

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

PROPOSED ACQUISITION OF THE ASSETS OF PT NELLY JAYA PRATAMA BY PT PANCA USAHA PALOPO PLYWOOD

PROPOSED ENTRY INTO VARIOUS CHARTER AND FREIGHT SERVICES AGREEMENTS BY SUBSIDIARIES OF THE COMPANY

1. INTRODUCTION

1.1 Agreements with Interested Persons

The Board of Directors of the Company is pleased to announce that it has on 17 June 2010 entered into the following agreements:

- (a) a conditional sale and purchase agreement whereby one of our Company's subsidiaries, PT Panca Usaha Palopo Plywood ("**PUPP**") will acquire from PT Nelly Jaya Pratama ("**NJP**") machinery and equipment at Barowa Sub District, Bua District, Palopo, South Sulawesi and Toraja Patengkih Sub District, Mengkedeh District, South Sulawesi;
- (b) a conditional sale and purchase agreement whereby PUPP will acquire from NJP the land and buildings at Barowa Sub District, Bua District, Palopo, South Sulawesi;
- (c) a conditional sale and purchase agreement whereby PUPP will acquire from NJP the buildings at Toraja Patengkih Sub District, Mengkedeh District, South Sulawesi (together with machinery and equipment referred to in (a) above and the land and buildings referred to in (b) above, the "**Assets**") (together with the conditional sale and purchase agreements in (a) and (b) above, the "**Conditional Sale and Purchase Agreements**" and the acquisition of the Assets, the "**Acquisition**");
- (d) a conditional charter and freight services agreement whereby PT Pelayaran Nelly Dwi Putri ("**PNDP**") will provide PUPP with charter and freight services (the "**PNDP-PUPP Charter and Freight Services**"); and
- (e) a conditional charter and freight services agreement whereby PNDP will provide one of our Company's subsidiaries, PT Putra Sumber Utama Timber ("**PSUT**") and its subsidiaries with charter and freight services (the "**PNDP-PSUT Charter and Freight Services**").

1.2 Information on Interested Persons

NJP is a company engaged in the production of veneers and plywood. The shareholders of NJP are Nava Incorporated Pte Ltd and Mr Ambran Sunarko. Mr Ambran Sunarko is the brother of Mr Aris Sunarko @ Ko Tji Kim, the Chief Executive Officer of the Company, Mr Koh Tji Kiong @ Amir Sunarko, the Executive Director of the Company and the son of Mr Koh Boon Hong, the Chairman of the Company. Nava Incorporated Pte Ltd is an investment company wholly-owned by Mr Lee Ee Sin, an employee of Hasan Holdings Pte Ltd and Nava International Inc. Mr Lee Ee Sin holds the shares of Nava Incorporated Pte Ltd on trust for Mr Koh Boon Hong, Mr Aris Sunarko @ Ko Tji

Kim and Mr Koh Tji Kiong @ Amir Sunarko. Nava International Inc is an investment company wholly-owned by Mr Aris Sunarko @ Ko Tji Kim and Mr Ambran Sunarko.

PNDP is a shipping company wholly-owned by PT Hasko Jaya Abadi and Noah Shipping Pte Ltd. PT Hasko Jaya Abadi is a company wholly-owned by Mr Aris Sunarko @ Ko Tji Kim and Mr Koh Tji Kiong @ Amir Sunarko, and their respective associates, Mr Ambran Sunarko and Ms Piniaty Liawanto who is the sister-in-law of Mr Aris Sunarko @ Ko Tji Kim and Mr Koh Tji Kiong @ Amir Sunarko and the daughter-in-law of Mr Koh Boon Hong. Noah Shipping Pte Ltd is a company wholly-owned by Mr Koh Boon Hong, Mr Aris Sunarko @ Ko Tji Kim and Hasan Holdings Pte Ltd, which is wholly-owned by Mr Koh Boon Hong, Mr Aris Sunarko @ Ko Tji Kim, Mr Koh Tji Kiong @ Amir Sunarko, Ms Cynthia Sunarko, Ms See Kim Hua and Ms Koh Bee Leng. Ms Cynthia Sunarko is the niece of Mr Aris Sunarko @ Ko Tji Kim and Mr Koh Tji Kiong @ Amir Sunarko and the granddaughter of Mr Koh Boon Hong. Ms See Kim Hua is the wife of Mr Koh Boon Hong and the mother of Mr Aris Sunarko @ Ko Tji Kim and Mr Koh Tji Kiong @ Amir Sunarko. Ms Koh Bee Leng is the daughter of Mr Koh Boon Hong and the sister of Mr Aris Sunarko @ Ko Tji Kim and Mr Koh Tji Kiong @ Amir Sunarko.

