SAMPOERNA KAYOE

UNLIMIT POSSIBILITIES

annual report 2018

SAMKO TIMBER LIMITED

Samko Timber has always been committed to sustainability and fully supports the adoption of the new SGX sustainability reporting guidelines. Samko Timber would be issuing its second Sustainability Report in 2019. The company has identified the material Environmental, Social and Governance (ESG) factors. We believes the Sustainability Report will be a reasonable and clear presentation of the company's environmental, social and economic performance.

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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, TEN SATELLITE VENEER PLANTS AND A CHEMICAL GLUE FACILITY SPREAD ACROSS JAVA, SUMATRA AND SULAWESI WITH AN ANNUAL PRODUCTION CAPACITY OF > 850,000M^3; EXPORT TO 37 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 more than 37 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,

2018 was a year marked by political tension in a number of parts of the world. The United States is more divided than it has been for decades in the second year of the Trump Administration. In the United Kingdom, Brexit continued to move forward, but not without confusion and political infighting. The United States and China started a trade war, and closer to home, there was a power shift in Malaysia which ended the 61 years rule by the same party. On the economic front, most countries other than the United States started to experience slowdowns due to interest rate hikes, ongoing trade wars, and China's slowdown.

Indonesia's economy expanded 5.17% in 2018 mainly driven by domestic spending, the highest annual expansion since 2013[1]. For the past twelve months, Indonesia has faced numerous challenges including several major natural disasters and a plunging currency. At one point, the rupiah fell to its lowest level against the dollar since the Asian financial crisis in 1998. From Rp13,548, the Rupiah depreciated slightly against the US Dollar to close at Rp14,481 as at 31 December 2018. The central bank of Indonesia raised interest rates by a combined 175 basis point throughout the year, contributing to a difficult growth environment. While both presidential candidates have pledged to rejuvenate Southeast Asia's largest economy via creation and boosting purchasing power, the Group will keep a watchful eye on the presidential election and will try its best to mitigate any short-term volatility.

The Group's sales increased 26% year-on-year ("**yoy**") to Rp4,354 billion mainly due to the increase in export sales volume and average selling prices. Gross profit rose 39% yoy to Rp773 billion while gross profit margin increased from 16% to 18% yoy due to higher margin from export sales. Despite higher operation expenses and finance costs due to business expansion, the Group's net attributable profit more than doubled to Rp65 billion.

Stronger team and financial position

The Group has completed the internal restructuring which involves the merger of the Group's subsidiaries in Indonesia into one entity, PT Sumber Graha Sejahtera ("**PT SGS**"). The Group's operations were reviewed and consolidated and manpower was reduced, which led to significant cost reductions and a more streamlined operational team. We now have a competent, strong and dedicated operational management team and new measures taken by the team have yielded positive results.

The Group continued to divest its investment in non-core assets to strengthen the Group's financial position and to streamline its operations. In April 2018, the Group has completed the sales of its factory and land located in Balaraja, Tangerang, West Java, in April 2018. In addition, PT SGS managed to secure additional facilities from OCBC Bank for working capital requirements as well as the procurement of raw materials.

1 Indonesia economy posts 5.17% growth in 2018, https://www.channelnewsasia.com/news/business/indonesia-economy-posts-5-17--growth-in-2018-11206588

CHAIRMAN STATEMENT

Looking Ahead

Overall, Indonesia's economy is predicted to grow modestly by 5.3% in 2019 as stated in the 2019 State Budget[2]. The Indonesian government will continue to rely on domestic investment and household spending as well as spending on infrastructure projects to drive the country's economy. Consequently, domestic sales volume is expected to grow due to our increased penetration to capture a bigger market share underpinned by Indonesian economic growth.

We expect export sales to continue to be strong with North Asia, the USA and Malaysia as the top three export markets for the Group. We continue to see healthy demand from North Asia, such as China and Japan. In 2018, Indonesia has overtaken Malaysia in selling more plywood to Japan, the key export market for both countries[3].

As the Group steps up production volume to meet increasing demand, we may face the risk of higher log prices. During the year, the Group has taken steps to lower production costs by increasing the productivity and efficiency of our plywood manufacturing process. These ongoing exercises will help sustain the profitability of our business in the long run.

The adoption of the Global Reporting Initiative framework last year has reinforced sustainability perspectives in our management systems and business strategies. We see the value of reporting on our current sustainability initiatives and performance to our stakeholders and the Board now considers sustainability issues as part of the Group's strategy formulation.

Appreciation

First, I would like to thank our customers for their unwavering supports in our products for the past one year.

Next, I would like thank Ms Ronawati Wongso, who has stepped down as Chief Financial Officer and Head of Finance and Accounting Division in January 2018. We wish her success in her future endeavours. At the same time, we would like to welcome Mr Johanes Ibrahim Tjendana to join us as Chief Financial Officer and Head of Finance and Accounting Division.

On behalf of the Board, I would like to thank our shareholders, staff, business partners and customers for their dedication and support. Now that we are out of the woods, it is time fire up the engine of growth.

Eka Dharmajanto Kasih
Non-Executive Chairman

2 Indonesia's 2019 Economic Outlook: Challenging Times amid Political Turbulence, http://www.gbgindonesia.com/en/-main/why_indonesia/2018/indonesia_s_2019_economic_outlook_challenging_times_amid_political_turbulence_11877.php

3 Indonesia overtakes Malaysia as key exporter of plywood to Japan, https://www.thestar.com.my/business/business-news/2018/09/17/plywood-exports-to-japan-drop-sharply


SAMPOERNA KAYOE
1978
SAMPOERNA KAYOE
PALEM
PALEM PLYWOOD

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 2018 ("**FY2018**"). It is my honour to address all of you again in my third year as the Chief Executive Officer and I am glad to declare that 2018 was a year to celebrate as the Group achieved record sales and profit. I am extremely fortunate to have a strong Board and a dedicated team of co-workers firmly behind myself and the Group.

Financial Review

For FY2018, the Group's sales increased by 26% year-on-year ("**yoy**") to Rp4,354 billion, amid the increase in sales volume for both domestic and export markets by 5% and 34% respectively, while the total average selling prices ("**ASP**") were up by 9%. The composition of the Group's export sales to overall sales rose from 41% to 49% in FY2018.

Our export sales continued to perform well as a result of strong demand from the global market as we successfully established our presence overseas with higher quality products and derived more than 60% revenue growth from the US, Europe and North Asia. In addition, the Group took proactive steps to move away from the Middle East to more profitable markets. The weaker Indonesia Rupiah also made our exports more competitive compared to regional players.

On the domestic front, the Group completed the rebranding of its products under the "Sampoerna Kayoe" brand, derived from our dedication to unlimit possibilities for the perfect wood solutions that reflects our origin. Sampoerna is a household name in Indonesia and the association with a company with an excellent pedigree of over a century has helped the Group boost sales in existing markets as well as penetrate new geographical markets in Indonesia. The Group's domestic margins also improved due to better pricing and product mix.

In tandem with the increase in sales, the Group's gross profit increased by 39% to Rp773 billion. This was mainly due to a shift in product mix with higher sales contribution from the export business as export sales generally has a higher margin. As a result, the Group's profitability improved as gross profit margin increased 2% from 16% for FY2017 to 18% for FY2018.

The Group's other income increased significantly from Rp4 billion in FY2017 to Rp30 billion in FY2018 mainly due to the gain on sale of land and building.

The Group's selling expenses for FY2018 increased by 18% to Rp128 billion mainly due to higher freight costs which were in line with the increase in the export sales activities and higher spending on marketing activities to stimulate the market demand.

General and administrative expenses increased 14% yoy to Rp401 billion due mainly to increase in staff incentive and pension costs, professional fees, travelling expenses, and grant of equity-settled share options to employees.

Finance expenses, which relate mainly to interest expense, increased slightly as compared to 2017 notwithstanding significantly higher borrowings. This has been achieved with lower interest rate loans.

In 2018, other expenses were derived mainly from net foreign exchange losses, allowance for doubtful receivables and advance to suppliers, loss from change in fair value of biological assets, and workers separation expense. The net foreign exchange losses were mainly due to unrealised foreign exchange loss from translation of our US Dollar denominated loans.

As a result of the above, the Group was able to turn its loss before tax of Rp29 billion in FY2017 into profit before tax of Rp112 billion in FY2018. The Group's net attributable profit for FY2018 more than doubled from Rp30 billion in FY2017 to Rp65 billion.

CEO STATEMENT

Operational Review

In April 2018, the Group's subsidiary, PT Sumber Graha Sejahtera ("**PT SGS**"), has completed the sales of its factory and land located in Balaraja, Tangerang, West Java for Rp64 billion. The net proceeds from the disposal will be used for capital expenditure requirements for expansion and development of other businesses of the Group as well as general working capital.

PT SGS entered into an amendment and restatement deed dated 4 July 2018 with PT OCBC NISP Tbk ("**OCBC NISP**") to amend certain terms of the facilities agreement dated 5 June 2014. With this, PT SGS secured additional facilities which include a USD25 million revolving loan facility and an IDR140 billion revolving loan facility. The US Dollar revolving loan facility will be used as working capital while the Rupiah revolving loan facility will be used for the procurement of non-material and/or indirect raw materials.

The Group continued to streamline and rationalise the Group's structure in 2018. Following the merger of 14 subsidiary companies in Indonesia into PT SGS in November 2017, the Group has undertaken an internal restructuring to merge two more subsidiaries into PT SGS in December 2018. This would improve efficiency of the Group's operational costs and cash flow, and enhance and improve the Group's business performance.

Outlook & Future Strategies

Following a year of economic volatility over the course of 2018, Indonesia's economy is predicted to be moderate in 2019. This is in line with the rising political tensions ahead of the presidential elections, the ongoing trade war between the country's two biggest trading partners, China and the US, and the prolonged depreciation of the Rupiah. While domestic sales will continue to be stable underpinned by government spending on infrastructure projects and domestic consumption, the Group will continue to grow its export sales in key markets such as Japan, the US and Malaysia.

Interestingly, the Group's export business will stand to benefit as the trade war between the US and China are boosting activity as well as foreign direct investment in Southeast Asia.

Samko Timber currently owns 18 production facilities that operate as wood processing facilities, chemical glue producer and veneer satellite factories. Our facilities have the combined production capacity of 850,000 m^3 per annum. During the year, the total production output increased from 730,000 m^3 to 850,000 m^3 annually. This translated into a utilisation rate of more than 94%. In anticipation of increasing demand from the export business, the Group intends to expand its annual production capacity from the current 850,000 m^3 to 1,000,000 m^3. Simultaneously, we are increasing the efficiency of the existing production facilities via automation. The Group's long-term plan is to fully automate the facilities and currently we are experimenting with a few pilot projects to automate part of our processes.

Supplies and prices of raw materials remain as the key challenges of our business. While business is brisk and we have the resources to expand production capacity, ultimately the healthy demand must be supported by a sustainable log supply. Having set high standards for ourselves, the Group is committed to observe and support the implementation of international standard of forest management. Currently, approximately 90% of the Group's supply comes from community forests and plantations forest. In view of the increasing demand, the Group will continue to create new commercial growing areas and seek out new sources of plantation wood in the field. In line with our commitment to safeguard the environment, we will continue to source our materials, especially our logs, from legal sources and sustainable suppliers. We aim to obtain Forest Stewardship Council ("**FSC**") certified logs for our raw materials, i.e. rubber in Jambi and Sengon (falcataria) in Java.

CEO STATEMENT

We aim to continue being one of the leading industry players through our innovative and sustainable solutions. As a result, the Group will continue to invest in research and development ("**R&D**") in equipment, processes and raw materials. Since 2017, we have achieved two innovation breakthroughs, namely a new coating formula and method for HEVEATECH decking products to enhance their resistance to mold and white jelly in extremely wet condition and a new production method for thick laminated veneer lumber ("**LVL**") beam which has shorter processing time and lower overheating risk. We strongly believe that continuous R&D will enable the Group to deliver better quality products more efficiently with less wastage, securing both the economic and environmental sustainability of our business.

Long before "sustainability" became the buzzword, the Group has considered sustainability as part of its strategy formulation. The Company had published the 2017 Sustainability Report and will publish the 2018 Sustainability Report, which are organized and presented following the Global Reporting Initiative Standards Core Option. This report illustrates our efforts on sustainability and collaborations with business partners across the value chain to enhance our economic, environmental, and social outlook. Going forward, the Group has made a commitment to reinforce sustainability perspectives in our management systems and business strategies. We believe the sustainability journey will not only strengthen the Group internally, it will also enable external stakeholders to understand the organization's true value.

Appreciation

Over the past 40 years, we have focused extensively on developing our R&D, management, processing, logistics, and distribution capabilities so as to achieve a competitive edge over other competitors. Today, we have developed a strong business and operating model, enabling us to continuously expand our processing capacity and maintain sustainability in production. I would like to thank our business partners, customers and shareholders whom have supported us all along.

I would like to extend my appreciation to our Board members, who have steered the Group wisely with their invaluable insights and advice.

Last but not least, I would like to thank our management team and staff for their dedication and contributions throughout the year. Our people are our most important asset and I hope to empower each and everyone of them to attain great achievements and satisfactions in propelling the Group forward.

Riko Setyabudhy Handoko
Executive Director and Chief Executive Officer

Project in East Belitung

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)

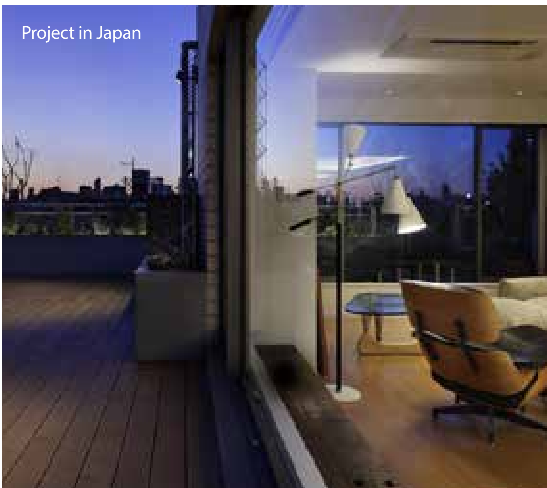
2006
- Samko Timber Limited take over PT SGS (PT Sumber Graha Sejahtera) shares, the Holding Company in Indonesia
- Sampoerna Forestry Limited acquired 42.6% Samko Timber Limited shares

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)


Project in Japan

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


Project in Taiwan

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'

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

Ritz Carlton Hotel, Mandapa, Bali

BOARD OF DIRECTORS

Mr Eka Dharmajanto Kasih

Non-Independent and Non-Executive Chairman

Aged 68, 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 46, 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:
28 April 2017

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 40, 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 Koh Tji Beng @ Ambran Sunarko

Non-Independent and Non-Executive Director

Aged 59, Mr Koh Tji Beng @ Ambran Sunarko has served on the Board since May 2016. He holds a bachelor degree from The University of Southern California. Mr Sunarko possesses extensive experience in timber industry. Prior to his appointment as Director of the Company, Mr Sunarko served as the President Director of PT Putra Sumber Utama Timber, a member of the Group which operates in Jambi, Sumatera and prior to that, he spent seven years at PT Sumber Graha Sejahtera, a member of the Group which operates in Tangerang-Banten, Java, as the President Director.

Date of first appointment as a director:
5 May 2016

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

Present Directorship:
Other Listed Companies
Nil

Other Principal Commitments:
Premium Plus Investments International Pte Ltd
Director

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

BOARD OF DIRECTORS

Mr Ng Cher Yan

Independent and Non-Executive Director

Aged 60, 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 degree 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:
22 April 2016

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:

Ecowise Holdings Ltd
Independent Director

Mermaid Maritime Public Co Ltd
Independent Director

Mr Sim Idrus Munandar

Independent and Non-Executive Director

Aged 64, 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

SingaPlural 2015, Singapore
- Play Stool designed by Jane Tang

Mr Wee Ewe Lay Laurence John
Independent and Non-Executive Director

Aged 61, 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

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 eight Senior Managers, namely:

- *CFO and Head of Finance & Accounting Division:*
  Mr Johanes Ibrahim Tjendana
- *Head of Operations Division :*
  Mr Harry Handojo
- *Head of Commercial Division :*
  Mr Rudiyanto Tan
- *Head of Human Resources Division :*
  Mr Fredson Kotamena
- *Head of Research & Development Division :*
  Mr Yusran Mustary
- *Head of Internal Audit Division:*
  Mr Hendry Susanto
- *Head of Legal & Corporate Affairs Division :*
  Mr Arief Zakaria
- *Head of Global Strategic Planning Division :*
  Mr Edward Tombokan

SENIOR MANAGEMENT

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 CFO 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 Harry Handojo joined the group in 1997 and is responsible for the Operations Division. He started to serve the Group at PT Putra Sumber Utama Timber, where he was initially appointed as Project Manager and responsible for the implementation and development of new business plan. Subsequently in 1999, Mr Handojo was promoted to become the General Manager of PT Putra Sumber Usaha Timber, and now he become the General Manager of all the Groups subsidiaries which operate as production plants. He holds a Bachelor of Engineering Degree from the Institute of Technology, Surabaya, Indonesia.


