOVERNANCE STATEMENT

Code of Conduct and Ethics

The Company strives to uphold the highest levels of business conduct and integrity in all transactions and interactions. All Directors objectively discharge their duties and responsibilities at all time as fiduciaries in the interests of the Company. The Company is committed to ensuring that its affairs are conducted with the highest standard of probity and in compliance with any applicable law, legislation or Listing Rules of the SGX-ST.

Directors are encouraged to bring questions about particular circumstances that may implicate one or more provisions of the business conducts and ethics to the attention of the Board. No code or policy can anticipate every situation that may arise. Accordingly, each Director must carry out their duties and responsibilities, including but not limited to:

i. Avoid any conflicts of interest with the Company;
ii. Maintain confidential or proprietary information about the Company or other parties that have dealings with the Company;
iii. Comply with the Company's guidelines and all laws, rules and regulations applicable to the Company;
iv. Endeavor in any dealing with the Company's customers, suppliers, competitors and employees in a fair manner;
v. Practice and promote ethical behavior and encourage the employees of the Company to report any illegal or unethical behavior to the Board; and
vi. Communicate any suspected violations promptly to the Board so that investigation can be carried out and appropriate action will be taken.

This serves as a guide to the Directors on the areas of ethical risk and sets a framework where integrity and accountability are paramount.

Conflict of Interests

The Board acts in good faith and in the best interests of the Company by exercising due care, skills and diligence, and avoiding conflicts of interest. The Directors are cognizant of their fiduciary duties at law. When a potential conflict of interest situation arises, the affected Director will recuse himself or herself from the discussion and decisions involving the areas of potential conflict, unless the Board is of the opinion that his or her participation is necessary. Where such participation is permitted, the conflicted Director excuses himself or herself for an appropriate period during the discussions to facilitate full and frank exchange by the other Directors, and shall in any event recuse himself or herself from the decision-making.

Pursuant to Section 156 of the Companies Act, Cap. 50 ("**Companies Act**"), each Directors are required to declare if he or she have conflict of interest in any of the corporate transactions. Each Director is also required to submit details of his or her associates for the purpose of monitoring interested persons transactions ("**IPTs**") annually. Where a Director has a conflict or potentially conflict of interest in relation to any matter, he or she should immediately declare his or her interest when the conflict-related matter is discussed, unless the Board is of the opinion that his or her presence and participation is necessary to enhance the efficacy of such discussion. Nonetheless, he or she is abstained from voting in relation to the conflict-related matters.

CORPORATE GOVERNANCE STATEMENT

Provision 1.2

Directors' Competencies

All Directors have a good understanding of the Company's business as well as their directorship duties (including their roles as executive, non-executive and independent directors).

While the duties imposed by law are the same for all Directors, a listed Board will generally have different classes of directors with different roles:

- **Executive Directors (EDs)** are members of Management who are involved in the day-to-day running of the business. They work closely with the Non-Executive Directors on the long-term sustainability and success of the businesses. They provide insights and recommendations on the Group's operations at the Board and Board committees meetings.

- **Non-Executive Directors (NEDs)** do not participate in the business operations. They constructively challenge Management on its decisions and contribute to the development of the Group's strategic goals and policies. They participate in the review of Management's performance in achieving the strategic objectives as well as the appointment, assessment and remuneration of the Executive Directors and key personnel.

- **Independent Directors (IDs)** are Non-Executive Directors who are unrelated to any of the Executive Directors and deemed to be impartial by the Board. Independent Directors have similar duties as the Non-Executive Directors, with the additional responsibility of providing independent and objective advice and insights to the Board and Management.

Directors are expected to develop their competencies to effectively discharge their duties and are provided with opportunities to develop and maintain their skills and knowledge at the Company's expense.

Directors' Orientation and Training

The Board recognises the importance of appropriate orientation training and continuing education for its Directors. All the Directors are encouraged to attend seminars, conferences or any courses in connection to new laws, regulations and risk management (including management of commercial, financial, operational and compliance risks and information technology controls) conducted by professional bodies, including active participation in the Singapore Institute of Directors ("**SID**").

Where required, the Company Secretary and external professionals bring to the Directors' attention relevant updates in the industry and changes in accounting standards and regulations.

The Directors and executive officers should have appropriate experience and expertise to manage the Group's business. For new Directors who has no prior experience as a director of a public listed company listed on the SGX-ST, they will undergo training in the roles and responsibilities of a director of a public listed company in Singapore as prescribed by the SGX-ST.

Newly appointed Directors are given orientation briefings by Management on the business activities of the Group and its strategic directions, so as to familiarize them with the Group's operations and encourage effective participation in Board's discussions. All Directors are updated on major milestones of the Group.

CORPORATE GOVERNANCE STATEMENT

Provision 1.3

Matters Requiring Board's Approval

The Company has adopted internal guidelines setting forth matters that require the Board's approval. Under the guidelines, all new investments, any increase in investment in businesses and subsidiaries, and any divestments by any of the Group's companies, and all commitments to term loans and lines of credit from banks and financial institutions by the Company require the approval of the Board.

In addition, the following matters are specifically reserved for the Board's decision and approval:

- Financial results announcements;
- Annual reports and financial statements;
- Nomination/appointment of Directors and key management personnel ("**KMPs**");
- Major funding proposal;
- Corporate strategies and financial restructuring; and
- Major investment or acquisition/disposal proposals, including any other transactions of a material nature requiring announcements under the listing manual (the "**Listing Manual**") of the SGX-ST.

Provision 1.4

Delegation by the Board

To ensure smooth operations, facilitate decision-making and ensure proper controls, the Board has delegated some of its powers to its committees. The Board is supported by four (4) Board committees, namely, the Audit Committee (the "**AC**"), the Nomination Committee (the "**NC**"), the Remuneration Committee (the "**RC**") and the Board Risk Committee (the "**BRC**") (collectively, the "**Board Committees**"). During FY2019, terms of reference of each Board Committee were revised for alignment with the Code. This including 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. The Chairman of the respective Board Committees will report to the Board on the outcome of the committees' meetings and their recommendations on the specific agendas mandated to the committees by the Board.

The Board Committees, which operate within clearly defined terms of reference, are actively engaged and play important roles in ensuring good corporate governance.

Provision 1.5

Board and Board Committees Meetings

The Board conducts at least four (4) meetings on a quarterly basis to review the Group's financial results and where necessary, additional Board meetings are held to address significant issues or transactions.

CORPORATE GOVERNANCE STATEMENT

During FY2019, the Board met four (4) times to review the Company's quarterly and full-year results and to consider proposed corporate actions by the Company. Ad-hoc meetings are held to address significant issues or transactions. In addition to the scheduled meetings, the Board would have informal discussions on corporate events and/or actions, which would then be formally confirmed and approved by circulating resolutions in writing. The Board members also communicate frequently with Management to discuss the business operations of the Group.

The Company's Constitution allow a Board meeting to be conducted by way of a telephone conference and/or by means of similar communication equipment where all Directors participating in the meeting are able to hear each other. Decision of the Board and Board Committees may also be obtained through circular resolutions.

The number of meetings held and attendance of the Directors at the Board and Board Committees meetings as well as the general meetings during FY2019 are set out in the table below:

		Board Committees				
	Board	Audit Committee	Nomination Committee	Remuneration Committee	Board Risk Committee	General Meeting
No. of meetings held	**4**	**5**	**1**	**1**	**4**	**4**
Name of Director		**No. of meetings attended**				
Eka Dharmajanto Kasih	4	4*	1*	1*	4	4
Riko Setyabudhy Handoko	4	3*	1*	1*	3	4
Michael Joseph Sampoerna	4	-	-	-	-	3
Ng Cher Yan	4	5	1	1	4	4
Sim Idrus Munandar	3	4	1	1	3	4
Wee Ewe Lay Laurence John	4	5	1	1	4	4

* Attendance by invitation of the relevant Board Committees

The Board is of the view that the contribution of each Director should not be focused only on his or her attendance at meetings of the Board and/or Board Committees. A Director's contribution may also extend beyond the confines of the formal environment of such meetings, through the sharing of views, advices, experiences and strategic networking relationships which would further the interests of the Company.

CORPORATE GOVERNANCE STATEMENT

Multiple Board Representations

All Directors are required to declare their board representations on an annual basis and as soon as is practicable after the relevant facts have come to his or her knowledge. When a Director has multiple board representations, the NC considers whether or not the Director is able to and has adequately carried out his or her duties as a Director of the Company, taking into consideration the Director's number of listed company board representations and other principal commitments.

Based on the individual Director's confirmation provided to the NC in FY2019 on his ability to carry out his duties as a Director of the Company and to address any competing time commitments that may arise, the NC believes that it would not be necessary to put a maximum limit on the number of listed company board representations of each Director. The Board and the NC will review the requirement to determine the maximum number of listed company board representations as and when they deem fit.

The NC has evaluated the competing time commitments faced by Directors serving on multiple boards during FY2019 and is satisfied that the Directors are able to and have adequately carried out their duties as Directors of the Company, as well as sufficient time and attention are given to the affairs of the Company, after taking into consideration each of the Directors' number of listed company board representations and other principal commitments in FY2019.

Provision 1.6

Access to Information

The Board is free to request for further clarification and information from Management on all matters within their purview. The schedule of all the Board Committees' meetings for the financial year is usually given to all the Directors well in advance.

To enable the Board to function effectively and to fulfil its responsibilities, Management recognises its obligation to supply the Board and 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 KMPs and the Company Secretary to facilitate access to any required information. The Company Secretary and her representatives attend all meetings of the Board and Board Committees and are responsible in ensuring that Board procedures and all other rules and regulations applicable to the Company are complied with.

The Board receive quarterly financial management reports, annual budgets and explanation pertaining to the operational and financial performance of the Group, including updates on the Group's financial performance and position, cash flow position and operational performance of the Group's assets as well as quarterly management reports on the Group's receivables position. In respect of annual budgets, any material variance between the projections and actual results should also be disclosed and explained.

The Board will also be updated on the industry trends and developments surrounding the Group's various business segments to enable them to oversee the Group's operational and financial performance as well as risks faced by the Group.

Provision 1.7

Access to Management and Company Secretary

The Directors have separate and independent access to Management and the Company Secretary, who are responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied, at all times through email, telephone and face-to-face meetings.

The Directors are also entitled to request for additional information and Management shall provide them on a timely basis. Any additional materials or information requested by the Directors to make informed decisions is promptly furnished.

The Company Secretary assists the Chairman and the Chairman of each Board Committee in the development of the agendas for the various Board and Board Committees meetings. The Company Secretary and/or her representatives attends all meetings of the Board and Board Committees. The Company Secretary prepares the minutes after each meeting and ensures that good information flows within the Board and its Board Committees and between Management and Non-Executive Directors. The Company Secretary also facilitates the orientation of the Board and Management and assists with professional development as and when required. The appointment and removal of the Company Secretary is subject to approval of the Board as a whole.

Access to Independent Professional Advice

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, subject to approval by the Board.

BOARD COMPOSITION AND BALANCE

Principle 2: The Board has an appropriate level of independence and diversity of thought and background in its composition to enable it to make decisions in the best interests of the company.

Provision 2.1

Directors' Independence

The criterion for independence is based on the definition set out in the Code and Practice Guidance, and taking into consideration whether the Director falls under any circumstances pursuant to Rule 210(5)(d) of the Listing Manual of the SGX-ST. The Board considers an "independent" Director as one who has no relationship with the Company, its related corporations, its substantial shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent business judgment with a view to the best interests of the Company.

The NC conducted its annual review of the Directors' independence according to the Code and Rule 210(5)(d) of the Listing Manual of the SGX-ST. In its deliberation as to the independence of a Director, the NC takes into consideration 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 the best interest of the Company. The Independent Directors constructively challenge and assist in the development of proposals on strategy, and assist the Board in reviewing the performance of Management in meeting agreed goals and objectives, and monitor the reporting of performance.

CORPORATE GOVERNANCE STATEMENT

For FY2019, the Independent Directors have confirmed that they or their immediate family members do not have any relationship with the Company or any of its related corporations, its substantial shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Directors' independent business judgment with a view to the best interests of the Company, and do not fall under any of the circumstances pursuant to Rule 210(5)(d) of the Listing Manual of the SGX-ST. The Independent Directors did not own shares of the Company and were not in foreseeable situation that could compromise their independence of thought and decision. The Board, based on the review conducted by the NC, has determined that the said Directors are independent.

Duration of Independent Directors' Tenure

As at the date of this report, Messrs Ng Cher Yan, Sim Idrus Munandar and Wee Ewe Lay Laurence John have served on the Board beyond nine (9) years since the date of their first appointment. The NC and the Board have conducted rigorous review and consider all nature of relationships and circumstances that could influence the judgement and decisions of Messrs Ng Cher Yan, Sim Idrus Munandar and Wee Ewe Lay Laurence John before tabling its finding and recommendations to the Board for approval.

The Board concurred with the NC's view that Messrs Ng Cher Yan, Sim Idrus Munandar and Wee Ewe Lay Laurence John have demonstrated strong independence character and judgement in the Board and Board Committees meetings over the years, in discharging their duties and responsibilities as Independent Directors with the utmost commitment in upholding the interest of non-controlling shareholders. They receive only a fixed Director's fee from the Company and do not have any relationships that could interfere with the exercise of their independent business judgement in the best interest of the Company. Messrs Ng Cher Yan, Sim Idrus Munandar and Wee Ewe Lay Laurence John have displayed characteristics expected of an Independent Director.

Taking into account of the above, the Board has affirmed the independence status of Messrs Ng Cher Yan, Sim Idrus Munandar and Wee Ewe Lay Laurence John and resolved that they continue to be considered Independent Directors, notwithstanding they have served on the Board beyond nine (9) years from the date of their first appointment.

Provision 2.2

Proportion of Independent Directors

As at the date of this report, the Board consists of one (1) Executive Director and five (5) Non-Executive Directors of which three (3) are Independent Directors. The Board noted that the Company is required to comply with the requirement for Independent Directors to make up a majority of the Board in view of the Non-Executive Chairman is not an Independent Director and is in the midst of making arrangements to change the Board composition to comply with the Code's requirements.

Nevertheless, the Board is able to exercise objective judgments on corporate affairs independently and constructively challenge key decision, taking into consideration the long-term interest of the Group and its shareholders. Further, the Company has in place an internal guideline for matters requiring Board's approval. Therefore, no individual or a small group of individuals be allowed to dominate the Board's decision making.

CORPORATE GOVERNANCE STATEMENT

Provision 2.3

Proportion of Non-Executive Directors

A majority of five (5) out of six (6) Directors on the Board are Non-Executive Directors.

Provision 2.4

Board Composition and Size

As at the date of this report, the Board comprises the following six (6) Directors, one (1) of whom is Executive Director and five (5) of whom are Non-Executive Directors of which three (3) are Independent Directors:

Executive Director

Riko Setyabudhy Handoko	Chief Executive Officer ("**CEO**")

Non-Executive Directors

Eka Dharmajanto Kasih	Non-Executive Chairman ("**Chairman**")
Michael Joseph Sampoerna	Non-Independent Director
Ng Cher Yan	Lead Independent Director
Sim Idrus Munandar	Independent Director
Wee Ewe Lay Laurence John	Independent Director

The profiles of the Directors are set out on pages 12 to 14 of this Annual Report.

The NC is responsible for examining the size and composition of the Board and Board Committees. Having considered the scope and nature of the Group's operations, the requirements of the businesses and the need to avoid undue disruptions from changes to the composition of the Board and Board Committees, the Board, in concurrence with the NC, believes that its current board size and the existing composition of the Board Committees effectively serve the Group. It provides sufficient diversity of skills, experience and knowledge of the Group without interfering with efficient decision-making.

Board Diversity

The Board's policy in identifying nominees for directorship is primarily to have an appropriate mix of expertise with complementary skills, core competencies and experience for facilitating effective decision making. Each Director has been appointed based on his or her skills, experience and knowledge, and is expected to bring forth his or her experience and expertise to the Board for the continuous development of the Group.

The Directors of the Company come from diverse backgrounds and possess core competencies, qualifications and skills, all of whom as a group, provides the Board with a good mix of the necessary experience and expertise to direct and lead the Group. Their combined wealth and diversity of experience enable them to contribute effectively to the strategic growth and governance of the Group.

CORPORATE GOVERNANCE STATEMENT

Board Guidance

An effective and robust Board, whose members engage in open and constructive debate and challenge Management on its assumptions and proposals, is fundamental to good corporate governance. A Board should also aid in the development of strategic proposals and oversee effective implementation by Management to achieve set objectives.

The Directors, in particular the Non-Executive Directors, are kept informed of the Company's business and affairs as well as about the industry in which the Company operates in. This knowledge is essential for the Directors to engage in informed and constructive discussions. To ensure that Non-Executive Directors are well supported by accurate, complete and timely information, Non-Executive Directors have unrestricted access to Management. Besides receiving regular Board briefings on latest market developments and trends, and key business initiatives, periodic information papers, industry and market reports, the Non-Executive Directors are regularly briefed by Management on major decisions and prospective business deals.

Provision 2.5

Meeting of Independent Directors without Management

Although all Directors have equal responsibility for the performance of the Group, the role of the Independent Directors is particularly important in ensuring that the strategies proposed by Management are constructively challenged, fully discussed and rigorously examined, assessing the performance of Management in meeting the agreed goals and objectives, as well as monitoring the reporting of performance.

The Independent Directors are encouraged to meet regularly without the presence of Management, so as to facilitate a more effective check on Management. During FY2019, the Independent Directors have met informally at least once without the presence of Management to discuss matters such as the Group's financial performance, corporate governance initiatives, board processes, succession planning as well as leadership development and the remuneration of Directors and KMPs. Thereafter, the Chairman of such meeting will provides feedback to the Board and/or Chairman of the Company as appropriate.

ROLE OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Principle 3: There is a clear division of responsibilities between the leadership of the Board and the Management, and no one individual has unfettered powers of decision-making.

Provision 3.1

Separation of the Role of Chairman and CEO

The Chairman of the Board and the CEO should in principle be separate persons to maintain an appropriate balance of power and authority, increased accountability and greater capacity of the Board for independent decision making. There is a clear division of responsibilities, as set out in writing and agreed by the Board, between the leadership of the Board and Management responsible for managing the Group's business operations. Mr Eka Dharmajanto Kasih is our Chairman and Mr Riko Setyabudhy Handoko is our CEO.

CORPORATE GOVERNANCE STATEMENT

Provision 3.2

Role of Chairman and CEO

Different individuals assumed the Chairman's and the CEO's roles and the division of responsibilities between the Chairman and the CEO have 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 Chairman, Mr Eka Dharmajanto Kasih, brings with him a wealth of experience, leads the Board and bears responsibility for the working of the Board. Mr Eka ensures that the Board receives accurate, timely and clear information and that the Board meetings are held as and when necessary, and sets agenda of the Board meetings in consultation with the other Directors and Management. He assists in ensuring compliance with the Group's guidelines on corporate governance and facilitating the effective contribution of Non-Executive Directors.

The CEO, Mr Riko Setyabudhy Handoko, has full executive responsibilities in the business directions and operation efficiency of the Group. He oversees execution of the Group's corporate and business strategies and is responsible for the day-to-day running of the business. All major proposals and decisions made by the CEO are discussed and reviewed by the Chairman and the AC and recommended to the Board for its consideration and approval. The performance and remuneration package of the CEO is reviewed periodically by the NC and RC. As the majority of the members of the Board Committees comprises Independent Directors, the Board believes that there are sufficient strong and independent elements and adequate safeguards in place against an uneven concentration of power and authority in a single individual.

Provision 3.3

Lead Independent Director

The Board has a Lead Independent Director, Mr Ng Cher Yan, to provide leadership in situations where the Chairman, who is not independent, is conflicted. The Lead Independent Director is a key member of the Board, representing the views of the Independent Directors and facilitating a two-way flow of information between shareholders, the Chairman and the Board.

The Lead Independent Director's role may include chairing Board meetings in the absence of the Chairman, working with the Chairman in leading the Board, and providing a channel to Non-Executive Directors for confidential discussions on any concerns and to resolve conflicts of interest as and when necessary.

In addition, the Lead Independent Director may also help the NC conduct annual performance evaluation and development of succession plans for the Chairman and CEO and help the RC design and assess the Chairman's remuneration.

The Lead Independent Director also makes himself available at all times when shareholders have concerns and for which contact through the normal channels of the Chairman, the CEO or Management have failed to resolve or is inappropriate. The Lead Independent Director makes himself available to shareholders at the Company's general meeting.

There were no query or request on any matters which requires the Lead Independent Director's attention received in FY2019.

CORPORATE GOVERNANCE STATEMENT

Independent Director Meetings in Absence of Other Directors

Where necessary, the Lead Independent Director shall lead the meetings among the Independent Directors without the presence of other Directors. The Lead Independent Director shall provide feedback to the Chairman of the meeting after such meetings, if it is necessary. During FY2019, the Independent Directors have met unofficially at least once to discuss the Company's matters without the presence of the other Directors, and the Lead Independent Director has also provided the feedback to the Chairman after such meetings.

BOARD MEMBERSHIP

Principle 4: The Board has a formal and transparent process for the appointment and re-appointment of directors, taking into account the need for progressive renewal of the Board.

Provision 4.1

Roles and Duties of NC

The Board established the NC with written terms of reference which clearly set out its authority and duties, and report to the Board directly.

The terms of reference of the NC, which was revised and adopted for alignment with the Code and Listing Manual of the SGX-ST, set out its duties and responsibilities. Amongst them, the NC is responsible for:

(a) regularly and strategically review the structure, size and composition (including the skills, gender, age, qualification, experience and diversity) of the Board and Board Committees;

(b) identifying and nominating candidates to fill Board vacancies as they occur;

(c) request nominated candidates to disclose any existing or expected future business interests that may lead to a conflict of interest. This disclosure is to be included in any recommendations to the Board;

(d) send the newly-appointed Director a formal appointment letter which clearly sets out his or her roles and responsibilities, authority, and the Board's expectations in respect of his or her time commitment as a Director of the Company;

(e) recommends the membership of the Board Committees to the Board;

(f) reviews the independent status of Non-Executive Directors (in accordance with Rules 406(3)(d)(i), (ii), and (iii) of the Listing Manual of the SGX-ST and the Provision 2.1 of the Code) and that of the alternate Director, if applicable, annually, or when necessary, along with issues of conflict of interest;

(g) develops the performance evaluation framework for the Board, the Board Committees and individual Directors and propose objective performance criteria for the Board, the Board Committees and individual Directors;

CORPORATE GOVERNANCE STATEMENT

(h) recommend that the Board removes or reappoints a Non-Executive Director at the end of his or her term, and recommend the Directors to be re-elected under the provisions of the Company's Constitution on the policy of retirement by rotation. In making these recommendations, the NC should consider the Director's performance, commitment and his or her ability to continue contributing to the Board;

(i) review other directorships held by each Director and decide whether or not a Director is able to carry out, and has been adequately carrying out, his or her duties as a Director;

(j) review and ensure that there is a clear division of responsibilities between the Chairman and CEO of the Company in place;

(k) review the Board with its succession plans for the Board Chairman, Directors, CEO and KMPs of the Company;

(l) keep up to date with developments in corporate governance initiatives, changes to relevant legislations, strategic issues and commercial changes that may affect the Company and the industry in which it operates; and

(m) undertake such other functions and duties as may be required by the Board under the Code, statute or the Listing Manual of the SGX-ST (where applicable).

Provision 4.2

NC Composition

As at the date of this report, the NC comprises the following three (3) members, all of whom, including the NC Chairman, are Non-Executive and Independent Directors, and one of whom is the Lead Independent Director:

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

Provision 4.3

Nomination and Selection of Directors

Where a vacancy arises pursuant to an expansion of the Board or such other circumstances as they may occur, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the NC, in consultation with the Board, determines the selection criteria and selects candidates with the appropriate expertise and experience for the position. The search for a suitable candidate is drawn from the contacts and networks of existing Directors. The NC can also approach relevant institutions such as the SID, professional organisations or business federations to source for a suitable candidate. New Directors will be appointed by way of a Board resolution, after the NC makes the necessary recommendation to the Board and the Board approves such appointment.

The NC is responsible for identifying candidates and reviewing all nominations for the appointments of new Directors, amongst others, to consider succession planning and refresh the Board membership progressively and in an orderly manner, to avoid losing institutional memory.

CORPORATE GOVERNANCE STATEMENT

When an existing Director chooses to retire or the need for a new Director arises, either to replace a retiring Director or to enhance the Board's strength, the NC, in consultation with the Board, evaluates and determines the selection criteria so as to identify candidates with the appropriate expertise and experience for the appointment as new Director. The selection criterion includes integrity, diversity of competencies, expertise, industry experience and financial literacy.

Re-election of Directors

In accordance with Article 94 of the Company's Constitution, every Director shall retire from office once every three years and at each annual general meeting ("**AGM**"), one-third of the Directors shall retire from office by rotation. In addition, Article 95 provides that the retiring Directors are eligible to offer themselves for re-election and Article 100 provides that all newly appointed Directors shall hold office only until the next AGM and are eligible to offer themselves for re-election.