As Mr Koh Boon Hong, Mr Aris Sunarko @ Ko Tji Kim and Mr Koh Tji Kiong @ Amir Sunarko are Directors of the Company and Nava Incorporated Pte Ltd, Nava International Inc, Mr Ambran Sunarko, PT Hasko Jaya Abadi, Noah Shipping Pte Ltd, Mr Lee Ee Sin, Ms Piniaty Liawanto, Hasan Holdings Pte Ltd, Ms Cynthia Sunarko, Ms See Kim Hua and Ms Koh Bee Leng are their associates as defined under the Listing Manual of the Singapore Exchange Securities Trading Limited (the "**Listing Manual**"), (a) the Acquisition; (b) the PNDP-PUPP Charter and Freight Services; and (c) the PNDP-PSUT Charter and Freight Services will all be regarded as interested person transactions from the Company's perspective under Chapter 9 of the Listing Manual ("**Interested Person Transactions**").

1.3 Shareholder's Approval

The Interested Person Transactions are subject to the approval of the shareholders of the Company ("**Shareholders**") under Chapter 9 of the Listing Manual as the aggregate value of the Interested Person Transactions exceeds 5 per cent. of the latest audited net tangible assets ("**NTA**") of the Company and its subsidiaries (the "**Group**").

2. DETAILS OF THE INTERESTED PERSON TRANSACTIONS

2.1 The Conditional Sale and Purchase Agreements

As disclosed in the prospectus of the Company dated 18 February 2008 (the "**Prospectus**"), the Group has, from time to time, in the ordinary course of business, transacted with NJP. The Group has had business relationship with NJP since late 1999. NJP had ceased all of its trading activities with the Group by end 2008 and has allowed PUPP to use the Assets at its facilities at Palopo on a temporary basis for its production purposes since the beginning of January 2009.

Under the Conditional Sale and Purchase Agreements entered into between PUPP and NJP, the aggregate consideration for the Acquisition (the "**Consideration**") is Rp 25,000 million, payable in instalments and in accordance with the terms set out in the respective Conditional Sale and Purchase Agreements. The Consideration was arrived at taking into account the nature, condition and location of the Assets.

The Acquisition will be funded by internal resources.

Under the Conditional Sale and Purchase Agreements, NJP had made certain representations and warranties to PUPP in relation to the Assets. The conditional sale and purchase agreement for the

machinery and equipment is conditional upon, inter alia, the completion of the acquisition of the land and buildings under the conditional sale and purchase agreements for the land and buildings. The Conditional Sale and Purchase Agreements are also conditional upon, inter alia, the receipt of the approval of the Shareholders.

PUPP has appointed KJPP Hendra Gunawan dan Rekan, a professional firm to conduct a valuation on the Assets. The summary valuation report dated 22 April 2010 (the “**Summary Valuation Report**”) estimated the market values for the Assets as follows:-

- (a) the estimated market value of the land, buildings and machinery and equipment at Palopo, South Sulawesi is Rp 32,859,000,000; and
- (b) the estimated market value of the buildings and machinery and equipment at Toraja, South Sulawesi is Rp 1,481,000,000.