Plywood product application on kitchen set and flooring

Mr Rudiyanto Tan has joined the Group in 2015 and is responsible for managing Commercial 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 1998 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 Global Strategic Planning Division. Prior to joining the Group, Mr Tombokan possesses 13 years of experience in Pulp and Paper industry. He held several different positions under Asia Pulp and Paper Group ("**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.

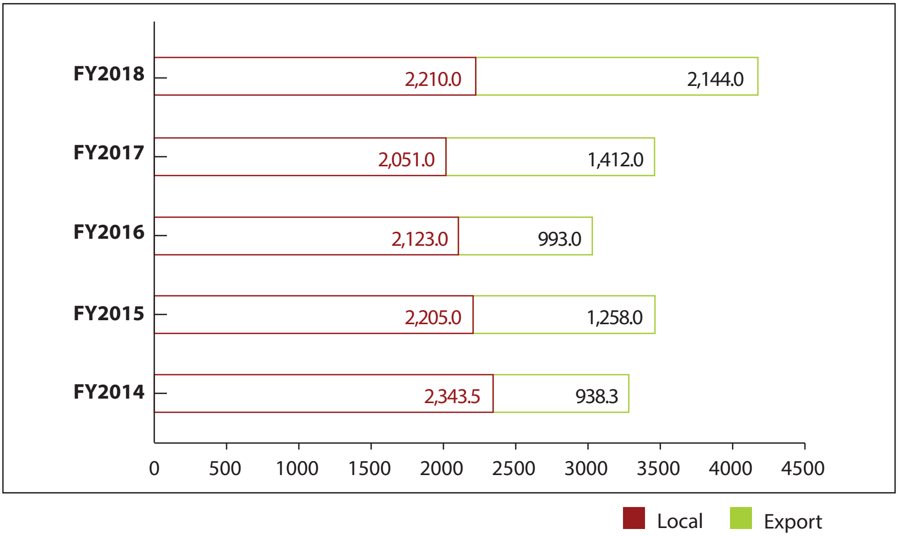
Mr Hendry Susanto joined the Group in 2016 and is the Head of Internal Audit Division. Before joining the Group, he was a Department Head of Internal Audit in PT Sampoerna Strategic from 2011. Prior to that, He had worked in PT Siemens Indonesia and KPMG. He holds a Bachelor of Accounting degree from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

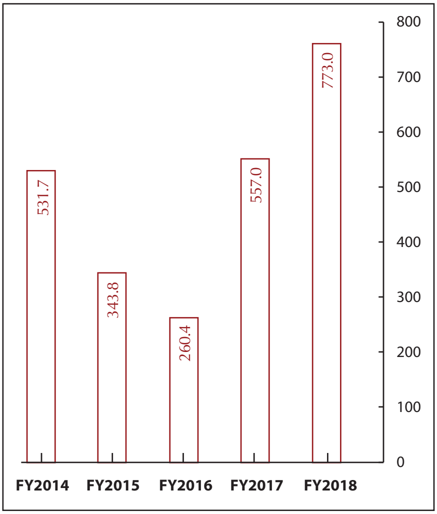

Project in Coral Beach, Croatia

FINANCIAL HIGHLIGHTS

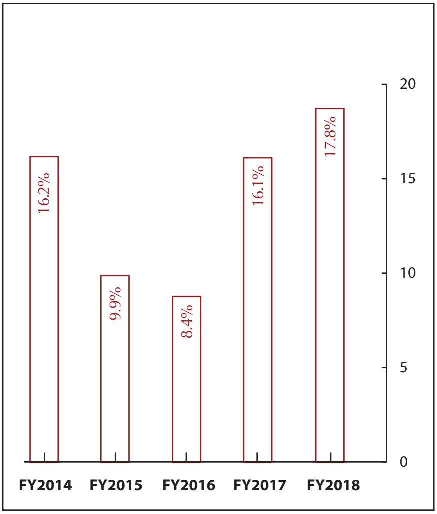
Revenue (Rp 'billion)



Gross Profit (Rp 'billion)



Gross Margin



SUSTAINABLE DEVELOPMENT AND CORPORATE SOCIAL RESPONSIBILITY

Here at Samko Timber, we strongly believe in the need to satisfy present needs without compromising on the future. We also firmly believe that we should return to society the benefits that we have derived from it. As such, Sustainable Development ("**SD**") and Corporate Social Responsibility ("**CSR**") are our twin pillars formulating the manner in which we conduct all of our day-to-day business activities. We seek to engage in operational practices which are both environmentally responsible and efficient, as well as empower the communities which we have operational exposure to. We believe that this is paramount to the Group's long term success. Our commitment towards a balanced business development, social progress and responsible environmental management has manifested itself in the following certifications:

- Japan Agricultural Standard ("**JAS**")
- Indonesian Timber Legality Assessment System ("**TLAS**") / SistemVerifikasi 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

These certifications have two advantages; they allow the Group to build a stronger brand identity whilst opening new avenues for us to tap into the growing demand for certified processed timber products. This, coupled with our ongoing monitoring efforts, ensure that we continue to uphold the consistently high standards of quality assurance.

Satisfying Present Needs Without Compromising The Future

In the ordinary course of our business, we use timber logs as our main raw material with glue and other materials as side supplements. As such, it is of paramount importance for us to be cognisant of our raw material sources, so as to derive growth that is sustainable and create value for stakeholders in a manner which is responsible.

In this regard, we procure 90% of our logs from community farmers and/or third party suppliers (in community forests and/or plantation forests located in Java, Sulawesi and Sumatera), and 10% through third-party suppliers (in natural forests). We continually strive to create new commercial growing areas and seek out new sources of plantation wood in the field. We ensure that our raw materials come only from vendors who have met the requisite operating and technical standards imposed by the various governmental and nongovernmental organizations. We forbid any log purchase from log suppliers or log farmers adopting the typical "slash and burn" method of land clearing. We also inform and educate our log suppliers and land clearing contractors about the "Zero Burning Technique", a method of land clearing whereby the trees, either logged or felled, are shredded, stacked and left on site to decompose naturally. They are also made aware of the early warning system in place and the necessary measure to take in the event of a fire breakout.

A breakdown of the two types of logs we source for are as follows:

Type of logs	Source	User	Volume
Mixed light hardwood	Natural forest (harvested by forest licence holders)	Palopo factory	10%
Rubber and Sengon (falcataria)	Community forest (cultivated by smallholders) and plantation forests	All other factories	90%

Our Tree Improvement Program aims to develop better timber cultivars, supported by our laboratory facilities in Jasinga (West Java) and Jambi, which being plant-tested in our site in Jambi. We have received FSC certificate for our Rubber logs production in Jambi. Moving forward, we also aim to obtain FSC-certified logs for our other raw materials, i.e. Sengon (falcataria) in Java.

Apart from sustainable sourcing, the Group also seeks to reduce wastage produced as a by-product from various operations. Our production processes are engineered to comply with the relevant regulations in waste management, especially regarding hazardous waste. At the same time, we also seek to maximize the value of wood extracted by increasing usage of smaller diameter plantation logs, maintaining a high recovery rate, and the conversion of wood into higher value products. Recycling also forms a significant portion of our waste management efforts, where most of the wood wastes are being recycled to become good veneers for use in the production of plywoods and as feedstocks for factories' boilers.

Our compliance and support for the relevant waste management regulations are evident in our participation for the Indonesian Government's Program for Pollution Control, Evaluation, and Rating ("**PROPER**"), a public environmental reporting initiative. Our factories in Balaraja, Lampung and Jambi received the provincial-level PROPER awards (Blue rating) while our factory in Batang received the national-level PROPER award (also Blue rating). We see PROPER as standardized guidelines for all factories on how to manage the environment, beyond the mandatory environmental management and monitoring work.

Business With a Conscience

In our bid to protect both the environment and surrounding communities, the Group conducts our business in a manner which places people at the core of what we do. We understand the importance of managing our human resources to comply with regulations and seek to provide for their safety, security and positive welfare to the best of our abilities. In line with Indonesian regulations, we do not employ any person below the minimum legal working age, i.e. 17 years. We also comply with regional minimum wage policies for all our operations and recruit our employees on the basis of merit, regardless of the disabilities which some of the applicants may have.

Other than the provision of basic human rights, we are committed in the development of our employees as well. There are various training programs in place to equip our employees with the necessary hard and soft skills required to excel at their respective roles. For hard skills, as much as 62% of our total employees received formal training in 2018, with all our permanent employees receiving performance reviews for their work done during the year. As for soft skills, our current focus is on the aspect of instilling a sense of responsibility and discipline in all of our employees. 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.

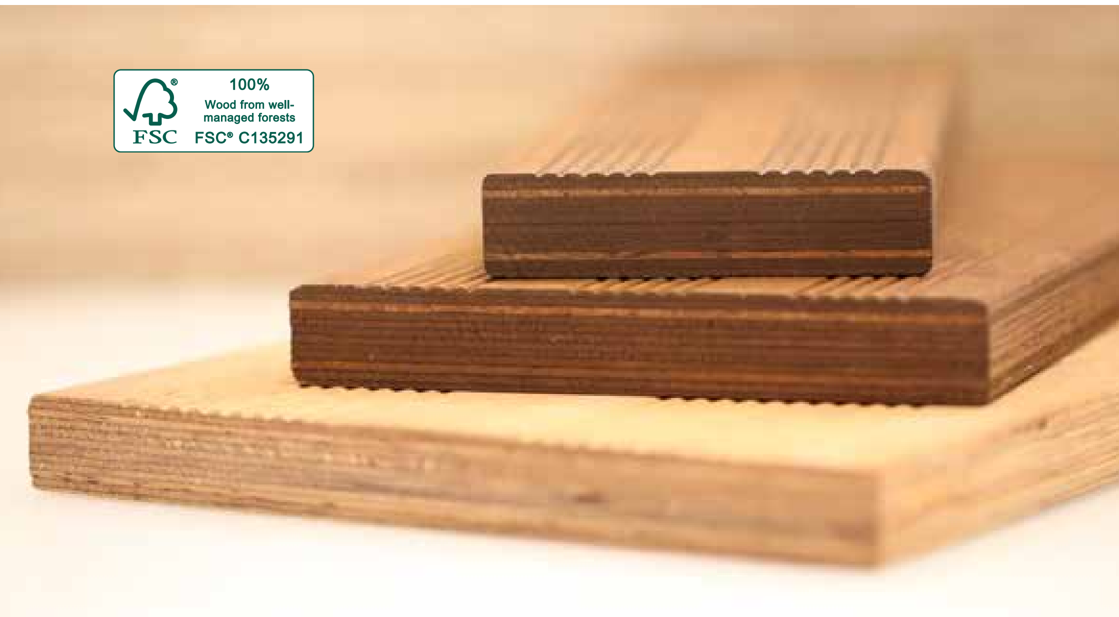
On the aspect of occupational health and safety, we are reinforcing the importance of complying with standard working procedure for all layers in the organization.

We comply with laws and government regulations on manpower by paying competitive wages to employees. In addition to salary, there are other benefits offered 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.

Given that many of our local operations are widely dispersed in various parts of Indonesia, the Group is cognisant of the need to keep these stakeholders engaged. In light of this, we are committed to supporting community-based activities which are best aligned with our business objectives and most beneficial to the communities within our areas of operations. Every year, our dedication to SD and CSR can be demonstrated through voluntary involvement in various activities:

- 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 ensure 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 2018.



Film Faced Plywood applied on
concrete form work in Jakarta

CORPORATE GOVERNANCE STATEMENT

INTRODUCTION

The board of directors (the "**Board**" or the "**Directors**") of Samko Timber Limited (the "**Company**") is committed to setting and maintaining high standard of corporate governance to ensure greater corporate transparency, accountability, performance and integrity. The Company has substantially complied with the Code of Corporate Governance 2012 (the "**Code**") through effective self-regulatory corporate practices to protect and enhance the interests and value of its shareholders.

This report describes the Company's corporate governance practices with specific reference to the Code in its annual report ("**Annual Report**"). Unless otherwise stated, the principles and guidelines of the Code have been complied with.

I. BOARD MATTERS

THE BOARD'S CONDUCT OF ITS AFFAIRS

Principle 1: Effective Board to lead and control the Company

The Board oversees the business affairs of the Company and its subsidiaries (collectively 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. To ensure smooth operations, facilitate decision-making and ensure proper controls, the Board has delegated some of its powers to its committees (the "**Board Committees**") and Management. The Board Committees, which operate within clearly defined terms of reference, are actively engaged and play important roles in ensuring good corporate governance. The Board Committees and Management remain accountable to the Board.

Apart from the statutory responsibilities, the Board is responsible for the overall management of the Group and the review and monitoring of the Group's operations, including:

- The review of the Group's financial performance;
- Consider sustainability issues as part of the Group's strategic formulation;
- Responsibility for corporate governance;
- Establish a framework of prudent and effective controls which enable risks to be assessed and managed;
- Review management performance;
- 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
- Ensure that the Group maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the Group's assets.

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

- Financial results announcements;
- Annual reports and financial statements;
- Nomination/appointment of Directors and key management personnel;
- 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 rules of the Singapore Exchange Securities Trading Limited ("**SGX-ST**").

CORPORATE GOVERNANCE STATEMENT

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

The Board is supported by four Board Committees, namely, the Audit Committee ("**AC**"), the Nominating Committee ("**NC**"), the Remuneration Committee ("**RC**") and the Board Risk Committee ("**BRC**"). Each Board Committee has its own specific terms of reference (the "**Terms of Reference**") or Charter setting out the scope of its duties and responsibilities, rules and regulations, and procedures governing the manner in which it is to operate and how decisions are to be taken. The Chairman of the respective Board Committees will report to the Board on the outcome of the committee meetings and their recommendations on the specific agendas mandated to the committee by the Board.

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. The Board conducts at least four 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.

During the financial year ended 31 December 2018 ("**FY2018**"), the Board met four times to review the Company's quarterly and full-year results and to consider proposed corporate actions by the Company. Ad-hoc meetings are held to address significant issues or transactions. 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 by the Board and Board Committees and attendances of Directors at the meetings during FY2018 are set out as follows:

		Board Committees			
	Board	**Audit Committee**	**Nominating Committee**	**Remuneration Committee**	**Board Risk Committee**
No. of meetings held	**4**	**4**	**1**	**2**	**4**
Name of Director			**No. of meetings attended**		
Eka Dharmajanto Kasih	4	4*	1*	2*	4
Riko Setyabudhy Handoko	4	4*	1*	1*	4
Michael Joseph Sampoerna	4	1*	-	1*	-
Koh Tji Beng @ Ambran Sunarko	4	-	1*	1*	-
Ng Cher Yan	4	4	1	2	4
Sim Idrus Munandar	4	4	1	2	4
Wee Ewe Lay Laurence John[(1)]	4	4	1	2	4

* Attendance by invitation of the relevant Board Committees
(1) Appointed as member of the Board Risk Committee on 14 May 2018

CORPORATE GOVERNANCE STATEMENT

The Board is of the view that the contribution of each Director should not be focused only on his 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.

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.

Generally, 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 interested person transactions and disclosure of Director's interests.

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.

Where required, the Company Secretaries 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. The Independent Directors had conducted site visit to the Group's factories in Tangerang, Indonesia in November 2018.

BOARD COMPOSITION AND BALANCE

Principle 2: Strong and independent element on the Board

As at the date of this report, the Board consists of seven Directors, six of whom are Non-Executive Directors of which three 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	
Koh Tji Beng @ Ambran Sunarko	
Independent Directors:	
Ng Cher Yan	Lead Independent Director
Sim Idrus Munandar	
Wee Ewe Lay Laurence John	

CORPORATE GOVERNANCE STATEMENT

This composition complies with Guideline 2.1 of the Code that at least one-third of the Board should be made up of Independent Directors.

The profiles of the Directors are set out on pages 12 to 15 of this Annual Report. 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. The Board is of the view that the current Board size is appropriate, taking into account the scope, nature and size of operations of the Group.

Currently, the composition of the Board is not in compliance with Guideline 2.2 of the Code of which the Chairman is not an Independent Director. The Board noted that the Company is required to comply with the requirement for Independent Directors to make up at least half of the Board and is in the midst of making arrangements to change the Board composition to comply with the Code's requirements. However, 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.

In addition, the Company benefited from Management's ready access to its Directors for guidance and exchange of views both within and outside of the formal environment of the Board and Board Committees meetings. The NC conducted its annual review of the Directors' independence in accordance with the Code's definition of what constitutes an Independent Director. In its deliberation as to the independence of a Director, the NC take 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. 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.