In respect of re-nominations, the NC will consider the individual Director's contribution and performance and whether the Director has adequate time and attention to devote to the Company, in the case of Directors with multiple board representations.

Accordingly, the Board has accepted the NC's nomination of the retiring Directors who have given their consent for re-election at the forthcoming AGM of the Company. The retiring Directors at the forthcoming AGM of the Company are Messrs Eka Dharmajanto Kasih and Michael Joseph Sampoerna who will retire pursuant to Article 94 of the Company's Constitution.

In making the recommendation, the NC has considered the Directors' overall contributions and performance. Each member of the NC shall abstain from making any recommendation and/or participating in any deliberation of the NC in respect of the assessment of their own performance or re-election as a Director.

Pursuant to Rule 720(6) of the Listing Manual of the SGX-ST, the information relating to the retiring Directors as set out in Appendix 7.4.1 of the Listing Manual of the SGX-ST is disclosed below:

Name of Director	**Eka Dharmajanto Kasih**	**Michael Joseph Sampoerna**
Date of Appointment	26 April 2006	30 August 2007
Date of last re-appointment (if applicable)	28 April 2017	27 April 2018
Age	69	41
Country of principal residence	Indonesia	Indonesia

CORPORATE GOVERNANCE STATEMENT

Name of Director	Eka Dharmajanto Kasih	Michael Joseph Sampoerna
The Board's comments on this appointment (including rationale, selection criteria, and the search and nomination process)	The re-election of Mr Eka Dharmajanto Kasih as the Non-Executive and Non-Independent Chairman of the Company was recommended by the NC and the Board has accepted the recommendation, after taking into consideration his qualifications, expertise, past experiences and overall contribution since he was appointed as a Director of the Company.	The re-election of Mr Michael Joseph Sampoerna as the Non-Executive and Non-Independent Director of the Company was recommended by the NC and the Board has accepted the recommendation, after taking into consideration his qualifications, expertise, past experiences and overall contribution since he was appointed as a Director of the Company.
Whether appointment is executive, and if so, the area of responsibility	Non-Executive.	Non-Executive.
Job Title (e.g. Lead ID, AC Chairman, AC Member etc.)	Non-Executive and Non-Independent Chairman Board Risk Committee (Member)	Non-Executive and Non-Independent Director
Professional qualifications	Bachelor's Degree in Economics (University of Indonesia)	
Working experience and occupation(s) during the past 10 years	PT Sampoerna Agro Tbk (as Commissioner) PT Apexindo Pratama Tbk (as Commissioner) MK3 Investment Pte Ltd (as Chairman) Templeton Pte Ltd (as Non Executive Director) PT Union Sampoerna (as Commissioner) Sampoerna Forestry Limited (as Director) PT Sampoerna Strategic (as Commissioner)	PT Sampoerna Agro Tbk (as President Commissioner) PT Sampoerna Strategic (as Director) PT Sampoerna Investama (as Director) PT Sampoerna Telekomunikasi Indonesia (as President Commissioner) Putera Sampoerna Foundation (as member of Board of Patrons) PT Vata Surya Nirvana (as Commissioner)

CORPORATE GOVERNANCE STATEMENT

Name of Director	Eka Dharmajanto Kasih	Michael Joseph Sampoerna
	PT Sampoerna Investama (as Commissioner) Twinwood International Holding Ltd (as Director) New Part International Ltd (as Director) PT Vata Surya Nirvana (as Director) PT Arundaya Surya Timur (as Director) PT Vata Kirana Nirvana (as DIrector) PT Vata Nitya Kartala (as Commissioner) PT Kharisma Putra Adwaya (as Director) PT Sahya Sakha Sandana (as Commissioner) PT Anugerah Sinar Sejahtera (as Commissioner) PT Anggarda Sampoerna (as Director) PT Putera Nitya Reswara (as Director) PT Sumber Graha Sejahtera (as Commissioner) Samko Timber Ltd (as Chairman - Non Independent and Non Executive Director)	PT Arundaya Surya Timur (as Commissioner) PT Vata Kirana Nirvana (as Commissioner) PT Kharisma Putra Adwaya (as Commissioner) PT Sahya Sakha Sandana (as Director) PT Anggarda Sampoerna (as Commissioner) PT Sampoerna Telemedia Indonesia (as President Commissioner) PT Putera Nitya Reswara (as Commissioner) Orient Distributor Network Pte Ltd (as Director) Sampoerna Foundation (Singapore) Pte Ltd (as Director) San Pao Lin Holdings Ltd (as Director) Twinwood Enterprises Ltd (as Director) PT Sumber Graha Sejahtera (as President Commissioner) Samko Timber Ltd (as Non Independent and Non Executive Director)
Shareholding interest in the listed issuer and its subsidiaries	None	63.97 % through Sampoerna Forestry Ltd

CORPORATE GOVERNANCE STATEMENT

Name of Director	Eka Dharmajanto Kasih	Michael Joseph Sampoerna
Any relationship (including immediate family relationships) with any existing director, existing executive officer, the issuer and/or substantial shareholder of the listed issuer or of any of its principal subsidiaries	None	None
Conflict of interest (including any competing business)	None	Office lease transaction with PT Sampoerna Land
Undertaking (in the format set out in Appendix 7.7) under Rule 720(1) has been submitted to the listed issuer	Yes	Yes
Other Principal Commitments* including Directorship# "Principal Commitments" has the same meaning as defined in the Code. # These fields are not applicable for announcements of appointments pursuant to Listing Rule 704(9)		
Past (for the last 5 years)	PT Sampoerna Agro Tbk (as Commissioner) PT Apexindo Pratama Tbk (as Commissioner) MK3 Investment Pte Ltd (as Chairman) Templeton Pte Ltd (as Non Executive Director) PT Union Sampoerna (as Commissioner) Sampoerna Forestry Limited (as Director) PT Sampoerna Strategic (as Commissioner) PT Sampoerna Investama (as Commissioner)	PT Sampoerna Agro Tbk (as President Commissioner) PT Sampoerna Strategic (as Director) PT Sampoerna Investama (as Director) PT Sampoerna Telekomunikasi Indonesia (as President Commissioner) Putera Sampoerna Foundation (as member of Board of Patrons)
Present	PT Sampoerna Agro Tbk (as Commissioner) PT Apexindo Pratama Tbk (as Commissioner) MK3 Investment Pte Ltd (as Chairman) Templeton Pte Ltd (as Non Executive Director)	PT Sampoerna Agro Tbk (as President Commissioner) PT Sampoerna Strategic (as Director) PT Sampoerna Investama (as Director)

CORPORATE GOVERNANCE STATEMENT

Name of Director		Eka Dharmajanto Kasih	Michael Joseph Sampoerna
		PT Union Sampoerna (as Commissioner) Sampoerna Forestry Limited (as Director) PT Sampoerna Strategic (as Commissioner) PT Sampoerna Investama (as Commissioner)	PT Sampoerna Telekomunikasi Indonesia (as President Commissioner) Putera Sampoerna Foundation (as member of Board of Patrons)
(a)	Whether at any time during the last 10 years, an application or a petition under any bankruptcy law of any jurisdiction was filed against him or against a partnership of which he was a partner at the time when he was a partner or at any time within 2 years from the date he ceased to be a partner?	No	No
(b)	Whether at any time during the last 10 years, an application or a petition under any law of any jurisdiction was filed against an entity (not being a partnership) of which he was a director or an equivalent person or a key executive, at the time when he was a director or an equivalent person or a key executive of that entity or at any time within 2 years from the date he ceased to be a director or an equivalent person or a key executive of that entity, for the winding up or dissolution of that entity or, where that entity is the trustee of a business trust, that business trust, on the ground of insolvency?	No	No
(c)	Whether there is any unsatisfied judgment against him?	No	No
(d)	Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving fraud or dishonesty which is punishable with imprisonment, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such purpose?	No	No

CORPORATE GOVERNANCE STATEMENT

Name of Director		Eka Dharmajanto Kasih	Michael Joseph Sampoerna
(e)	Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such breach?	No	No
(f)	Whether at any time during the last 10 years, judgment has been entered against him in any civil proceedings in Singapore or elsewhere involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or a finding of fraud, misrepresentation or dishonesty on his part, or he has been the subject of any civil proceedings (including any pending civil proceedings of which he is aware) involving an allegation of fraud, misrepresentation or dishonesty on his part?	No	No
(g)	Whether he has ever been convicted in Singapore or elsewhere of any offence in connection with the formation or management of any entity or business trust?	No	No
(h)	Whether he has ever been disqualified from acting as a director or an equivalent person of any entity (including the trustee of a business trust), or from taking part directly or indirectly in the management of any entity or business trust?	No	No
(i)	Whether he has ever been the subject of any order, judgment or ruling of any court, tribunal or governmental body, permanently or temporarily enjoining him from engaging in any type of business practice or activity?	No	No

CORPORATE GOVERNANCE STATEMENT

Name of Director			Eka Dharmajanto Kasih	Michael Joseph Sampoerna
(j)	Whether he has ever, to his knowledge, been concerned with the management or conduct, in Singapore or elsewhere, of the affairs of :			
	(i)	any corporation which has been investigated for a breach of any law or regulatory requirement governing corporations in Singapore or elsewhere; or	No	No
	(ii)	any entity (not being a corporation) which has been investigated for a breach of any law or regulatory requirement governing such entities in Singapore or elsewhere; or	No	No
	(iii)	any business trust which has been investigated for a breach of any law or regulatory requirement governing business trusts in Singapore or elsewhere; or	No	No
	(iv)	any entity or business trust which has been investigated for a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, in connection with any matter occurring or arising during that period when he was so concerned with the entity or business trust?	No	No
(k)	Whether he has been the subject of any current or past investigation or disciplinary proceedings, or has been reprimanded or issued any warning, by the Monetary Authority of Singapore or any other regulatory authority, exchange, professional body or government agency, whether in Singapore or elsewhere?		No	No

CORPORATE GOVERNANCE STATEMENT

Name of Director	Eka Dharmajanto Kasih	Michael Joseph Sampoerna
Any prior experience as a director of an issuer listed on the Exchange? If yes, please provide details of prior experience. If no, please state if the director has attended or will be attending training on the roles and responsibilities of a director of a listed issuer as prescribed by the Exchange. Please provide details of relevant experience and the nominating committee's reasons for not requiring the director to undergo training as prescribed by the Exchange (if applicable).	PT Sampoerna Agro Tbk (as Commissioner) PT Apexindo Pratama Tbk (as Commissioner)	PT Sampoerna Agro Tbk (as President Commissioner)

Alternate Director

During FY2019, there were no alternate Director on the Board.

Provision 4.4

Continuous Review of Directors' Independence

The Company has put in place a process to ensure the continuous monitoring of the independence of the Directors whereby the Directors must immediately report any changes in their external appointments that could affect their independence on the Board.

The NC reviews the independence of each Director annually in accordance with the definition of independence in the Code, Practice Guidance and Rule 210(5)(d) of the Listing Manual of the SGX-ST. Each Independent Director has submitted their confirmation of independence for the NC's reviews on an annual basis. For FY2019, the NC has reviewed and confirmed the independence of the Independent Directors of the Company, Messrs Ng Cher Yan, Wee Ewe Lay Laurence John and Sim Idrus Munandar, the Board is of the view that they are independent, taking into account the circumstances set forth in the Code, Rule 210(5)(d) of the Listing Manual of the SGX-ST and any other salient factors.

Provision 4.5

Onboarding Process for New Director

The NC ensures that new Directors are aware of their duties and obligations. The NC also decides if a Director is able to and has been adequately carrying out his or her duties as a Director of the company.

A formal letter of appointment is provided to the newly appointed Directors setting out their duties and obligations as a Director in respect of potential conflicts of interests, their IPTs and disclosure of Director's interests.

CORPORATE GOVERNANCE STATEMENT

Directors' Time Commitments

Each Director is required to confirm annually to the NC as to whether he or she has any issue with competing time commitments which may impact his or her ability to provide sufficient time and attention to his or her duties as a Director of the Company. Based on the Directors' annual confirmation and the Directors' commitments and contributions to the Company, which are also evident in their level of attendance and participation at the Board and Board Committee meetings, the NC and the Board are satisfied that all the Directors were able to and have been adequately carrying out their duties as Directors of the Company in FY2019.

In addition to the current procedures for the review of the attendance records and analysis of directorships, a policy has also been put in place for the Directors to notify the Board of any changes in their external appointments. This would allow the Director to review his or her time commitments with the proposed new appointment and in the case of an Independent Director, to also ensure that his or her independence would not be affected.

Information in respect of the directorship or chairmanship and other principal commitments, both present in other listed companies, is set out in the "Board of Directors" section of the Annual Report. In addition, information on shareholdings in the Company and its related companies held by each Director is set out in the "Directors' Statement" section of the Annual Report.

<u>BOARD PERFORMANCE</u>

Principle 5: The Board undertakes a formal annual assessment of its effectiveness as a whole, and that of each of its board committees and individual directors.

<u>Provision 5.1 and 5.2</u>

Performance Criteria

The Board, through the NC, has used its best effort to ensure that Directors appointed to the Board and Board Committees, whether individually or collectively, possess the background, experience, knowledge in the business, competencies in finance and management skills critical to the Group's business. It has also ensured that each Director, with his or her special contributions, brings the Board an independent and objective perspective to enable sound, balanced and well-considered decisions to be made.

The NC has been tasked to assist the Board to develop a performance evaluation framework for the Board, Board Committees and individual Directors, proposed performance criteria and assist in the conduct of the evaluation, analyses the findings and reports the results to the Board.

The NC, together with the Board, has established a formal process setting out the performance criteria for assessing the effectiveness of the Board as a whole and its Board Committees, and for assessing the contribution by each individual Director to the effectiveness of the Board to align with the applicable principles and provisions set out in the Code.

The assessment parameters for each Director include his or her knowledge and abilities, attendance records at the meetings of the Board and Board Committees, and the intensity and quality of participation at meetings. The NC and the Board have relied on the abovementioned parameters to evaluate the Directors' contribution individually and have taken such evaluation into consideration for the re-nomination of the Directors.

CORPORATE GOVERNANCE STATEMENT

On an annual basis, all the Directors are required to complete the following:

(a) Board Performance Evaluation Questionnaire;
(b) Board Committees Performance Evaluation Questionnaire;
(c) Individual Director Self-Assessment Form; and
(d) Board Competency Matrix.

For FY2019, the NC conducted a formal review of the performance evaluation of the Board, Board Committees and individual Directors, by way of circulating the questionnaires to the Board and Board Committees and self-assessment form to each individual Director for completion. The summary of findings of each evaluation together with the feedback and recommendations from the Board, Board Committees and each individual Director had been discussed and reviewed by the NC.

Board Evaluation Process

The evaluation serves to assess the effectiveness of the Board as a whole on the following parameters:

(a) Board composition;
(b) Board conduct of affairs;
(c) Internal controls and risk management;
(d) Board accountability;
(e) CEO performance; and
(f) Standard of conduct of the Board.

Based on the summary of findings of the evaluation for FY2019 together with the feedback and recommendations from each Director, the NC is satisfied that the Board as a whole had met its performance objective in FY2019.

Board Committees Evaluation Process

The evaluation serves to assess the effectiveness of the Board Committees on the following parameters:

(a) Establishment of the Board Committees including the membership and duties as recommended by the Code;
(b) Objective and duties as required under each terms of reference;
(c) Meetings and participation;
(d) Authority to investigate;
(e) Access to any information and full discretion to invite any Director or executive officer to attend its meetings;
(f) Support to enable each member to discharge its functions properly;
(g) Duties performed as required under the relevant principles and provisions of the Code; and
(h) Training and resources.

Based on the summary of the evaluation for FY2019 together with the feedback and recommendations from members of the respective Board Committees, the NC is satisfied that each of the Board Committees had met its performance objective in FY2019.

CORPORATE GOVERNANCE STATEMENT

The primary objective of the Board evaluation exercise is to create a platform for the Board and Board Committees members to provide constructive feedback on the Board procedures and processes and the changes which should be made to enhance the effectiveness of the Board and Board Committees.

The NC has, without the engagement of external facilitator, assessed the Board and Board Committees overall performance to-date and is of the view that the performance of the Board as a whole and Board Committees were satisfactory.

Individual Directors Evaluation Process

The evaluation serves to assess the effectiveness of the individual Directors on the following parameters:

(a) Attendance at Board and related activities;
(b) Adequacy of preparation for Board meetings;
(c) Quality and value of contribution for the meetings;
(d) Contribution to development of strategy and to risk management;
(e) Up to date with the corporate governance requirements;
(f) Knowledge; and
(g) Interaction with stakeholders.

Based on the summary of the evaluation for FY2019 together with the feedback and recommendations from the respective individual Directors, the NC is satisfied that each of the individual Directors had met its performance objective in FY2019.

Board Competency Evaluation

The evaluation serves to assess the effectiveness of the competency of the Board members on the following parameters:

(a) Knowledge or Experience in Public or Government appointments;
(b) Experience as Company Directors;
(c) Experience of being in Board Committees;
(d) Sector Experience;
(e) Functional Experience; and
(f) Training.

Based on the summary of the evaluation for FY2019 together with the feedback and recommendations from each Director, the NC is satisfied that the competency of the Board members had met the intended objectives to balance an appropriate mix of professional experience, environmental or contextual knowledge and personal attributes and skills in facilitating effective decision making of the Board in FY2019.

The individual Director and Board competency evaluation exercises assist the NC in determining whether to re-nominate Directors who are due for retirement at the forthcoming AGM of the Company, and in determining whether Directors with multiple board representations are able to and have adequately discharged their duties as Directors of the Company.

Each member of the NC shall abstain from voting on any resolutions in respect of the assessment of his performance or his re-nomination as Director.

CORPORATE GOVERNANCE STATEMENT

The NC reviewed the mix of skills and experiences of the Directors that the Board requires to function competently and efficiently in achieving the Group' strategic objectives. When reviewing the Board's performance for FY2019, the NC is satisfied that the Board has a good mix of skills and expertise to meet the needs of the Group and noted the following points:

i. Feedback received from the Directors and acted on their comments accordingly; and
ii. Individual Director's attendance at meetings of the Board, Board Committees and general meetings, individual Director's functional expertise and his commitment of time to the Company.

The Chairman, in consultation with the NC, will, if necessary, propose steps to be undertaken to strengthen the Board's leadership so as to improve the effectiveness of the Board's oversight of the Company.

(II) REMUNERATION MATTERS

PROCEDURES FOR DEVELOPING REMUNERATION POLICIES

Principle 6: The Board has a formal and transparent procedure for developing policies on director and executive remuneration, and for fixing the remuneration packages of individual directors and KMPs. No director is involved in deciding his or her own remuneration.

Provision 6.1

Roles and Duties of RC

The Board established the RC with written terms of reference which clearly set out its authority and duties, and report to the Board directly.

The terms of reference of the RC, which was revised and adopted for alignment with the Code and the Listing Manual of the SGX-ST, set out its duties and responsibilities. Amongst them, the RC is responsible for:

(a) determining the Company's remuneration policies. In doing so, it should also consider the Company's risk appetite and ensure that the policies are aligned to long-term goals;

(b) ensure that the level and structure of remuneration of the Board and KMPs are appropriate and proportionate to the sustained performance and value creation of the Company;

(c) set the remuneration policy for Directors (both Executive Directors and Non-Executive Directors) and KMPs;

(d) recommend proposed Non-Executive Directors' fees for shareholders' approval;

(e) monitor the level and structure of remuneration for KMPs relative to the internal and external peers and competitors;

(f) ensure that the remuneration of the Non-Executive Directors is appropriate to the level of contribution;

(g) review the remuneration of employees related to the Directors, CEO or substantial shareholders, if any, to ensure that their remuneration packages are in line with staff remuneration guidelines and commensurate with their respective job scopes and level of responsibilities;

CORPORATE GOVERNANCE STATEMENT

(h) review the ongoing appropriateness and relevance of the Company's remuneration policy (including but not limited to Directors' fees, salaries, allowances, bonuses, options, share-based incentives and awards and benefits-in-kind are covered) and other benefit programmes (where appropriate);

(i) obtain reliable, up-to-date information on the remuneration practices of other companies and the relevant market benchmarks through the appointment of external consultants;

(j) oversee any major changes in employee benefits or remuneration structures;

(k) review the design of all long-term and short-term incentive schemes for approval by the Board and shareholders;

(l) ensure that the contractual terms and any termination payments are fair to the individual and the Company. Poor performance should not be rewarded;

(m) set performance measures and determine targets for any performance-related pay schemes operated by the Company;

(n) ensure that a significant and appropriate proportion of Executive Directors' and KMPs remuneration is structured so as to link rewards to corporate and individual performance;

(o) work and liaise, as necessary, with all other Board Committees on any other matters connected with remuneration matters; and

(p) undertake such other functions and duties as may be required by the Board under the Code, statute or the Listing Manual of the SGX-ST (where applicable).

The RC recommends to the Board for endorsement, a framework of remuneration and the specific remuneration packages and terms of employment for each Director and KMPs, to ensure that Directors are adequately but not excessively remunerated.

<u>Provision 6.2</u>

RC Composition

As at the date of this report, the RC comprises the following three (3) members, all of whom, including the RC Chairman, are Non-Executive and Independent Directors:

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

CORPORATE GOVERNANCE STATEMENT

Provision 6.3

Remuneration Packages and Framework

The RC reviews and recommends to the Board the remuneration packages or policies for the Executive Director/CEO and the KMPs based on the performance of the Group, the individual Director and the KMPs. No Director individually decides or is involved in the determination of his or her own remuneration. The RC's recommendations are submitted for endorsement by the Board.

The RC reviews the terms and conditions of service agreements of the CEO before their execution. In the course of such review, the RC will consider the Group's obligations arising in the event of termination of Executive Director and KMPs, to ensure that the service agreements contain fair and reasonable termination clauses and are not overly generous so as to avoid rewarding poor performance.

The service agreement entered into with the CEO is renewable automatically every three years, such renewal being subject to the confirmation of the Board. None of the Non-Executive Directors is on a service contract with the Company.

Provision 6.4

Engagement of Remuneration Consultants

The RC has access to advice from the internal human resource department and, if necessary, the RC may seek advice from external professionals in the field of executive compensation and related matters of which the expenses will be borne by the Company. No external consultant was engaged by the Company in FY2019.

LEVEL AND MIX OF REMUNERATION

Principle 7: The level and structure of remuneration of the Board and KMPs are appropriate and proportionate to the sustained performance and value creation of the company, taking into account the strategic objectives of the company.

Provision 7.1

Remuneration of Executive Directors and KMPs

The Group's remuneration policy is to provide compensation packages at market rates which reward successful performance and to attract, retain and motivate Directors and KMPs. It also motivates the Directors to provide good stewardship of the Company and KMPs to successfully manage the Company for the long term. The remuneration packages take into account the performance of the Group, the individual Directors and individual KMPs.

The remuneration structure of the Executive Director and KMPs comprises both fixed and variable components. The variable component is linked to the Group/Company's performance as well as the performance of the individual personnel. Such performance-related remuneration is designed to align with the interests of shareholders and other stakeholders and promote long-term success of the Group.

CORPORATE GOVERNANCE STATEMENT

Having reviewed and considered the variable components in the remuneration packages of the Executive Director and KMPs, the RC is of the view that the remuneration packages of the Executive Director and KMPs, which include a fixed component and a variable component linked to the Company's performance, is aligned to the interest of shareholders and are not excessive. The variable portion is linked to individual performance, and is dependent on the performance of the Group, as well as the contribution of the individual to the Group's performance.

The annual reviews of the compensation are carried out by the RC to ensure that the remuneration of the Executive Director/CEO, and KMPs commensurate with their performance and that of the Company, giving due regard to the financial and commercial health and business needs of the Group. The performance of the Executive Director/CEO (together with other KMPs) is reviewed periodically by the RC and the Board.

Samko Timber Performance Share Plan

Samko Timber Performance Share Plan (the "**Samko PSP**") was approved by the shareholders at the extraordinary general meeting ("**EGM**") of the Company held on 27 April 2018.

The Samko PSP is a performance incentive share plan which forms an integral part of the Group's incentive compensation program. The Samko PSP aims to promote higher performance goals, and recognise and reward the contributions made by the eligible CEO and/or an Executive Director. The Samko PSP contemplates the contingent award of fully-paid shares after certain pre-determined benchmarks have been met.

The Samko PSP is administered by the administration committee comprising members of the NC and RC of the Company ("**Administration Committee**") in its absolute discretion, with such powers and duties as are conferred on it by the Board. The Administration Committee determines and approves the allocation of the share awards, the date of grant and the price thereof under the Samko PSP. Details of the Samko PSP were set out in the Company's Circular dated 12 April 2018 and also are set out on pages 143 to 144 of this Annual Report.