2.2 PNDP-PUPP Charter and Freight Services

PNDP has provided freight services to the Group for the transportation of the logs, veneers and processed timber products for more than five years.

PUPP entered into a charter and freight services agreement with PNDP on 17 June 2010 for the provision of charter and freight services, namely (i) time charter services, (ii) spot charter services, and (iii) floating jetty services by PNDP to PUPP (“**PNDP-PUPP Charter and Freight Services Agreement**”). Under the PNDP-PUPP Charter and Freight Services Agreement, PNDP will provide PUPP time charter services, spot charter services and floating jetty services for a period of three years in accordance with the terms of the PNDP-PUPP Charter and Freight Services Agreement. The provision of time charter services under the PNDP-PUPP Charter and Freight Services Agreement will commence upon expiry of the existing time charter agreement between PNDP and PUPP as disclosed in the Prospectus while the provision of spot charter services and floating jetty services under the PNDP-PUPP Charter and Freight Services Agreement will commence after the approval of the Shareholders at an extraordinary general meeting of the Company (the “**EGM**”) for the PNDP-PUPP Charter and Freight Services has been obtained.

As set out in the PNDP-PUPP Charter and Freight Services Agreement, the charter fees payable for the time charter services are (i) Rp 300,000,000 per set of tug boat, barge and crane per month for the first year of the PNDP-PUPP Charter and Freight Services Agreement (ii) Rp 325,000,000 per set of tug boat, barge and crane per month for the second year of the PNDP-PUPP Charter and Freight Services Agreement and (iii) Rp 350,000,000 per set of tug boat, barge and crane per month for the third year of the PNDP-PUPP Charter and Freight Services Agreement.

The charter fees payable for the spot charter services will vary according to distance and complexity of the transport route as indicated in the chart attached to the PNDP-PUPP Charter and Freight Services Agreement.

For the floating jetty services, PUPP will be charged Rp 15,000 per m³ of finished goods transported using the barge, as compared to Rp 14,000 per m³ of finished goods under its existing arrangement with PNDP.

The PNDP-PUPP Charter and Freight Services Agreement is conditional upon, inter alia, the receipt of the approval of the Shareholders for the PNDP-PUPP Charter and Freight Services.

2.3 PNDP-PSUT Charter and Freight Services

PSUT entered into a charter and freight services agreement with PNDP on 17 June 2010 for the provision of charter and freight services namely, (i) time charter services, (ii) spot charter services of barges and tug boat to transport logs and methanol on an ad hoc basis, (iii) over ship charter of finished goods and (iv) freight services to transport finished goods, by PNDP for PSUT and its subsidiaries, PT Putra Sumber Kreasitama (“**PSKT**”) and PT Putra Sumber Kimindo (“**PSKM**”) (“**PNDP-PSUT Charter and Freight Services Agreement**”). Under the PNDP-PSUT Charter and Freight Services Agreement, PNDP will provide PSUT and its subsidiaries, PSKT and PSKM charter and freight services for a period of three years in accordance with the terms of the PNDP-PSUT Charter and Freight Services Agreement. The PNDP-PSUT Charter and Freight Services Agreement will commence after the approval of the Shareholders at the EGM for the PNDP-PSUT Charter and Freight Services has been obtained.

For the time charter services, the charter fees payable are S\$15,000 per month. These rates are similar to the rates charged by PNDP under its existing arrangements with PSKM.

For the spot charter services, the charter fees payable vary according to distance and complexity of the transport route as indicated in the chart attached to the PNDP-PSUT Charter and Freight Services Agreement.

For spot charter of a tug boat for the purposes of tugging the specially designed barge transporting methanol, the charter fees payable are US\$7,000 per trip.