Though our Independent Directors have served on the Board for more than nine years from the date of their first appointment, the Board concurred with the NC's view that they are independent in character and judgment and there were no circumstances which would likely affect or appear to affect their judgment. While recognizing the benefits of the experience and stability brought by long-standing Directors, the Board remains committed to the progressive renewal of Board membership. The Independent Directors meet amongst themselves without the presence of Management when necessary.

The Independent Directors would also constructively challenge and help develop proposals on the Group's business strategy and review the performance of Management in meeting agreed goals and objectives as well as monitoring the reporting of performance.

Where necessary, the Independent Directors meet and discuss on the Group's affairs without the presence of Management. The Company would make available its premises for use by the Non-Executive Directors to meet without the presence of Management. During FY2018, the Independent Directors and the Non-Executive Directors have met at least once without the presence of Management.

CORPORATE GOVERNANCE STATEMENT

ROLE OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Principle 3: Clear division of responsibilities and balance of power and authority

Different individuals assumed the Chairman's and the CEO's roles and the division of responsibilities between the Chairman and 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 roles and responsibilities between the Chairman and the CEO are held by separate individuals. Mr Eka Dharmajanto Kasih is our Chairman and Mr Riko Setyabudhy Handoko is our CEO.

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, is responsible for the day-to-day operations of the Group and steering the strategic direction and growth of the Group's business. Mr Riko regularly communicates with the Chairman and the Board to update them on corporate issues and developments.

In view of the fact that the Chairman is not an Independent Director, the Board has appointed Mr Ng Cher Yan as the Lead Independent Director of the Company. The Lead Independent Director, Mr Ng Cher Yan, is responsible for leading and coordinating the activities of the Non-Executive and Independent Directors and serve as a principal liaison on Board's issues between the Non-Executive and Independent Directors and the Chairman of the Board. The Lead Independent Director is available to shareholders who have concerns for which contact through the normal channels of the Chairman, CEO, Executive Director or Chief Financial Officer ("**CFO**") have failed to resolve or for which such contact is inappropriate.

Objectivity and independence of the Board's decisions are maintained through the professionalism of each member of the Board, including the Non-Executive and Independent Directors, who have demonstrated a high level of commitment in their roles as Directors of the Company.

During FY2018, 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 will provide feedback to the Chairman after such meetings.

CORPORATE GOVERNANCE STATEMENT

BOARD MEMBERSHIP

Principle 4: Formal and transparent process for the appointment and re-appointment of Directors to the Board

The NC comprises the following three members, all of whom are Non-Executive and Independent Directors, and one of them is the Lead Independent Director:

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

The NC Chairman is not associated in any way with the 10% shareholders of the Company.

The NC is regulated by a set of written Terms of Reference and is responsible for making recommendations to the Board on all Board appointments and reappointments through a formal and transparent process, which includes internal guidelines to address the conflict of competing time commitments that are faced by Directors with multiple board representations. 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.

The responsibilities and principal functions of the NC, as set out in its Terms of Reference, include:

(a) Reviewing Board succession plans for Directors, in particular, the Chairman and the CEO;

(b) Conducting a formal assessment on the effectiveness of the Board as a whole and to assess the contribution by each individual Director to the effectiveness of the Board, particularly when a Director serves on multiple Boards;

(c) Reviewing and assessing candidates for directorships (including executive directorships) before making recommendations to the Board for the appointment and re-appointment of Directors;

(d) Reviewing and recommending to the Board the retirement or re-election of Directors in accordance with the Constitution of the Company at each annual general meeting ("**AGM**");

(e) Reviewing the structure, size and composition of the Board annually to ensure that the Board has an appropriate balance of independent and non-independent Directors and ensuring an appropriate balance of expertise, skills, attributes and ability among the Directors;

(f) Establishing procedures for evaluation of the performance of the Board, it's Board Committees and Directors, and proposes objective performance criteria which shall be approved by the Board;

(g) Determining annually the independence of Directors, in accordance with applicable codes and guidelines; and

(h) Deciding whether the Directors have been and will continue to contribute effectively and demonstrate commitment to their roles and duties as a Director of the Company adequately, taking into consideration each Director's number of listed company board representations and other principal commitments.

CORPORATE GOVERNANCE STATEMENT

In accordance with Article 94 of the Company's Constitution, every Director shall retire from office once every three years and at each AGM, one-third of the Directors shall retire from office by rotation. 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.

For FY2018, the NC had met to:

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

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

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

(d) Review and recommend the re-election of Directors retiring pursuant to the Company's Constitution.

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 Ng Cher Yan, Riko Setyabudhy Handoko and Koh Tji Beng @ Ambran Sunarko who will retire pursuant to Article 94 of the Company's Constitution.

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

When a Director has multiple board representations, the NC also considers whether or not the Director is able to and has adequately carried out his 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 to the NC 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 NC has evaluated the competing time commitments faced by Directors serving on multiple boards during the year and is satisfied that the Directors have spent adequate time on the Group's affairs to fulfil their responsibilities.

Currently, the Company does not have alternate directors.

When the need for a new Director is identified, either to replace a retiring Director or to enhance the Board's capabilities, the NC will make recommendations to the Board regarding the identification and selection of suitable candidates based on the desired qualifications, skill sets, competences and experience, which are required to supplement the Board's existing attributes. If need be, the NC may seek assistance from external search consultants for the selection of potential candidates. Directors and Management may also put forward names of potential candidates, together with their curriculum vitas, for consideration.

CORPORATE GOVERNANCE STATEMENT

Information in respect of the academic and professional qualification, and directorship or chairmanship, both present and those held over the preceding three years 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.

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	**Ng Cher Yan**	**Riko Setyabudhy Handoko**	**Koh Tji Beng @ Ambran Sunarko**
Date of Appointment	14 December 2007	27 June 2016	5 May 2016
Date of last re-appointment (if applicable)	22 April 2016	28 April 2017	28 April 2017
Age	60	46	59
Country of principal residence	Singapore	Indonesia	Singapore
The Board's comments on this appointment (including rationale, selection criteria, and the search and nomination process)	The Board, having considered the recommendation of the NC and having assessed Mr Ng Cher Yan's requisite knowledge, capabilities and experiences to assume the responsibilities.	The Board, having considered the recommendation of the NC and having assessed Mr Riko Setyabudhy Handoko's working experiences and leadership in the Group, is of the view that Mr Handoko has the requisite experiences to assume the responsibilities as CEO and Executive Director of the Company.	The Board, having considered the recommendation of the NC and having assessed Mr Koh Tji Beng @ Ambran Sunarko's contribution in the Group, is of the view that Mr Koh has the requisite knowledge to assume the responsibilities as Non-Executive Director of the Company.
Whether appointment is executive, and if so, the area of responsibility	Non-Executive.	Executive. Mr Riko Setyabudhy Handoko will be responsible for the Group's overall management, including overseeing the Group's day-to-day operation, steering the direction and growth of the Group's business as directed by the Board.	Non-Executive

CORPORATE GOVERNANCE STATEMENT

Job Title (e.g. Lead ID, AC Chairman, AC Member etc.)	• Lead Independent Director • Audit Committee (Chairman) • Nominating Committee (Member) • Remuneration Committee (Member) • Board Risk Committee (Member)	• Executive Director • Chief Executive Officer • Board Risk Committee (Member)	• Non-Independent and Non-Executive Director
Professional qualifications	• Bachelor of Accountancy degree from National University of Singapore • Passed professional year for Chartered Accountants, Australia. • Fellow member of the Institute of Singapore Chartered Accountants • Member of the Institute of Chartered Accountants in Australia.	Mr Riko Setyabudhy Handoko holds a Master of Business Administration from the INSEAD, France and Singapore and a Bachelor of Economics from the Trisakti University, Indonesia.	Mr Koh Tji Beng @ Ambran Sunarko holds a bachelor degree from The University of Southern California.

CORPORATE GOVERNANCE STATEMENT

Working experience and occupation(s) during the past 10 years	1990 to Present – Practising as a Chartered Accountant in PLUS LLP (formerly known as CY NG & CO)	2016-Now: Samko Timber Limited (Executive Director and CEO) 2015-2016: SK Corporation (Director and CEO) 2015-2016: Taiwan Scott Paper Corporation (Director and CEO) 2014-2016: Kimberly Clark International, Taiwan (Managing Director) 2011-2014: Kimberly Clark Professional, China and India (Managing Director) 2009-2015: KC Hygiene India (Director) 2009-2011: Kimberly Clark Professional, Asia (Group General Manager)	1990-Now: involved in running various family businesses in shipping, timber and property investment 2004-2010: PT. Sumalindo Lestari Jaya, Tbk (President Commissioner)
Shareholding interest in the listed issuer and its subsidiaries	None	6,986,400 shares; 18,553,058 shares Awards; 18,553,058 unissued ordinary shares	Mr Koh Tji Beng @ Ambran Sunarko has direct interest in the 148,473,230 shares in the Company, held jointly with her daughter, Ms Cindy Sunarko.
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	Brother of Mr Aris Sunarko @ Ko Tji Kim, the substantial shareholder of the Company. Father of Ms Cindy Sunarko, the substantial shareholder of the Company.

Conflict of interest (including any competing business)	None	None	Ms Piniaty Liawanto, spouse of Mr Koh Tji Beng @ Ambran Sunarko, has an interest in PT Wahana Foresta Abadi and its group of companies, dealing in timber products.
Undertaking (in the format set out in Appendix 7.7) under Rule 720(1) has been submitted to the listed issuer	Yes	Yes	Yes
Other Principal Commitments* including Directorships# * "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)	1. Ecowise Holdings Ltd 2. Mermaid Maritime Public Co Ltd 3. Mermaid Drilling (Singapore) Pte Ltd 4. Mermaid Offshore Services Pte Ltd 5. MTR-1 (Singapore) Pte Ltd 6. MTR-2 (Singapore) Pte Ltd 7. MTR-3 (Singapore) Pte Ltd 8. MTR-4 (Singapore) Pte Ltd 9. Mermaid MTN Pte Ltd 10. Seascape Surveys Pte Ltd 11. Bonython Trading Pte Ltd 12. Lancashire General Properties (S) Pte Ltd	1. KC Hygiene India 2. Kimberly Clark Professional, China and India 3. Kimberly Clark International, Taiwan 4. SK Corporation 5. Taiwan Scott Paper Corporation	Nil
Present	Vicplas International Ltd MoneyMax Financial Services Ltd Bull Will Co. Ltd. Serial System Ltd PLUS LLP	Nil	Premium Plus Investments International Pte Ltd

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Information required pursuant to Listing Rule 704(7)			
(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	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	No

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(c) Whether there is any unsatisfied judgment against him?	No	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	No
(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?	In February 2017, a civil suit has been initiated by the Securities and Futures Investors Protection Centre of Taiwan (SFIPC) against amongst others, Bull Will Co., Ltd (“**Bull Will**”), its directors, independent directors, supervisors, accounting supervisors, legal shareholder and external auditors. The civil suit is currently in progress. Mr Ng Cher Yan is a Non-Executive Director of Bull Will.	No	No

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(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	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?	On 7 July 2000, a Summon was issued against him as a nominee director of SFL-Boiler Installation Pte Ltd ("**SFL**") relating to a failure by SFL to file annual return within the requisite period. Resolved upon payment of a fine of SGD1,200.	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	No

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(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	No
(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	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	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	No

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(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	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	No

Disclosure applicable to the appointment of Director only			
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).	Yes Vicplas International Ltd *Independent Director* MoneyMax Financial Services Ltd *Independent Director* Bull Will Co. Ltd. *Non Executive Director* Serial System Ltd *Independent Director*	No Mr Riko Setyabudhy Handoko will undertake the relevant courses organized by Singapore Institute of Directors. In addition, appropriate briefing and training will be provided to Mr Riko Setyabudhy Handoko in respect of the roles and responsibilities as an Executive Director of a public listed company.	No Mr Koh Tji Beng @ Ambran Sunarko will undertake the relevant courses organised by Singapore Institute of Directors. In addition, appropriate briefing and training will be provided to Mr Koh Tji Beng @ Ambran Sunarko in respect of the roles and responsibilities as a Non-Independent and Non-Executive Director of a public listed company.

BOARD PERFORMANCE

Principle 5: Formal assessment of the effectiveness of the Board as a whole and the contribution by each Director to the effectiveness of the Board

The NC, guided by its Terms of Reference, had decided on how the Board's performance is to be evaluated and has developed objective performance criteria, which address how the Board has enhanced long-term shareholders' value. The NC has also implemented a process for assessing the effectiveness of the Board as a whole.

The NC had decided unanimously, that the Directors will not be evaluated individually but factors taken into consideration for the renomination are the extent of their attendance, participation and contributions in the proceeding of the meetings. The NC had also concurred that it was difficult to evaluate the performance of each Board Committee given that members of majority of the Board Committees comprise only Independent Directors. As such, no assessment was carried out for each Board Committee and individual Director for FY2018. The NC will consider implementing such performance evaluation of each Director and Board Committee when the need arises.

The Board has not engaged any external consultant to conduct an assessment of the performance of the Board. Where relevant and when the need arise, the NC will consider such as engagement.

The evaluation of the Board's performance is carried out on an annual basis, and the performance criteria for the Board evaluation covers amongst other criteria, Board composition, Board processes, Board accountability, CEO performance and succession planning and standard of conduct of the Board. Each Director assesses the Board's performance as a whole by providing feedback to the NC.

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The NC is of the view that each individual Director has contributed to the effectiveness of the Board as a whole. During FY2018, the NC has conducted the assessment by preparing a performance evaluation questionnaire to be completed by each Director, of which were then collated and the findings were analysed and discussed with a view to implementing certain recommendations to further enhance the effectiveness of the Board. The results of the NC's assessment for FY2018 has been communicated to and accepted by the Board.

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 FY2018, 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:

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

(b) 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.

ACCESS TO INFORMATION

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

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 key management personnel and the Company Secretaries to facilitate access to any required information. Any of the Company Secretaries and their 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 appointment and removal of the Company Secretaries are subject to approval of the Board as a whole.

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.

II. REMUNERATION MATTERS

PROCEDURES FOR DEVELOPING REMUNERATION POLICIES

Principle 7: Formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors

The RC comprises the following three members, all of whom are Non-Executive and Independent Directors:

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

The RC is regulated by a set of written Terms of Reference. Its key functions include:

Reviewing and recommending to the Board a framework of remuneration for each Director and key management personnel that are competitive and sufficient to attract, retain and motivate key management personnel of the required quality to run the Company successfully;

(a) Reviewing and recommending for endorsement by the entire Board, share-based incentives or awards or any long-term incentive schemes which may be set up from time to time, in particular to review whether directors and key management personnel should be eligible for such schemes and also to evaluate the costs and benefits of such schemes and to do all acts necessary in connection therewith;

(b) Reviewing and determining specific remuneration packages and terms of employment for each Director and key management personnel, which cover all aspect of remuneration including Directors' fees, salaries, allowances, bonuses and benefits-in-kind;

(c) Determining the appropriateness of the remuneration of the Independent Directors takings into consideration the level of their contribution; and

(d) Reviewing and recommending to the Board the terms of renewal of the service contracts of Directors.

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 key management personnel, to ensure that Directors are adequately but not excessively remunerated.

For FY2018, the RC had met to review, determine, and recommend to the Board, the payment of Directors' fees for the financial year ending 31 December 2019, payable quarterly in arrears, and the payment of Director's fee to Mr Eka Dharmajanto Kasih for the financial year ended 31 December 2018, which are subject to the shareholders' approval at the forthcoming AGM of the Company.

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 the best available executive talent.

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The recommendations of the RC would be submitted to the Board for endorsement. The RC has full authority to engage any external professional to advise on matters relating to remunerations as and when the need arises.

No individual Director is involved in fixing his own remuneration. Independent Directors are paid Directors' fees annually on a standard fee basis.

Each member of the RC abstains from making any recommendation on or voting on any resolutions in respect of his own remuneration package, except for providing information and documents specifically requested by the RC to assist it in its deliberations.

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 key management personnel, to ensure that the service agreements contain fair and reasonable termination clauses and are not overly generous so as to avoid rewarding poor performance.

LEVEL AND MIX OF REMUNERATION

Principle 8: Level of remuneration of Directors should be appropriate but not excessive

The annual reviews of the compensation are carried out by the RC to ensure that the remuneration of the CEO and key management personnel 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 CEO (together with other key management personnel) is reviewed periodically by the RC and the Board.

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 page 126 of this Annual Report.

On 29 August 2018, the Company has granted an aggregate of 21,653,058 share awards (the "**Awards**") to Mr Riko Setyabudhy Handoko, Executive Director and CEO of the Company pursuant to the Samko PSP.