On 13 September 2019, the Company has granted an aggregate of 12,467,532 share awards (the "**Awards**") to Mr Riko Setyabudhy Handoko, Executive Director and CEO of the Company pursuant to the Samko PSP.

The Awards equivalent to 12,467,532 shares will be vested and released at the end of 36 months (27 June 2022), as Mr Riko has achieved certain performance conditions in respect of the performance-related award after the performance period from 1 January 2019 to 31 December 2019.

The Company does not use contractual provisions to allow the Group to reclaim incentive components of remuneration from the CEO and KMPs in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the Company. The CEO owes a fiduciary duty to the Company. The Company should be able to avail itself to remedies against the CEO in the event of such breach of fiduciary duties.

CORPORATE GOVERNANCE STATEMENT

Provision 7.2

Remuneration of Non-Executive Directors

The Board comprises of five (5) Non-Executive Directors. 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 in accordance with their level of contributions, taking into account factors such as efforts and time spent, as well as responsibilities and obligations of the Directors. The Independent Directors have not been over-compensated to the extent that their independence is compromised. Directors' fees are recommended by the Board for approval by the shareholders at the AGM of the Company. The Board has endorsed the remuneration framework.

For FY2019, the RC had met to review, determine, and recommend to the Board, the payment of Directors' fees for the financial year ending 31 December 2020, payable quarterly in arrears, which are subject to the shareholders' approval at the forthcoming AGM of the Company.

Provision 7.3

Comparative, Attractive, and Motivative Remuneration Package

The RC also considered, in consultation with the CEO, amongst other things, their responsibilities, skills, expertise and contributions to the Group's performance and whether the remuneration packages are competitive and sufficient to ensure that the Group is able to attract and retain and motivate Directors and KMPs. The remuneration packages take into account the performance of the Group, the individual Directors and individual KMPs.

The Company advocates a performance-based remuneration system for Executive Director and KMPs that is flexible and responsive to the market, comprises primarily a basic salary component, an annual supplement equivalent to one month basic salary during each Muslim Hari Raya month and a variable component which is inclusive of bonuses and other benefits based on the Group's performance and the individual's performance such as management skills, process skills, people skills and business planning skills. This is designed to align remuneration with the interests of shareholders and link rewards to corporate and individual performance so as to promote the long-term sustainability of the Group.

DISCLOSURE ON REMUNERATION

Principle 8: The company is transparent on its remuneration policies, level and mix of remuneration, the procedure for setting remuneration, and the relationships between remuneration, performance and value creation.

Provisions 8.1 and 8.2

Remuneration Criteria

The compensation packages for employees including the Executive Director/CEO and the KMPs comprised a fixed component (base salary), a variable component (cash-based annual bonus) and benefits-in-kind, where applicable, taking into account amongst other factors, the individual's performance, the performance of the Group and industry practices.

CORPORATE GOVERNANCE STATEMENT

An annual review of the compensation is carried out by the RC to ensure that the remuneration of the Executive Director and KMPs commensurate with their performance and that of the Company, giving due regard to the financial and commercial health and business needs of the Group. The performance of the Executive Director/CEO (together with other KMPs) is reviewed periodically by the RC and the Board. In structuring the compensation framework, the RC also takes into account the risk policies of the Group, the need for the compensation to be symmetric with the risk outcomes and the time horizon of risks.

Disclosure on Directors' Fees and Remuneration

A breakdown of the level and mix of the remuneration payable to each individual Director for FY2019 are set out below:

Name of Director	Salary[1] %	Bonus[1] and/ or profit sharing %	Directors' fee %	Allowances and other benefits %	Total %
Present Director					
S$1,000,000 to below S$1,250,000					
Riko Setyabudhy Handoko[2]	39%	30%	-	31%	100%

Name of Director	Salary[1] %	Bonus[1] and/ or profit sharing %	Directors' fee %	Allowances and other benefits %	Total %
Below S$250,000					
Michael Joseph Sampoerna	-	-	100%	-	100%
Eka Dharmajanto Kasih	-	-	100%	-	100%
Ng Cher Yan	-	-	100%	-	100%
Sim Idrus Munandar	-	-	100%	-	100%
Wee Ewe Lay Laurence John	-	-	100%	-	100%
Former Director					
Koh Tji Beng @ Ambran Sunarko[3]	-	-	100%	-	100%

Note:
(1) The salary and bonus amounts shown are inclusive of Singapore Central Provident Fund contributions.
(2) Also the CEO of the Company.
(3) Retired at the AGM held on 26 April 2019.

The total remuneration paid to the Directors is set out on page 147 of this Annual Report.

Disclosure Key Management Personnel's Remuneration

A breakdown of the ranges of gross remuneration paid in FY2019 to the Group's KMPs (who are not Directors or the CEO) in the Company and in the Group's subsidiaries, excluding any associated companies are set out below:

CORPORATE GOVERNANCE STATEMENT

Name of Key Management Personnel	Salary[1] %	Bonus[1] and/or profit sharing %	Allowances and other benefits %	Total %
S$500,000 to below S$750,000				
Edward Tombokan	57%	34%	9%	100%
S$250,000 to below S$500,000				
Johanes Ibrahim Tjendana[2]	67%	25%	8%	100%
Harry Handojo	56%	24%	20%	100%
Fredson Kotamena	78%	15%	7%	100%
Rudiyanto Tan	64%	29%	7%	100%
Below S$250,000				
Yusran Mustary	76%	15%	9%	100%
Hendry Susanto	83%	7%	10%	100%
Arief Zakaria	85%	7%	8%	100%

Note:
(1) The salary and bonus amounts shown are inclusive of Singapore Central Provident Fund contributions.
(2) Appointed as Chief Financial Officer ("**CFO**") on 1 February 2019.

The RC will review the remuneration of the Directors and the KMPs from time to time.

Save as disclosed above, the Code recommends that:

(a) the Company should fully disclose the remuneration of each individual Director and the CEO on a named basis;

(b) the Company should disclose the details of the remuneration of employees who are substantial shareholders of the Company, or are immediate family members of a Director, the CEO or a substantial shareholder, in incremental bands of S$100,000; and

(c) the Company should disclose in aggregate the total remuneration paid to the top five (5) KMPs (who are not Directors or the CEO).

The Board has decided not to disclose the aforementioned details as recommended by the Code, given the competitive business environment and possible negative impact on the Group's business interest, the disclosure of such detailed remuneration amongst the immediate family members of the Executive Director could have an adverse effect on working relationships and contributions to the operations of the Group. The total remuneration of the top eight (8) KMPs (who are not Directors or the CEO), including the immediate family member of a Director or CEO, was not disclosed to prevent poaching of KMPs.

The total remuneration paid to the KMPs is set out on page 147 of this Annual Report.

There were no employees who are substantial shareholders of the Company, or are immediate family members of a Director, the CEO or a substantial shareholder of the Company, and whose remuneration exceeded S$100,000 during FY2019.

CORPORATE GOVERNANCE STATEMENT

All Directors and KMPs are remunerated on an earned basis and there were no termination, retirement and post-employment benefits granted during FY2019.

After taking into account the reasons for non-disclosure stated above, the Board is of the view that the current disclosure of the remuneration presented herein in this report is sufficient to provide shareholders information on the Group's remuneration policies, as well as the level and mix of remuneration. Accordingly, the Board is of the view that the Company complies with Principle 8 of the Code.

Provision 8.3

Details of Employee Share Scheme

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.

(III) ACCOUNTABILITY AND AUDIT

RISK MANAGEMENT AND INTERNAL CONTROLS

Principle 9: The Board is responsible for the governance of risk and ensures that Management maintains a sound system of risk management and internal controls, to safeguard the interests of the company and its shareholders.

Provision 9.1

Nature and Extent of Risks

The Board is responsible for the governance of risk and sets the direction for the Group in the way risks are managed in the Group's businesses. The Board believes in the importance of maintaining a sound system of internal controls, including financial, operational, compliance and information technology controls, and risk management systems to safeguard the interests of the shareholders and the Group's assets. To achieve this, internal reviews are constantly being undertaken to ensure that the system of internal controls maintained by the Group is sufficient to provide reasonable assurance that the Group's assets are safeguarded against loss from unauthorised use or disposition, transactions are properly authorised and proper financial records are being maintained.

Board Risk Committee

The Board had established a BRC to assist the Board 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, compliance and information technology controls, and risk management systems.

The BRC comprises the following five (5) members, three (3) of whom, including the BRC Chairman, are Non-Executive and Independent Directors:

Sim Idrus Munandar	Chairman
Eka Dharmajanto Kasih	Member
Riko Setyabudhy Handoko	Member
Ng Cher Yan	Member
Wee Ewe Lay Laurence John	Member

CORPORATE GOVERNANCE STATEMENT

The terms of reference of the BRC, which was revised and adopted for alignment with the Code and the Listing Manual of the SGX-ST, set out its duties and responsibilities. Amongst them, the BRC is responsible for:

(a) oversee and review the adequacy and effectiveness of the Company's risk management function;

(b) overseeing Management in establishing the risk management framework of the Company;

(c) regularly review the risk management framework; and

(d) undertake and perform other responsibilities and reporting of the Company.

The BRC met four (4) times during FY2019 to review the enterprise risk management which focused on the operational, financial, compliance and information technology aspects of the Group. The Chairman of the BRC had reported the findings and recommendations to the Board during the Board meetings.

The BRC has reviewed the Group's financial controls and risk management policies and processes and based on its assessment and reports of the external auditors and internal auditors, the BRC is assured that adequate and effective internal controls are in place.

As for the operational and compliance controls, the Group has periodically reviewed these control areas through the various heads of department and has continuously made improvements with the assistance of the in-house internal audit team.

Provision 9.2

Assurance from the CEO, CFO and KMPs

The Board and the AC has reviewed, with the assistance of the internal and external auditors, the adequacy and effectiveness of the Group's internal controls, including financial, operational, compliance and information technology controls, and risk management systems.

The Board has received written assurance from the CEO and CFO that, as at 31 December 2019, the Group's financial records have been properly maintained and the financial statements give a true and fair view of the Group's operations and finances.

The Board has also received written assurance from the CEO and the representative of KMPs that the system of internal controls (including financial, operational, compliance and information technology controls) and risk management systems in place were adequate and effective as at 31 December 2019 to address the risks that the Group considers relevant and material to its business operations.

Based on the internal controls maintained by the Group, 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 reviews performed by Management, the Board, with the concurrence of the AC, is of the opinion that the system of internal controls in place by the Group, is adequate and effective to address all material aspects of the financial, operational, compliance and information technology controls, and the risk management systems, are adequate and effective to meet the needs of the Group for the type and volume of businesses conducted in the current business environment.

CORPORATE GOVERNANCE STATEMENT

The system of internal controls and risk management established by the Group provides reasonable, but not absolute, assurance that the Group will not be adversely affected by any event that can be reasonably foreseen as the Group strives to achieve its' business objectives. However, the Board also notes that no system of internal controls and risk management can provide absolute assurance in this regard, or absolute assurance against the occurrence of material errors, poor judgment in decision-making, human error, losses, fraud or other irregularities.

Information in relation to the Group's risk management objectives and policies is disclosed in the notes to the financial statement on pages 91 to 164 of this Annual Report.

AUDIT COMMITTEE

Principle 10: The Board has an Audit Committee which discharges its duties objectively.

Provision 10.1

Roles and Duties of Audit Committee

The Board established the AC with written terms of reference which clearly set out its authority and duties, and report to the Board directly.

The terms of reference of the AC, which was revised and adopted for alignment with the Code and the Listing Manual of the SGX-ST, set out its duties and responsibilities. Amongst them, the AC is responsible for:

(a) review the financial reporting issues and judgements so as to ensure the integrity of financial statements, and of announcements on the Company's financial performance and recommend changes;

(b) oversee and review the adequacy and effectiveness of the Company's risk management function;

(c) overseeing Management in establishing the risk management framework of the Company;

(d) review and report to the Board at least annually on the adequacy and effectiveness of the Company's risk management and internal controls;

(e) review the adequacy, effectiveness, independence, scope and results of the Company's internal audit function;

(f) review the scope and results of the external audit, and the independence and objectivity of the external auditors;

(g) recommend to the Board the appointment, reappointment and removal of the external auditors, and its remuneration and terms of engagement;

(h) ensure that the Company complies with the requisite laws and regulation;

(i) ensure that the Company has programmes and policies in place to identify and prevent fraud;

(j) oversee the establishment and operation of the whistleblowing process in the Company;

(k) review all IPTs and related party transactions; and

(l) undertake such other functions and duties as may be required by the Board under the Code, statute or Listing Manual of the SGX-ST (where applicable).

Apart from the duties listed above, the AC will:

(a) 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

(b) Ensure that the appropriate follow-up actions are taken.

External Audit Function

The AC reviews the scope and results of the audit carried out by the external auditors, the cost effectiveness of the audit and the independence and objectively of the external auditors. It always seeks to balance the maintenance of objectivity of the external auditors and their ability to provide value-for-money professional services.

Messrs Moore Stephens LLP ("**MS**") was appointed as the external auditors on 21 October 2019 until the conclusion of the forthcoming AGM. The aggregate amount of audit fees paid to MS in FY2019 was S$125,000. There were no non-audit fees paid to MS in FY2019.

The AC recommends to the Board the appointment, re-appointment and removal of external auditors, and approves the remuneration and terms of engagement of the external auditors. The re-appointment of the external auditors is always subject to shareholders' approval at the AGM of the Company.

In reviewing the nomination of MS for re-appointment for the financial year ending 31 December 2020, the AC has considered the adequacy of the resources, experience of their audit engagement partner and competence of audit team assigned to the Group's audit, given the size and complexity of the Group. The AC has also taken into account the Audit Quality Indicators relating to MS firm level and on the audit engagement level. Consideration was also given to the experience of the engagement partner and key team members in handling the audit. The Board also considered the audit team's ability to work in a cooperative manner with Management whilst maintaining integrity and objectivity and to deliver their services professionally and within agreed timelines.

MS has confirmed that they are a Public Accounting Firm registered with Accounting and Corporate Regulatory Authority and provided a confirmation of their independence to the AC.

On the basis of the above, the AC and the Board are satisfied with the standard and quality of work performed by MS and that the appointment of external auditors is in compliance with the requirements of Rule 712 of the Listing Manual of the SGX-ST. Accordingly, the AC has recommended the re-appointment of MS as external auditors for the ensuing year be tabled for shareholders' approval at the forthcoming AGM of the Company.

In accordance with the requirements of Rule 715 of the Listing Manual of the SGX-ST, the AC and the Board, having reviewed the appointment of audit firms for the Group, are satisfied that these appointments would not compromise the standard and effectiveness of the audit of the Group.

CORPORATE GOVERNANCE STATEMENT

Whistle Blowing Policy

The Company has put in place a whistle-blowing policy in August 2008 to provide employees with an avenue to raise concerns about possible improprieties in financial reporting of other matters, and the AC is satisfied that arrangements are in place for the independent investigation of such matters and for appropriate follow-up action. Details of the policy and arrangements have been made available to the employees by disseminating the whistle-blowing policy to the employees by way of announcing to the employee of the Management Policy on Whistle-blowing in the Company's website.

Provisions 10.2 and 10.3

Audit Committee Composition

The AC comprises the following three (3) members, all of whom, including the AC Chairman, are Non-Executive and Independent Directors:

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

The Board is of the opinion that the AC members are appropriately qualified to discharge their responsibilities. Two (2) of the members, Mr Ng Cher Yan and Mr Sim Idrus Munandar, have accounting or related financial management background, while Mr Wee Ewe Lay Laurence John is the Director of a law firm. All AC members have many years of experience in accounting, finance and/or legal related expertise and experience.

As the Lead Independent Director and the AC Chairman, Mr Ng Cher Yan's scope of work also include leading the AC in its' role in reviewing IPTs 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 the CFO and Head of Finance and Accounting but have not been resolved or for which such contact is inappropriate.

The AC members take measures to keep abreast of changes of accounting standards and issues which have a direct impact on financial statements through attending training and seminars as well as receiving updates from the Group's external auditors.

None of the AC members is a former partner or Director of the Company's existing auditing firm or auditing corporation within a period of two (2) years commencing on the date of his ceasing to be partner of the auditing firm or a Director of the auditing corporation; and in any case, a person has any financial interest in the auditing firm or auditing corporation.

Provision 10.4

Internal Audit Function

The Board recognises the importance of maintaining a sound system of risk management and 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.

CORPORATE GOVERNANCE STATEMENT

The Company has an in-house internal audit team to review the effectiveness of the Group's internal controls, including the adequacy of the Group's internal financial, operational, compliance and information technology controls. Internal audit findings, recommendations and actions taken by Management on the recommendations were reported to the AC. The in-house internal audit team is independent and carries out its activities in accordance with the Standards for the Professional Practice of Internal Auditing.

The in-house internal audit team primary line of reporting is to the AC Chairman and the AC will continue on an annual basis:

1. To review the adequacy of the Group's internal controls;

2. To review the adequacy of the internal audit function, its activities and organizational structure to ensure that no unjustified restrictions or limitations are imposed;

3. To review and approve the annual internal audit plan to ensure that there is sufficient coverage of the Group' activities; and

4. To oversee the implementation of the internal audit plan and ensure that Management provides the necessary co-operation to enable the in-house internal audit team to perform its functions and duties. All improvements to controls recommended by the in-house internal audit team and accepted by the AC will be monitored for implementation.

The AC is satisfied that the in-house internal audit team or Head of Internal Audit is a qualified and experienced personnel. The in-house internal audit team comprises five (5) employees including the Head of Internal Audit who possess the relevant qualifications and experience. The internal audit function has unfettered access to all Company's documents, records, properties, including the AC.

The in-house internal audit team plans its internal audit schedules in consultation with, but independent of, Management. The audit plan is submitted to the AC for approval prior to the commencement of the internal audit work.

The AC reviews the activities of the in-house internal audit team on a regular basis, including overseeing and monitoring the implementation of the improvements required on internal control weaknesses identified. The AC reviews the adequacy and effectiveness of the internal audit functions on an annual basis and is satisfied with its adequacy and effectiveness.

Access Information by Internal Audit Function

The AC is authorised by the Board to investigate any matters within its terms of reference. It has unrestricted access to information pertaining to the Group, to both internal and external auditors, and to all employees of the Group. Reasonable resources have been made available to the AC to enable it to discharge its duties properly.

<u>Provision 10.5</u>

Meeting Auditors without the Management

The AC met four (4) times during FY2019 to review the audit plan/report, the audit findings, the reports on IPTs, the reports on internal audit activities for the year (including updates on the findings in relation thereto) and the announcements of the quarterly and full-year results before being approved by the Board for release to the SGX-ST.

CORPORATE GOVERNANCE STATEMENT

The AC has met with the external auditors and Head of Internal Audit, without the presence of the Company's Management. The AC had reviewed the independence of the external auditors and is satisfied that the nature and extent of the non-audit services provided by the external auditors will not prejudice the objectivity and independence of the external auditors.

Audit Committee Activities

In FY2019, the AC had, among others, carried out the following activities:

(a) reviewed the quarterly and full-year financial statements announcements of the Group, and recommended to the Board for approval and release to the SGX-ST via SGXNet;

(b) reviewed the adequacy and effectiveness of the Group's internal controls, including financial, operational, compliance and information technology controls, and risk management systems;

(c) reviewed IPTs of the Group;

(d) reviewed and approved the annual audit plan of the external auditors;

(e) reviewed and approved the internal audit plan of the internal auditors, having considered the scope of the internal audit procedures;

(f) reviewed the effectiveness of the Group's internal audit function;

(g) reviewed the audit findings of the internal auditors and Management's responses to those findings;

(h) reviewed the independence of the external auditors;

(i) reviewed the annual re-appointment of the external auditors and determined their remuneration, and made a recommendation for the Board's approval; and

(j) met with the internal and external auditors once without the presence of Management.

In the review of the financial statements, the AC has discussed with Management the accounting principles that were applied and their judgment of items that might affect the integrity of the financial statements.

CORPORATE GOVERNANCE STATEMENT

(IV) SHAREHOLDER RIGHTS AND ENGAGEMENT

SHAREHOLDER RIGHTS AND CONDUCT OF GENERAL MEETINGS

Principle 11: The company treats all shareholders fairly and equitably in order to enable them to exercise shareholders' rights and have the opportunity to communicate their views on matters affecting the company. The company gives shareholders a balanced and understandable assessment of its performance, position and prospects.

Provision 11.1

Shareholders' Participation in General Meetings

The Company is open to meetings with investors and analysts, and in conducting such meetings, the Company is mindful of the need to ensure timely, accurate, fair and transparent disclosure of information.

Shareholders are informed of shareholders' meetings through notices contained in annual reports or circulars sent to all shareholders. 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 and made available on the Company's website at https://www.sampoernakayoe.co.id.

In order to provide ample time for the shareholders to review, the notice of AGM, together with the Annual Report, is distributed to all shareholders fourteen (14) days before the scheduled AGM date. Shareholders are encouraged to attend the general meetings to ensure a high level of participation and accountability.

The Company allows any shareholder (who is not a relevant intermediary), who is unable to attend the general meetings in person, to appoint not more than two (2) proxies to attend and vote in his or 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.

On 3 January 2016, the legislation was amended, among other things to allow certain members, defined as "relevant intermediary" to attend and participate in general meetings without being constrained by the two-proxy requirements. Relevant intermediary includes corporations holding licenses in providing nominee and custodial services and Central Provident Fund Board which purchases shares on behalf of the Central Provident Fund investors. A proxy need not be a member of the Company.

Shareholders are invited to attend the general meetings to put forth any questions they may have on the motions to be debated and decided upon.

Shareholders are also informed of the voting procedures prior to the commencement of voting by poll.

CORPORATE GOVERNANCE STATEMENT

Provision 11.2

Conduct of Resolutions and Voting

In support of greater transparency of the voting process and to enhance shareholders' participation, the Company puts all resolutions proposed at the general meetings to vote by poll since 2016.

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.

Shareholders who are present in person or represented by proxies will be entitled to one vote for each share held. A scrutineer is appointed to count and validate the votes cast at the general meetings. The total number of votes cast for and against each resolution and the respective percentage are announced and released to the SGX-ST via SGXNet.

Provision 11.3

Interaction with Shareholders

At general meetings, shareholders are given the opportunity to raise questions to the Directors and Management relating to the Company's business or performance. Management, as well as the respective Chairmen of the Board, AC, NC, RC and BRC will be present to assist the Directors in addressing all comments or queries raised by shareholders at such general meetings. The external auditors will also be present at the AGM to address shareholders' queries on the conduct of the audit and the preparation and content of the auditor's report.

Provision 11.4

Absentia Voting

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.

Provision 11.5

Minutes of General Meetings

The proceeding of each of the general meetings will be properly recorded, including substantial or relevant comments or queries from shareholders relating to the agenda of the general meetings and responses from the Board and Management. All minutes of the general meetings will be available on the Company's corporate website.

Provision 11.6

Dividend Policy

The Company does not have a formal dividend policy. Any future dividends that the Directors may recommend or declare in respect of any particular financial year or period will depend on the Group's earnings, financial position, results or operations, capital needs, plans for expansion, and other factors as the Board may deem appropriate.

CORPORATE GOVERNANCE STATEMENT

The Board has not declared or recommended dividends for FY2019, as the Directors are of the view that it can be better use the cash for working capital to support the business operation of the Group at this juncture.

ENGAGEMENT WITH SHAREHOLDERS

Principle 12: The company communicates regularly with its shareholders and facilitates the participation of shareholders during general meetings and other dialogues to allow shareholders to communicate their views on various matters affecting the company.

Provision 12.1, 12.2 and 12.3

Investor Relations Practices

The Company does not have an Investor Relations Policy in place. However, the Board's policy is that all shareholders should be informed simultaneously in an accurate and comprehensive manner regarding all material developments that impact the Group via SGXNet on an immediate basis, in line with the Group's disclosure obligations pursuant to the Listing Manual of the SGX-ST and the Companies Act. There is no dedicated investor relations team in place as the Board was of the view that the current communication channels are sufficient and cost-effective.

In line with the continuous disclosure obligations of the Company, under the Listing Manual of the SGX-ST and the Companies 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.

Disclosures of Information

The Company believes in timely and accurate dissemination of information to its shareholders. The Board makes every effort to comply with continuous disclosure obligations of the Company under the Listing Manual of the SGX-ST and the Companies Act. Where there is inadvertent disclosure made to a selected group, the Company will make the same disclosure publicly as soon as practicable. Communication to Shareholders is normally made through:-

(a) annual reports that are prepared and issued to all shareholders;

(b) annual and half-year financial statements announcements containing a summary of the financial information and affairs of the Group for the period;

(c) notices and explanatory memoranda for general meetings;

(d) disclosures to the SGX-ST via SGXNet; and

(e) press/media releases.

The Company will put all resolutions to vote by poll and make an announcement of the detailed results showing the number of votes cast for and against each resolution and the respective percentages.