For the over ship charter, the charter fees are US\$9.6 per m³ for charter from PSUT’s jetty to Ambang Luar and US\$7.2 per m³ for charter from PSUT’s jetty to Kemingking area with the minimum shipment volume of 1,000 m³. If shipment is below 1,000 m³ it will be accounted as 1,000m³ and any additional cargo vessel load will be charged at US\$125 per cargo vessel.

The freight charges payable is US\$500 per container for a 40 foot container shipment and US\$400 per container for 20 foot container shipment. These rates are similar to the rates charged by PNDP under its existing arrangements with PSUT and PSKT.

The PNDP-PSUT Charter and Freight Services Agreement is conditional upon, inter alia, the receipt of the approval of the Shareholders for the PNDP-PSUT Charter and Freight Services.

3. RATIONAL FOR THE INTERESTED PERSON TRANSACTIONS

The rationale for and benefits to the Company of the Interested Person Transactions are as follows:

3.1 The proposed acquisition of the Assets from NJP

NJP’s production facilities are located in Palopo, Southern Sulawesi and Toraja, Southern Sulawesi. NJP’s production facilities are generally capable of processing logs of smaller diameter and producing veneers and plywood of different sizes as compared to the current facilities of PUPP.

NJP’s plant in Toraja is a satellite plant located near to a pine tree plantation log site and generally capable of producing core veneers, which is one of the key ingredients used in the production of plywood. The core veneers produced by NJP’s Toraja facilities are mainly supplied to NJP’s Palopo facilities for the production of plywood. The production facilities of NJP in Palopo mainly produced face and back veneers (another raw material for plywood) and plywood. The two facilities of NJP are complementary to the production of plywood.

As described in the Prospectus, PUPP had entered into the call option agreement with NJP, Nava Incorporated Pte Ltd and Mr Ambran Sunarko, to mitigate the risks of potential competition to the Group's business. NJP's production facilities in Palopo are located adjacent to existing production facilities owned by PUPP and its production facilities are the only other plywood production facilities located in Palopo other than PUPP's current facilities. Considering the improved business sentiments and internal financial resources, the Directors believe that it is timely to acquire the Assets so as to mitigate the risks of potential competition to the Group's business. The Directors have also taken into account the fact that the purchase price of the Assets may increase as the economic sentiment improves. The Acquisition will also result in the rental savings that NJP would have otherwise charged PUPP for the use of the Assets over its useful life.

Although PUPP currently uses NJP's facilities as described above, there is no assurance that NJP will continue to allow PUPP to use its facilities at Palopo or guarantee the supply of face and back veneers to the Group as and when required. Therefore, the acquisition of the Assets in Palopo from NJP will add certainty and stability to the supply of face and back veneers for the Group's production of plywood in the long term. As NJP's facilities in Toraja are complementary to the production of plywood, the acquisition of these facilities will also guarantee the supply of core veneers to the Group's enlarged facilities in Palopo and elsewhere.

3.2 The proposed freight services by and charter of tugs and barges from PNDP

As disclosed in the Prospectus, the Group has, from time to time, in the ordinary course of business, chartered tugs and barges from PNDP for the transportation of logs, veneers and finished timber products.

PNDP has been the Group's main transport service provider for more than five years. Prior to the proposed charter and freight contracts with PNDP, save for the time charter agreement between PNDP and PUPP, the other existing contracts were entered into on a short-term basis (six months to one year). The rationale for entering into the PNDP-PUPP Charter and Freight Services Agreement and the PNDP-PSUT Charter and Freight Services Agreement is to provide the Group assurance that the tugs and barges will be available for their use as and when required. Generally, the demands for such services are time sensitive and affected by the demand of the Group's products. The arrangement will allow the Group to have better control over its shipping schedule and to align its shipping schedule with its production and sale schedule.

The rationale of having longer term proposed contracts (three years) with PNDP is to provide certainty to the Group's transport requirements as the Group currently relies on the transportation services provided by PNDP for the transportation of its logs and veneers and processed timber products within Indonesia and between Indonesia and Singapore respectively and there is a shortage of barges of the requisite size and shipping services providers who are flexible and dedicated and who can meet the Group's shipping logistics requirements. In addition, the charter and freight services agreements are expected to reduce the uncertainty of charter rates and freight rates.