The vesting period of the Awards as determined by the Administration Committee of the Company, is set out hereunder:-

(i) 14.32% of the Awards equivalent to 3,100,000 shares were granted, vested, and was released on 29 August 2018, as Mr Riko Setyabudhy Handoko had achieved certain performance conditions in respect of the performance-related award for the period from 27 June 2016 to 31 December 2018 (the "**Performance Period**");

(ii) 35.49% of the Awards equivalent to 7,685,778 shares will be vested and released at the end of 22 months (27 June 2020), subject to Mr Riko Setyabudhy Handoko achieving certain performance conditions in respect of the performance-related award after the Performance Period; and

(iii) 50.19% of the Awards equivalent to 10,867,280 shares will be vested and released at the end of 34 months (27 June 2021), subject to Mr Riko Setyabudhy Handoko achieving certain performance conditions in respect of the performance-related award after the Performance Period.

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. 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.

The Company does not use contractual provisions to allow the Group to reclaim incentive components of remuneration from the CEO and key management personnel 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.

The service agreement entered into with the CEO is effective from 27 June 2016 and will continue for a period of three years, which shall be 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.

DISCLOSURE ON REMUNERATION

Principle 9: Clear disclosure of remuneration policy, level and mix of remuneration, and procedure for setting remuneration

The Board has not included a separate annual remuneration report to shareholders in the Annual Report on the remuneration of Directors and the top five key management personnel (who are not also Directors or the CEO) as the Board is of the view that the matters which are required to be disclosed in such annual remuneration report have already been sufficiently disclosed in this report and in the financial statements of the Company.

During FY2018, there were no termination, retirement and postemployment benefits granted to Directors (including the CEO) and the top five key management personnel (who are not Directors or the CEO) of the Company and the Group.

The remuneration of each individual Director and key management personnel is however not disclosed as the Company believes that such disclosure may be prejudicial to its business interests given the highly competitive environment it is operating in. The RC has reviewed the practice of the industry in this regard, weighing the advantages and disadvantages of such disclosure.

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Disclosure on Directors' Fees and Remuneration

A breakdown of the level and mix of the remuneration payable to each individual Director for FY2018 are set out below:

Name of Director	Salary %	Director Fees %	Bonuses %	Other Benefits %	Total
S$1,000,000 to below S$1,250,000					
Riko Setyabudhy Handoko	44	-	26	30	100
Below S$250,000					
Michael Joseph Sampoerna	-	100	-	-	100
Eka Dharmajanto Kasih	-	100	-	-	100
Koh Tji Beng @ Ambran Sunarko	-	100	-	-	100
Ng Cher Yan	-	100	-	-	100
Sim Idrus Munandar	-	100	-	-	100
Wee Ewe Lay Laurence John	-	100	-	-	100

Disclosure Key Management Personnel's Remuneration

A breakdown of the ranges of gross remuneration paid in FY2018 to the Group's key management personnel (who are not Directors or the CEO) in the Company and in the Group's subsidiaries, excluding any associated companies are set out below:

Name of Key Management Personnel	Salary	Performance Based Bonuses	Other Benefits	Total
	%	%	%	%
S$250,000 to below S$500,000				
Harry Handojo	69	11	20	100
Fredson Kotamena	73	6	21	100
Rudiyanto Tan	63	10	27	100
Edward Tombokan	68	3	29	100
Below S$250,000				
Ronawati Wongso(1)	43	-	57	100
Tio I Huat	79	13	8	100
Yusran Mustary	92	7	1	100
Albertus Budyanto Wibisono(2)	87	-	13	100
Hendry Susanto	82	8	10	100
Arief Zakaria	85	7	8	100

(1) Resigned as Chief Financial Officer and Head of Finance and Accounting Division on 1 March 2018
(2) Resigned as Head of Supply Chain Management Division on 1 October 2018

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The total remuneration paid to the Directors and the key management personnel is set out on page 128 of this Annual Report.

There are no employees who are immediate family members of any of the Directors and/or the CEO whose remuneration exceeded S$50,000 for FY2018.

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.

The Company advocates a performance-based remuneration system for Executive Director and key management personnel 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.

ACCOUNTABILITY AND AUDIT ACCOUNTABILITY

Principle 10: Presentation of a balanced and understandable assessment of the Company's performance, position and prospects

The Board recognises that it is accountable to shareholders for the performance of the Group. In discharging this responsibility, the Board ensures the timely release of the Group's financial results and that the results provide a balanced and understandable assessment of the Group's performance, financial position and prospects.

To assist the Board in discharging its responsibility, the Company has established a system whereby business and finance heads of individual subsidiaries and business units provide written representations, to Management who would in turn furnish an overall representation to the AC and the Board confirming, *inter alia*, the integrity of the Group's financial statements.

The Board takes steps to ensure compliance with legislative and regulatory requirements with all of the Group's operational practices and procedures and relevant regulatory requirements.

Management keeps the Board regularly updated on the Group's business activities and financial performance by providing operations reports on a regular basis. Such reports include information on:

- The Group's actual performance against the approved budget and where appropriate, against forecast; and

- Key business indicators and major issues that are relevant to the Group's performance.

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RISK MANAGEMENT AND INTERNAL CONTROLS

Principle 11: Sound system of risk management and internal controls

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.

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 members, three of whom, including the 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

Mr Wee Ewe Lay Laurence John, Independent and Non-Executive Director of the Company, was appointed as a member of the BRC of the Company on 14 May 2018.

The BRC had adopted a set of written Charter defining its membership and its duties and responsibilities, which include:

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

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

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

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

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

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

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

The BRC met four times during FY2018 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.

The Company does not have a CFO subsequent to the resignation of Ms Ronawati Wongso as CFO and Head of Finance and Accounting Division on 1 March 2018. The Company has been actively searching for a suitable qualified candidate to take on this role and on 1 February 2019, Mr Johanes Ibrahim Tjendana was appointed as CFO and Head of Finance and Accounting Division of the Company. As the CFO and Head of Finance and Accounting Division, Mr Johanes Ibrahim Tjendana is responsible to manage and take care of financial and operational strategy, metrics tied to that strategy and the ongoing development and monitoring of control system designed to preserve company assets and report accurate financial results of the Company and its affiliates/subsidiaries.

For FY2018, the Board has received assurance from the CEO, CFO and Head of Finance and Accounting Division, and Head of Internal Audit of the Company that:

(a) the financial records have been properly maintained and the financial statements give a true and fair view of the Group's operations and finances; and

(b) The system of risk management and internal control in place within the Group (including financial, operational, compliance and information technology controls) are sufficiently adequate and effective in addressing the material risks in the Group in its current business environment.

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.

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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 129 to 133.

AUDIT COMMITTEE

Principle 12: Establishment of Audit Committee with written terms of reference

The AC comprises the following three members, all of whom 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 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 members are familiar with financial statements.

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 interested person transactions undertaken by the Group and being available to shareholders where they have concerns which have been raised through the normal channels of the Chairman or the CFO and Head of Finance and Accounting Division but have not been resolved or for which such contact is inappropriate.

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 twelve months 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.

The AC is regulated by a set of written Terms of Reference. The principal functions of the AC include:

(a) Reviewing the financial reporting process including but not limited to the audit plans of the external auditors and, where applicable, the internal auditors, including the results of the auditors' review and evaluation of the Group's system of internal accounting, operational and compliance controls and risk;

(b) management policies and systems and ensuring co-ordination between the internal and external auditors and Management at least annually. The AC also ensures that a review of the effectiveness of the Group's internal controls is conducted at least annually;

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

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(d) Reviewing the consolidated financial statements and the external auditors' report on those financial statements, and discussing any significant adjustments, major risk areas, changes in accounting policies, compliance with Financial Reporting Standard, concerns and issues arising from their audits including any matters which the external auditors may wish to highlight and discuss in the absence of Management, where necessary, before submission to the Board for approval;

(e) Reviewing and discussing with the external auditors any suspected fraud, irregularity or infringement of any relevant laws, rules or regulations, which has or is likely to have a material impact on the operating results and/or financial position and Management's response;

(f) Reviewing the co-operation of Management with the auditors;

(g) Reviewing the non-audit services provided by the external auditors as part of the AC's assessment of the external auditors' independence;

(h) Considering the appointment, re-appointment and removal, approving the remuneration and engagement of the external auditors and reviewing the independence and objectivity of the external auditors annually;

(i) Reviewing any transactions falling within the scope of Chapters 9 and 10 of the Listing Manual of the SGX-ST;

(j) Reviewing all hedging policies of, and instruments used for hedging by, the Group (if any);

(k) Undertaking other reviews and projects as may be requested by the Board and reporting to the Board its findings from time to time on matters arising and requiring the attention of the AC;

(l) Reviewing potential conflicts of interest (if any);

(m) Ensuring that arrangements are in place for employees to raise concerns, in confidence, about possible improprieties in matters of financial reporting or other matters; and

(n) Undertaking such other functions and duties as may be required by applicable law or the SGX-ST Listing Manual, and by such amendments made thereto from time to time.

Apart from the duties listed above, the AC will:

i. Commission and review the findings of internal investigations into any matters where there is any suspected fraud or irregularity, or failure of internal controls or infringement of any Singapore law, rule or regulation which has or is likely to have a material impact on the Company's operating results and/or financial position; and

ii. Ensure that the appropriate follow-up actions are taken.

The AC met four times during FY2018 to review the audit plan/report, the audit findings, the reports on interested person transactions, the reports on internal audit activities for the year (including updates on the findings in relation thereto) and the 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 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.

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 the objectivity and independence of the external auditors. The fees expense to auditors is set out on page 99 of this Annual Report.

The AC will undertake a review of the scope of services provided by the external auditors, the independence and the objectivity of the external auditors on annual basis. Messrs Ernst & Young LLP, the external auditors of the Company, 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. The AC had assessed the external auditors based on factors such as performance, adequacy of resources and experience of their audit engagement partner and auditing team assigned to the Group's audit, given the size and complexity of the Group. The AC is satisfied 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 Messrs Ernst & Young LLP as external auditors for the ensuing year 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 different auditors for the Company's subsidiaries, are satisfied that these appointments would not compromise the standard and effectiveness of the audit of the Group.

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 at https://www.sampoernakayoe.co.id/our-company/.

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.

INTERNAL AUDIT

Principle 13: Effective and independent 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:

- To review the adequacy of the Group's internal controls;

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

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

- To oversee the implementation of the internal audit plan and ensure that Management provides the necessary co-operation to enable the 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 six 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.

SHAREHOLDERS RIGHTS AND RESPONSIBILITIES

Principle 14: Shareholders Rights
Principle 15: Communication with Shareholders
Principle 16: Conduct of Shareholder Meetings

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, Cap. 50. 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.

CORPORATE GOVERNANCE STATEMENT

In line with the continuous disclosure obligations of the Company, under the Listing Manual of the SGX-ST and the Companies Act, Cap. 50, the Board has established a policy to inform shareholders promptly of all major developments that may impact materially on the Company and/or the Group.

The Board embraces openness and transparency in the conduct of the Group's affairs, whilst safeguarding the commercial interests of the Group. The Company does not practice selective disclosure.

The Group's results and other material information are released through the SGXNet on a timely basis for dissemination to shareholders and the public in accordance with the listing requirements of the SGX-ST. Copies of the Annual Report, the Circular and the Notices of the AGM and/or EGM, where applicable, are sent to every shareholder of the Company. The Notices of the general meetings are also published in a major local newspaper and announced via SGXNet and made available on the Company's website www.sampoernakayoe.co.id

Each distinct issue requiring shareholders' approval is proposed as a separate resolution at the general meetings. In addition, shareholders' participation is encouraged at the general meetings to ensure a high level of accountability and to be informed of the Group's strategy and goals. The AGM and/or EGM are the principal forum for dialogue with shareholders. The Board welcomes questions from shareholders who have an opportunity to raise issues either informally or formally before or at the general meetings. The Board including the Chairmen of the AC, RC, NC and BRC, as well as the key management of the Company are present and available to address questions of the shareholders with the assistance of the external auditors, when necessary.

The Company 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.

The Company is committed to treat all shareholders fairly and equitably, and keep all its shareholders and other stakeholders informed of its corporate activities, including changes in the Company or its business which would be likely to materially affect the price or value of its shares, on a timely basis.

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 proxies to attend and vote in his/her place at the general meetings via proxy forms submitted in advance (i.e. not less than forty-eight hours before the time appointed for holding the general meeting). The proxy form is sent with the notice of general meetings to all shareholders. The Company is not implementing absentia voting methods such as by mail, e-mail or fax until security, integrity and other pertinent issues are satisfactorily resolved.

The Company records minutes of all general meetings and questions and comments from shareholders together with the responses of the Board and Management. These are available to shareholders at their request.

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. 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.

CORPORATE GOVERNANCE STATEMENT

The Company does not have a formal dividend policy. The form, frequency and amount of dividends 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.

The Board has not declared or recommended dividends for FY2018, 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.

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 weeks before the announcement of each of the Company's quarterly financial results and one 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.

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 interested person transactions under Rule 920 of the Listing Manual of the SGX-ST at the EGM held on 27 April 2018.

CORPORATE GOVERNANCE STATEMENT

The aggregate value of all transactions with interested persons (as defined in Chapter 9 of the Listing Manual of the SGX-ST) for FY2018 are set out below:

Name of interested person	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*	4,947	-
PT Bank Sahabat Sampoerna *Finance expense*	4,612	-
PT Pelayaran Nelly Dwi Putri *Freight expense*	260	462
PT Basirih Industrial *Purchase of veneer*	-	-
PT Wijaya Triutama Plywood Industri *Purchase of veneer*	-	-
PT Sampoerna Agro Tbk *Purchase of palm logs*	-	-

MATERIAL CONTRACTS

Save as disclosed in the above interested person transaction section, the service agreement between the CEO and Executive Directors 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 FY2018 or have been entered into since the end of the previous financial year.

DIRECTORS' STATEMENT

The directors are pleased to 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**") and the balance sheet and statement of changes in equity of the Company for the financial year ended 31 December 2018.

Opinion of the directors

In the opinion of the directors,

(i) the consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2018 and the financial performance, changes in equity and cash flows of the Group and changes in equity of the Company for the financial year ended on that date; and

(ii) at the date of this statement, these financial statements were prepared on a going concern basis due to the availability of banking facilities which will enable the Group to pay its debts as and when they fall due, and that the Group will also be able to generate adequate cash flows from its operations.

Directors

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

Eka Dharmajanto Kasih - Non-Executive Chairman
Riko Setyabudhy Handoko - Executive Director and Chief Executive Officer
Michael Joseph Sampoerna
Koh Tji Beng @ Ambran Sunarko
Ng Cher Yan
Wee Ewe Lay Laurence John
Sim Idrus Munandar

Arrangements to enable directors to acquire shares and debentures

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

Directors' interests in shares and debentures

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

DIRECTORS' STATEMENT

Name of director	Direct interest: At the beginning of financial year	Direct interest: At the end of financial year	Deemed interest: At the beginning of financial year	Deemed interest: At the end of financial year
Ordinary shares of the Company				
Koh Tji Beng @ Ambran Sunarko	148,473,230	148,473,230	–	–
Riko Setyabudhy Handoko	–	5,706,900	–	–

There was no change in any of the above-mentioned interests in the Company between the end of the financial year and 21 January 2019.

Except as disclosed in this report, no director who held office at the end of the financial year had interests in shares, share options, warrants or debentures of the Company, or of related corporations, either at the beginning of the financial year, or at the end of the financial year.

Performance share plan

On 29 August 2018, the Company granted Samko Performance Share Plan to the Chief Executive Officer and Executive Director of the Group for performance from 27 June 2016 to 31 December 2018, subject to certain vesting period.

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

Name of director	At beginning of the financial year	Shares awards granted	Share awards vested	Share awards cancelled	At end of the financial year
Riko Setyabudhy Handoko	–	21,653,058	(3,100,000)	–	18,553,058

For details of this scheme, please refer to Note 30 of the financial statements.

DIRECTORS' STATEMENT

Audit committee

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

- Reviewed the audit plans of the internal and external auditors of the Group and the Company, and reviewed the internal auditor's evaluation of the adequacy of the Company's system of internal accounting controls and the assistance given by the Group and the Company's management to the external and internal auditors;

- Reviewed the quarterly and annual financial statements and the auditor's report on the annual financial statements of the Group and the Company before their submission to the board of directors;

- Reviewed effectiveness of the Group and the Company's material internal controls, including financial, operational, compliance and information technology controls and risk management via reviews carried out by the internal auditor;

- Met with the external auditor, other committees, and management in separate executive sessions to discuss any matters that these groups believe should be discussed privately with the AC;

- Reviewed legal and regulatory matters that may have a material impact on the financial statements, related compliance policies and programmes and any reports received from regulators;

- Reviewed the cost effectiveness and the independence and objectivity of the external auditor;

- Reviewed the nature and extent of non-audit services provided by the external auditor;

- Recommended to the board of directors the external auditor to be nominated, approved the compensation of the external auditor, and reviewed the scope and results of the audit;

- Reported actions and minutes of the AC to the board of directors with recommendations as the AC considered appropriate;

- Reviewed interested person transactions in accordance with the requirements of the Singapore Exchange Securities Trading Limited's Listing Manual.

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

The AC convened four meetings during the year. The AC has also met with internal and external auditors, without the presence of the Company's management, at least once a year.