CORPORATE GOVERNANCE STATEMENT

Outside of the financial announcement periods, when necessary and appropriate, the Non-Executive Chairman and/or the CEO will meet all stakeholders, shareholders, analysts and media who wish to seek a better understanding of the Group's operations.

Dialogue with Shareholders

The AGM is the principal forum for dialogue with shareholders. The Company recognises the value of feedback from shareholders. During the general meetings, shareholders are given ample time and opportunities to air their views and concerns. All the Directors will endeavour to attend the AGMs and EGMs, and shareholders will be given the chance to share their thoughts and ideas or ask questions relating to the resolutions to be passed or on other corporate and business issues.

(V) MANAGING STAKEHOLDERS RELATIONSHIPS

Engagement with Stakeholders

Principle 13: The Board adopts an inclusive approach by considering and balancing the needs and interests of material stakeholders, as part of its overall responsibility to ensure that the best interests of the company are served.

Provision 13.1

Stakeholders' Engagement

The Company and the Group has regularly engaged its stakeholders through various medium and channels to ensure that the business interests are aligned with those of the stakeholders, to understand and address the concerns so as to improve services and products' standards, as well as to sustain business operations for long-term growth.

The stakeholders have been identified as those who are impacted by the Group's business and operations and those who are similarly are able to impact the Group's business and operations. Six (6) stakeholders' groups have been identified through an assessment of their significance to the business operations. They are namely, employees, investors/shareholders, customers and consumers, local communities, suppliers and service providers, and government and regulators.

Provision 13.2

Strategy and Key Areas of Focus

The Company and the Group have undertaken a process to determine the economic, environmental, social and governance issues, which is important to these stakeholders. These issues form the materiality matrix upon which targets, performance and progress are reviewed and endorsed by the Board annually.

Detailed approach to the stakeholder engagement and materiality assessment (including commitments, key areas of focus and activities) will be disclosed in the Sustainability Report, which will be issued latest by end of May 2020.

CORPORATE GOVERNANCE STATEMENT

Provision 13.3

Corporate Website

To promote regular, effective and fair communication with shareholders, the Company maintains a corporate website at https://www.sampoernakayoe.co.id through which shareholders are able to access up-to-date information on the Group. The website provides annual reports, financial information, stock information, profiles of the Group, and contact details of the investor relations of the Group.

(VI) DEALINGS IN SECURITIES

The Company has adopted an internal Code of Best Practices on dealings in the securities to provide guidance to the officers, including Directors, of both the Company and its subsidiaries with regard to dealings in the Company's securities.

The Code of Best Practices prohibits the officers of the Group from dealing in the Company's securities during the period commencing two (2) weeks before the announcement of each of the Company's quarterly financial results and one (1) month before the announcement of the Company's full-year financial results and ending on the date of announcement of such results on the SGX-ST, or when they are in possession of the unpublished price sensitive information of the Group. Notifications of the 'closed window' periods are sent to all officers concerned.

The Directors are also required to notify the Company of any dealings in the Company's securities within two days of the transaction and to submit an annual confirmation on their compliance with the Code of Best Practices.

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

(VII) INTERESTED PERSON TRANSACTIONS

The Company has established internal control procedures to ensure the transactions with interested persons are properly reviewed and approved by the AC and conducted at arm's length basis, on normal commercial terms and will not be prejudicial to the interests of the Company and its minority shareholders.

The Company has obtained shareholders' approval for the mandates for IPTs under Rule 920 of the Listing Manual of the SGX-ST at the EGM held on 26 April 2019.

The aggregate value of all transactions with interested persons (as defined in Chapter 9 of the Listing Manual of the SGX-ST) for FY2019 are set out below:

CORPORATE GOVERNANCE STATEMENT

Name of interested person	*Nature of relationship*	*Aggregate value of all interested person transactions during the financial period under review (excluding transactions less than $100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)*	*Aggregate value of all interested person transactions conducted during the financial period under review under shareholders' mandate pursuant to Rule 920 (excluding transactions less than $100,000)*
		Rp'million	*Rp'million*
PT Sampoerna Land - Office rental	Mr Michael Joseph Sampoerna, a Director of the Company, together with his immediate family, holds more than 30% of the shareholding interests (direct and indirect)	5,806	-
PT Bank Sahabat Sampoerna - Finance expense		5,727	-
PT Sampoerna Agro Tbk - Purchase of palm logs		-	-

(VIII) MATERIAL CONTRACTS

Save as disclosed in the above IPTs section, the service agreement between the CEO and Executive Director and the Company, and the financial statements, there were no other material contracts of the Company or any of its subsidiaries, involving the interests of the CEO, Directors or controlling shareholders subsisting at the end of FY2019 or have been entered into since the end of the previous financial year.

DIRECTORS' STATEMENT

The directors present their statement to the members together with the audited consolidated financial statements of Samko Timber Limited (the "**Company**") and its subsidiaries (collectively, the "**Group**") for the financial year ended 31 December 2019 and the statement of financial position of the Company as at 31 December 2019.

In the opinion of the directors,

(a) the consolidated financial statements of the Group and the statement of financial position of the Company are drawn up so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2019 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the year then ended; and

(b) at the date of this statement, the financial statements have been prepared on a going concern basis after taking into consideration the availability of banking facilities which will enable the Group and the Company to pay its debts as and when they fall due, and that the Group will continue to improve its operating performance and generate adequate cash flows from its operations, as disclosed in Note 3(a) to the financial statements.

1 Directors

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

Eka Dharmajanto Kasih	*Non-Independent and Non-Executive Chairman*
Riko Setyabudhy Handoko	*Executive Director and Chief Executive Officer*
Michael Joseph Sampoerna	*Non-Independent and Non-Executive Director*
Ng Cher Yan	*Independent and Non-Executive Director*
Sim Idrus Munandar	*Independent and Non-Executive Director*
Wee Ewe Lay Laurence John	*Independent and Non-Executive Director*

2 Arrangements to Enable Directors to Acquire Shares or Debentures

Except as disclosed in Note 3 below, neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' STATEMENT

3 Directors' Interests in Shares or Debentures

According to the register of directors' shareholdings kept by the Company under section 164 of the Singapore Companies Act, Chapter 50 (the "**Act**"), the directors of the Company who held office at the end of the financial year had no interests in the shares or debentures of the Company and its related corporations except as stated below.

	Direct interest		Deemed interest	
Name of directors	At the beginning of the year	At the end of the year	At the beginning of the year	At the end of the year
The Company				
Number of ordinary shares				
Riko Setyabudhy Handoko	5,706,900	7,306,400	-	-

There was no change in any of the above-mentioned interests between the end of the financial year and 21 January 2020.

<u>Samko Timber Performance Share Plan</u>

Samko Timber Performance Share Plan (the "**Samko PSP**") was approved by the Company's shareholders at the Extraordinary General Meeting ("**EGM**") of the Company held on 27 April 2018. The duration of the Samko PSP is 10 years commencing from 27 April 2018.

The Samko PSP is a performance incentive share plan which forms an integral part of the Group's incentive compensation program. The Samko PSP aims to promote higher performance goals, and recognise and reward the contributions made by the eligible Chief Executive Officer and/or Executive Directors (including any Executive Director(s) to be appointed). Non-Executive Directors (including Independent Directors), and Controlling Shareholders and their Associates are not eligible to participate in the Samko PSP. The Samko PSP contemplates the contingent award of fully-paid shares after certain pre-determined benchmarks have been met. The Samko PSP is administered by the administration committee comprising members of the Nomination Committee and Remuneration Committee of the Company ("Administration Committee") in its absolute discretion, with such powers and duties as are conferred on it by the Board of Directors of the Company. The Administration Committee determines and approves the allocation of the share awards, the date of grant and the price thereof under the Samko PSP. Full details of the Samko PSP were set out in the Company's Circular dated 12 April 2018.

On 29 August 2018, the Company had granted 21,653,058 of share awards ("**2018 Awards**") under the Samko PSP to Riko Setyabudhy Handoko, Executive Director and Chief Executive Officer of the Company (the "**CEO**") for his performance from 2016 to 2018, subject to certain vesting periods. On 13 September 2019, the Company granted an additional 12,467,532 of share awards ("**2019 Awards**") under the Samko PSP to the CEO for his performance in 2019, subject to a vesting period.

DIRECTORS' STATEMENT

3 Directors' Interests in Shares or Debentures (cont'd)

Performance share awards granted and released during the financial year, and share awards outstanding as at the end of the financial year, are as follows:

Name of director	At the beginning of the year	Share awards granted	Share awards released	At the end of the year
The Company				
2019 Awards				
Riko Setyabudhy Handoko	-	12,467,532	-	12,467,532
2018 Awards				
Riko Setyabudhy Handoko	18,553,058	-	-	18,553,058

Further details of the Samko PSP are disclosed in Note 31(a)(d) to the financial statements.

Except as disclosed in this statement, no directors who held office at the end of the financial year had interests in shares or debentures of the Company and its related corporations, either at the beginning of the financial year or at the end of the financial year.

4 Share Options

Except as disclosed in Note 3 above,

Options Granted

During the financial year, there were no share options granted to subscribe for unissued shares of the Company or any corporation in the Group.

Options Exercised

During the financial year, there were no shares issued by virtue of the exercise of options to take up unissued shares of the Company or any corporation in the Group.

Options Outstanding

As at the end of the financial year, there were no unissued shares of the Company or any corporation in the Group under option.

DIRECTORS' STATEMENT

5 Audit Committee

The Audit Committee ("**AC**") comprises the following independent directors as at the date of this statement:

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

The AC carried out its functions in accordance with Section 201B(5) of the Singapore Companies Act, Chapter 50, the Code of Corporate Governance and the SGX-ST Listing Manual and assists the Board of Directors (the "**Board**") in the execution of its corporate governance responsibilities within its established terms of reference.

The duties of the AC, amongst other things, include:

(a) review the audit plans of the internal and external auditors of the Company, and review the internal auditors' evaluation of the adequacy of the Group's/Company's system of internal accounting controls and the assistance given by the Group's/Company's management to the external and internal auditors;

(b) review the quarterly announcement of financial statements and annual financial statements and the auditors' report on the annual consolidated financial statements of the Company and its subsidiaries before their submission to the Board;

(c) review the effectiveness of the Group's/Company's material internal controls, including financial, operational, compliance and information technology controls and risk management via reviews carried out by the internal auditors;

(d) meet with the external and internal auditors, other committees, and management in separate executive sessions to discuss any matters that these groups believe should be discussed privately with the AC;

(e) review legal and regulatory matters that may have a material impact on the financial statements, related compliance policies and programs and any reports received from regulators;

(f) review the cost effectiveness and the independence and objectivity of the external auditors;

(g) review the nature and extent of non-audit services provided by the external auditors;

(h) recommend to the Board the external auditors to be nominated, approve the compensation of the external auditors and review the scope and results of audit;

(i) report actions and minutes of the AC to the Board with such recommendations as the AC considers appropriate;

(j) review interested persons transactions in accordance with the requirements of the SGX-ST Listing Manual; and

(k) undertake such other functions and duties as may be agreed to by the AC and the Board.

DIRECTORS' STATEMENT

5 Audit Committee (cont'd)

The AC has undertaken a review of the nature and extent of non-audit services provided by the external auditors, and is satisfied that there were no non-audit services rendered that would affect the independence and objectivity of the external auditors.

The AC has recommended to the Board that the auditors, Moore Stephens LLP, be nominated for re-appointment as auditors at the forthcoming Annual General Meeting of the Company.

Further information regarding the AC are disclosed in the Corporate Governance Report included in the Company's Annual Report.

6 Independent Auditors

The auditors, Moore Stephens LLP, have expressed their willingness to accept re-appointment as auditors.

On behalf of the Board of Directors,

Eka Dharmajanto Kasih	Riko Setyabudhy Handoko
Non-Executive Chairman	Executive Director and Chief Executive Officer

Singapore
9 April 2020

INDEPENDENT AUDITOR'S REPORT

to the members of Samko Timber Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Samko Timber Limited ("**the Company**") and its subsidiaries (collectively "**the Group**"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "**Act**") and Singapore Financial Reporting Standards (International) ("**SFRS(I)s**") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2019 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("**SSAs**"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority ("**ACRA**") *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* ("**ACRA Code**") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters (cont'd)

Key Audit Matter	How our audit addressed the key audit matter
Valuation of biological assets	
Refer to Note 3(f), Note 4(b)(i), Note 15 and Note 36(b) to the financial statements. As at 31 December 2019, the Group's biological assets owned through subsidiaries in Indonesia amounted to approximately Rp52,620 million. The value of biological assets is measured at fair value less costs to sell. The fair value is estimated with reference to an independent professional valuation using the present value of expected net cash flows from the biological assets. Determining the present value of expected net cash flows requires the use of assumptions and estimates relating to growth, harvest yield per hectare, sales price, and costs and also choose a suitable discount rate in order to calculate the present value of those net cash flows. Due to the level of judgement and estimation uncertainty involved in the valuation, we have considered this to be a key audit matter.	We obtained an understanding of management's biological assets valuation process and evaluated the competence, capabilities and objectivity of the independent professional valuer engaged by the Group to assist in determining the fair value of the biological assets at the reporting date. Our audit procedures related to the valuation included, amongst others: • evaluated the methodology adopted by the independent professional valuer; • assessed the key inputs and data used in the valuation model, in particular the growth assumptions, harvest yield per hectare, sales price assumptions and costs and comparing to the historical and market available data; and • assessed the appropriateness of the discount rate applied in the valuation. We also checked the mathematical accuracy of the underlying calculations. In addition, we reviewed the adequacy of the disclosures in relation to the valuation of biological assets in Note 15 and management's sensitivity analysis in Note 36(b) to the financial statements.

INDEPENDENT AUDITOR'S REPORT

to the members of Samko Timber Limited

Key Audit Matters (cont'd)

Key Audit Matter	How our audit addressed the key audit matter
Post-employment benefits liabilities	
Refer to Note 3(r)(iii), Note 4(b)(ii), and Note 29 to the financial statements. The Group records post-employment benefits for its qualified employees as required by the Indonesian Labour Law. As at 31 December 2019, the Group's post-employment benefits liabilities amounted to approximately Rp286,277 million. The cost of the defined pension plan benefits and the present value of the pension obligation are calculated using actuarial valuation determined by an independent actuary. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, inflation rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, we have considered this to be a key audit matter.	We obtained an understanding of management's valuation process for the Group's post-employment benefits liabilities and evaluated the competence, capabilities and objectivity of the independent actuary engaged by the Group to assist in determining the post-employment benefits liabilities at the reporting date. Our audit procedures related to the valuation included, amongst others: • performed sample testing of the employee's details used in the computation to human resources records and perform re-computation of the post-employment benefits liabilities; • assessed the reasonableness of the total annual salaries used in the computation by comparing to the historical data; • assessed the reasonableness of future salaries increases by comparing to the historical data; and • evaluated and assessed other key assumptions used in the valuation, in particular the discount rate, inflation rate, mortality rates and future pension increases to the market available data issued by the Indonesia government and/ or the historical data. In addition, we reviewed the adequacy of the disclosures in relation to the post-employment benefits liabilities, including management's sensitivity analysis, in Note 29 to the financial statements.

INDEPENDENT AUDITOR'S REPORT

to the members of Samko Timber Limited

Key Audit Matters (cont'd)

Key Audit Matter	How our audit addressed the key audit matter
Impairment assessment on investment in a subsidiary	
Refer to Note 3(h), Note 4(b)(iii), and Note 14 to the financial statements. As at 31 December 2019, management performed an impairment assessment of the Company's investment in a subsidiary, PT Sumber Graha Sejahtera ("PT SGS"), as the carrying amount of the Company's investment in PT SGS exceeded the net assets of PT SGS as at that date. The carrying amount of the Company's investment in PT SGS amounted to approximately Rp793,831 million, representing approximately 90% of the Company's total assets. As part of the impairment testing, management prepares value in use calculation ("VIU") to determine the recoverable amount of the Company's investment in PT SGS. The VIU is based on discounted cash flow approach which requires management to use assumptions and estimates relating to revenue growth, budgeted gross margin, and terminal growth rate and also choose a suitable discount rate in order to calculate the present value of those cash flows Due to the level of judgement and estimation uncertainty involved in the VIU, we have considered this to be a key audit matter.	We obtained an understanding of management's impairment assessment process for the Company's investment in subsidiaries and assessed the VIU prepared by management to determine the recoverable amount of the Company's investment in PT SGS at the reporting date. Our audit procedures related to the VIU included, amongst others: • evaluated management's assumptions applied in the cash flow forecast taking into consideration our knowledge of PT SGS's operations, performance and industry benchmarks; • obtained an understanding of management's planned strategies on revenue growth and cost initiatives for PT SGS; • tested the robustness of management's forecast by comparing previous forecast to actual result. In addition, we also validated key inputs used in the discounted cash flow forecast, such as growth rate and discount rate, to the historical data and external market data to assess the reasonableness of management's forecast; and • tested management's sensitivity analysis of the recoverable amount of PT SGS based on reasonable changes to the key assumptions used in the discounted cash flow forecast. We also checked the mathematical accuracy of the underlying calculations. In addition, we reviewed the adequacy of the disclosures relating to impairment testing of the Company's investment in PT SGS, including management's sensitivity analysis, in Note 14 to the financial statements.

INDEPENDENT AUDITOR'S REPORT

to the members of Samko Timber Limited

Key Audit Matters (cont'd)

Key Audit Matter	How our audit addressed the key audit matter
Going concern assumption	
As disclosed in Note 3(a) to the financial statements, as at 31 December 2019, the Group's current liabilities exceeded its current assets by approximately Rp153,581 million. As at that date, the Group's loans and borrowings amounted to approximately Rp1,172,771 million, of which approximately Rp1,144,276 million were classified as current liabilities as they will be due within one year from 31 December 2019. Notwithstanding this, the directors of the Company believe that the use of the going concern assumption in the preparation and presentation of the financial statements for the financial year ended 31 December 2019 is appropriate after taking into consideration the availability of banking facilities which will enable the Group and the Company to pay its debts as and when they fall due, and that the Group will continue to improve its operating performance and generate adequate cash flows from its operations. The above factors are important considerations for the appropriateness on the use of the going concern assumption. As such, we considered this to be a key audit matter.	Our audit procedures related to the going concern assumption included, amongst others: • discussed with management to obtain an understanding on the business plan and financing requirements; • obtained management's cash flow forecast prepared for the purpose of the going concern assessment for the period of twelve months from the date of the financial statements and evaluated the reasonableness of the key assumptions used in the forecast; • performed stress test on the key assumptions used in the forecast, in particular the sales growth, future production levels and operating costs by reference to the historical data and market available data; • agreed the Group's committed debt facilities, including financial covenant terms and timing of repayment to supporting documentation; and • evaluated the Group's ability to meet its current liabilities, which are due within one year from 31 December 2019, through analysis of existing available funding and unused banking facilities. In addition, we reviewed the adequacy of the disclosures in relation to the going concern assumption in Note 3(a) to the financial statements.

INDEPENDENT AUDITOR'S REPORT

to the members of Samko Timber Limited

Other Information

Management is responsible for other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other Matter

The financial statements for the financial year ended 31 December 2018 were audited by another firm of auditors who expressed an unmodified opinion on those financial statements in their report dated 5 April 2019.

Responsibilities of Management and Directors 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 Act and SFRS(I)s, 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 financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

INDEPENDENT AUDITOR'S REPORT

to the members of Samko Timber Limited

Auditor's Responsibilities for the Audit of the Financial Statements (cont'd)

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

INDEPENDENT AUDITOR'S REPORT

to the members of Samko Timber Limited

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 the subsidiary corporation incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Mr Ng Chiou Gee Willy.

Moore Stephens LLP
Public Accountants and
Chartered Accountants

Singapore
9 April 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 31 December 2019

	Note	Group 2019 Rp'million	Group 2018 Rp'million
Revenue	5	3,955,495	4,353,759
Cost of sales		(3,356,982)	(3,580,868)
Gross profit		598,513	772,891
Other items of income			
Finance income	6	279	456
Other income	7	46,672	30,434
Other items of expense			
Selling expenses		(152,185)	(139,723)
General and administrative expenses		(355,180)	(388,600)
Allowance for impairment losses of financial assets, net	20	(516)	(19,089)
Finance expenses	8	(105,557)	(92,388)
Other expenses	9	(13,732)	(52,402)
Profit before income tax	10	18,294	111,579
Income tax	11	(12,552)	(47,495)
Profit for the year		5,742	64,084
Attributable to:			
Owners of the Company		4,610	65,486
Non-controlling interests		1,132	(1,402)
		5,742	64,084
Earnings per share (in Rupiah)			
Basic	12	2	28
Diluted	12	2	27

The accompany notes form an integral part of the financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 31 December 2019

	Note	Group	
		2019	2018
		Rp'million	Rp'million
Profit for the year		5,742	64,084
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Net actuarial (loss)/gain on post-employment benefits	29	(26,595)	40,134
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation		12,860	18,910
Other comprehensive (loss)/income for the year, net of tax		(13,735)	59,044
Total comprehensive (loss)/income for the year		(7,993)	123,128
Attributable to:			
Owners of the Company		(9,168)	124,263
Non-controlling interests		1,175	(1,135)
		(7,993)	123,128

The accompany notes form an integral part of the financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	Group		Company	
		2019	2018	2019	2018
		Rp'million	Rp'million	Rp'million	Rp'million
Non-Current Assets					
Property, plant and equipment	13	531,950	506,869	8	-
Investment in subsidiaries	14	-	-	827,279	824,998
Biological assets	15	52,620	44,294	-	-
Land use rights	16	51,505	54,379	-	-
Deferred tax assets	17	78,149	62,025	-	-
Other non-current assets	18	37,962	45,854	-	-
Right-of-use assets	32	74,887	-	-	-
		827,073	713,421	827,287	824,998
Current Assets					
Inventories	19	994,460	740,995	-	-
Trade and other receivables	20	464,267	348,603	49,258	21,621
Prepaid operating expenses	21	76,046	58,856	531	397
Advances to suppliers	22	92,597	171,395	1,492	-
Restricted deposits	23	6,274	16,138	-	-
Cash at banks and on hand	24	13,474	29,806	1,564	2,097
		1,647,118	1,365,793	52,845	24,115
Current Liabilities					
Trade and other payables	25	511,193	363,116	36,699	18,929
Other liabilities	26	72,966	73,006	2,421	3,640
Advances from customers	27	8,135	7,736	1,327	-
Loans and borrowings	28	1,144,276	1,030,081	-	-
Income tax payable		6,820	14,495	-	-
Lease liabilities	32	57,309	-	-	-
		1,800,699	1,488,434	40,447	22,569
Net Current (Liabilities)/ Assets		(153,581)	(122,641)	12,398	1,546

The accompany notes form an integral part of the financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	Group 2019 Rp'million	Group 2018 Rp'million	Company 2019 Rp'million	Company 2018 Rp'million
Non-Current Liabilities					
Other liabilities	26	108,083	19,674	266,985	278,492
Loans and borrowings	28	28,495	146,415	-	-
Post-employment benefits	29	261,683	218,500	-	-
Deferred tax liabilities	17	3,161	91	-	-
Lease liabilities	32	69,892	-	-	-
		471,314	384,680	266,985	278,492
Net Assets		202,178	206,100	572,700	548,052
Equity attributable to owners of the Company					
Share capital	30	537,603	2,502,305	537,603	2,502,305
(Accumulated losses)/ Retained earnings		(697,868)	(2,640,392)	9,443	(1,964,702)
Other reserves	31a	357,586	340,505	25,654	10,449
		197,321	202,418	572,700	548,052
Non-controlling interests	31b	4,857	3,682	-	-
Total Equity		202,178	206,100	572,700	548,052

The accompany notes form an integral part of the financial statements

STATEMENTS OF CHANGES IN EQUITY

For the financial year ended 31 December 2019

	Attributable to owners of the Company									
	Share capital Rp'million	Accumulated losses Rp'million	Other reserves, total Rp'million	Restructuring reserve Rp'million	Premium paid on acquisition of non-controlling interest Rp'million	Performance share plan reserve Rp'million	Foreign currency translation reserve Rp'million	Equity attributable to owners of the Company, total Rp'million	Non-controlling interests Rp'million	Total equity Rp'million
Group										
Balance at 1 January 2019	2,502,305	(2,640,392)	340,505	309,050	(3,037)	1,078	33,414	202,418	3,682	206,100
Effect of adopting SFRS(I) 16 (Note 2(a))	-	(177)	-	-	-	-	-	(177)	-	(177)
Adjusted balance at 1 January 2019	2,502,305	(2,640,569)	340,505	309,050	(3,037)	1,078	33,414	202,241	3,682	205,923
Profit for the year	-	4,610	-	-	-	-	-	4,610	1,132	5,742
Other comprehensive income:										
Net actuarial (loss)/gain on post-employment benefits	-	(26,611)	-	-	-	-	-	(26,611)	16	(26,595)
Exchange differences on translation	-	-	12,833	-	-	-	12,833	12,833	27	12,860
Other comprehensive income for the year, net of tax	-	(26,611)	12,833	-	-	-	12,833	(13,778)	43	(13,735)
Total comprehensive (loss)/income for the year	-	(22,001)	12,833	-	-	-	12,833	(9,168)	1,175	(7,993)
Grant of equity-settled performance share plan (Note 31a(d))	-	-	4,248	-	-	4,248	-	4,248	-	4,248
Capital reduction to reduce share capital (Note 30)	(1,964,702)	1,964,702	-	-	-	-	-	-	-	-
Balance at 31 December 2019	537,603	(697,868)	357,586	309,050	(3,037)	5,326	46,247	197,321	4,857	202,178