4. AGGREGATE VALUE OF THE INTERESTED PERSON TRANSACTIONS

Based on the latest audited consolidated accounts of the Group, the consolidated NTA of the Group was Rp 332,742 million as at 31 December 2009.

The aggregate value of the Interested Person Transactions which can be estimated is approximately Rp 98,737 million, which represents approximately 29.67 per cent. of the latest consolidated audited NTA of the Group. This amount includes the value of the proposed Acquisition, the time charter portion of the PNDP-PUPP Charter and Freight Services and the time charter portion of the PNDP-PSUT Charter and Freight Services. The value of the Interested Person Transactions conducted on a

demand basis (for example, charter and freight services such as the spot charter services and freight services) cannot be estimated accurately due to the fluctuation in demand for those services.

5. INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS

Rule 919 of the Listing Manual prohibits interested persons and their associates (as defined in the Listing Manual) from voting on a resolution in relation to a matter in respect of which such persons are interested in at the EGM. Mr Koh Boon Hong, Mr Aris Sunarko @ Ko Tji Kim and Mr Koh Tji Kiong @ Amir Sunarko have abstained from voting on board resolutions relating to the Interested Person Transactions. Mr Koh Boon Hong, Mr Aris Sunarko @ Ko Tji Kim and Mr Koh Tji Kiong @ Amir Sunarko and their associates (as defined under the Listing Manual) will abstain from voting on the ordinary resolutions in relation to the Interested Person Transactions to be proposed at the EGM. Mr Koh Boon Hong, Mr Aris Sunarko @ Ko Tji Kim and Mr Koh Tji Kiong @ Amir Sunarko will also abstain from making any recommendation to the Shareholders on the Interested Person Transactions.

6. EXISTING INTERESTED PERSON TRANSACTIONS

Save for the Interested Person Transactions and the purchase of trees from PT Bioforest Indonesia as described in the Prospectus and the short term charters and freight services provided by PNDP from time to time, the Group has not entered into any transactions with Mr Koh Boon Hong, Mr Aris Sunarko @ Ko Tji Kim, and Mr Koh Tji Kiong @ Amir Sunarko, and their respective associates since the beginning of the current financial year.

7. TOTAL VALUE OF EXISTING INTERESTED PERSON TRANSACTIONS

As at the Latest Practicable Date, the total value of all interested person transactions (excluding the value of the Interested Person Transactions) since the beginning of the current financial year is Rp 9,400 million.

8. INDEPENDENT FINANCIAL ADVISER

AmFrasers Securities Pte. Ltd., a member of AmInvestment Bank Group, (the "IFA") has been appointed as the independent financial adviser in accordance with Chapter 9 of the Listing Manual to the Independent Directors of the Company to advise as to whether the Interested Person Transactions are carried out on normal commercial terms and whether they are prejudicial to the interests of the Company and its minority Shareholders.

9. AUDIT COMMITTEE'S STATEMENT

The Company's Audit Committee members, being, Mr Ng Cher Yan, Mr Sim Idrus Munandar and Mr Wee Ewe Lay Laurence John will consider the opinion of the IFA before forming its view as to whether the Interested Person Transactions are carried out on normal commercial terms and are not prejudicial to the interests of the Company and its minority Shareholders. Such a view will be made known in the circular to Shareholders to be despatched to them in due course.

10. CIRCULAR TO SHAREHOLDERS

A circular containing inter alia, details of the Interested Person Transactions, the IFA's opinion, the Summary Valuation Report and a notice convening the EGM will be despatched to the Shareholders in due course.

By Order of the Board

Aris Sunarko@ Ko Tji Kim
Chief Executive Officer
18 June 2010