Further details regarding the AC are disclosed in the Report on Corporate Governance.

DIRECTORS' STATEMENT

Auditor

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

On behalf of the board of directors:

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

Singapore
5 April 2019

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 ("**the Group**"), which comprise the balance sheets of the Group and the Company as at 31 December 2018, the statements of changes in equity of the Group and the Company and the consolidated income statement, consolidated statement of comprehensive income and consolidated cash flow statement of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group, the balance sheet and statement changes in equity 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)) 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 2018 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and changes in equity of the Company 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled our responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

INDEPENDENT AUDITOR'S REPORT

to the members of Samko Timber Limited

Key audit matters (cont'd)

Going concern assumption

As disclosed in Note 2.1 to the financial statements, as at 31 December 2018, the Group's current liabilities exceeded its current assets by Rp122,641 million.

Management has prepared the consolidated financial statements on a going concern basis. Management's assessment on whether the Group will be able to continue to meet its obligations under the financial covenants and the availability of sufficient funding for its operations are important considerations for the going concern assumption. As such, we determined this to be a significant aspect of our audit.

Our audit procedures 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 12 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;
- evaluated the Group's ability to meet its current liabilities, which are due within one year from 31 December 2018, through analysis of existing available funding and unused credit facilities; and
- considered the adequacy of the disclosure in Note 2.1 to the financial statements on the going concern assumption.

Valuation of biological assets

As at 31 December 2018, the Group's biological assets of Rp44,294 million are stated at fair value less costs to sell. Management engaged an external valuation expert to assist in determining the fair value of the biological assets. We focused on this area because the valuation involved significant management judgement and estimation uncertainty.

We assessed the competency, objectivity and capabilities of the external valuation expert engaged by the Group and performed the following procedures, amongst others:

- assessed the valuation methodology used by external valuation expert;
- evaluated the key assumptions used in the valuation, in particular the discount rate, average market price and yield per hectare;
    - involved our internal valuation specialist to assist us in assessing the reasonableness of the discount rate;
    - compared the average market price and yield per hectare to historical data and market available data; and
- assessed the adequacy of the disclosures related to the valuation of biological assets in Note 14 to the financial statements.

INDEPENDENT AUDITOR'S REPORT

to the members of Samko Timber Limited

Key Audit Matters (cont'd)

Post-employment benefits liabilities

The Group recorded post-employment benefit liabilities for its qualified employees as required by the Indonesian Labour Law. As at 31 December 2018, the Group's post-employment benefits liabilities amounted to Rp218,845 million. Management engaged an independent actuary to assist them in the determination of post-employment benefit liabilities as at 31 December 2018.

We considered the determination of post-employment benefit liabilities to be a key audit matter due to the magnitude of the amounts recognised in the financial statements as well as estimation uncertainty involved in determining the amounts.

We assessed the competency, objectivity and capabilities of the independent actuary engaged by the Group. We have also performed the following procedures, amongst others:

- verified employees' details used in the computation of post-employment benefit liabilities to the human resource records for selected employees and performed re-computation of the port-employment benefit liabilities;
- evaluated the reasonableness of the total annual salaries used in the computation by comparing to the historical data;
- evaluated other key assumptions used in the valuation, in particular the discount rate, inflation rate, future salaries increases, mortality rates and future pension increases;
- compared the discount rate, inflation rate, mortality rate and future pension increases to market available data issued by the government of Indonesia;
- evaluated the reasonableness of future salaries increases to the historical data; and
- assessed the adequacy of the disclosures made on the post-employment benefits liabilities in Note 28 to the financial statements.

Impairment assessment on investment in a subsidiary

During the financial year, the management performed an impairment assessment on the Company's investment in a subsidiary – PT Sumber Graha Sejahtera. The total carrying amount of the investment in this subsidiary amounted to Rp793,832 million, representing 93% of the Company's total assets.

We considered the audit of the above impairment assessments to be a key audit matter due to the magnitude of the carrying amount and significant management judgement involved in the assessment process as the assumptions used were affected by future market and economic conditions. Management determined the recoverable amount of the investment in this subsidiary by calculating the value-in-use, using the discounted cash flow approach.

INDEPENDENT AUDITOR'S REPORT

to the members of Samko Timber Limited

Key Audit Matters (cont'd)

Our audit procedures included, amongst others:

- assessed the valuation methodology used by management;
- evaluated the key assumptions used in the impairment analysis, in particular the discount rate, sales growth rate, future production levels and operating costs;
    - involved our internal valuation specialist in assessing the reasonableness of the discount rate;
    - evaluated the reasonableness of the future production levels by reference to historical production rate;
    - evaluated the reasonableness of sales growth rate and operating costs to the historical data and market available data;
- evaluated management's forecasting process by comparing previous forecasts to actual results; and
- assessed the disclosures made on the Company's investment in subsidiaries in Note 13 to the financial statements.

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.

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), 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.

INDEPENDENT AUDITOR'S REPORT

to the members of Samko Timber Limited

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.

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.

INDEPENDENT AUDITOR'S REPORT

to the members of Samko Timber Limited

Auditor's responsibilities for the audit of the financial statements (cont'd)

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.

Report on other legal and regulatory requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations 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 Tan Po Hsiong Jonathan.

Ernst & Young LLP
Public Accountants and
Chartered Accountants
Singapore
5 April 2019

CONSOLIDATED INCOME STATEMENT

For the financial year ended 31 December 2018

	Notes	2018 Rp'million	2017 Rp'million
Revenue	4	4,353,759	3,462,562
Cost of sales		(3,580,868)	(2,905,896)
Gross profit		772,891	556,666
Other items of income			
Finance income	5	456	463
Other income	6	30,434	4,382
Other items of expenses			
Selling expenses		(127,703)	(108,544)
General and administrative expenses		(400,620)	(351,696)
Finance expenses	7	(92,388)	(86,261)
Other expenses	8	(71,491)	(43,949)
Profit/(loss) before tax	9	111,579	(28,939)
Income tax (expense)/credit	10	(47,495)	56,149
Net profit for the year		64,084	27,210
Attributable to:			
Owners of the Company		65,486	30,092
Non-controlling interests		(1,402)	(2,882)
		64,084	27,210
Earnings per share (in Rupiah)			
Basic	11	28	13
Diluted	11	27	13

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 31 December 2018

	2018 Rp'million	2017 Rp'million
Net profit for the year	64,084	27,210
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Net actuarial gain/(loss) on post-employment benefit	40,134	(4,195)
Items that may be reclassified subsequently to profit or loss		
Foreign currency translation gain/(loss)	18,910	(3,674)
Other comprehensive income for the year, net of tax	59,044	(7,869)
Total comprehensive income for the year	123,128	19,341
Attributable to:		
Owners of the Company	124,263	22,317
Non-controlling interests	(1,135)	(2,976)
	123,128	19,341

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

BALANCE SHEETS

As at 31 December 2018

	Notes	Group 2018 Rp'million	Group 31.12.2017 Rp'million	Group 1.1.2017 Rp'million	Company 2018 Rp'million	Company 31.12.2017 Rp'million	Company 1.1.2017 Rp'million
Non-current assets							
Property, plant and equipment	12	506,869	502,306	558,243	–	–	32
Investment in subsidiaries	13	–	–	–	824,998	437,486	126,076
Biological assets	14	44,294	51,454	49,971	–	–	–
Land use rights	15	54,379	57,877	61,372	–	–	–
Deferred tax assets	16	62,025	111,318	40,755	–	–	–
Other non-current assets	17	45,854	17,194	7,322	–	–	311,410
		713,421	740,149	717,663	824,998	437,486	437,518
Current assets							
Inventories	18	740,995	496,809	510,436	–	–	–
Trade and other receivables	19	348,603	269,131	175,196	21,621	35,624	32,670
Prepaid operating expenses	20	58,856	35,176	47,442	397	394	410
Advances to suppliers	21	171,395	58,246	17,870	–	–	–
Restricted deposits	22	16,138	12,987	12,555	–	–	–
Cash at banks and on hand	23	29,806	33,905	58,724	2,097	2,597	4,543
		1,365,793	906,254	822,223	24,115	38,615	37,623
Non-current assets held for sale	12,15	–	29,840	26,865	–	–	–
		1,365,793	936,094	849,088	24,115	38,615	37,623
Current liabilities							
Trade and other payables	24	363,116	283,433	277,723	18,929	20,766	12,844
Other liabilities	25	73,006	124,239	147,352	3,640	3,294	6,327
Advances from customers	26	7,736	86,050	12,439	–	–	–
Income tax payable		14,495	13,442	10,963	–	–	–
Loans and borrowings	27	1,030,081	647,122	502,499	–	–	–
		1,488,434	1,154,286	950,976	22,569	24,060	19,171
Net current (liabilities)/ assets		(122,641)	(218,192)	(101,888)	1,546	14,555	18,452

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

BALANCE SHEETS

As at 31 December 2018

	Notes	Group			Company		
		2018	31.12.2017	1.1.2017	2018	31.12.2017	1.1.2017
		Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million
Non-current liabilities							
Loans and borrowings	27	146,415	181,062	329,033	–	–	–
Post-employment benefits	28	218,500	254,324	215,845	–	–	–
Deferred tax liabilities	16	91	–	1,667	–	–	–
Other liabilities		19,674	–	–	278,492	–	–
		384,680	435,386	546,545	278,492	–	–
Net assets		206,100	86,571	69,230	548,052	452,041	455,970
Equity attributable to owners of the Company							
Share capital	29	2,502,305	2,501,056	2,501,056	2,502,305	2,501,056	2,501,056
Accumulated losses		(2,640,392)	(2,739,797)	(2,765,786)	(1,964,702)	(2,049,117)	(2,045,086)
Other reserves	30	340,505	320,495	327,204	10,449	102	–
		202,418	81,754	62,474	548,052	452,041	455,970
Non-controlling interests		3,682	4,817	6,756	–	–	–
Total equity		206,100	86,571	69,230	548,052	452,041	455,970

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

STATEMENTS OF CHANGES IN EQUITY

For the financial year ended 31 December 2018

	Attributable to owners of the Company									
Group	**Share capital (Note 29)**	**Accumulated losses**	**Other Reserves, total**	**Restructuring reserves (Note 30)**	**Premium paid on acquisition of non-controlling interest (Note 30)**	**Performance Share Plan reserve (Note 30)**	**Foreign currency translation reserves (Note 30)**	**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
Balance at 1 January 2018 (FRS Framework)	2,501,056	(2,739,797)	320,495	309,050	(3,037)	–	14,482	81,754	4,817	86,571
Effect of the adoption of SFRS(I)	–	(5,926)	–	–	–	–	–	(5,926)	–	(5,926)
Balance at 1 January 2018 (SFRS(I) Framework)	2,501,056	(2,745,723)	320,495	309,050	(3,037)	–	14,482	75,828	4,817	80,645
Net 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
Foreign currency translation gain/(loss)	–	–	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 for the year	–	105,331	18,932	–	–	–	18,932	124,263	(1,135)	123,128
Contribution by owners				–	–					
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)	–	–	–	–
Total contribution by owners	1,249	–	1,078	–	–	1,078	–	2,327	–	2,327
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

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

STATEMENTS OF CHANGES IN EQUITY

For the financial year ended 31 December 2018

	Attributable to owners of the Company								
Group	**Share capital (Note 29)**	**Accumulated losses**	**Other Reserves, total**	**Restructuring reserves (Note 30)**	**Premium paid on acquisition of non-controlling interest (Note 30)**	**Foreign currency translation reserves (Note 30)**	**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
Balance at 1 January 2017	2,501,056	(2,765,786)	327,204	309,050	–	18,154	62,474	6,756	69,230
Net profit/(loss) for the year	–	30,092	–	–	–	–	30,092	(2,882)	27,210
Other comprehensive income									
Net actuarial loss on post-employment benefits	–	(4,103)	–	–	–	–	(4,103)	(92)	(4,195)
Foreign currency translation loss	–	–	(3,672)	–	–	(3,672)	(3,672)	(2)	(3,674)
Other comprehensive income for the year, net of tax	–	(4,103)	(3,672)	–	–	(3,672)	(7,775)	(94)	(7,869)
Total comprehensive income for the year	–	25,989	(3,672)	–	–	(3,672)	22,317	(2,976)	19,341
Changes in ownership interests in subsidiaries									
Acquisition of non-controlling interest without a change in control (Note 13)	–	–	(3,037)	–	(3,037)	–	(3,037)	1,037	(2,000)
Total changes in ownership interests in subsidiaries	–	–	(3,037)	–	(3,037)	–	(3,037)	1,037	(2,000)
Balance at 31 December 2017	2,501,056	(2,739,797)	320,495	309,050	(3,037)	14,482	81,754	4,817	86,571

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

STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2018

Company	Share capital (Note 29)	Accumulated losses	Performance share plan reserve (Note 30)	Foreign currency translation reserves (Note 30)	Other reserves, Total	Total equity
	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million
Balance at 1 January 2018	2,501,056	(2,049,117)	–	102	102	452,041
Profit for the year	–	84,415	–	–	–	84,415
<u>Other comprehensive income</u>						
Foreign currency translation gain	–	–	–	9,269	9,269	9,269
Total comprehensive income for the year	–	84,415	–	9,269	9,269	93,684
<u>Contribution by owners</u>						
Grant of equity-settled performance share plan	–	–	2,327	–	2,327	2,327
Issuance of shares under performance share plan	1,249	–	(1,249)	–	(1,249)	–
Total contribution by owners	1,249	–	1,078	–	1,078	2,327
Balance at 31 December 2018	2,502,305	(1,964,702)	1,078	9,371	10,449	548,052
Balance at 1 January 2017	2,501,056	(2,045,086)	–	–	–	455,970
Loss for the year	–	(4,031)	–	–	–	(4,031)
<u>Other comprehensive income</u>						
Foreign currency translation gain	–	–	–	102	102	102
Total comprehensive income for the year	–	(4,031)	–	102	102	(3,929)
Balance at 31 December 2017	2,501,056	(2,049,117)	–	102	102	452,041

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

CONSOLIDATED CASH FLOWS STATEMENT

For the financial year ended 31 December 2018

	Notes	2018 Rp'million	2017 Rp'million
Operating activities			
Profit/(loss) before tax		111,579	(28,939)
Adjustments for:			
Depreciation of property, plant and equipment	12	97,949	88,997
Interest expense	7	84,736	79,333
Post-employment benefits expense	28	50,180	44,669
Allowance for doubtful receivables	8	19,089	4,962
Net loss/(gain) on change in fair value of biological assets	8/6	5,321	(2,024)
Amortisation of land use rights	8	3,498	3,495
Bad debt		2,968	–
Allowance for/(recovery of) advance to suppliers	8/6	2,709	(2,095)
Grant of equity-settled performance share plan		2,327	–
Inventories written-down	8	58	104
Gain on sale of land use rights		(135)	–
Net gain on disposal of property, plant and equipment	6	(420)	(263)
Interest income	5	(456)	(463)
Gain on disposal of assets held for sale	6	(30,014)	–
Net unrealised foreign exchange loss		21,838	987
Operating cash flow before changes in working capital		371,227	188,763
Changes in working capital			
Trade and other receivables		(29,059)	(98,184)
Inventories		(244,244)	13,523
Prepaid operating expenses		(1,753)	11,944
Advances to suppliers		(121,769)	(38,281)
Trade and other payables		79,683	5,710
Other liabilities		(70,223)	(27,754)
Advances from customers		(78,314)	73,611
Other non-current assets		(3,270)	(315)
Cash flows (used in)/generated from operations		(97,722)	129,017
Income taxes paid		(3,231)	(15,939)
Post-employment benefits paid	28	(46,767)	(12,935)
Net cash flows (used in)/generated from operating activities		(147,720)	100,143
Investing activities			
Purchase of property, plant, and equipment (Note (i))		(95,460)	(37,306)
Proceeds from disposal of asset held for sale		63,637	–
Additions of biological assets	14	(90)	(172)
Interest received		456	463
Proceeds from disposal of property, plant and equipment		570	659
Proceeds from disposal of land use rights		135	–
Net cash flows used in investing activities		(30,752)	(36,356)

CONSOLIDATED CASH FLOWS STATEMENT

For the financial year ended 31 December 2018

	Notes	2018 Rp'million	2017 Rp'million
Financing activities			
Proceeds from loans and borrowings		2,960,508	2,021,207
Repayments of loans and borrowings		(2,734,946)	(2,050,510)
Interest paid		(75,459)	(70,575)
Placement of restricted deposits		(2,613)	(367)
Acquisition of non-controlling interest without a change in control		–	(2,000)
Net cash flows generated from/(used in) financing activities		147,490	(102,245)
Net decrease in cash and cash equivalents		(30,982)	(38,458)
Effect of exchange rate change on cash and cash equivalents		697	233
Cash and cash equivalents at 1 January		33,905	58,724
Cash and cash equivalents at 31 December		3,620	20,499

For the purpose of the consolidated cash flow statement, the consolidated cash and cash equivalents comprise the following:

	Notes	2018	2017
Cash at banks and on hand	23	29,806	33,905
Less: Bank overdraft	27	(26,186)	(13,406)
Cash and cash equivalents		3,620	20,499

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

Movement in the addition of property, plant and equipment comprises of:

	2018	2017
Cash payment	95,460	37,306
Addition through finance lease	7,194	–
	102,654	37,306

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

1. General

Corporate information

Samko Timber Limited (the "Company") is a limited liability company which is incorporated and domiciled in Singapore and is listed on the Singapore Exchange. The immediate and ultimate holding company is Sampoerna Forestry Limited.