The accompany notes form an integral part of the financial statements

STATEMENTS OF CHANGES IN EQUITY

For the financial year ended 31 December 2019

	Attributable to owners of the Company									
	Share capital	Accumulated losses	Other reserves, total	Restructuring reserve	Premium paid on acquisition of non-controlling interest	Performance share plan reserve	Foreign currency translation reserve	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	Rp'million	Rp'million	Rp'million
Group										
Balance at 1 January 2018	2,501,056	(2,745,723)	320,495	309,050	(3,037)	-	14,482	75,828	4,817	80,645
Profit/(Loss) for the year	-	65,486	-	-	-	-	-	65,486	(1,402)	64,084
Other comprehensive income:										
Net actuarial gain on post-employment benefits	-	39,845	-	-	-	-	-	39,845	289	40,134
Exchange differences on translation	-	-	18,932	-	-	-	18,932	18,932	(22)	18,910
Other comprehensive income for the year, net of tax	-	39,845	18,932	-	-	-	18,932	58,777	267	59,044
Total comprehensive income/(loss) for the year	-	105,331	18,932	-	-	-	18,932	124,263	(1,135)	123,128
Grant of equity-settled performance share plan	-	-	2,327	-	-	2,327	-	2,327	-	2,327
Issuance of shares under performance share plan	1,249	-	(1,249)	-	-	(1,249)	-	-	-	-
Balance at 31 December 2018	2,502,305	(2,640,392)	340,505	309,050	(3,037)	1,078	33,414	202,418	3,682	206,100

CONSOLIDATED STATEMENT OF CASH FLOW

For the financial year ended 31 December 2019

	Group	
	2019	2018
	Rp'million	Rp'million
Cash from Operating Activities		
Profit before income tax	18,294	111,579
Adjustments for:		
Depreciation of property, plant and equipment (PPE)	104,437	97,949
Interest expense on loans and borrowings	96,399	84,736
Post-employment benefits expense	50,603	50,180
Grant of equity-settled performance share plan	4,248	2,327
Amortisation of land use rights	4,006	3,498
Amortisation of right-of-use assets	3,310	-
Interest expense on lease liabilities	2,189	-
Allowance for impairment losses of financial assets, net	516	19,089
Inventories written-down	11	58
Net unrealised foreign exchange (gain)/loss	(28,661)	21,838
Forfeiture of customer's deposits	(19,674)	-
Net (gain)/loss on change in fair value of biological assets	(6,553)	5,321
(Reversal of)/Allowance for advances to suppliers	(2,466)	2,709
Net gain on disposal of property, plant and equipment	(1,077)	(420)
Interest income	(279)	(456)
Bad debts written off	-	2,968
Gain on sale of land use rights	-	(135)
Gain on disposal of assets held for sale	-	(30,014)
Operating cash flow before changes in working capital	225,303	371,227
Changes in working capital		
Trade and other receivables	(90,679)	(29,059)
Inventories	(253,476)	(244,244)
Prepaid operating expenses	(23,853)	(1,753)
Advances to suppliers	86,225	(121,769)
Trade and other payables	148,077	79,683
Other liabilities	(5,075)	(70,223)
Advances from customers	399	(78,314)
Other non-current assets	(1,925)	(40,825)
Cash flows generated from/(used in) operations	84,996	(135,277)
Income taxes paid	(29,376)	(3,231)
Post-employment benefits paid	(18,640)	(46,767)
Net cash flows generated from/(used in) operating activities	36,980	(185,275)

The accompany notes form an integral part of the financial statements

CONSOLIDATED STATEMENT OF CASH FLOW

For the financial year ended 31 December 2019

	Group	
	2019	2018
	Rp'million	Rp'million
Cash Flows from Investing Activities		
Additions of PPE/ROU assets (Note (i))	(136,086)	(57,905)
Additions of biological assets	(1,773)	(90)
Additions of land use rights	(1,132)	-
Interest received	280	456
Proceeds from disposal of property, plant and equipment	1,539	570
Proceeds from disposal of asset held for sale	-	63,637
Proceeds from sale of land use rights	-	135
Net cash flows (used in)/generated from investing activities	(137,172)	6,803
Cash Flows from Financing Activities		
Loan from a third party	98,083	-
Loan from a customer	10,000	-
Proceeds from loans and borrowings	4,668,511	3,349,714
Repayments of loans and borrowings	(4,611,517)	(3,097,966)
Interest paid for loans and borrowings	(88,407)	(75,459)
Withdrawal/(Placement) of restricted deposits	9,576	(2,613)
Interest paid for lease liabilities	(2,189)	-
Net cash flows generated from financing activities	84,057	173,676
Net decrease in cash and cash equivalents	(16,135)	(4,796)
Cash and cash equivalents at 1 January	29,806	33,905
Effect of exchange rate changes on cash and cash equivalents	(197)	697
Cash and cash equivalents at 31 December (Note (ii))	13,474	29,806

The accompany notes form an integral part of the financial statements

CONSOLIDATED STATEMENT OF CASH FLOW

For the financial year ended 31 December 2019

(i) For the purpose of the consolidated statement of cash flows, the movements in the additions of PPE/ROU assets comprised the following:

	2019 Rp'million	2018 Rp'million
Additions of PPE	137,994	102,654
Additions of ROU assets	61,960	-
Additions of property, plant and equipment (Note 13)	199,954	102,654
Net decrease/(increase) in advances for purchase of PPE/ROU assets	2,682	(37,555)
Less: Additions through finance leases	(66,550)	(7,194)
Cash payment per consolidated statement of cash flows	136,086	57,905

(ii) For the purpose of the consolidated statement of cash flows, the consolidated cash and cash equivalents comprised the following:

	2019 Rp'million	2018 Rp'million
Cash at banks and on hand (Note 24)	13,474	29,806
Cash and cash equivalents per consolidated statement of cash flows	13,474	29,806

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

These notes form an integral part of and should be read in conjunction with the consolidated financial statements:

1 General

Samko Timber Limited (the "Company") is a public limited liability company incorporated and domiciled in Singapore and is listed on the Mainboard of the Singapore Exchange Securities Trading Limited ("SGX-ST"). The Company's registered address and principal place of business is at 7500A Beach Road, #08-305 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 14.

The immediate and ultimate holding company is Sampoerna Forestry Limited, a company incorporated in Singapore. The ultimate controlling party is Mr Putera Sampoerna.

2 Application of Singapore Financial Reporting Standards (International) ("SFRS(I)s")

(a) Application of New and Revised Standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial year except that in the current financial year, the Group has adopted all the new and revised standards which are relevant to the Group and are effective for annual financial periods beginning on or after 1 January 2019.

Description
SFRS(I) 16 *Leases*
Amendments to SFRS(I) 9 *Prepayment Features with Negative Compensation*
Improvements to SFRS(I) 3 *Business Combinations*
Amendments to SFRS(I) 1-12 *Income Taxes*
Amendments to SFRS(I) 1-23 *Borrowing Costs*
Amendments to SFRS(I) 1-19 *Plan Amendment, Curtailment or Settlement*
SFRS(I) INT 23 *Uncertainty over Income Tax Treatments*

Except for SFRS(I) 16 Leases, the adoption of the other new and revised standards above did not have any material effect on the financial performance of the Group or financial positions of the Group and the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2 Application of Singapore Financial Reporting Standards (International) ("SFRS(I)s") (cont'd)

(a) Application of New and Revised Standards and Interpretations (cont'd)

SFRS(I) 16 *Leases*

SFRS(I) 16 sets out a revised framework for the recognition, measurement, presentation and disclosure of leases, and replaces SFRS(I) 1-17 *Leases*, SFRS(I) INT 4 *Determining whether an Arrangement contains a Lease*, SFRS(I) INT 1-15 *Operating Leases – Incentives*; and SFRS (I) INT 1-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. SFRS(I) 16 requires lessees to recognise right-of-use ("ROU") assets and lease liabilities for all leases with a term of more than 12 months, except where the underlying asset is of low value. The ROU asset is depreciated and interest expense is recognised on the lease liability. Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the ROU assets and lease liabilities. ROU assets are tested for impairment in accordance with SFRS (I) 1-36 *Impairment of Assets*. The accounting requirements for lessors have not been changed substantially, and continue to be based on classification as operating and finance leases. Disclosure requirements have been enhanced for both lessors and lessees.

On 1 January 2019, the Group has applied a modified retrospective approach that does not restate comparative information, but recognises the cumulative effect of initially applying SFRS(I) 16 as an adjustment to the opening accumulated losses on 1 January 2019. Under the modified retrospective approach, the Group has elected to apply the following practical expedients under SFRS(I) 16:

(i) For all contracts entered into before 1 January 2019 and that were previously identified as leases under SFRS(I) 1-17 and SFRS(I) INT 4, the Group is exempted from having to reassess whether pre-existing contracts contain a lease. Accordingly, the definition of a lease in accordance with SFRS(I) 1-17 and SFRS(I) INT 4 will continue to be applied to leases entered or modified before 1 January 2019.

(ii) The Group has, on a lease-by-lease basis:

- applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relied on previous assessments on whether leases are onerous as an alternative to performing an impairment review;
- excluded initial direct costs in the measurement of the ROU asset as the date of initial application; and
- used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

(iii) The Group has elected not to recognise ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

2 Application of Singapore Financial Reporting Standards (International) ("SFRS(I)s") (cont'd)

(a) Application of New and Revised Standards and Interpretations (cont'd)

SFRS(I) 16 *Leases* (cont'd)

Impact on lessee accounting

For leases previously classified as operating leases, the Group chose to measure its ROU assets (except for ROU assets which meet the definition of investment property) at a carrying amount as if SFRS(I) 16 had been applied since the commencement of the lease but discounted using the incremental borrowing rate at 1 January 2019. The Group recognised its lease liabilities by discounting the remaining lease payments as at 1 January 2019 using the incremental borrowing rate for each individual lease or, if applicable, the incremental borrowing rate for each portfolio of leases with reasonably similar characteristics. The difference between the carrying amounts of the ROU assets and lease liabilities as at 1 January 2019 is adjusted directly to opening accumulated losses. Comparative information is not restated.

For leases previously classified as finance leases, the carrying amount of the leased asset and finance lease liability as at 1 January 2019 are determined as the carrying amount of the ROU assets and lease liabilities.

Impact on lessor accounting

There are no significant changes to the accounting by the Group as a lessor.

Financial impact of adoption of SFRS(I) 16

On 1 January 2019, the Group:

- recognised right-of-use assets of Rp3,188 million and lease liabilities of Rp3,365 million, recognising the difference of Rp177 million in opening accumulated losses;
- reclassified net carrying amount of Rp8,459 million of property, plant and equipment acquired under finance lease arrangements to right-of-use assets; and
- included in lease liabilities recognised under SFRS(I) 16, Rp73,850 million of finance lease liabilities that were recorded as at 31 December 2018.

When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 6.7%.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2 Application of Singapore Financial Reporting Standards (International) ("SFRS(I)s") (cont'd)

(a) Application of New and Revised Standards and Interpretations (cont'd)

SFRS(I) 16 *Leases* (cont'd)

Financial impact of adoption of SFRS(I) 16 (cont'd)

The differences between the operating lease commitments disclosed applying SFRS(I) 1-17 in the Group's financial statements as at 31 December 2018 and the lease liabilities recognised in the consolidated statement of financial position as at 1 January 2019 are presented below.

	Group Rp' million
Operating lease commitments as at 31 December 2018	7,017
Less:	
Discounted using the incremental borrowing rate at 1 January 2019	(269)
Short-term leases	(3,383)
	3,365
Add:	
Finance lease liabilities recognised as at 31 December 2018	73,850
	77,215

(b) New and Revised Standards Issued but Not Yet Effective

At the date of authorisation of these financial statements, the Group has not adopted the following new and revised standards applicable to the Group that have been issued but not yet effective:

Description	Effective for annual periods beginning on or after
Amendments to SFRS(I) 3: *Definition of a Business*	1 January 2020
Amendments to SFRS(I) 1-1 and SFRS(I) 1-8: *Definition of Material*	1 January 2020
Amendments to SFRS(I) 9, SFRS(I) 1-39 and SFRS(I) 7: *Interest Rate Benchmark Reform*	1 January 2020
Amendments to SFRS(I) 10 and SFRS(I) 1-28: *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Date to be determined

Except for the amendments to SFRS(I) 3, the Group expects that the adoption of the other new and revised standards above will have no material impact on the financial statements in the period of initial application.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2 Application of Singapore Financial Reporting Standards (International) ("SFRS(I)s") (cont'd)

(b) New and Revised Standards Issued but Not Yet Effective (cont'd)

Amendments to SFRS(I) 3: *Definition of a Business*

The amendments confirm that a business must include inputs and a process. The amendments also clarify that the process must be substantive, and the inputs and process must significantly contribute to creating outputs. The revised definition of a business focuses on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs. A new optional test is available to assess whether a business has been acquired, when the value of the assets acquired is concentrated in a single asset or group of similar assets.

These amendments are applicable to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period. Early application is permitted.

The Group does not expect any significant impact arising from applying these amendments.

3 Significant Accounting Policies

(a) Basis of Preparation

The consolidated financial statements of the Group and the statement of financial position of the Company have been prepared in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards (International) ("SFRS(I)"). The financial statements have been prepared on the historical cost basis, except as disclosed in the accounting policies below.

Going concern assumption

As at 31 December 2019, the Group's current liabilities exceeded its current assets by Rp153,581 million (2018: Rp122,641 million). As at that date, the Group's loans and borrowings amounted to Rp1,172,771 million (2018: Rp1,102,646 million), of which Rp1,144,276 million (2018: Rp1,002,627 million) were classified as current liabilities as they will be due within one year from 31 December 2019.

Notwithstanding this, the directors of the Company believe that the use of the going concern assumption in the preparation and presentation of the financial statements for the financial year ended 31 December 2019 is appropriate after taking into consideration the availability of banking facilities which will enable the Group and the Company to pay its debts as and when they fall due, and that the Group will continue to improve its operating performance and generate adequate cash flows from its operations.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

3 Significant Accounting Policies (cont'd)

(b) Group Accounting

i. Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

Goodwill on acquisitions of subsidiaries and businesses, represents the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previously-held equity interest in the acquiree over the fair value of the fair value of the investee's identifiable net assets acquired. Goodwill on acquisitions of subsidiaries is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment loss. Gains and losses on the disposal of subsidiaries, include the carrying amount of goodwill relating to the entity sold.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

3 **Significant Accounting Policies** (cont'd)

(b) Group Accounting (cont'd)

i. *Subsidiaries* (cont'd)

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with SFRS(I) 9 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group loses control of a subsidiary, it:

- derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost;
- derecognises the carrying amount of any non-controlling interest (including any components of other comprehensive income attributable to them);
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained in the former subsidiary at its fair value;
- re-classifies the Group's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate; and
- recognises any resulting difference as a gain or loss in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

3 Significant Accounting Policies (cont'd)

(c) Investment in Subsidiaries

Investments in subsidiaries are carried at cost less accumulated impairment losses in the statement of financial position of the Company.

On disposal of investments in subsidiaries, the difference between the net disposal proceeds and the carrying amount of the investments are recognised in the profit or loss.

(d) Foreign Currencies

i. Functional and presentation currencies

The individual financial statements of each entity in the Group are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

The Company's functional currency is United States Dollar ("US$"), which reflects the economic substance of the underlying events and circumstances of the Company. For the purposes of the consolidated financial statements, the results and financial position of each entity in the Group are expressed in Indonesia Rupiah ("Rp"), which is the presentation currency for the consolidated financial statements.

All values are rounded to the nearest million except when otherwise indicated.

ii. Transactions and balances

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Currency translation differences resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the reporting date are recognised in profit or loss, unless they arise from borrowings in foreign currencies and other currency instruments designated and qualifying as net investment hedges and net investment in foreign operations. Those currency translation differences are recognised in the foreign currency translation reserve in the consolidated financial statements and transferred to profit or loss as part of the gain or loss on disposal of the foreign operation.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2019

3 Significant Accounting Policies (cont'd)

(d) Foreign Currencies (cont'd)

ii. Transactions and balances (cont'd)

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

iii. Translation of Group entities' financial statements

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing exchange rates at the reporting date;
- income and expenses are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transactions dates, in which the case income and expenses are translated using the exchange rates at the dates of the transactions); and
- all resulting currency translation differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

3 Significant Accounting Policies (cont'd)

(e) 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, construction or production of a qualifying property, plant and equipment. 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 property, plant and equipment are not depreciated as these assets are not yet available for use.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

3 **Significant Accounting Policies** (cont'd)

(f) Biological Assets

Biological assets comprise standing trees in a plantation forest, separate from the land on which these assets are located.

The plantation forests 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 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 fertiliser, 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.

(g) Land Use Rights

Land use rights are initially measured at cost. Following initial recognition, land use rights are measured at cost less accumulated amortisation. The land use rights are amortised on a straight-line basis over the lease term of 20 – 60 years.

(h) Impairment of Non-financial Assets

Non-financial assets are tested for impairment whenever there is any indication that these assets may be impaired.

At the end of each reporting period, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any), on an individual asset.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash generating units, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. The difference between the carrying amount and recoverable amount is recognised as an impairment loss in profit or loss.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

3 Significant Accounting Policies (cont'd)

(h) Impairment of Non-financial Assets (cont'd)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

(i) Financial Assets

i. Initial recognition and measurement

Financial assets are recognised when, and only when the entity becomes party to the contractual provisions of the instruments.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Trade receivables are measured at the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third party, if the trade receivables do not contain a significant financing component at initial recognition.

ii. Subsequent measurement

Investment in debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the contractual cash flow characteristics of the asset. The category for classification of debt instruments is:

Amortised cost

Financial assets that are held for the collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the assets are derecognised or impaired, and through amortisation process.

iii. Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss and financial guarantee contracts. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

3 **Significant Accounting Policies** (cont'd)

(i) Financial Assets (cont'd)

iii. *Impairment of financial assets* (cont'd)

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is recognised for credit losses expected over the remaining life of the exposure, irrespective of timing of the default (a lifetime ECL).

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

iv *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.

(j) Financial Liabilities

i. *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, directly attributable transaction costs.

ii. *Subsequent measurement*

After initial recognition, financial liabilities that are not carried at fair value through profit or loss are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

3 Significant Accounting Policies (cont'd)

(j) Financial Liabilities (cont'd)

iii. Derecognition

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires. On derecognition, the difference between the carrying amounts and the consideration paid is recognised in profit or loss.

(k) Offsetting Financial Assets and Financial Liabilities

Financial assets and financial liabilities are offset and the net amount is presented in the combined statement of financial position, when and only when, there is a currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

(l) 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.

(m) Cash and Cash Equivalents

Cash and cash equivalents comprise cash in bank and on hand and short term deposits that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value. These exclude bank overdrafts that are not repayable on demand and are use as a source of finance instead of an integral part of the Group's cash management.

(n) 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.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2019

3 Significant Accounting Policies (cont'd)

(o) 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.

(p) Borrowing Costs

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.

(q) Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

(r) Employee Benefits

i. Defined contribution plans

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations under which the Group pays fixed contributions on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. Payments to defined contribution plans are recognised as an expense in the period when the employees have rendered service entitling them to the contributions.

ii. Termination benefits

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

3 Significant Accounting Policies (cont'd)

(r) Employee Benefits (cont'd)

iii. Defined pension plan benefits

The Group operates a defined pension plan for severance and service benefits, which is required under the labour laws in Indonesia and is unfunded. The cost of providing the benefits under the defined benefit plan is determined using the projected unit credit method.

Remeasurements, comprising of actuarial gains and losses, is recognised immediately in the statement of financial position with a corresponding debit or credit through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent period.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Group recognises restructuring-related costs

The Group recognises service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements in the net defined benefits obligation in profit or loss.

(s) Leases – Accounting policies applicable from 1 January 2019

i. When the Group is the Lessee

At the inception of the contract, the Group assesses if the contract contains a lease. A contract contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Reassessment is only required when the terms and conditions of the contract are changed.

The Group recognises right-of-use assets and lease liabilities at the date which the underlying assets become available for use. Right-of-use assets are measured at cost, which comprises the initial measurement of lease liabilities adjusted for any lease payments made at or before the commencement dates, plus any initial direct costs incurred and an estimate of restoration costs, less any lease incentives received. Any initial direct costs that would not have been incurred if the lease had not been obtained are added to the carrying amount of the right-of-use assets.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

3 Significant Accounting Policies (cont'd)

(s) Leases – Accounting policies applicable from 1 January 2019 (cont'd)

i. When the Group is the Lessee (cont'd)

Right-of-use assets are subsequently depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms. In addition, the right-of-use assets are periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the corresponding lease liabilities. The estimated useful lives of right-of-use assets are as follows:

Buildings	-	3 years
Machinery and heavy equipment	-	8 to 20 years
Vehicles	-	4 to 8 years

The Group's right-of-use assets and lease liabilities are presented in Note 32.

The initial measurement of lease liabilities is measured at the present value of the lease payments discounted using the implicit rate in the lease, if the rate can be readily determined. If that rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivables;
- Variable lease payments that are based on an index or rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under residual value guarantees
- The exercise price of a purchase option if is reasonably certain to exercise the option; and
- Payment of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

For contracts that contain both lease and non-lease components, the Group allocates the consideration to each lease component on the basis of the relative stand-alone price of the lease and non-lease components. The Group has elected not to separate lease and non-lease components for right-of-use assets; instead, these are accounted for as one single lease component.

Lease liabilities are measured at amortised cost, and are remeasured when:

- There is a change in future lease payments arising from changes in an index or rate;
- There is a change in the Group's assessment of whether it will exercise lease extension and termination options;
- There is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee; or
- There is a modification to the lease term.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

3 Significant Accounting Policies (cont'd)

(s) *Leases – Accounting policies applicable from 1 January 2019* (cont'd)

i. *When the Group is the Lessee* (cont'd)

When lease liabilities are remeasured, corresponding adjustments are made against the right-of-use assets. If the carrying amounts of the right-of-use assets have been reduced to zero, the adjustments are recorded in profit or loss. The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have lease terms of 12 months or less, as well as leases of low value assets, except in the case of sub-lease arrangements. Lease payments relating to these leases are expensed to profit or loss on a straight-line basis over the lease term.

Variable lease payments that are based on an index or a rate are included in the measurement of the corresponding right-of-use assets and lease liabilities. Other variable lease payments are recognised in profit or loss when incurred.

ii. *When the Group is the Lessor*

Each lease in which the Group acts as a lessor is classified as either an operating or a finance lease at lease inception. Leases that transfer substantially all of the risks and rewards incidental to ownership of the underlying assets are classified as finance leases. Other leases are classified as operating leases.

<u>Lessor - finance leases</u>

Leases where the Group has transferred substantially all risks and rewards incidental to ownership of the leased assets to the lessees, are classified as finance leases. The leased assets are derecognised and the present value of the lease receivables (net of initial direct costs for negotiating and arranging the lease) are recognised on the statement of financial position and included in "trade and other receivables". The difference between the gross receivables and the present value of the lease receivable is recognised as unearned finance income. Each lease payment received is applied against the gross investment in the finance lease receivable to reduce both the principal and the unearned finance income. The finance income is recognised in profit or loss on a basis that reflects a constant periodic rate of return on the net investment in the finance lease receivable. Initial direct costs incurred by the Group in negotiating and arranging finance leases are added to finance lease receivables and recognised as an expense in profit or loss over the lease term on the same basis as the lease income.

3 Significant Accounting Policies (cont'd)

(s) Leases – Accounting policies applicable from 1 January 2019 (cont'd)

ii. When the Group is the Lessor (cont'd)

Lessor - operating leases

Leases where the Group retains substantially all risks and rewards incidental to ownership are classified as operating leases. Rental income from operating leases (net of any incentives given to the lessees) is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred by the Group in negotiating and arranging operating leases are added to the carrying amount of the leased assets and recognised as an expense in profit or loss over the lease term on the same basis as the lease income. Contingent rents are recognised as income in profit or loss when earned.

(t) Leases – Accounting policies applicable prior to 1 January 2019

i When the Group is the Lessee

Lessee – finance leases

Leases where the Group assumes substantially all risks and rewards incidental to ownership of the leased assets are classified as finance leases.