The registered office and principal place of business of the Company is located at 7500A Beach Road, #08-305/307 The Plaza, Singapore 199591.

The principal activities of the Company are investment holding and general wholesale trade. The principal activities of the subsidiaries are disclosed in Note 13.

2. Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company have been prepared in accordance with Singapore Financial Reporting Standards International (SFRS(I)).

For all periods up to and including the year ended 31 December 2017, the Group prepared its financial statements in accordance with Financial Reporting Standards in Singapore (FRS). These financial statements for the year ended 31 December 2018 are the first the Group has prepared in accordance with SFRS(I). Refer to Note 2.2 for information on how the Group adopted SFRS(I).

The financial statements have been prepared on a historical cost basis except as disclosed in the accounting policies below.

The financial statements are presented in Indonesia Rupiah (Rp) and all values in the tables are rounded to the nearest million, except when otherwise indicated.

<u>Fundamental accounting concepts</u>

For the financial year ended 31 December 2018, the Group reported profit before tax of Rp111,579 (2017: loss before tax of Rp28,939 million) and at that date, the Group's current liabilities exceeded its current assets by Rp122,641 million (2017: Rp218,192 million).

Notwithstanding this, in the opinion of the Directors, these financial statements can be prepared on a going concern basis due to the availability of banking facilities which will enable the Group to pay its debts as and when they fall due, and that the Group will also be able to generate adequate cash flows from its operations.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

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

2.2 First-time adoption of Singapore Financial Reporting Standards (International) (SRFS(I))

These financial statements for the year ended 31 December 2018 are the first the Group and the Company have prepared in accordance with SFRS(I). Accordingly, the Group and the Company have prepared financial statements that comply with SFRS(I) applicable as at 31 December 2018, together with the comparative period data for the year ended 31 December 2017, as described in the summary of significant accounting policies. On preparing the financial statements, the Group's and the Company's opening balance sheets were prepared as at 1 January 2017, the Group and the Company's date of transition to SFRS(I).

The principal adjustments made by the Group on adoption of SFRS(I) and the adoption of the new standards that are effective on 1 January 2018 are disclosed below.

Exemptions applied on adoption of SFRS(I)

SFRS(I) allows first-time adopters exemptions from the retrospective application of certain requirements under SFRS(I). The Group has applied the following exemptions:

- SFRS(I) 3 Business Combinations has not been applied to either acquisitions of subsidiaries that are considered businesses under SFRS(I), or acquisitions of interests in associates and joint ventures that occurred before 1 January 2017. The carrying amounts of assets and liabilities at the date of transition to SFRS(I) is the same as previously reported under FRS.

- SFRS(I) 1-21 The Effects of Changes in Foreign Exchange Rates has not been applied retrospectively to fair value adjustments and goodwill from business combinations that occurred before the date of transition to SFRS(I). Such fair value adjustments and goodwill are treated as assets and liabilities of the parent rather than as assets and liabilities of the acquiree. Therefore, those assets and liabilities are already expressed in the functional currency of the parent or are non-monetary foreign currency items and no further translation differences occur.

- The comparative information do not comply with SFRS(I) 9 Financial Instruments or SFRS(I) 7 Financial Instruments: Disclosures to the extent the disclosures relate to items within the scope of SFRS(I) 9.

New accounting standards effective on 1 January 2018

The accounting policies adopted are consistent with those previously applied under FRS except that in the current financial year, the Group has adopted all the SFRS(I) which are effective for annual financial periods beginning on or after 1 January 2018. Except for the impact arising from the exemptions applied as described above and the adoption of SFRS(I) 9 and SFRS(I) 15 described below, the adoption of these standards did not have any material effect on the financial performance or position of the Group and the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

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

2.2 First-time adoption of Singapore Financial Reporting Standards (International) (SRFS(I)) (cont'd)

SFRS(I) 9 Financial Instruments

On 1 January 2018, the Group adopted SFRS(I) 9 Financial instruments, which is effective for annual periods beginning on or after 1 January 2018.

The changes arising from the adoption of SFRS(I) 9 have been applied retrospectively. The Group has elected to apply the exemption in SFRS(I) 1 and has not restated comparative information in the year of initial application. The impact arising from SFRS(I) 9 adoption was included in the opening retained earnings at the date of initial application, 1 January 2018. The comparative information was prepared in accordance with the requirements of FRS 39.

<u>Classification and measurement</u>

SFRS(I) 9 requires debt instruments to be measured either at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVPL). Classification of debt instruments depends on the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). An entity's business model is how an entity manages its financial assets in order to generate cash flows and create value for the entity either from collecting contractual cash flows, selling financial assets or both. If a debt instrument is held to collect contractual cash flows, it is measured at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held both to collect the assets' contractual cash flows and to sell the assets are measured at FVOCI. Financial assets are measured at FVPL if they do not meet the criteria of FVOCI or amortised cost.

The assessment of the business model and whether the financial assets meet the SPPI requirements was made as of 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018.

The Group's debt instruments have contractual cash flows that are solely payments of principal and interest. Debt instruments that were measured at amortised cost previously are held to collect contractual cash flows, and accordingly measured at amortised cost under SFRS(I) 9. There is no significant impact arising from the measurement of the Group's debt instruments under SFRS(I) 9.

SFRS(I) 9 requires all equity instruments to be carried at fair value through profit or loss, unless an entity chooses on initial recognition, to present fair value changes in other comprehensive income.

<u>Impairment</u>

SFRS(I) 9 requires the Group to record expected credit losses on all of its financial assets measured at amortised cost or FVOCI and financial guarantees. The Group previously recorded impairment based on the incurred loss model when there is objective evidence that a financial asset is impaired.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

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

2.2 First-time adoption of Singapore Financial Reporting Standards (International) (SRFS(I)) (cont'd)

SFRS(I) 9 Financial Instruments (cont'd)

Impairment

Upon adoption of SFRS(I) 9, the Group recognised additional impairment on the Group's trade receivables of Rp5,926 million. The additional impairment recognised arising from adoption of SFRS(I) 9 resulted in a corresponding increase in the Group's consolidated accumulated losses as at 1 January 2018. The Group had determined that there was no significant impact on the Company's financial assets upon the adoption of SFRS(I) 9.

The reconciliation for loss allowances for the Group are as follows:

	Trade receivables Rp'million
Opening loss allowance as at 1 January 2018	20,198
Amount restated through opening retained earnings	5,926
Adjusted loss allowance	26,124

SFRS(I) 15 Revenue from Contracts with Customers

The Group adopted SFRS(I) 15 which is effective for annual periods beginning on or after 1 January 2018.

The Group is in the business of manufacturing and sale of primary processed timber products such as general plywood and laminated veneer lumber and secondary processed timber products such as truck, piano body parts and decking. The Group has assessed that the adoption of this standard does not have any impact to the Group.

The following is the reconciliation of the impact arising from first-time adoption of SFRS(I), including the application of new standards on 31 December 2017 to balance sheet of the Group. The adoption of SFRS(I) does not have any impact to the balance sheet of the Group as at 1 January 2017.

	31 December 2017 (FRS) Rp'million	SFRS(I) 9 adjustments Rp'million	1 January 2018 (SFRS(I)) Rp'million
Non-current assets			
Property, plant and equipment	502,306	–	502,306
Biological assets	51,454	–	51,454
Land use rights	57,877	–	57,877
Deferred tax assets	111,318	–	111,318
Other non-current assets	17,194	–	17,194
	740,149	–	740,149

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

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

2.2 First-time adoption of Singapore Financial Reporting Standards (International) (SRFS(I)) (cont'd)

SFRS(I) 15 Revenue from Contracts with Customers **(cont'd)**

	31 December 2017 (FRS) Rp'million	SFRS(I) 9 adjustments Rp'million	1 January 2018 (SFRS(I)) Rp'million
Current assets			
Inventories	496,809	–	496,809
Trade and other receivables	269,131	(5,926)	263,205
Prepaid operating expenses	35,176	–	35,176
Advances to suppliers	58,246	–	58,246
Restricted deposits	12,987	–	12,987
Cash at banks and on hand	33,905	–	33,905
	906,254	(5,926)	900,328
Non-current assets held for sale	29,840	–	29,840
	936,094	(5,926)	930,168
Current liabilities			
Trade and other payables	283,433	–	283,433
Other liabilities	124,239	–	124,239
Advances from customers	86,050	–	86,050
Income tax payable	13,442	–	13,442
Loans and borrowings	647,122	–	647,122
	1,154,286	–	1,154,286
Net current (liabilities)/assets	(218,192)	(5,926)	(224,118)
Non-current liabilities			
Loans and borrowings	181,062	–	181,062
Post-employment benefits	254,324	–	254,324
	435,386	–	435,386
Net assets	86,571	(5,926)	80,645
Equity attributable to owners of the Company			
Share capital	2,501,056	–	2,501,056
Accumulated losses	(2,739,797)	(5,926)	(2,745,723)
Other reserves	320,495	–	320,495
	81,754	(5,926)	75,828
Non-controlling interests	4,817	–	4,817
Total equity	86,571	(5,926)	80,645

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

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

2.3 Standards issued but not yet effective

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

Description	*Effective for annual periods beginning on or after*
SFRS(I) 16 Leases	1 January 2019
SFRS(I) INT 23 Uncertainty over Income Tax Treatments	1 January 2019
Amendments to SFRS(I) 9 Prepayment Features with Negative Compensation	1 January 2019
Amendments to SFRS(I) 1-28 Long-term Interests in Associates and Joint Ventures	1 January 2019
Annual Improvements to SFRS(I)s 2015-2017 Cycle	1 January 2019
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 SFRS(I) 16, the directors expect that the adoption of the other standards above will have no material impact on the financial statements in the year of initial application. The nature of the impending changes in accounting policy on adoption of SFRS(I) 16 are described below.

SFRS(I) 16 Leases

SFRS(I) 16 requires lessees to recognise most leases on balance sheets. The standard includes two recognition exemptions for lessees – leases of 'low value' assets and short-term leases. SFRS(I) 16 is effective for annual periods beginning on or after 1 January 2019. At commencement date of a lease, a lessee will recognise a liability to make a lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

The Group plans to adopt SFRS(I) 16 retrospectively with the cumulative effect of initially applying the standard as an adjustment to the opening retained earnings at the date of initial application, 1 January 2019.

On the adoption of SFRS(I) 16, the Group expects to choose, on a lease-by-lease basis, to measure the right-of-use asset at either:

(i) its carrying amount as if SFRS(I) 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate as of 1 January 2019; or

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

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

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

(ii) an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before 1 January 2019.

- not to reassess whether a contract is, or contains a lease at the date of initial application and to apply SFRS(I) 16 to all contracts that were previously identified as leases
- to apply the exemption not to recognise right-of-use asset and lease liabilities to leases for which the lease term ends within 12 months as of 1 January 2019
- to apply a single discount rate to a portfolio of leases with reasonably similar characteristics

The Group has performed a preliminary impact assessment based on currently available information, and the assessment may be subject to changes arising from ongoing analysis until the Group adopts SFRS(I) 16 in 2019.

On the adoption of SFRS(I) 16, the Group expects to recognise right-of-use assets of Rp1,533 billion and lease liabilities of Rp1,574 billion for its leases previously classified as operating leases, with a corresponding decrease in the opening retained earnings of Rp34 million and its related tax impact as of 1 January 2019.

2.4 Basis of consolidation and business combinations

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

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

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

- De-recognises the assets (including goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost;
- De-recognises the carrying amount of any non-controlling interest;
- De-recognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

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

2.4 Basis of consolidation and business combinations (cont'd)

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

- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;
- Reclassifies the Group's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

(b) ***Business combination and goodwill***

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in profit or loss.

The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any), that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation, is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another SFRS(I).

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

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

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

The cash generating units to which goodwill have been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

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

2.5 Transactions with non-controlling interests

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company.

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

2.6 Foreign currency

The financial statements are presented in Indonesia Rupiah ("Rp"). The Company's functional currency is United States Dollar ("US$"), which reflects the economic substance of the underlying events and circumstances of the Company. Each entity in the Group determines its own functional currency.

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

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting period are recognised in profit or loss.

(b) ***Consolidated financial statements***

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

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

2.7 Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. Subsequent to recognition, property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. The cost includes the cost of replacing part of the property, plant and equipment, 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 values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

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

2.8 Biological assets

Biological assets comprise of 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 fertilizer, before the deduction of harvesting. The fair value is measured as the present value of the harvest from one growth cycle based on the productive forestland.

2.9 Intangible assets

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

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

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

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

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

Technical know-how

This technical know-how was acquired in business combinations, relates to the development of technology to genetically duplicate elite tree candidates, thereby producing seedlings that have the same desirable characteristics as the mother tree. This technology is applicable for certain tree species, which are popular trees used in the plywood industry in Indonesia.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

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

2.9 Intangible assets (cont'd)

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

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

2.10 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 – 30 years.

2.11 Subsidiaries

A subsidiary is an investee that is controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less impairment losses.

2.12 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when an annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

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

2.12 Impairment of non-financial assets (cont'd)

Impairment losses of are recognised in profit or loss, except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase. Impairment losses relating to goodwill cannot be reversed in future periods.

2.13 Financial instruments

(a) ***Financial assets***

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.

Subsequent measurement

<u>Investments in debt instruments</u>

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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

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

2.13 Financial instruments (cont'd)

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

De-recognition

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On de-recognition 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.

(b) ***Financial liabilities***

Initial recognition and measurement

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

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

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.

De-recognition

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.

2.14 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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

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

2.14 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.

2.15 Inventories

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

Where necessary, allowance is provided for damaged, obsolete and slow moving items to adjust the carrying value of inventories to the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

2.16 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 also include bank overdrafts that form an integral part of the Group's cash management.

2.17 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

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

2.18 Interest bearing loans and borrowings

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

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

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

2.19 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.

2.20 Employee benefit

(a) ***Defined contribution plans***

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

(b) ***Termination benefits***

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

(c) ***Pension benefits***

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

Re-measurements, comprising of actuarial gains and losses, is recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through Other Comprehensive Income in the period in which they occur. Re-measurements 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 benefit obligation under 'administration expenses' in consolidated statement of profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

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

2.21 Leases

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

For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional requirements of INT FRS 104.

As lessee

Finance leases which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss. Contingent rents, if any, are charged as expenses in the periods in which they are incurred.

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

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

2.23 Revenue

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.

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

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

(b) ***Interest income***

Interest income is recognised using the effective interest method.

(c) ***Dividend income***

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

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

2.24 Taxes

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

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

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

(b) ***Deferred tax***

Deferred tax is provided using the liability method on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, 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, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

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

2.24 Taxes (cont'd)

(b) ***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.

(c) ***Sales tax***

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- Where the sales tax incurred in a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheets.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

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

2.25 Contingencies

A contingent liability is:

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

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

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

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

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

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

3. Significant accounting judgements and estimates

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of each reporting period. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

3.1 *Judgements made in applying accounting policies*

In the process of applying the Group's accounting policies, management is of the opinion that the instances of application of judgement are not expected to have a significant effect on the amounts recognised in the financial statements.

3.2 *Key sources of estimation uncertainty*

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period are discussed below. The Group based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

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

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

(a) ***Valuation of biological assets***

Biological assets are measured at its fair value less costs to sell. Annual valuation by an independent professional valuer is carried out to ascertain the fair value of biological assets. The carrying amount of biological assets as at 31 December 2018 was Rp44,294 million (31 December 2017: Rp51,454 million, 1 January 2017: Rp49,971 million).

(b) ***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 models which requires the Company to make an estimate of the expected future cash flows from the subsidiaries and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of the Company's investment in subsidiaries as at the end of the reporting period is disclosed in Note 13.

The recoverable amount of the investment in subsidiaries is sensitive to the valuation inputs such as expected sales prices and discount rate. A reduction of 1% in sales price and an increase of 1% in the discount rates would not result in impairment of the carrying amount of the investment in subsidiaries of the Company as at 31 December 2018.

(c) ***Post-employment benefits***

The cost of the defined benefit pension plan and the present value of the pension obligation are calculated using actuarial valuations 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, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Post-employment liabilities at 31 December 2018 amounted to Rp218,845 million (31 December 2017: Rp268,848 million, 1 January 2017: Rp231,275). Further details about pension obligations are disclosed in Note 28.