The leased assets and the corresponding lease liabilities (net of finance charges) under finance leases are recognised on the statements of financial position as plant and equipment and borrowings respectively, at the inception of the leases based on the lower of the fair value of the leased assets and the present value of the minimum lease payments.

Each lease payment is apportioned between the finance expense and the reduction of the outstanding lease liability. The finance expense is recognised in profit or loss on a basis that reflects a constant periodic rate of interest on the finance lease liability.

Lessee – operating leases

Leases of factories and warehouses where substantially all risks and rewards incidental to ownership are retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are recognised in profit or loss on a straight-line basis over the period of the lease. Contingent rents are recognised as an expense in profit or loss when incurred.

ii. When the Group is the Lessor

The Group's accounting policies as a lessor under SFRS(I) 1-17 are similar to those under SFRS(I) 16 as set out above.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

3 Significant Accounting Policies (cont'd)

(u) Revenue Recognition

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Revenue is recognised when the Group satisfies a performance obligation by transferring a promised good or service to the customer, which is when the customer obtains control of the goods or service. A performance obligation may be satisfied at a point in time or over time. The amount of revenue recognised is the amount allocated to the satisfied performance obligation.

i. Sales of goods

Revenue is recognised when the goods are delievered to the customer and all criteria for acceptance have been satisfied with no variable consideration involved in the estimation of the transaction price.

ii. Interest income

Interest income is recognised using the effective interest method.

iii. Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

(v) Financial Guarantees

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 payments when due in accordance with the terms of a debt instrument. Financial guarantee contract liabilities are measured initially at their fair values and, if not designated as at FVTPL and do not arise from a transfer of an asset, are measured subsequently at the higher of:

- the amount of the loss allowance determined in accordance with the impairment of financial assets policy set out above; and
- the amount recognised initially less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policy set out above.

3 Significant Accounting Policies (cont'd)

(w) Income Tax

i. Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting period, in the countries where the Group operates and generates taxable income.

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

ii. 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 where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the 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, 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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

3 Significant Accounting Policies (cont'd)

(w) Income Tax (cont'd)

ii. Deferred tax (cont'd)

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.

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.

(x) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the management whose members are responsible for allocating resources and assessing performance of the operating segments.

(y) Related Parties

A related party is defined as follows:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to as the "reporting entity").

a. A person or a close member of that person's family is related to a reporting entity if that person:

i. has control or joint control over the reporting entity;
ii. has significant influence over the reporting entity; or
iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

3 Significant Accounting Policies (cont'd)

(y) Related Parties (cont'd)

b. An entity is related to the Company and to a reporting entity if any of the following conditions applies:

i. the entity and the reporting entity 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 reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity;
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); or
viii. the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

4 Critical Accounting Judgements and Key Sources of Estimation Uncertainty

The preparation of financial statements and the application of the Group's accounting policies, which are set out in Note 3 above, requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of each reporting period. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Uncertainty about these estimates and assumptions could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

(a) Critical Judgements in Applying the Accounting Policies

Management is of the opinion that there are no significant judgements made in applying accounting estimates and policies that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

4 Critical Accounting Judgements and Key Sources of Estimation Uncertainty (cont'd)

(b) Key Sources of Estimation Uncertainty

i. *Valuation of Biological Assets*

The value of biological assets is measured at fair value less costs to sell. The fair value is estimated with reference to an independent professional valuation using the present value of expected net cash flows from the biological assets. Determining the present value of expected net cash flows requires the use of assumptions and estimates relating to growth, harvest yield per hectare, sales price, and costs and also choose a suitable discount rate in order to calculate the present value of those net cash flows.

Further details about the valuation of biological assets and the carrying amount of the Group's biological assets are disclosed in Note 15.

ii. *Post-Employment Benefits*

The cost of the defined benefit pension plan and the present value of the pension obligation are calculated using actuarial valuation determined by an independent actuary. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, inflation rate, future salary increases, mortality rates and future pension increases.

Further details about the valuation of post-employment benefits obligations and the carrying amount of the Group's post-employment benefits liabilities are disclosed in Note 29.

iii. *Impairment of Investment in Subsidiaries*

The Company assesses at each reporting date whether there is an indication that the investment in subsidiaries may be impaired. This requires an estimation of the recoverable amount of the subsidiaries and are determined based on value in use calculations. The value in use calculations are based on discounted cash flow approach which requires management to use assumptions and estimates relating to revenue growth, budgeted gross margin, and terminal growth rate and also choose a suitable discount rate in order to calculate the present value of those cash flows.

Further details on the impairment testing and the carrying amount of the Company's investment in subsidiaries are disclosed in Note 14.

iv *Allowance for Expected Credit Losses (ECLs) of Trade Receivables*

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust historical credit loss experience with forward-looking information. At each reporting date, historical default rates are updated and changes in the forward-looking estimates are analysed.

4 Critical Accounting Judgements and Key Sources of Estimation Uncertainty (cont'd)

(b) Key Sources of Estimation Uncertainty (cont'd)

iv Allowance for Expected Credit Losses (ECLs) of Trade Receivables (cont'd)

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Information about the ECLs on the Group's trade receivables is disclosed in Notes 20 and 35(c).

v. Income Taxes

The Group has exposure to income taxes in several jurisdictions. Significant judgement is involved in determining the Group-wide provision for income taxes. There are certain transactions and computations 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 tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

The carrying amount of the Group's income tax provision as at 31 December 2019 was Rp6,820 million (2018: Rp14,495 million) and the carrying amount of the Group's deferred tax provisions are disclosed in Note 17.

5 Revenue from Contracts with Customers

	Group	
	2019	2018
	Rp'million	Rp'million
Primary geographical markets		
Indonesia	2,161,290	2,210,341
North Asia	938,833	1,102,908
Malaysia	383,910	327,464
Singapore	215,471	186,259
United States of America	152,362	393,223
Europe	31,812	58,041
South East Asia	25,350	17,733
Middle East	24,624	20,042
Australia	17,610	24,635
Others	4,233	13,113
Sales of goods at point in time	3,955,495	4,353,759

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

6 Finance Income

Finance income mainly relates to interest income.

7 Other Income

	Group	
	2019	2018
	Rp'million	Rp'million
Net foreign exchange gain	10,644	-
Net gain on change in fair value of biological assets (Note 15)	6,553	-
Income from insurance claim	3,219	-
Reversal of allowance for advances to suppliers (Note 22)	2,466	-
Net gain on disposal of property, plant, and equipment	1,077	420
Gain on disposal assets held for sale	-	30,014
Forfeiture of customer's deposits*	19,674	-
Others	3,039	-
	46,672	30,434

* Relates to a customer's deposits received under several sale contracts with one of the subsidiaries of the Group in 2007 and the customer did not proceed to complete the sale contracts since then. The Group has been advised by its legal counsel that the customer can now no longer make nor submit any valid and eligible claim against the subsidiary for a refund of those deposits, and accordingly, the Group forfeited the deposits and recognised the amounts in profit or loss during the current financial year.

8 Finance Expenses

	Group	
	2019	2018
	Rp'million	Rp'million
Interest expense on:		
Bank borrowings	90,972	80,453
Bank borrowings from a related party	5,427	4,012
Obligation under finance leases	-	271
Interest on lease liabilities	2,189	-
Bank charges	6,969	7,652
	105,557	92,388

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

9 Other Expenses

	Group 2019 Rp'million	Group 2018 Rp'million
Worker separation expenses	8,226	7,160
Amortisation of land use rights (Note 16)	4,006	3,498
Inventories written-down (Note 19)	11	58
Net foreign exchange loss	-	19,284
Net loss on change in fair value of biological assets (Note 15)	-	5,321
Bad debts written off - trade	-	2,968
Allowance for advances to suppliers (Note 22)	-	2,709
Others	1,489	11,404
	13,732	52,402

10 Profit before Income Tax

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

	Group 2019 Rp'million	Group 2018 Rp'million
Audit fees paid to:		
- Auditor of the Company	1,290	1,668
- Other auditors	1,711	2,676
Non-audit fees paid to:		
- Auditor of the Company	-	136
Factory overheads	1,222,555	1,153,063
Salaries and employee benefits*:		
- Directors' fees	2,223	2,502
- Salaries & bonuses	942,173	848,630
- Equity-settled performance share plan	4,248	2,327
- Defined contribution plan benefits	64,801	56,119
- Employee other short-term benefits	10,537	23,002
- Post-employment benefits (Note 29)	50,603	50,180
	1,074,585	982,760
Short-term leases expense	9,133	8,911
Depreciation of property, plant and equipment (Note 13)	104,437	97,949
Depreciation of right-of-use assets (Note 32)	3,310	-

* During the financial year, salaries and employees' benefits allocated to cost of sales and general and administrative expenses amounted to Rp810,530 million (2018: Rp735,928 million) and Rp213,452 million (2018: Rp196,652 million), respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

11 Income Tax

	Group	
	2019	2018
	Rp'million	Rp'million
Consolidated income statement		
Current income tax:		
Current year	17,893	9,430
(Over)/Under provision in respect of previous years	(1,161)	2,064
	16,732	11,494
Deferred tax:		
Origination and reversal of temporary differences (Note 17)	(4,180)	36,001
Income tax expense recognised in profit or loss	12,552	47,495
Consolidated statement of comprehensive income		
Deferred tax:		
Net actuarial (loss)/gain on post-employment benefits (Note 29)	(8,879)	13,281

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

	Group	
	2019	2018
	Rp'million	Rp'million
Profit before income tax	18,294	111,579
Tax at domestic rates applicable in the countries where the Group operates	7,044	14,930
Income not subject to tax	(17)	(113)
Non-deductible expenses	17,092	29,771
Effect of partial tax exemption and tax relief	(186)	(272)
Utilisation of unused tax losses previously not recognised	(10,220)	–
Deferred tax assets not recognised for the current year tax losses	-	1,115
(Over)/Under provision of previous years income tax	(1,161)	2,064
Income tax expense recognised in profit or loss	12,552	47,495

The corporate income tax applicable to the entities in Singapore is 17.0% (2018: 17%). The corporate income tax rate applicable to the subsidiaries in Indonesia is 25% (2018: 25%).

11 Income Tax (cont'd)

Unutilised tax losses

As at 31 December 2019, the Group has unutilised tax losses of approximately Rp81,118 million (2018: Rp134,079 million) which can be carried forward and used to offset against future taxable income of those Group entities in which the tax losses arose, subject to the agreement of the tax authorities and compliance of the relevant provisions of the tax legislation of the respective jurisdictions in which they operate. Certain of these unutilised tax losses carried forward amounted to approximately Rp72,788 million (2018: Rp121,314 million) has not been recognised due to uncertainty of its recoverability. The deferred tax asset not recognised is estimated to be approximately Rp15,256 million (2018: Rp25,476 million). The unutilised tax losses of Singapore entities of the Group have no expiry date, while the unutilised tax losses of the Indonesia entities of the Group expires 5 years from the year the tax losses arose.

Temporary differences on undistributed earnings

A deferred tax liability of approximately Rp391 million (2018: Rp698 million) has not been recognised in these financial statements for withholding taxes that would be payable on the undistributed earnings of the Group's foreign subsidiaries as the Group is able to control the timing of dividend distributions of the subsidiaries and has determined that these undistributed earnings will not be distributed in the foreseeable future.

12 Earnings per Share

Basic earnings per share are calculated by dividing the profit for the year attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share are calculated by dividing profit for the year attributable to owners of the Company 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 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 financial year:

	Group	
	2019	2018
	Rp'million	Rp'million
Profit of the year attributable to owners of the Company used in computation of earnings per share	4,610	65,486
	Number of ordinary shares	
Weighted average number of ordinary shares used for basic earnings per share computation	2,377,150,505	2,375,106,549
Effects of dilution:		
Samko Performance Share Plan	1,023,954	6,320,272
Weighted average number of ordinary shares used for diluted earnings per share computation	2,378,174,459	2,381,426,821

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

13 Property, Plant and Equipment

						Construction in progress		Leased assets		
	Buildings and improvements Rp'million	Machinery and heavy equipment Rp'million	Electrical installations Rp'million	Vehicles Rp'million	Furniture, fixtures and equipment Rp'million	Buildings Rp'million	Machinery Rp'million	Machinery and heavy equipment Rp'million	Vehicles Rp'million	Total Rp'million
Group										
Cost										
At 1 January 2019	327,855	1,235,295	47,705	51,721	152,144	784	11,562	18,205	917	1,846,188
Additions	7,831	63,829	65	360	14,682	22,367	90,820	-	-	199,954
Disposals	-	(5,957)	-	(11)	(29)	-	-	-	-	(5,997)
Reclassifications	7,997	18,448	2,610	49	327	(15,246)	(12,821)	-	-	1,364
Reclassifications due to effect of adopting SFRS(I) 16	-	-	-	-	-	-	(61,960)*	(18,205)*	(917)*	(81,082)
Translation reserve	-	-	-	(6)	(87)	-	(2,280)	-	-	(2,373)
At 31 December 2019	343,683	1,311,615	50,380	52,113	167,037	7,905	25,321	-	-	1,958,054
Accumulated depreciation and impairment										
At 1 January 2019	167,236	989,053	36,682	46,597	89,088	-	-	10,567	96	1,339,319
Depreciation charge for the year	13,851	62,586	2,552	1,941	23,507	-	-	-	-	104,437
Disposals	-	(5,507)	-	(11)	(17)	-	-	-	-	(5,535)
Reclassifications	1	622	(3)	24	(2,008)	-	-	-	-	(1,364)
Reclassifications due to effect of adopting SFRS(I) 16	-	-	-	-	-	-	-	(10,567)*	(96)*	(10,663)
Translation reserve	-	-	-	(4)	(86)	-	-	-	-	(90)
At 31 December 2019	181,088	1,046,754	39,231	48,547	110,484	-	-	-	-	1,426,104
Net carrying amount										
At 31 December 2019	162,595	264,861	11,149	3,566	56,553	7,905	25,321	-	-	531,950

* As disclosed in Note 2(a), the Group has reclassified the aggregate net carrying amount of Rp8,459 million of leased assets acquired under finance leases to right-of-use assets on 1 January 2019 and additions of Rp61,960 million of leased assets acquired under finance leases to right-of-use assets during the financial year.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

13 Property, Plant and Equipment (cont'd)

						Construction in progress		Leased assets		
	Buildings and improvements	Machinery and heavy equipment	Electrical installations	Vehicles	Furniture, fixtures and equipment	Buildings	Machinery	Machinery and heavy equipment	Vehicles	Total
	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million
Group (cont'd)										
Cost										
At 1 January 2018	317,517	1,193,367	47,621	51,812	91,706	3,683	25,543	19,596	-	1,750,845
Additions	3,472	10,131	57	1,313	50,603	6,040	22,215	7,906	917	102,654
Disposals	(76)	(4,737)	(126)	(369)	(2,058)	-	-	-	-	(7,366)
Reclassifications	6,942	36,534	153	(1,045)	11,742	(8,939)	(36,196)	(9,297)	-	(106)
Translation reserve	-	-	-	10	151	-	-	-	-	161
At 31 December 2018	327,855	1,235,295	47,705	51,721	152,144	784	11,562	18,205	917	1,846,188
Accumulated depreciation and impairment										
At 1 January 2018	153,302	924,307	33,671	44,943	74,344	-	-	17,972	-	1,248,539
Depreciation charge for the year	14,033	58,761	3,137	2,090	18,423	-	-	1,409	96	97,949
Disposals	(76)	(4,726)	(126)	(292)	(1,996)	-	-	-	-	(7,216)
Reclassifications	(23)	10,711	-	(148)	(1,832)	-	-	(8,814)	-	(106)
Translation reserve	-	-	-	4	149	-	-	-	-	153
At 31 December 2018	167,236	989,053	36,682	46,597	89,088	-	-	10,567	96	1,339,319
Net carrying amount										
At 31 December 2018	160,619	246,242	11,023	5,124	63,056	784	11,562	7,638	821	506,869

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

13 Property, Plant and Equipment (cont'd)

Depreciation

During the financial year, depreciation charges allocated to cost of sales and general and administrative expenses amounted to Rp80,764 million (2018: Rp81,347 million) and Rp23,673 million (2018: Rp16,602 million), respectively.

Assets pledged as security

As at 31 December 2019, buildings and improvements, machinery and heavy equipment with the aggregate net carrying amount of Rp448,183 million (2018: Rp413,024 million) are pledged as collateral for the Group's interest-bearing loans (Note 28).

	Furniture, fixtures and equipment Rp'million
Company	
Cost	
At 1 January 2018	557
Disposals	(179)
Translation reserve	35
At 31 December 2018 and 1 January 2019	413
Additions	8
Translation reserve	(17)
At 31 December 2019	404
Accumulated depreciation	
At 1 January 2018	557
Depreciation charge for the year	-*
Disposals	(179)
Translation reserve	35
At 31 December 2018 and 1 January 2019	413
Depreciation charge for the year	-*
Translation reserve	(17)
At 31 December 2019	396
Net carrying amount	
At 31 December 2019	8
At 31 December 2018	-

* less than Rp1 million.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2019

14 Investment in Subsidiaries

	Company	
	2019	2018
	Rp'million	Rp'million
Unquoted shares, at cost		
At 1 January	2,785,619	2,398,107
Additions	2,281	387,512
At 31 December	2,787,900	2,785,619
Less: Allowance for impairment loss:		
At 1 January and 31 December	(1,960,621)	(1,960,621)
	827,279	824,998

During the current financial year, the Company incorporated two wholly owned subsidiaries, PT Sempurna Kayu Abadi and Samko Forestry Pte. Ltd. with an issued and paid-up share capital of Rp1,250 million and Rp1,031 million, respectively, fully paid in cash. The subsidiaries are dormant as at 31 December 2019.

During the previous financial year, the Company had increased its investment in one of its wholly owned subsidiary, PT Sumber Graha Sejahtera, by an additional capital injection of Rp387,512 million, fully paid in cash.

The significant subsidiaries of the Group at the end of the reporting period are set out below.

Name of subsidiary/ Country of incorporation	Principal activities	Percentage of effective equity interest held by the Group	
		2019 %	2018 %
Held by the Company			
PT Sumber Graha Sejahtera (Indonesia)(1)	Production of plywood, laminated veneer lumber wood panels and wood based furniture	100	100
Samko Trading Pte. Ltd. (Singapore)(2)	Wholesale of plywood, sawn timber, logs and related products	100	100
Held by Samko Trading Pte. Ltd.			
PT Anugrah Karunia Alam (Indonesia)(1)	Wholesale of plywood, sawn timber, logs and related products	100	100
PT Alam Raya Makmur (Indonesia)(1)	Wholesale of plywood, sawn timber, logs and related products	100	100

(1) Audited by Mirawati Sensi Idris, Jakarta – a member of Moore Global Network Limited.
(2) Audited by Moore Stephens LLP Singapore.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

14 Investment in Subsidiaries (cont'd)

Impairment testing

At the reporting date, management performed an impairment assessment of the Company's investment in PT Sumber Graha Sejahtera ("PT SGS"), as the carrying amount of the Company's investment in PT SGS exceeded the net assets of PT SGS as at that date.

The recoverable amount of PT SGS the CGU has been determined based on value in use calculation using cash flow projections from financial budgets approved by management covering a five-year period. The discount rate applied to the cash flow projections, budgeted gross margin, forecasted growth rate and the terminal growth rate used to extrapolate cash flow projections beyond the five-year period are discussed below.

- Revenue growth and margins are projected based on sales contracts secured with customers along with forecasted demand with reference to past revenues earned and adjusted for forward-looking economic conditions.
- Inflation rate of 3% has been used to project overheads and other general expenses.
- Terminal growth rate of Nil has been used for terminal value.
- Discount rate of 14% which represents the current market assessment of the risks specific to PT SGS.

Sensitivity analysis

The impairment test has determined that the estimated recoverable amount of PT SGS exceeded its carrying amount by approximately 31%. The following table shows the percentage by which these two key assumptions would need to change individually for the estimated recoverable amount to be approximately equal to the carrying amount.

	Change required for recoverable amount to equal the carrying amount 2019
Decrease in revenue growth	2%
Increase in discount rate	5%

As at 31 December 2019 and 2018, management concluded that there is no additional allowance for impairment loss in respect of the Company's investment in subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2019

15 Biological Assets

	Group	
	2019	2018
	Rp'million	Rp'million
<u>At fair value</u>		
At 1 January	44,294	51,454
Capitalisation of expenses	1,773	90
Harvest of trees	-	(1,929)
Net gain/(loss) in fair value less estimated cost to sell	6,553	(5,321)
At 31 December	52,620	44,294

The Group's plantations are located in Java and Sulawesi with total planted areas that cover 1,397 hectares (2018: 1,357 hectares). Plantation trees consist of Gmelina Arborea, Paraserianthes Falcataria, Anthocepalus Cadamba and Tectona Grandis with 70% (2018: 72%) aged between 1 – 7 years.

<u>Fair value measurement</u>

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

(i) No new planting or re-planting activities are assumed.
(ii) The economic life of each standing tree is 6 – 10 years (2018: 6 – 10 years);
(iii) Yield is 11 – 332 (2018: 11 – 292) cubic meter per hectare;
(iv) Average inflation rate is 3.5% (2018: 3.6%) per annum;
(v) Discount rate is 11.97% (2018: 12.95%) per annum; and
(vi) Market price is derived from average market price per species.

<u>Financial risk</u>

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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

16 Land Use Rights

	Group	
	2019	2018
	Rp'million	Rp'million
Cost		
At 1 January	105,021	105,044
Additions	1,132	-
Disposals	-	(23)
At 31 December	106,153	105,021
Accumulated amortisation		
At 1 January	50,642	47,167
Amortisation	4,006	3,498
Disposals	-	(23)
At 31 December	54,648	50,642
Net carrying amount		
At 31 December	51,505	54,379
Amount to be amortised:		
- Not later than one year	4,006	3,498
- Later than one year but not later than five years	13,980	13,980
- Later than five years	33,519	36,901

The land use rights (comprising 398 hectares (2018: 398 hectares) of land in Indonesia) are transferable and have a remaining tenure ranging from 8 to 54 years (2018: 9 to 55 years).

As at 31 December 2019, land use rights with the aggregate net carrying amount of Rp40,602 million (2018: Rp43,153 million) have been pledged as collateral for the Group's interest-bearing loans (Note 28).

17 Deferred Tax

Deferred tax at the end of the reporting period relates to the following:

	Group			
	Consolidated Statement of Financial Position		Consolidated Income Statement	
	2019	2018	2019	2018
	Rp'million	Rp'million	Rp'million	Rp'million
Deferred tax assets				
Unutilised tax losses*	2,082	3,191	(1,109)	(38,063)
Difference in post-employment benefits obligation	71,543	54,204	8,465	862
Allowance for incentives	92	92	-	(1,816)
Allowance for impairment loss of financial assets	677	429	248	189
(Reversal of)/Allowance for advances to suppliers	(70)	1,213	(1,283)	307
Difference in depreciation for tax purposes	3,242	2,582	660	2,767
Other items	583	314	269	(156)
	78,149	62,025		
Deferred tax liabilities				
Difference in accounting and tax treatment of leases	(3,161)	(91)	(3,070)	(91)
Deferred tax charged/(credited) to profit or loss (Note 11)			4,180	(36,001)

* The deferred tax assets arose from a subsidiary's unutilised tax losses of approximately Rp8,082 million (2018: Rp12,965 million), which can be carried forward and it is probable to be used to offset against its future taxable income.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

18 Other Non-Current Assets

	Group		Company	
	2019	2018	2019	2018
	Rp'million	Rp'million	Rp'million	Rp'million
Advances for purchase of property, plant and equipment	32,507	39,370	-	-
Estimated claim for tax refund	1,190	4,031	-	-
Guarantee deposits - net	603	797	-	-
Other advances	3,662	1,656	-	-
	37,962	45,854	-	-

19 Inventories

	Group	
	2019	2018
	Rp'million	Rp'million
Consolidated statement of financial position		
At cost		
Raw materials	57,687	95,518
Work in progress	294,115	218,610
Indirect materials and spare parts	130,676	126,976
At lower of cost and net realisable value		
Finished goods	511,982	299,891
	994,460	740,995
Consolidated income statement		
Inventories recognised as an expense in cost of sales	1,518,877	1,691,878
Inventories written-down in other expenses	11	58

As at 31 December 2019, inventories with the aggregate carrying amount of Rp849,234 million (2018: Rp613,699 million) have been pledged as collateral for the Group's interest-bearing loans (Note 28).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

20 Trade and Other Receivables

	Group		Company	
	2019	2018	2019	2018
	Rp'million	Rp'million	Rp'million	Rp'million
Trade receivables, net of allowance				
- Third parties	315,896	268,824	30,363	16,528
Other receivables				
- Third parties	148,371	79,779	9	-
- Subsidiaries	-	-	18,886	5,093
Total trade and other receivables	464,267	348,603	49,258	21,621
Less: Other receivables (see below)	(101,968)	(76,467)	-	-
Add:				
- Guarantee deposits - net (Note 18)	603	797	-	-
- Restricted deposits (Note 23)	6,274	16,138	-	-
- Cash at banks and on hand (Note 24)	13,474	29,806	1,564	2,097
Total financial assets carried at amortised costs	382,650	318,877	50,822	23,718

Trade receivables are non-interest bearing and are generally on 30 to 90 days credit terms.