(d) ***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 amounts of the Group's tax payables at 31 December 2018 were Rp14,495 million (31 December 2017: Rp13,442 million, 1 January 2017: Rp10,963 million).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

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

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

(e) ***Provision for expected credit losses 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 every reporting date, historical default rates are updated and changes in the forward-looking estimates are analysed.

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. The information about the ECLs on the Group's trade receivables is disclosed in Note 19.

The carrying amount of trade receivables as at 31 December 2018 are Rp268,824 million (31 December 2017: Rp261,920 million, 1 January 2017: Rp163,471 million) respectively.

4. Revenue

	Group	
	2018	**2017**
	Rp'million	Rp'million
Primary geographical markets		
Indonesia	2,210,341	2,050,740
North Asia	1,102,908	716,929
United States of America	393,223	195,991
Malaysia	327,464	259,594
Others	319,823	239,308
Sales of goods at point in time	4,353,759	3,462,562

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

5. Finance income

Finance income relates to interest income.

6. Other income

	Group	
	2018	**2017**
	Rp'million	Rp'million
Gain on disposal of assets held for sale	30,014	–
Net gain on disposal of property, plant and equipment	420	263
Recovery of advance to suppliers	–	2,095
Net gain on change in fair value of biological assets	–	2,024
	30,434	4,382

7. Finance expenses

	Group	
	2018	**2017**
	Rp'million	Rp'million
Interest expense on:		
Bank borrowings	80,453	71,085
Bank borrowings from a related party	4,012	5,137
Obligation under finance lease	271	3,111
Bank charges	7,652	6,928
	92,388	86,261

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

8. Other expenses

	Group	
	2018	2017
	Rp'million	Rp'million
Net foreign exchange loss	19,284	247
Allowance for doubtful receivables	19,089	4,962
Worker separation expenses	7,160	4,297
Net loss on change in fair value of biological assets	5,321	–
Amortisation of land use rights	3,498	3,495
Bad debt	2,968	–
Allowance for advance to suppliers	2,709	–
Inventories written-down	58	104
Others	11,404	30,844
	71,491	43,949

9. Profit/(loss) before tax

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

	Group	
	2018	2017
	Rp'million	Rp'million
Audit fees paid to:		
- Auditor of the Company	1,668	1,420
- Other auditors	2,676	2,034
Non-audit fees paid to:		
- Auditor of the Company	136	146
Factory overhead	1,153,063	766,678
Salaries and employees' benefits		
- Salaries	853,459	708,914
- Defined plan benefit	56,119	40,099
- Other short-term benefits	23,002	4,447
Post-employment benefits (Note 28)	50,180	44,669
Rental expenses	8,911	8,406
Depreciation of property, plant and equipment (Note 12)	97,949	88,997
Freight charges	110,934	90,584
Legal and other professional fees	67,311	37,840

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2018

10. Income tax expense/(credit)

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

The major components of income tax expense/(credit) for the years ended 31 December are:

	Group	
	2018	**2017**
	Rp'million	Rp'million
<u>Consolidated income statement:</u>		
Current income tax:		
Current income taxation	9,430	14,286
Under provision in respect of previous years	2,064	151
	11,494	14,437
Deferred income tax (Note 16)		
Origination and reversal of temporary differences	36,001	(11,310)
Benefits from previously unrecognised deferred tax assets	–	(59,276)
	36,001	(70,586)
Income tax expense/(credit) recognised in profit or loss	47,495	(56,149)
<u>Consolidated statement of comprehensive income:</u>		
Deferred income tax:		
Net actuarial gain/(loss) on post-employment benefits	13,281	(1,644)

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

10. Income tax expense/(credit) (cont'd)

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

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

	Group	
	2018	**2017**
	Rp'million	Rp'million
Profit/(loss) before tax	111,579	(28,939)
Tax at domestic rates applicable in the countries where the Group operates	14,930	(12,830)
Income not subject to tax	(113)	(114)
Non-deductible expenses	28,096	21,961
Under provision of prior year income tax	2,064	151
Deferred tax assets not recognised for the current year tax losses	1,115	11,230
Effect of partial tax exemption and tax relief	(272)	(1,578)
Benefits from previously unrecognised deferred tax assets	–	(59,276)
Utilisation of deferred tax assets not recognised previously	–	(15,981)
Others	1,675	288
Income tax expense/(credit) recognised in profit or loss	47,495	(56,149)

The corporate income tax applicable to the entities in Singapore is 17.0% (2017: 17.0%). The corporate income tax rate applicable to the subsidiaries in Indonesia is 25.0% (2017: 25.0%).

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

10. Income tax expense/(credit) (cont'd)

(b) ***Relationship between tax expense/(credit) and accounting profit (cont'd)***

Tax losses

As of 31 December 2018, the Group has tax losses of approximately Rp107,244 million (31 December 2017: Rp314,108 million, 1 January 2017: Rp475,406 million) that are available for offset against future taxable profits, subjected to a maximum of five years period based on the Indonesia tax regulation. No deferred tax asset has been recognised for tax losses of approximately Rp94,479 million (31 December 2017: Rp149,094 million, 1 January 2017: Rp472,529 million) due to uncertainty of its recoverability. The use of these tax losses is subject to the agreement of the tax authorities and compliance with certain provisions of the tax legislation in the country in which the Company and its subsidiaries operate.

Temporary differences on undistributed earnings:

A deferred tax liability of approximately Rp698 million (2017: Rp702 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.

11. 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 years ended 31 December:

Group	**2018** Rp'million	**2017** Rp'million
Profit of the year attributable to owners of the Company used in computation of earnings per share	65,486	30,092
	Number of shares	
Weighted average number of ordinary shares used for basic earnings per share computation	2,375,106,549	2,374,050,505
Effects of dilution:		
- Performance share plan	6,320,272	-
Weighted average number of ordinary shares used for diluted earnings per share computation	2,381,426,821	2,374,050,505

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2018

12. Property, plant and equipment

						Construction in progress		Leased assets		
Group	**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 Rp	**Total** Rp'million
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 2018

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

						Construction in progress		Leased assets	
Group (cont'd)	**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	**Total** Rp'million
Cost									
At 1 January 2017	331,616	1,169,994	52,213	52,588	88,091	2,125	14,741	19,596	1,730,964
Additions	–	6,030	273	37	4,309	13,320	13,337	–	37,306
Disposals	(377)	(1,118)	–	(825)	(267)	(33)	(149)	–	(2,769)
Reclassifications	(13,722)	18,458	(4,865)	(9)	(452)	(11,729)	(2,386)	–	(14,705)
Translation reserve	–	3	–	21	25	–	–	–	49
At 31 December 2017	317,517	1,193,367	47,621	51,812	91,706	3,683	25,543	19,596	1,750,845
Accumulated depreciation and impairment									
At 1 January 2017	165,055	846,291	33,753	42,696	67,766	–	–	17,160	1,172,721
Depreciation charge for the year	13,510	62,606	3,163	2,687	6,896	–	–	135	88,997
Disposals	(6)	(161)	–	(640)	(30)	–	–	–	(837)
Reclassifications	(25,257)	15,571	(3,245)	184	(312)	–	–	677	(12,382)
Translation reserve	–	–	–	16	24	–	–	–	40
At 31 December 2017	153,302	924,307	33,671	44,943	74,344	–	–	17,972	1,248,539
Net carrying amount									
At 31 December 2017	164,215	269,060	13,950	6,869	17,362	3,683	25,543	1,624	502,306
At 1 January 2017	166,561	323,703	18,460	9,892	20,325	2,125	14,741	2,436	558,243

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

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

Depreciation

Depreciation charges allocated to cost of sales and general and administrative expenses amounted to Rp81,347 million (2017: Rp83,215 million) and Rp16,602 million (2017: Rp5,782 million) respectively.

Assets pledged as security

Buildings and improvements, machinery and heavy equipment with aggregate net book value of Rp413,024 million in 2018 (31 December 2017: Rp463,191 million, 1 January 2017: Rp530,677 million) are pledged as collateral for interest bearing loans (Note 27).

Non-current assets held for sale

In 2018, the Group sold its factory in Tangerang, Indonesia. The factory had a net book value ('NBV') of Rp29,840 million (31 December 2017: Rp29,840 million, 1 January 2017: Rp26,865 million) and was reclassified as assets held for sale in previous years.

Company	**Furniture, fixtures and equipment** Rp'million
Cost	
At 1 January 2017	553
Translation reserve	4
At 31 December 2017 and 1 January 2018	557
Disposal	(179)
Translation reserve	35
At 31 December 2018	413
Accumulated depreciation	
At 1 January 2017	521
Depreciation charge for the year	32
Translation reserve	4
At 31 December 2017 and 1 January 2018	557
Depreciation charge for the year	–
Disposal	(179)
Translation reserve	35
At 31 December 2018	413
Net carrying amount	
At 31 December 2018	–
At 31 December 2017	–
At 1 January 2017	32

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

13. Investment in subsidiaries

	2018 Rp'million	31.12.2017 Rp'million	1.1.2017 Rp'million
Company			
Unquoted shares, at cost	2,785,619	2,398,107	2,086,697
Impairment losses	(1,960,621)	(1,960,621)	(1,960,621)
	824,998	437,486	126,076

Principal subsidiaries of the Group are as follow:

Name (Country of incorporation)	Principal activities	Percentage of effective equity interest held by the Company	
		2018	2017
@ PT Sumber Graha Sejahtera (Indonesia)	Production of plywood, laminated veneer lumber wood panels and wood based furniture	100.00	99.99
# Samko Trading Pte Ltd (Singapore)	Wholesale of plywood, sawn timber, logs and related products	100.00	100.00
& PT Alam Raya Makmur (Indonesia)	Wholesale of plywood, sawn timber, logs and related products	100.00	100.00
& PT Anugrah Karunia Alam (Indonesia)	Wholesale of plywood, sawn timber, logs and related products	100.00	100.00

\# *Audited by Ernst & Young LLP Singapore*

@ *Audited by Purwantono, Sungkoro & Surja, Jakarta – a member of Ernst & Young Global Limited*

& *Audited by Mirawati Sensi Idris, Jakarta – a member of Moore Stephens (2017: Tanubrata Sutanto Fahmi & Rekan, Jakarta – a member of BDO International Limited)*

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

13. Investment in subsidiaries (cont'd)

Impairment testing of investment in subsidiaries

During the financial year, management performed an assessment for impairment tests 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.

The recoverable amount of the subsidiary has been determined based on a value in use calculation using cash flow projections based on a financial budget approved by management covering a 5-year period. The pre-tax discount rate applied to the cash flow projection is 13.2%.

Acquisition of non-controlling interest without a change in control

During the financial year ended 31 December 2017, the Group's wholly-owned subsidiary company, PT Alam Raya Makmur, acquired an additional 0.01% equity interest in SGS from its non-controlling interests for a cash consideration of Rp2,000 million. As a result of this acquisition, SGS became a wholly-owned subsidiary of Samko Timber Limited. The carrying value of the additional interest acquired was in a deficit of Rp1,037 million. The difference of Rp3,037 million between the consideration and the carrying value of the additional interest acquired had been recognised as "Premium paid on acquisition of non-controlling interests" within equity.

The following summarises the effect of the change in the Group's ownership interest in SGS on the equity attributable to owners of the Company:

	Rp'million
Consideration paid for acquisition of non-controlling interest	2,000
Increase in equity attributable to non-controlling interest	1,037
Decrease in equity attributable to owners of the Company	3,037

14. Biological assets

Group	2018 Rp'million	2017 Rp'million
At fair value		
At 1 January	51,454	49,971
Capitalisation of expenses	90	172
Harvest of trees	(1,929)	(713)
Net change in fair value less estimated cost to sell	(5,321)	2,024
At 31 December	44,294	51,454

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

14. Biological assets (cont'd)

The Group's plantations are located in Java and Sulawesi with total planted areas that cover 1,357 hectares in 2018 (31 December 2017: 1,447 hectares, 1 January 2017: 1,531 hectares). Plantation trees consist of Gmelina Arborea, Paraserianthes Falcataria, Anthocepalus Cadamba and Tectona Grandis with 72% aged between 1 – 7 years (31 December 2017: 74%, 1 January 2017: 75%).

Fair value determination

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

(a) No new planting or re-planting activities are assumed.
(b) The economic life of each standing tree is 6 – 10 years (31 December 2017: 6 – 10 years, 1 January 2017: 6 – 10 years);
(c) Yield is 11 – 292 (31 December 2017: 13 – 283, 1 January 2017: 26 – 283) cubic meter per hectare;
(d) Average inflation rate is 3.6% (31 December 2017: 4.6%, 1 January 2017: 4.07%) per annum;
(e) Discount rate is 12.95% (31 December 2017: 12.37%, 1 January 2017: 12.2%) per annum; and
(f) Market price is derived from average market price per species.

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 2018

15. Land use rights

Group	2018 Rp'million	2017 Rp'million
Cost:		
At 1 January	105,044	105,044
Disposal	(23)	–
At 31 December	105,021	105,044
Accumulated amortisation:		
At 1 January	47,167	43,672
Amortisation	3,498	3,495
Disposal	(23)	–
At 31 December	50,642	47,167

	2018 Rp'million	31.12.2017 Rp'million	1.1.2017 Rp'million
Net carrying amount	54,379	57,877	61,372
Amount to be amortised:			
- Not later than one year	3,498	3,495	3,495
- Later than one year but not later than five years	13,980	13,980	13,980
- Later than five years	36,901	40,402	43,897

The land use rights (comprising 398 hectares of land) are transferable and have a remaining tenure up to 26 years (31 December 2017: 27 years, 1 January 2017: 28 years).

As at 31 December 2018, land use rights with the aggregate carrying amount of Rp43,153 million (31 December 2017: Rp47,196 million, 1 January 2017: Rp52,022 million) have been pledged as collateral for interest bearing loans (Note 27).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

16. Deferred tax

Deferred tax as at 31 December relates to the following:

	Consolidated balance sheets			Consolidated income statement	
	2018	31.12.2017	1.1.2017	2018	2017
	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million
Group					
Deferred tax assets:					
Unutilised tax losses	3,191	41,254	719	(38,063)	40,535
Difference in employees' benefits obligation	54,204	66,725	36,141	862	28,864
Allowance for incentives	92	1,908	131	(1,816)	1,777
Allowance for inventory obsolescence	–	–	696	–	(696)
Allowance for bad debts	429	240	187	189	53
Allowance for advance to suppliers	1,213	906	650	307	256
Difference in depreciation for tax purposes	2,582	(185)	1,570	2,767	(1,755)
Other items	314	470	661	(156)	(191)
	62,025	111,318	40,755		
Deferred tax liabilities:					
Difference in employees' benefits obligation	–	–	4,443	–	(4,367)
Allowance for inventory obsolescence	–	–	386	–	(386)
Allowance for bad debts	–	–	490	–	(490)
Difference in depreciation for tax purposes	–	–	(962)	–	962
Difference in accounting and tax treatment of finance lease	(91)	–	(6,024)	(91)	6,024
	(91)	–	(1,667)		
Deferred income tax (Note 10)				(36,001)	70,586

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

17. Other non-current assets

	Group			Company		
	2018	31.12.2017	1.1.2017	2018	31.12.2017	1.1.2017
	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million
Advances for purchase of property, plant and equipment	39,370	1,815	1,983	–	–	–
Estimated claim for tax refund	4,031	12,525	2,845	–	–	–
Guarantee deposits - net	797	2,406	2,482	–	–	–
Advance to a subsidiary	–	–	–	–	–	311,410
Others	1,656	448	12	–	–	–
	45,854	17,194	7,322	–	–	311,410

18. Inventories

Group	2018 Rp'million	31.12.2017 Rp'million	1.1.2017 Rp'million
Balance sheets:			
At cost			
Raw materials	95,518	32,613	28,674
Work in progress	218,610	210,609	219,475
Indirect materials and spare parts	126,976	86,419	83,274
At lower of cost and net realisable value			
Finished goods	299,891	167,168	179,013
	740,995	496,809	510,436

Group	2018 Rp'million	2017 Rp'million
Income statement:		
Inventories recognised as an expense in cost of sales	1,691,878	1,592,375
Inventories written-down in other expenses	58	104

As at 31 December 2018, inventories with the aggregate carrying amount of Rp613,699 million (31 December 2017: Rp409,229 million, 1 January 2017: Rp424,819 million) have been pledged as collateral for interest bearing loans (Note 27).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

19. Trade and other receivables

	Group			Company		
	2018	31.12.2017	1.1.2017	2018	31.12.2017	1.1.2017
	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million
Trade receivables						
- Third parties	268,824	261,920	163,471	16,528	18,026	10,065
Other receivables						
- Third parties	79,779	7,211	11,725	–	–	–
- Subsidiary companies	–	–	–	5,093	17,598	22,605
Total trade and other receivables	348,603	269,131	175,196	21,621	35,624	32,670
Less: Other receivables	(76,467)	–	–	–	–	–
Add:						
Cash at banks and on hand (Note 23)	29,806	33,905	58,724	2,097	2,597	4,543
Restricted deposits (Note 22)	16,138	12,987	12,555	–	–	–
Guarantee deposits – net (Note 17)	797	2,406	2,482	–	–	–
Total financial assets carried at amortised costs	318,877	318,429	248,957	23,718	38,221	37,213

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

As at 31 December 2018, consolidated trade receivables with an aggregate carrying amount of Rp142,950 million (31 December 2017: Rp160,965 million, 1 January 2017: Rp122,528 million) have been pledged as collateral for interest bearing loans (Note 27).