As at 31 December 2019, the Group's trade receivables with the aggregate carrying amount of Rp188,116 million (2018: Rp142,950 million) have been pledged as collateral for the Group's interest-bearing loans (Note 28).

The Group has purchase arrangements with certain suppliers of logs where the Group will fund the suppliers' machinery and offsetted by future delivery of logs from the suppliers. As at 31 December 2019, these receivables (included in other receivables – third parties) amounted to Rp101,968 million (2018: Rp76,467 million).

Other receivables from subsidiaries are non-trade related, unsecured, non-interest bearing and repayable on demand in cash.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

20 Trade and Other Receivables (cont'd)

At the end of the reporting period, trade and other receivables denominated in foreign currencies are as follows:

	Group		Company	
	2019 Rp'million	2018 Rp'million	2019 Rp'million	2018 Rp'million
United States Dollar	5,328	1,675	-	-
Singapore Dollar	-	-	9,819	636

Expected credit losses

The movements in the allowance for expected credit losses of trade receivables computed based on lifetime ECL during the financial year are as follows:

	Group		Company	
	2019 Rp'million	2018 Rp'million	2019 Rp'million	2018 Rp'million
Movements in allowance account:				
At 1 January	45,579	26,124	1,576	1,488
Allowance for the year	516	19,089	-	-
Written-off	(14,326)	-	-	-
Translation	294	366	(63)	88
At 31 December	32,063	45,579	1,513	1,576

21 Prepaid Operating Expenses

	Group		Company	
	2019 Rp'million	2018 Rp'million	2019 Rp'million	2018 Rp'million
Prepayment for logging permits	19,168	-	-	-
Value-added tax and income taxes	35,426	42,089	126	-
Insurance	15,078	8,119	40	44
Short-term leases	4,339	2,821	-	-
Others	2,035	5,827	365	353
	76,046	58,856	531	397

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

22 Advances to Suppliers

	Group		Company	
	2019	2018	2019	2018
	Rp'million	Rp'million	Rp'million	Rp'million
For the procurement of, net of allowance:				
- Logs	75,653	91,339	1,492	-
- Spare parts	13,537	74,663	-	-
- Veneers	3,407	5,393	-	-
	92,597	171,395	1,492	-

The movements in the allowance for impairment loss of advances to suppliers during the financial year are as follows:

	Group		Company	
	2019	2018	2019	2018
	Rp'million	Rp'million	Rp'million	Rp'million
Movements in allowance account:				
At 1 January	9,792	7,083	-	-
(Reversal of)/Allowance for the year	(2,466)	2,709	-	-
Written-off	(1,061)	-	-	-
At 31 December	6,265	9,792	-	-

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2019

23 Restricted Deposits

Restricted deposits represent escrow accounts opened and maintained with a financial institution and are pledged as collateral for the Group's interest-bearing loans (Note 28).

At the end of the reporting period, restricted deposits denominated in United States dollar amounted to Rp3,768 million (2018: Rp9,637 million).

24 Cash at Banks and On Hand

	Group		Company	
	2019	2018	2019	2018
	Rp'million	Rp'million	Rp'million	Rp'million
Cash at banks	12,835	29,256	1,564	2,097
Cash on hand	639	550	-	-
Cash at banks and on hand	13,474	29,806	1,564	2,097
Interest rate per annum	0.1 - 2.0%	0.1 - 2.0%	0.1%	0.1%

Cash at banks earns interest at floating rates based on daily bank deposit rates.

At the end of the reporting period, cash at banks and on hand denominated in foreign currencies are as follows:

	Group		Company	
	2019	2018	2019	2018
	Rp'million	Rp'million	Rp'million	Rp'million
United States Dollar	2,762	15,146	-	-
Singapore Dollar	1,158	1,624	406	1,115
Euro	57	-	-	-

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2019

25 Trade and Other Payables

	Group		Company	
	2019	2018	2019	2018
	Rp'million	Rp'million	Rp'million	Rp'million
Trade payables				
- Third parties	455,232	347,350	18	-
- Related parties	1,225	1,664	-	-
- Subsidiaries	-	-	33,503	18,929
Other payables				
- Third parties	54,736	14,102	1,928	-
- Subsidiary	-	-	1,250	-
Total trade and other payables	511,193	363,116	36,699	18,929
Add:				
- Other liabilities[1] (Note 26)	154,311	90,314	269,229	282,005
- Loans and borrowings (Note 28)	1,299,972	1,176,496	-	-
Total financial liabilities carried at amortised cost	1,965,476	1,629,926	305,928	300,934

[1] Excludes post-employment benefits and value-added tax

Trade payables – third parties are non-interest bearing. Trade payables are normally settled on 60-days credit terms.

Trade payables – related parties and subsidiaries are unsecured, non-interest bearing and repayable on demand in cash.

Other payables – subsidiary is non-trade related, unsecured, non-interest bearing and repayable on demand in cash.

At the end of the reporting period, trade and other payables denominated in foreign currencies are as follows:

	Group		Company	
	2019	2018	2019	2018
	Rp'million	Rp'million	Rp'million	Rp'million
United States Dollar	47,230	13,141	-	-
Singapore Dollar	1,571	6	1,489	-

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

26 Other Liabilities

	Group		Company	
	2019	2018	2019	2018
	Rp'million	Rp'million	Rp'million	Rp'million
Current				
Accrual for operating expenses	41,820	66,515	2,244	3,492
Post-employment benefits (Note 29)	24,594	345	-	-
Accrued interest expense	4,342	4,017	-	-
Value-added tax	2,144	2,021	177	127
Others	66	108	-	21
	72,966	73,006	2,421	3,640
Non-Current				
Amount due to a subsidiary	-	-	266,985	278,492
Loan from a third party	98,083	-	-	-
Loan from a customer	10,000	-	-	-
Customer's deposits (Note 7)	-	19,674	-	-
	108,083	19,674	266,985	278,492

Amount due to a subsidiary is non-trade related, unsecured, non-interest bearing and not expected to be repaid within the next twelve months.

Loan from a third party is unsecured, interest-free in the first year and bear interest at a rate of 15% per annum in the second year. The loan amount is to be repaid in full in two years from 15 April 2019.

Loan from a customer is non-trade related, unsecured, bear interest at a rate of 7% per annum for the first three months and interest-free thereafter. The loan amount has no fixed terms of repayment. At the current reporting date, the loan is not expected to be repaid within the next twelve months.

27 Advances from Customers

	Group		Company	
	2019	2018	2019	2018
	Rp'million	Rp'million	Rp'million	Rp'million
Local	4,736	6,104	-	-
Export	3,399	1,632	1,327	-
	8,135	7,736	1,327	-

Advances from customers (contract liabilities) represent advances received from customers for sales of the Group's/Company's products.

27 Advances from Customers (cont'd)

Significant changes in the contract liabilities during the financial year are disclosed as follows:

	Group		Company	
	2019	2018	2019	2018
	Rp'million	Rp'million	Rp'million	Rp'million
Advances from customers recognised as revenue	7,736	86,050	-	-
Advance payments received for goods not yet transferred	(8,135)	(7,736)	(1,327)	-

28 Loans and Borrowings

	Group	
	2019	2018
	Rp'million	Rp'million
Current		
Interest-bearing loans[1]	1,144,276	1,002,627
Obligation under finance leases	-	27,454
Lease liabilities (Note 32)	57,309	-
	1,201,585	1,030,081
Non-Current		
Interest-bearing loans	28,495	100,019
Obligation under finance leases	-	46,396
Lease liabilities (Note 32)	69,892	-
	98,387	146,415
Total loans and borrowings	1,299,972	1,176,496

(1) Included in the interest-bearing loans is an amount of Rp42,120 million (2018: Rp26,186 million) of borrowings from a related party.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

28 Loans and Borrowings (cont'd)

	Group	
	2019	2018
	Rp'million	Rp'million
(i) Interest-bearing Loans		
(a) Total facilities up to US$59,395,000 (approximately: Rp825,650 million) (2018: US$59,395,000 (approximately: Rp860,009 million)) and Rp568,850 million (2018: Rp568,850 million) comprising term loans, demand loans, preshipment financing and bill purchase, trade purchase financing, bank guarantee and foreign exchange line. Term loans is payable on monthly installments. Term loans facilities consist of US$24,395,000 (2018: US$24,395,000) and Rp209,300 million (2018: Rp209,300 million) has interest at 1 month LIBOR plus 4.25% (2018: LIBOR plus 4.25% - 4.75%), and lender prime lending rate plus 0.5% (2018: lender prime lending rate plus 0.5% - 1%) per annum, respectively. Working capital facilities including bank guarantee and foreign exchange line of US$35,000,000 (2018: US$35,000,000) and Rp359,550 million (2018: Rp359,550 million) has interest at COF plus 3% and 1 month LIBOR plus 3.5% (2018: COF plus 3% - 3.5% and 1 month LIBOR plus 3.5% - 4.25%) and lender prime lending rate plus 0.5% (2018: prime lending rate plus 0.5% - 1%) per annum, respectively. The loan includes financial covenants which require a group of subsidiaries to maintain EBITDA to debt service ratio not less than 1.25 times, adjusted leverage ratio not more than 2.5 times, consolidated debt to EBITDA not more than 3 times, loan to value ratio not more than 75%, and adjusted current ratio not less than 1 time.	803,716	736,312
(b) US$20,000,000 multi-currency specific advance facility and payable within 1 - 3 months. Interest rate per annum to be agreed at each withdrawal of advance.	278,020	289,620

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

28 Loans and Borrowings (cont'd)

	Group 2019 Rp'million	Group 2018 Rp'million
(i) Interest-bearing Loans (cont'd)		
(c) Total facilities up to Rp58,000 million for post import financing non letter of credit or trade purchase financing. The loans are repayable within 120 days withdrawal and bear interest at lender prime lending rate plus 0.5% per annum (2018: lender prime rate plus 0.5%). The loans include financial covenants which require the borrower to maintain EBITDA to debt service ratio not less than 1.25 times and debt to equity ratio not more than 2.5 times.	48,915	33,028
(d) Rp17,500 million working capital facility repayable at 100 and 120 days from the date of withdrawal and bore interest at 10% per annum. The loan has been fully repaid on 20 March 2019.	-	17,500
(e) Rp60,000 million revolving overdraft facility and is payable 12 months from the date of withdrawal and bear interest at 13.5% per annum.	42,120	26,186
Total interest-bearing loans	1,172,771	1,102,646
Effective interest rates per annum	5.17% - 13.5%	4.8% - 13.5%
Repayable:		
- Within one year	1,144,276	1,002,627
- Between two and five years	28,495	100,019
	1,172,771	1,102,646

The interest-bearing loans are secured over the Group's buildings and improvements, machinery and heavy equipment, land use rights, inventories, trade receivables, and certain bank balances (restricted deposits) hold by certain subsidiaries. Further, all other assets of these subsidiaries are on negative pledge to the relevant financial institutions and some restrictions on dividend payment are imposed on them.

During the current financial year, a subsidiary of the Group has not met certain financial covenant ratios requirement as set out in the loan agreement with a financial institution, and the financial institution has granted the subsidiary a waiver up to 31 December 2019 of having to comply with such covenant ratios and continued to support the subsidiary as there is no loan repayment default and the breach is technical in nature. At the reporting date, the interest-bearing loan amount outstanding under the foregoing loan agreement was Rp803,716 million (2018: Rp736,312 million), classified under current liabilities. Subsequent to the financial year end, the financial institution granted the subsidiary a further waiver up to 31 December 2020.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2019

28 Loans and Borrowings (cont'd)

(ii) Obligation under Finance Leases

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

The future minimum lease payments under the finance leases were as follows:

	2018 Minimum lease payments Rp'million	2018 Present value of payments Rp'million
Group		
Within one year	34,198	27,454
Between two and five years	50,772	46,396
Total minimum lease payments	84,970	73,850
Less: Finance interest	(11,120)	
Present value of minimum lease payments	73,850	

As at 31 December 2018, the net carrying amount of assets under finance leases amounted to Rp8,459 million.

(iii) Reconciliation of Liabilities Arising from Financing Activities

A reconciliation of liabilities arising from financing activities is as follows:

	Beginning balance Rp'million	Adoption of SFRS(I) 16 Rp'million	Adjusted beginning balance Rp'million	Cash flows: Proceeds Rp'million	Cash flows: Repayments Rp'million	Non-cash changes: Foreign exchange movement Rp'million	Non-cash changes: Non-cash items* Rp'million	Ending balance Rp'million
Group								
2019								
Loan from a third party (Note 26)	-	-	-	98,083	-	-	-	98,083
Loan from a customer (Note 26)	-	-	-	10,000	-	-	-	10,000
Interest-bearing loans	1,076,460	-	1,076,460	4,255,078	(4,168,532)	(40,021)	7,666	1,130,651
Bank overdraft	26,186	-	26,186	413,433	(397,499)	-	-	42,120
Lease liabilities	73,850	3,365	77,215	-	(45,486)	(943)	96,415	127,201
Loans and borrowings	1,176,496	3,365	1,179,861	4,668,511	(4,611,517)	(40,964)	104,081	1,299,972

28 Loans and Borrowings (cont'd)

(iii) Reconciliation of liabilities arising from financing activities (cont'd)

A reconciliation of liabilities arising from financing activities is as follows: (cont'd)

		Cash flows		Non-cash changes		
	Beginning balance	Proceeds	Repayments	Foreign exchange movement	Non-cash items*	Ending balance
	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million
Group						
2018						
Interest-bearing loans	814,620	2,960,508	(2,723,839)	16,666	8,505	1,076,460
Bank overdraft	-	389,206	(363,020)	-	-	26,186
Obligations under finance leases	157	-	(11,107)	-	84,800	73,850
Loans and borrowings	814,777	3,349,714	(3,097,966)	16,666	93,305	1,176,496

* Mainly relates to amortisation interests and additions of finance leases.

29 Post-Employment Benefits

The amount included in the consolidated statement of financial position arising from the Group's obligation in respect of its defined benefit pension plan is as follows:

	Group	
	2019	2018
	Rp'million	Rp'million
Post-employment benefits liabilities:		
- Current portion (Note 26)	24,594	345
- Non-Current portion	261,683	218,500
	286,277	218,845

The Group calculates and records post-employment benefits for its qualified employees based on Indonesia Labour Law No. 13/2003 dated March 2003. As at 31 December 2019, the number of employees entitled to the post-employment benefits was 7,897 (2018: 7,601).

The Group also has a defined contribution pension plan that covers certain permanent employees. This defined contribution pension plan is managed and administered by Dana Pensiun Manulife Indonesia which was established by the Group to manage the assets, generate investment income and pay the post-employment benefits to the employees.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

29 Post-Employment Benefits (cont'd)

The following tables summarise the components of provision for post-employment benefits included in the consolidated statement of financial position and consolidated income statement:

	Group	
	2019	2018
	Rp'million	Rp'million
Post-employment benefits liabilities		
At 1 January	218,845	268,848
Expense during the year (see below)	50,603	50,180
Actual payments during the year:		
- Dana Pensiun Manulife Indonesia	(14,000)	(40,000)
- Employees	(4,640)	(6,767)
Actuarial loss/(gain) during the year (see below)	35,469	(53,416)
At 31 December	286,277	218,845
Post-employment benefits expense		
Current service costs	30,694	31,727
Interest costs	19,064	18,453
Net curtailment effect or termination	(152)	-
Present value of additional employment	997	-
	50,603	50,180

The following table summarises the remeasurements, comprising of actuarial gains and losses, recognised in other comprehensive income:

	Group	
	2019	2018
	Rp'million	Rp'million
Actuarial (loss)/gain during the year before tax	(35,469)	53,416
Tax charge	8,874	(13,282)
Actuarial (loss)/gain during the year after tax	(26,595)	40,134

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2019

29 Post-Employment Benefits (cont'd)

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

	Group	
	2019	2018
	Rp'million	Rp'million
Discount rate per annum	7.80% - 8.45%	8.20% - 9.50%
Mortality table*	TMI III – 2011	TMI III – 2011
Rate of increase in compensation per annum	8%	10%
Retirement age	55 years old	55 years old

* TMI III – 2011 refers to the Table of Mortality in Indonesia.

The sensitivity analysis below has been determined based on reasonably possible changes of the below key assumption on the post-employment benefits at the end of the reporting period, assuming if all other assumptions are held constant.

	Present value of obligations		Current service costs	
	2019	2018	2019	2018
	Rp'million	Rp'million	Rp'million	Rp'million
As reported using discount rate of 7.80% - 8.45% (2018: 8.20% - 9.50%) per annum	300,277	258,845	50,603	50,179
Increase by 100 basis points	292,647	232,369	31,390	31,725
Decrease by 100 basis points	360,555	290,051	31,390	31,725

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

30 Share Capital

	Group and Company			
	2019		2018	
	Number of ordinary shares	Rp'million	Number of ordinary shares	Rp'million
Issued and fully paid:				
At 1 January	2,377,150,505	2,502,305	2,374,050,505	2,501,056
Issuance of shares under Samko Performance Share Plan (Note 31a(d))	-	-	3,100,000	1,249
Capital reduction to reduce share capital	-	(1,964,702)	-	-
At 31 December	2,377,150,505	537,603	2,377,150,505	2,502,305

Capital reduction to reduce share capital

As approved by the Company's shareholders in the Extraordinary General Meeting on 21 October 2019, the Company has written-off all the accumulated losses up to 31 December 2018 by reducing the share capital of the Company. The capital reduction represents merely a change in the composition of equity and does not entail any reduction or distribution of cash or other assets of the Company.

31a Other Reserves

(a) Restructuring Reserve

Restructuring reserve represents 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.

(b) Premium paid on Acquisition of Non-Controlling Interest

Premium paid on acquisition of non-controlling interest represents the difference between the consideration paid and the nominal value of shares and reserves acquired.

(c) Foreign Currency Translation Reserve

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.

Movements in the foreign currency translation reserve during the financial year are disclosed in the Group's consolidated statement of changes in equity.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

31a Other Reserves (cont'd)

(d) Performance Share Plan ("PSP") Reserve

Performance share plan reserve represents the equity-settled share awards granted to employees under the Samko Performance Share Plan (the "Samko PSP"). The reserve is made up of the cumulative value of services received from employees recorded over the vesting period commencing from the grant date of equity-settled share awards, and is reduced by the expiry or release of the share awards.

On 29 August 2018, the Company had granted 21,653,058 of share awards ("2018 Awards") under the Samko PSP to Riko Setyabudhy Handoko, Executive Director and Chief Executive Officer of the Company (the "CEO") for his performance from 2016 to 2018, subject to certain vesting periods as disclosed below.

	Number of share awards
2018 Awards	
- Vest on 29 August 2018	3,100,000
- Vest on 27 June 2020	7,685,778
- Vest on 27 June 2021	10,867,280
	21,653,058

On 13 September 2019, the Company granted an additional 12,467,532 of share awards ("2019 Awards") under the Samko PSP to the CEO for his performance in 2019, subject to the vesting period as disclosed below.

	Number of share awards
2019 Awards	
- Vest on 27 June 2022	12,467,532

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

31a Other Reserves (cont'd)

(d) Performance Share Plan ("PSP") Reserve (cont'd)

Share awards granted and released during the financial year, and share awards outstanding as at the end of the financial year, are as follows:

	At the beginning of the year	Share awards granted	Share awards released	At the end of the year
2019				
2019 Awards	-	12,467,532	-	12,467,532
2018 Awards	18,553,058	-	-	18,553,058
2018				
2018 Awards	-	21,653,058	(3,100,000)	18,553,058

During the current financial year, no share awards were released and 31,020,590 of share awards are outstanding at the end of the reporting period. During the previous financial year, 3,100,000 of share awards were released and 18,553,058 of share awards are outstanding at the end of the reporting period.

Movements in the performance share plan reserve during the financial year are disclosed in the Group's consolidated statement of changes in equity.

Fair value measurement

The fair value of the PSP granted was estimated by management using the last traded price as at the date of grant less the present value of expected dividend during the vesting period as a valuation basis.

The relevant inputs to the fair value model and the fair value of the share awards determined as at the date of grant are shown below.

	2019 Award	2018 Award
Dividend yield (%)	Nil	Nil
Expected volatility (%)	Nil	Nil
Last traded share price (S$ cents)	0.020 (Rp209)	0.038 (Rp405)

31b Non-Controlling interests

Movements in the non-controlling interests during the financial year are disclosed in the Group's consolidated statement of changes in equity.

Disclosures on the interest that non-controlling interests have in the Group's activities and cash flows have not been included in these financial statements as the non-controlling interests were considered not material.

32 Lease Liabilities

The Group as lessee

(a) Nature of the Group's Leasing Activities

The Group has entered into leases of building in respect of its office. The Group also leases machinery and heavy equipment and vehicles for its manufacturing division. These leases do not have extension options. The Group is prohibited from selling, pledging or sub-leasing the underlying leased assets, and is required to maintain the assets in good condition.

(b) Carrying Amount of Right-Of-Use Assets

	Group 2019 Rp'million
Building	2,590
Machinery and heavy equipment	71,642
Vehicles	655
	74,887

(c) Additions during the Year

	Group 2019 Rp'million
Machinery and heavy equipment	66,550

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

32 Lease Liabilities (cont'd)

(d) Amounts Recognised in Profit or Loss

	Group 2019 Rp'million
Depreciation charge for the year:	
- Building	597
- Machinery and heavy equipment	2,476
- Vehicles	237
	3,310
Interest on lease liabilities (Note 8)	2,189
Expense relating to short-term leases (Note 10)	9,133

(e) Total Cash Outflow

The Group has total cash outflow for payment of lease liabilities of Rp45,486 million and payment of short-term leases expense of Rp9,133 million during the current financial year.

33 Commitments

Operating lease commitments – as lessee

The Group has various operating lease agreements for the rental of offices. Office leases have an average life of 1 to 3 years and do not 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 2018 amounted to Rp5,696 million.

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

	Group 2018 Rp'million
Not later than one year	6,258
Later than one year but not later than five years	759
	7,017

As disclosed in Note 2(a), the Group has adopted SFRS(I) 16 on 1 January 2019. These operating leases have been recognised as lease liabilities on the consolidated statement of financial position as at 1 January 2019, except for short-term leases of 12 months or less.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

34 Related Party Disclosures

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 financial year at terms agreed between the parties:

	Group	
	2019 Rp'million	2018 Rp'million
<u>Related party transactions</u>		
Office rental paid/payable to PT Sampoerna Land	5,806	4,947
Interest expenses paid/payable to PT Bank Sahabat Sampoerna	5,427	4,012
Freight charges paid/payable to PT Pelayaran Nelly Dwi Putri Tbk	-	722
Cooperation for cultivation of trees with PT Wahana Sekar Agro	-	90

PT Sampoerna Land, PT Bank Sahabat Sampoerna and PT Wahana Sekar Agro are controlled by the Sampoerna family, which are related to a substantial shareholder of the Company.

Certain Sunarko family members, which are related to a substantial shareholder of the Company, are substantial shareholders of PT Pelayaran Nelly Dwi Putri Tbk (a listed company in Indonesia).

	Group	
	2019 Rp'million	2018 Rp'million
<u>Compensation to directors and key management personnel</u>		
Directors fees	2,223	2,502
Short-term employee benefits	38,239	35,423
Equity-settled performance share plan	4,248	2,327
Defined contribution plan benefits	170	160
	44,880	40,412
Comprise amount paid/payable to:		
- Directors of the Company	19,080	17,347
- Other key management personnel	25,800	23,065
	44,880	40,412

<u>Financial guarantees</u>

At the reporting date, the Company has granted financial guarantees to financial institutions for the Group's interest-bearing loans disclosed in Note 28 totalling Rp1,130,651 million (2018: Rp1,058,960 million).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

35 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 years, 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/Company's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

There have been no changes to the Group's/Company's exposure to these financial risks, or the manner in which it manages and measures the risks.

(a) Interest Rate Risk

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

The Group's/Company'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 the reporting period, if the borrowing interest rates had been 100 basis points lower/higher with all other variables, including tax held constant, the Group's profit after tax in 2019 would have been Rp9,763 million (2018: Rp3,929 million) higher/lower.

The Company's exposure to interest rate risk is considered not material.

35 Financial Risk Management Objectives and Policies (cont'd)

(b) Foreign Currency Risk

The Group has transactional currency exposures arising from sales that are denominated in a currency other than the respective functional currencies of the Group entities, primarily United States Dollar (US$). The Group holds cash at banks and on hand denominated in foreign currencies for working capital purposes (Note 24). The Group's trade receivable and trade payable balances at the reporting date have similar exposure. The foreign currency in which these transactions are denominated is mainly in US$.

Currently, there is no policy to reduce currency exposure through forward currency contracts, derivatives transactions or other arrangements. However, the Group relies on its operational cash flow to hedge against the foreign currency exposure. The Group is also exposed to currency translation risk arising from its net investments in foreign operations in countries such as Indonesia and Singapore. The Group does not hedge this currency exposure.

Sensitivity analysis for foreign currency risk

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

	Group	
	2019 Rp'million	2018 Rp'million
Strengthened 5%	29,844	17,820
Weakened 5%	(29,844)	(17,820)

The Company's exposure to foreign currency risk is considered not material.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

35 Financial Risk Management Objectives and Policies (cont'd)

(c) Credit Risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's/Company's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including investment securities, cash and short-term deposits and derivatives, if any), the Group/Company minimise credit risk by dealing exclusively with high credit rating counterparties.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. For transactions that do not occur in the country of the relevant operating unit, the Group does not offer credit terms without the approval of the Head of Credit Control.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period.

The Group has determined the default event on a financial asset to be when the counterparty fails to make contractual payments when they fall due which are derived based on the Group's historical information which suggest that 90 days past due is used as a basis of recognition of expected.

A significant increase in credit risk is presumed if a debtor is more than 30 days past due in making contractual payment.

The Group determined that its financial assets are credit-impaired when:

- There is significant difficulty of the counterparty;
- A breach of contract, such as a default or past due event; or
- It is becoming probable that the counterparty will enter bankruptcy or other financial reorganisation

The Group categorises a loan or receivable for potential write-off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. Where loans and receivables have been written off, the Group continues to engage enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

35 Financial Risk Management Objectives and Policies (cont'd)

(c) Credit Risk (cont'd)

The Group's internal credit risk grading system are as follows:

Internal rating grades		Definition	Basis of recognition of expected credit loss
i.	Performing	The counterparty has a low risk of default and does not have any past-due amounts	12-month ECL
ii.	Under-performing	There has been a significant increase in credit risk since initial recognition (repayments are more than 30 days past due)	Lifetime ECL (not credit impaired)
iii.	Non-performing	There is evidence indicating that the asset is credit impaired (repayments are more than 90 days past due)	Lifetime ECL (credit impaired)
iv.	Write-off	There is evidence indicating that there is no reasonable expectation of recovery as the debtor is in severe financial difficulty	Write-off

Trade receivables

The Group provides for lifetime expected credit losses for all trade receivables using a provision matrix. The provision rates are determined based on the Group's historical observed default rates analysed in accordance to days past due by grouping of customers based on geographical region. The loss allowance is determined as follows, the expected credit losses below also incorporate forward looking information such as forecast of economic conditions where the gross domestic product will deteriorate over the next year, leading to an increased number of defaults.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

35 Financial Risk Management Objectives and Policies (cont'd)

(c) Credit Risk (cont'd)

Trade receivables (cont'd)

Summarised below is the information about the credit risk exposure on the Group's trade receivables using provision matrix, grouped by geographical region.

	Current	Past due >30 days	Past due > 60 days	Past due > 90 days	Total
			Rp'million		
Group					
2019					
Indonesia					
Expected credit loss rate	*	*	*	*	
Gross carrying amount	132,730	23,646	12,372	42,387	211,135
Less: Loss allowance	-	-	-	21,197(1)	21,197
Other geographical areas					
Expected credit loss rate	*	*	*	*	
Gross carrying amount	92,087	16,365	7,262	17,131	132,845
Less: Loss allowance	-	-	-	6,887(2)	6,887
2018					
Indonesia					
Expected credit loss rate	*	*	*	*	
Gross carrying amount	128,260	8,767	2,664	31,296	170,987
Less: Loss allowance	433	243	542	24,837(1)	26,055
Other geographical areas					
Expected credit loss rate	*	*	*	*	
Gross carrying amount	116,321	1,053	1,658	20,852	139,884
Less: Loss allowance	-	-	-	15,992(2)	15,992

* Insignificant ECL rate

(1) Included in > 90 days were amounts due more than 365 days of which full loss allowances have been recognised totalling Rp21,197 million (2018: Rp24,837 million).

(2) Included in > 90 days were amounts due more than 365 days of which full loss allowances have been recognised totalling Rp6,887 million (2018: Rp15,992 million).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

35 Financial Risk Management Objectives and Policies (cont'd)

(c) Credit Risk (cont'd)

Trade receivables (cont'd)

	Current	Past due >30 days	Past due > 60 days	Past due > 90 days	Total
			Rp'million		
Company					
2019					
Other geographical areas					
Expected credit loss rate	*	*	*	*	
Gross carrying amount	-	20,772	5,869	4,200	30,841
Less: Loss allowance	-	-	-	478[(1)]	478
2018					
Other geographical areas					
Expected credit loss rate	*	*	*	*	
Gross carrying amount	-	16,123	296	607	17,026
Less: Loss allowance	-	-	-	478[(1)]	498

* Insignificant ECL rate

[(1)] Included in > 90 days were amounts due more than 365 days of which full loss allowances have been recognised totalling Rp478 million (2018: Rp498 million).

Information regarding movements in the loss allowance for trade receivables are disclosed in Note 20.

Other receivables

For the purpose of impairment assessment, other receivables (including guarantee deposits and restricted deposits) are considered to have low credit risk as they are not due for payment at the end of the reporting period and there has been no significant increase in the risk of default on the receivables since initial recognition. Accordingly, for the purpose of impairment assessment for these receivables, the loss allowance is measured at an amount equal to 12-month ECL.

In determining the ECL, management has taken into account the historical default experience and the financial position of the counterparties, adjusted for factors that are specific to the debtors and general economic conditions of the industry in which the debtors operate, in estimating the probability of default of each of these financial assets occurring within their respective loss assessment time horizon, as well as the loss upon default in each case.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period in measuring the loss allowance using 12-month ECL and the Group/Company has determined the ECL is insignificant.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

35 Financial Risk Management Objectives and Policies (cont'd)

(c) Credit Risk (cont'd)

Cash at banks

Cash at banks are held with banks and financial institutions that have high external credit ratings. Impairment on cash at banks has been measured on the 12-month ECL and reflects the short maturities of the exposures. The Group/Company considers that its cash at banks have a low credit risk based on the external credit ratings of the counterparties and the Group/Company has determined the ECL is insignificant.

Significant concentrations of credit risk

Concentrations of credit risk exist when changes in economic, industry or geographic factors similarly affect the Group of counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure. At the end of the reporting period, the Group has no significant concentration of credit risk, except for trade receivables as disclosed in Note 20. The Group believes the trade receivables balance is of low credit risk.

(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/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.

At the end of the reporting period, approximately 93% (2018: 87%) of the Group's loans and borrowings (Note 28) will be due 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.

At the reporting date, the Group has at its disposal unused banking facilities amounting to Rp617,749 million (2018: Rp751,333 million).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

35 Financial Risk Management Objectives and Policies (cont'd)

(d) Liquidity Risk (cont'd)

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

	Carrying amount Rp'million	Within one year Rp'million	Within two years and five years Rp'million	Contractual cash flow Rp'million
Group				
2019				
Trade and other payables	511,193	511,193	-	511,193
Other liabilities[(1)]	154,311	46,228	122,795	169,023
Interest-bearing loans	1,172,771	1,177,079	29,545	1,206,624
Lease liabilities	127,201	65,398	71,938	137,336
Total undiscounted financial liabilities	1,965,476	1,799,898	224,278	2,024,176
2018				
Trade and other payables	363,116	363,116	-	363,116
Other liabilities[(1)]	90,314	90,314	-	90,314
Interest-bearing loans	1,102,646	1,036,837	106,961	1,143,798
Obligations under finance leases	73,850	34,198	50,772	84,970
Total undiscounted financial liabilities	1,629,926	1,524,465	157,733	1,682,198
Company				
2019				
Trade and other payables	36,699	36,699	-	36,699
Financial guarantee contracts	-	1,130,651	-	1,130,651
Other liabilities[(1)]	269,229	2,244	266,985	269,229
Total undiscounted financial liabilities	305,928	1,169,594	266,985	1,436,579
2018				
Trade and other payables	18,929	18,929	-	18,929
Financial guarantee contracts	-	1,058,960	-	1,058,960
Other liabilities[(1)]	282,005	3,513	278,492	282,005
Total undiscounted financial liabilities	300,934	1,081,402	278,492	1,359,894

[(1)] Excludes value-added tax and post-employment benefit liabilities.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

35 Financial Risk Management Objectives and Policies (cont'd)

(d) Liquidity Risk (cont'd)

Financial guarantees (Note 34)

The amount included for financial guarantee contracts is the maximum amount the Company could be forced to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparties to the guarantees. Based on management's expectation at the reporting date, the Company consider that it is unlikely that such an amount will be payable under the arrangement.

The contractual maturity is based on the earliest date on which the Company may be required to pay.

36 Fair Value of Assets and Liabilities

(a) Fair Value Hierarchy

The Group categorises fair value measurement using a fair value hierarchy that is dependent on the valuation inputs used as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date,
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 – Unobservable inputs for the asset or liability.

Fair value measurements that use inputs of different hierarchy levels are categorised in its entirety is the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

36 Fair Value of Assets and Liabilities (cont'd)

(b) Assets and Liabilities Measured at Fair Value

The following table shows an analysis of each class of assets and liabilities measured at fair value at the end of the reporting period:

	Quoted prices in active markets for identical instruments Rp'million (Level 1)	Significant other observable inputs Rp'million (Level 2)	Significant unobservable inputs Rp'million (Level 3)	Total Rp'million
Group				
2019				
Non-financial assets				
Biological assets	-	-	52,620	52,620
2018				
Non-financial assets				
Biological assets	-	-	44,294	44,294

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

36 Fair Value of Assets and Liabilities (cont'd)

(b) Assets and Liabilities Measured at Fair Value (cont'd)

The following table shows the information about fair value measurements using significant unobservable inputs (Level 3):

Biological assets – Standing Timber

Type	Key Unobservable Inputs	Inter-relationship between Key Unobservable Inputs and Fair Value Measurement
Standing timber older than 7 years (the age at which it becomes marketable)	2019 Estimated harvesting costs (Rp104,130 to Rp425,910, weighted average of Rp355,510) 2018 Estimated harvesting costs (Rp220,587 to Rp490,976, weighted average of Rp370,169)	The estimated fair value increases the lower are the estimated harvest transportation costs.
Younger standing timber	2019 • Estimated future timber market price per m^3 with average price ranging from Rp657,986 to Rp1,395,988, weighted average of Rp1,065,600 • Adjusted Yield per hectare (8 m^3 to 128 m^3, weighted average of 86 m^3) • Discount rate at 11.97% 2018 • Estimated future timber market price per m^3 with average price ranging from Rp661,761 to Rp1,606,819, weighted average of Rp1,138,734 • Adjusted Yield per hectare (8 m^3 to 112 m^3, weighted average of 79 m^3) • Discount rate at 12.95%	The estimated fair value increases, the higher is the estimated timber price and the yield per hectare and the lower is the discount rate.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

36. Fair Value of Assets and Liabilities (cont'd)

(b) Assets and liabilities Measured at Fair Value (cont'd)

Biological assets – Standing Timber (cont'd)

For biological assets, a significant increase/(decrease) in the discount rate would result in a significantly lower/(higher) fair value measurement. The table below shows the impact on the Level 3 fair value measurement of biological assets that are sensitive to changes in unobservable inputs that reflect reasonably possible alternative assumptions. The positive and negative effects are approximately the same.

	2019		2018	
		Effect of reasonably possible alternative assumption		Effect of reasonably possible alternative assumption
	Carrying amount	Profit or loss	Carrying amount	Profit or loss
	Rp'million	Rp'million	Rp'million	Rp'million
Recurring fair value measurements				
Increase by 1%	51,848	(772)	43,432	(862)
Decrease by 1%	53,414	794	45,185	891

In order to determine the effect of the above reasonably possible alternative assumptions, the Group adjusted the key unobservable input, used in the fair value measurement, by adjusting the discount rate by increasing and decreasing the assumption by 1%.

The movement in biological assets and valuation policies and procedures are disclosed in Note 15.

There were no transfers between level 1, 2 and 3 during the financial years ended 31 December 2019 and 2018.

(c) Assets and Liabilities Whose Carrying Amount Approximates Fair Value

Management has determined that the carrying amounts of cash at banks and on hand, other financial assets and financial liabilities carried at amortised costs and loans and borrowings based on their notional amounts as disclosed in the respective notes, reasonably approximate their fair values because they are mostly short term in nature or that they are floating rate instruments that are re-priced to market interest rates on or near the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

37 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 financial years ended 31 December 2019 and 2018.

The capital for the Group is tabulated below.

	Group	
	2019 Rp'million	2018 Rp'million
Loans and borrowings	1,299,972	1,176,496
Equity attributable to the owners of the Company	197,321	202,418
Total equity and loans and borrowings	1,497,293	1,378,914

38 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:

- 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.

- ST division – refers to the operations of Samko Timber Limited and 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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

38 Segment Information (cont'd)

	SGS division		ST division		Adjustments and eliminations			Per consolidated financial statements	
	2019 Rp'million	2018 Rp'million	2019 Rp'million	2018 Rp'million	2019 Rp'million	2018 Rp'million	Note	2019 Rp'million	2018 Rp'million
Revenue:									
External customers	1,979,132	1,974,399	1,976,363	2,379,360	-	-		3,955,495	4,353,759
Inter-segment	1,894,944	2,287,074	-	-	(1,894,944)	(2,287,074)	A	-	-
Total revenue	3,874,076	4,261,473	1,976,363	2,379,360	(1,894,944)	(2,287,074)		3,955,495	4,353,759
Results:									
Capital expenditure on property, plant and equipment	199,294	102,064	660	590	-	-		199,954	102,654
Capital expenditure on right-of-use assets	66,550	-	-	-	-	-		66,550	-
Capital expenditure on land use rights	1,132	-	-	-	-	-		1,132	-
Finance income	265	444	14	12	-	-		279	456
Finance expenses	(81,422)	(70,487)	(24,135)	(21,901)	-	-		(105,557)	(92,388)
Depreciation of property, plant and equipment	(103,856)	(97,340)	(581)	(609)	-	-		(104,437)	(97,949)
Depreciation of right-of-use assets	(2,713)	-	(597)	-	-	-		(3,310)	-
Amortisation of land use rights	(4,006)	(3,498)	-	-	-	-		(4,006)	(3,498)
Post-employment benefits expense	(48,955)	(48,775)	(1,648)	(1,405)	-	-		(50,603)	(50,180)
Gain/(Loss) on change in fair value of biological assets	6,553	(5,321)	-	-	-	-		6,553	(5,321)
Workers separation expenses	(8,120)	(7,047)	(106)	(113)	-	-		(8,226)	(7,160)
Reversal of /(Allowance for) advances to suppliers	2,466	(2,709)	-	-	-	-		2,466	(2,709)
Allowance for impairment losses for financial assets, net	-	(1,887)	(516)	(17,202)	-	-		(516)	(19,089)

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

38 **Segment Information** (cont'd)

	SGS division		ST division		Adjustments and eliminations			Per consolidated financial statements	
	2019	2018	2019	2018	2019	2018	Note	2019	2018
	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million		Rp'million	Rp'million
Bad debts written off - trade	-	(2,400)	-	(568)	-	-		-	(2,968)
Net gain on disposal of property, plant and equipment	1,077	420	-	-	-	-		1,077	420
Gain on disposal of assets held for sale	-	30,014	-	-	-	-		-	30,014
Tax expense	(12,927)	(43,192)	375	(4,303)	-	-		(12,552)	(47,495)
Segment profit/(loss) after tax	8,522	62,163	(2,780)	1,921	-	-		5,742	64,084
Assets:									
Deferred tax assets	73,847	60,468	4,302	1,557	-	-		78,149	62,025
Segment assets	2,426,379	2,090,032	771,113	957,778	(723,301)	(968,596)	B	2,474,191	2,079,214
Liabilities:									
Loans and borrowings	970,241	853,790	329,731	322,706	-	-		1,299,972	1,176,496
Income tax payable	3,338	14,074	3,482	421	-	-		6,820	14,495
Deferred tax liabilities	3,161	91	-	-	-	-		3,161	91
Segment liabilities	1,998,354	1,644,295	318,334	514,926	(44,854)	(286,107)	B	2,271,834	1,873,114

Note

A. Inter-segment revenues are eliminated upon consolidation.

B. These represents inter-segment amounts eliminated upon consolidation.

38 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:

	Group			
	Revenue		Non-current assets	
	2019	2018	2019	2018
	Rp'million	Rp'million	Rp'million	Rp'million
Indonesia	2,161,290	2,210,341	708,290	609,418
North Asia	938,833	1,102,908	-	-
Malaysia	383,910	327,464	22	69
Singapore	215,471	186,259	2,650	28
United States of America	152,362	393,223	-	-
Europe	31,812	58,041	-	-
South East Asia	25,350	17,733	-	-
Middle East	24,624	20,042	-	-
Australia	17,610	24,635	-	-
Others	4,233	13,113	-	-
	3,955,495	4,353,759	710,962	609,515

Non-current assets information presented above consist of property, plant and equipment, biological assets, land use rights and right-of-use assets as presented on the consolidated statement of financial position.

39 Events Occurring After the Reporting Period

PT Sumber Graha Sejahtera ("PT SGS"), a wholly owned subsidiary of the Company, has on 16 September 2019 entered into a share subscription agreement (the "Subscription Agreement") with PT Barito Wanabinar Indonesia ("PT BWI") as the original shareholder of PT Sumber Graha Maluku ("PT SGM"), and PT SGM (the "Proposed Transaction").

Pursuant to the Subscription Agreement, PT SGS has nominated PT Sempurna Graha Abadi ("PT SGA"), a subsidiary of PT SGS, to subscribe for 400,834 series A shares (the "Subscription Shares") in the capital of PT SGM (the "Subscription"), representing fifty-one per cent (51%) of the total issued and paid-up share capital of PT SGM. PT SGM will be acquiring (as part of an internal restructuring exercise by PT BWI) certain assets which includes, inter alia, industrial forest plantations, plywood factories, forestry concession rights, and industrial business licences to engage in primary timber forest product activities such as timber sawing and production of plywood product, prior to the completion of the Subscription by PT SGA.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2019

39 Events Occurring After the Reporting Period (cont'd)

The Proposed Transaction has been completed on 12 March 2020. Following the completion, PT SGM will become a 51% owned subsidiary of PT SGA, and accordingly, a subsidiary of the Group.

At the date of these financial statements, management has preliminary viewed the forgoing transaction as an acquisition of assets and the assessment on the consequent financial impact is still in progress.

40 Comparative Figures

The Group has reclassified certain comparative cash flows in the consolidated statement of cash flows for the previous financial year ended 31 December 2018 as follows:

	Previously reported	Adjustments	Restated
	Rp'million	Rp'million	Rp'million
Consolidated statement of cash flows			
Net cash flows (used in) operating activities	(147,720)	(37,555)	(185,275)
Net cash flows (used in)/generated from investing activities	(30,752)	37,555	6,803
Net cash flows generated from financing activities	147,490	26,186	173,676
Net decrease in cash and cash equivalents	(30,982)	26,186	(4,796)
Cash and cash equivalents at 31 December 2018	3,620	26,186	29,806

The above adjustments mainly arose from reclassification of certain cash flows so as to better present the nature of the underlying cash flows during the said reporting period from the various foregoing activities and to conform with the current financial year's presentation.

41 Authorisation of Financial Statements for Issue

The financial statements for the financial year ended 31 December 2019 were authorised for issue in accordance with a resolution of the Board of Directors of the Company on 9 April 2020.

STATISTICS OF SHAREHOLDINGS

As at 9 April 2020

SHAREHOLDERS' INFORMATION

Class of equity securities	:	Ordinary Shares
Voting rights	:	One vote per share
Issued and fully paid-up share capital	:	S$399,319,570,205
Number of issued shares (excluding treasury shares and subsidiary holdings	:	2,377,150,505
Number of treasury shares	:	Nil
Number of subsidiary holdings held	:	Nil
Percentage of treasury shares against the total number of issued shares excluding treasury shares and subsidiary holdings	:	0%

DISTRIBUTION OF SHAREHOLDINGS

Size of Shareholding			Number of Shareholders	%	Number of Shares	%
1	-	99	15	1.63	337	0.00
100	-	1,000	34	3.70	20,716	0.00
1,001	-	10,000	273	29.67	1,520,500	0.06
10,001	-	1,000,000	554	60.22	60,419,438	2.54
1,000,001		and above	44	4.78	2,315,189,514	97.40
			920	100.00	2,377,150,505	100.00

SUBSTANTIAL SHAREHOLDERS

(As recorded in the Register of Substantial Shareholders)

	Direct Interest	%	Deemed Interest	%
Sampoerna Forestry Limited	1,520,673,015	63.97	-	-
First Fortuna Holdings Pte Ltd	150,597,000	6.34	-	-
Koh Tji Kiong @ Amir Sunarko [(1)]	128,953,331	5.42	33,846,346	1.42
Cindy Sunarko or Koh Tji Beng @ Ambran Sunarko	148,473,230	6.25	-	-
Aris Sunarko @ Ko Tji Kim [(2)]	34,698,231	1.46	190,100,346	8.00

Notes:

(1) Mr Koh Tji Kiong @ Amir Sunarko is deemed interested in the 33,846,346 shares held by Hasan Holdings Pte Ltd, by virtue of Section 7 of the Companies Act, Cap. 50.

(2) Mr Aris Sunarko @ Ko Tji Kim is deemed interested by virtue of Section 7 of the Companies Act, Cap. 50, 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.

STATISTICS OF SHAREHOLDINGS

As at 9 April 2020

TWENTY LARGEST SHAREHOLDERS

No.	Name of Shareholders	Number of Shares	%
1.	RAFFLES NOMINEES (PTE.) LIMITED	1,664,838,377	70.04
2.	UOB KAY HIAN PRIVATE LIMITED	192,048,386	8.08
3.	CINDY SUNARKO OR KOH TJI BENG @AMBRAN SUNARKO	148,473,230	6.25
4.	TEMASEK LIFE SCIENCES VENTURES PRIVATE LIMITED	45,774,207	1.93
5.	CITIBANK NOMINEES SINGAPORE PTE LTD	33,877,086	1.43
6.	HASAN HOLDINGS PTE LTD	28,485,846	1.20
7.	PANG YOKE MIN	26,678,800	1.12
8.	NATALIA TANWIR TAN	18,238,000	0.77
9.	ARIS SUNARKO @ KO TJI KIM	17,225,000	0.72
10.	HORNG JIIN SHUH @ HUNG CHING HSU	16,694,000	0.70
11.	DBS NOMINEES (PRIVATE) LIMITED	15,332,391	0.64
12.	KOH BOON HONG	12,804,000	0.54
13.	HSBC (SINGAPORE) NOMINEES PTE LTD	11,480,000	0.48
14.	OCBC SECURITIES PRIVATE LIMITED	11,395,400	0.48
15.	FIRST FORTUNA HOLDINGS PTE LTD	10,597,000	0.45
16.	PATRICIA ALTHEA LEONG PECK HAN	7,200,000	0.30
17.	NOAH SHIPPING PTE LTD	5,657,000	0.24
18.	SEE KIM HUA @TAN KIM HUA	4,400,000	0.19
19.	KHOO MENG KOON EDWIN	3,800,000	0.16
20.	PHILLIP SECURITIES PTE LTD	3,360,783	0.14
	TOTAL	**2,278,359,506**	**95.86**

PERCENTAGE OF SHAREHOLDING IN PUBLIC'S HANDS

Approximately 13.88% 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 Singapore Exchange Securities Trading Limited.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive:
Riko Setyabudhy Handoko
(Chief Executive Officer)

Non-Executive:
Eka Dharmajanto Kasih
(Non-Independent Non-Executive Chairman)

Michael Joseph Sampoerna
(Non-Independent Director)

Ng Cher Yan
(Lead Independent Director)

Sim Idrus Munandar
(Independent Director)

Wee Ewe Lay Laurence John
(Independent Director)

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

BOARD RISK COMMITTEE

Sim Idrus Munandar *(Chairman)*
Eka Dharmajanto Kasih
Riko Setyabudhy Handoko
Ng Cher Yan
Wee Ewe Lay Laurence John

SECRETARY

Kiar Lee Noi

REGISTERED OFFICE

7500A Beach Road
#08-305/307 The Plaza
Singapore 199591
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Fax: 6298 2187

SHARE REGISTRAR/SHARE TRANSFER AGENT

Boardroom Corporate & Advisory Services Pte. Ltd.
50 Raffles Place
#32-01 Singapore Land Tower
Singapore 048623
Tel: 6536 5355
Fax: 6536 1360

AUDITORS

Moore Stephens LLP
10 Anson Road #29-15
International Plaza
Singapore 079903

AUDIT PARTNER-IN-CHARGE

Ng Chiou Gee Willy
(Appointed on 21 October 2019)

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