During the year, the Group entered into a sublease arrangement for machinery with a supplier of logs. As at 31 December 2018, the lease receivable (included in other receivables – third parties) amounted to Rp76,467 million and will be settled by the delivery of logs.

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

19. Trade and other receivables (cont'd)

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

	Group			Company		
	2018	31.12.2017	1.1.2017	2018	31.12.2017	1.1.2017
	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million
United States Dollar	1,675	4,556	8,666	–	–	–
Malaysian Ringgit	–	162	1,848	–	–	–
Singapore Dollar	–	–	–	636	17,598	24,574

Receivables that are past due but not impaired

The Group and Company has trade receivables as at 31 December 2017 is amounting to Rp56,092 million (1 January 2017: Rp48,618 million) and Rp15,793 million (1 January 2017: Rp21,416), respectively that are past due at the balance sheets date but not impaired. These receivables are unsecured and the analysis of their aging at the balance sheets date is as follows:

	Group		Company	
	31.12.2017	1.1.2017	31.12.2017	1.1.2017
	Rp'million	Rp'million	Rp'million	Rp'million
61 – 90 days	6,582	6,369	130	–
More than 90 days	49,510	42,249	15,663	21,416
Total	56,092	48,618	15,793	21,416

Receivables that are impaired

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

Trade receivables	19,590	14,567	465	–
Less: Allowance for impairment	(19,590)	(14,567)	(465)	–
Other receivables	608	558	1,023	969
Less: Allowance for impairment	(608)	(558)	(1,023)	(969)
Total	–	–	–	–
Movement in allowance accounts:				
At 1 January 2017	15,125		969	
Charge for the year	4,962		465	
Translation	111		54	
At 31 December 2017	20,198		1,488	

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

19. Trade and other receivables (cont'd)

Trade receivables that are individually determined to be impaired at the end of the reporting period relate to debtors that are in significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

Expected credit losses

The movement in allowance for expected credit losses of trade receivables computed based on lifetime ECL as at 31 December 2018 are as follows:

	Group	Company
	Rp'million	Rp'million
Movement in allowance accounts:		
At 1 January 2018	26,124	1,488
Charge for the year	19,089	–
Translation	366	88
At 31 December 2018	45,579[1]	1,576

[1] Includes allowance for expected credit losses of other receivables of Rp3,532 million.

20. Prepaid operating expenses

	2018	31.12.2017	1.1.2017
Group	Rp'million	Rp'million	Rp'million
Value-added tax and income taxes	42,089	20,163	20,485
Insurance	8,119	7,235	443
Rental	2,821	3,844	6,754
Others	5,827	3,934	19,760
	58,856	35,176	47,442

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For the financial year ended 31 December 2018

21. Advances to suppliers

Group	2018 Rp'million	31.12.2017 Rp'million	1.1.2017 Rp'million
For the procurement of:			
Logs	71,836	19,352	6,919
Veneers	5,393	8,930	397
Spare parts	74,663	23,007	4,937
Others	19,503	6,957	5,617
	171,395	58,246	17,870

22. Restricted deposits

This represents escrow accounts opened and maintained with a lender and are pledged as collateral for interest bearing loans (Note 27).

At the end of the reporting period, restricted deposits amounting to Rp9,637 million (31 December 2017: Rp7,373 million, 1 January 2017: Rp6,309 million) are denominated in United States dollar.

23. Cash at banks and on hand

	Group			Company		
	2018 Rp'million	31.12.2017 Rp'million	1.1.2017 Rp'million	2018 Rp'million	31.12.2017 Rp'million	1.1.2017 Rp'million
Cash on hand	550	1,999	2,048	–	–	–
Cash at banks	29,256	31,906	34,676	2,097	2,597	4,543
	29,806	33,905	36,724	2,097	2,597	4,543
Short term deposit	–	–	22,000	–	–	–
Cash at banks and on hand	29,806	33,905	58,724	2,097	2,597	4,543
Interest rate per annum	0.1% - 2.0%	0.1% - 2.0%	0.1% - 8.0%	0.1%	0.1%	0.1%

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

23. Cash at banks and on hand (cont'd)

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

Short term deposit placed with banks have a maturity period of 1 month and bears interest at 8% per annum.

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

	Group			Company		
	2018	31.12.2017	1.1.2017	2018	31.12.2017	1.1.2017
	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million
United States Dollar	15,146	7,274	10,589	–	–	–
Singapore Dollar	1,624	1,302	1,803	1,115	821	3,863

24. Trade and other payables

	Group			Company		
	2018	31.12.2017	1.1.2017	2018	31.12.2017	1.1.2017
	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million
Trade payable						
- Third parties	347,350	247,747	265,031	–	–	–
- Related parties	1,664	143	8,650	–	–	–
- Subsidiary companies	–	–	–	18,929	20,766	12,804
Other payable						
- Third parties	14,102	35,543	4,042	–	–	40
Total trade and other payables	363,116	283,433	277,723	18,929	20,766	12,844
Add:						
- Other liabilities(1) (Note 25)	70,640	100,045	123,040	3,513	3,244	6,282
- Loans and borrowings (Note 27)	1,176,496	828,184	831,532	–	–	–
Total financial liabilities carried at amortised cost	1,610,252	1,211,662	1,232,295	22,442	24,010	19,126

(1) Excludes value-added tax and post-employment benefits

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

24. Trade and other payables (cont'd)

Trade payable – third parties are non-interest bearing. Trade payables are normally settled on 60-days terms while other payables have an average term of three months.

Trade payable – related parties and subsidiary companies are unsecured, non-interest bearing and repayable on demand.

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

	Group			Company		
	2018	31.12.2017	1.1.2017	2018	31.12.2017	1.1.2017
	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million
United States Dollar	13,141	6,368	9,271	–	–	–
Euro	–	66	820	–	–	–
Singapore Dollar	6	7	66	–	–	–

25. Other liabilities

	Group			Company		
	2018	31.12.2017	1.1.2017	2018	31.12.2017	1.1.2017
	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million
Accrual for operating expenses	66,515	96,644	119,037	3,492	3,244	6,282
Accrued interest	4,017	3,245	3,075	–	–	–
Value-added tax	2,021	9,670	8,882	127	50	45
Post-employment benefits (Note 28)	345	14,524	15,430	–	–	–
Others	108	156	928	21	–	–
	73,006	124,239	147,352	3,640	3,294	6,327

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

26. Advances from customers

Group	2018 Rp'million	31.12.2017 Rp'million	1.1.2017 Rp'million
Local	6,104	85,580	6,779
Export	1,632	470	5,660
	7,736	86,050	12,439

The local balance in prior year represents advances received from customers for sales of the Group's products. Included in the advances from customers – local as at 31 December 2017 was advances of Rp59,921 million received from the employee cooperative.

27. Loans and borrowings

Group	2018 Rp'million	31.12.2017 Rp'million	1.1.2017 Rp'million
Current			
Interest bearing loans	1,002,627	647,022	502,080
Obligation under finance lease	27,454	100	419
	1,030,081	647,122	502,499
Non-current			
Interest bearing loans	100,019	181,004	328,875
Obligation under finance lease	46,396	58	158
	146,415	181,062	329,033
Total loans and borrowings	1,176,496	828,184	831,532

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

27. Loans and borrowings (cont'd)

	2018 Rp'million	31.12.2017 Rp'million	1.1.2017 Rp'million
(i) ***Interest bearing loans***			
Group			
(a) Total facilities up to US$59,395,000 (approximately: Rp860,099 million) and Rp568,850 million (31 December 2017: US$34,395,000 (approximately: Rp465,983 million) and Rp428,850 million, 1 January 2017: US34,395,000 (approximately: Rp462,131 million) and Rp428,850 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. Interest for term loans consists of US$24,395,000 (31 December 2017: US$24,395,000, 1 January 2017: US$24,395,000) and Rp209,300 million (31 December 2017: Rp209,300 million, 1 January 2017: Rp209,300 million) loan is at 1 month LIBOR plus 4.25% - 4.75% (31 December 2017: 4.75%, 1 January 2017: 3 month LIBOR plus 4.75%), and lender prime lending rate plus 0.5% - 1% (31 December 2017: 1% - 1.75%, 1 January 2017: 1.75%) per annum, respectively. Interest for demand loans, preshipment financing and bill purchase, trade purchase financing, bank guarantee and foreign exchange line, consists of US$35,000,000 (31 December 2017: US$10,000,000, 1 January 2017: US$10,000,000) and Rp359,550 million (31 December 2017: Rp219,550 million, 1 January 2017: Rp219,550 million) loan is at COF plus 3% - 3.5%, and 1 month LIBOR plus 3.5% - 4.25% (31 December 2017: 1 month LIBOR plus 4.25%, 1 January 2017: 1 month LIBOR plus 4.25%) and lender prime lending rate plus 0.5% - 1% per annum (31 December 2017: 1% - 1.75%, 1 January 2017: 1.75%), per annum, respectively. The loan includes financial covenants which require a group of subsidiaries to maintain EBITDA to debt service ratio not less than 1.25 times, adjusted leverage ratio not more than 2.5 times, consolidated debt to EBITDA not more than 3 times, and loan to value ratio not more than 75%.	736,312	544,718	535,748

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

27. Loans and borrowings (cont'd)

(i) *Interest bearing loans (cont'd)*	2018 Rp'million	31.12.2017 Rp'million	1.1.2017 Rp'million
Group			
(b) US$20,000,000 (approximately: Rp289,620 million) multi-currency specific advance facility and payable within 1 - 3 months. Interest rate per annum to be agreed at each withdrawal of advance.	289,620	230,316	237,817
(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 (2017: interest is at lender prime lending rate plus 0.5% - 1%). The loans include financial covenants which require the lenders to maintain EBITDA to debt service ratio not less than 1.25 times and debt to equity ratio not more than 2.5 times.	33,028	22,086	33,822
(d) Rp17,500 million working capital facility repayable at 100 and 120 days from the date of withdrawal and bear interest at 10% per annum.	17,500	17,500	17,500
(e) Rp60,000 million revolving overdraft facility and is payable 12 months since the date of withdrawal. Interest is 13.5% per annum.	26,186	13,406	6,068
	1,102,646	828,026	830,955
Effective interest rate per annum	4.8%- 13.5%	4%- 13.5%	4%- 13.5%
Within one year	1,002,627	647,022	502,080
Between two and five years	100,019	181,004	328,875
	1,102,646	828,026	830,955

The interest bearing loans are secured over the land use rights, buildings, machinery, inventories, account receivables, bank balances of a subsidiary. All other assets of these subsidiaries are on negative pledge to the financial institution and some restriction on dividend payment is imposed on them.

(ii) ***Obligation under finance lease***

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

27. Loans and borrowings (cont'd)

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

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

Group	2018 Minimum lease payments	2018 Present value of payments	31.12.2017 Minimum lease payments	31.12.2017 Present value of payments	1.1.2017 Minimum lease payments	1.1.2017 Present value of payments
	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million
Within one year	34,198	27,454	106	100	457	419
Between two and five years	50,772	46,396	61	58	167	158
Total minimum lease payments	84,970	73,850	167	158	624	577
Less: Interest	(11,120)	–	(9)	–	(47)	–
Present value of minimum lease payments	73,850	73,850	158	158	577	577

Certain assets acquired under finance leases are secured against the assets under lease. Included in finance leases for 2018 is machinery that was subleased to a supplier of logs amounting to Rp65,745 million.

As at 31 December 2018, the net book value of assets under finance lease amounts to Rp8,458 million (31 December 2017: Rp1,624 million, 1 January 2017: Rp2,436 million).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

27. Loans and borrowings (cont'd)

(iii) *Reconciliation of liabilities arising from financing activities*

A reconciliation of liabilities (not including bank overdraft) arising from financing activities is as follows:

		Cash flows		Non-cash changes		
	Opening balance	Proceeds	Re-payment	Foreign exchange movement	Non-cash item	Ending balance
	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million
2018						
Secured bank loans	334,337	–	(158,360)	13,149	–	189,126
Obligations under finance leases	157	–	(11,107)	–	84,800	73,850
Revolving credit	485,644	2,968,206	(2,565,479)	3,517	–	891,888
Deferred charges	(5,361)	(7,698)	–	–	8,505	(4,554)
Total	814,777	2,960,508	(2,734,946)	16,666	93,305	1,150,310
2017						
Secured bank loans	449,218	–	(116,784)	1,903	–	334,337
Obligations under finance leases	577	–	(420)	–	–	157
Revolving credit	385,941	2,024,884	(1,933,308)	8,127	–	485,644
Deferred charges	(10,272)	(3,677)	–	–	8,588	(5,361)
Total	825,464	2,021,207	(2,050,512)	10,030	8,588	814,777

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

28. Post-employment benefits

The amount included in the consolidated balance sheet arising from the entity's obligation in respect of its defined benefit plans is as follows:

Group	2018 Rp'million	31.12.2017 Rp'million	1.1.2017 Rp'million
Present value of unfunded defined benefit	258,845	268,848	231,275
Fair value of plan assets	(40,000)	–	–
Defined benefit plan liabilities	218,845	268,848	231,275

The Group calculates and records post-employment benefits for its qualified employees based on Indonesia Labour Law No. 13/2003 dated March 2003. The number of employees entitled to the benefits as at 31 December 2018 was 7,601 people (2017: 5,790 people).

The Group also had 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.

The following tables summarise the components of provision for post employment benefits included in salaries and employee allowances and employee benefits under "General and Administrative Expenses" in consolidated income statement and "Post-employment Benefits" in the consolidated balance sheets.

Group	2018 Rp'million	2017 Rp'million
Benefit liabilities:		
Beginning of the year	268,848	231,275
Expenses during the year	50,180	44,669
Actual payments during the year	(46,767)	(12,935)
Actuarial (gain)/loss during the year	(53,416)	5,839
Ending of the year	218,845	268,848
Less: current portion (Note 25)	345	14,524
Non-current portion	218,500	254,324
Net benefit expense:		
Current service costs	31,727	26,218
Interest costs	18,453	19,468
Net curtailments effect or termination	–	(1,017)
Net benefit expense	50,180	44,669

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

28. Post-employment benefits (cont'd)

Post-employment benefits is recognised in the "Administrative expenses" line item in the consolidated statement of comprehensive income. The following table summarises the components of post-employment benefits expense recognised in other comprehensive income:

Group	2018 Rp'million	2017 Rp'million
Before tax	53,416	(5,839)
Tax charge	(13,282)	1,644
After tax	40,134	(4,195)

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

Group	2018 Rp'million	31.12.2017 Rp'million	1.1.2017 Rp'million
Discount rate per annum	8.20% - 9.50%	7.34% - 7.42%	8.05% - 8.49%
Mortality table*	TMI III – 2011	TMI III – 2011	TMI III - 2011
Rates of increase in compensation per annum	10%	10%	10%
Retirement age	55 years old	55 years old	55 years old

* TMI III – 2011 refer to Table of Mortality in Indonesia

The sensitivity analysis below has been determined based on reasonably possible changes of significant assumption on the post-employment benefits as of the end of the reporting period, assuming if all other assumptions were held constant.

	Present value of obligation			Current service cost		
	2018 Rp'million	31.12.2017 Rp'million	1.1.2017 Rp'million	2018 Rp'million	31.12.2017 Rp'million	1.1.2017 Rp'million
As reported using discount rate of 8.20%-9.50% (2017: 7.34%-7.42%) per annum	258,845	268,848	231,275	50,179	44,669	41,543
Increase by 100 basis points	232,369	237,419	205,362	31,725	26,218	30,758
Decrease by 100 basis points	290,051	305,265	261,986	31,725	26,218	30,758

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For the financial year ended 31 December 2018

29. Share capital

	Group and Company			
	2018		2017	
	Number of shares	Rp'million	Number of shares	Rp'million
Issued and fully paid				
At 1 January	2,374,050,505	2,501,056	2,374,050,505	2,501,056
Issuance of shares under the Samko Performance Share Plan	3,100,000	1,249	–	–
At 31 December	2,377,150,505	2,502,305	2,374,050,505	2,501,056

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

30. Other reserves

(a) ***Restructuring reserves***

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

(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 reserves***

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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

30. Other reserves (cont'd)

(d) ***Performance share plan reserves***

Performance share plan reserve represents the equity-settled share awards granted to employees (Note 29). 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 exercise of the share awards.

On 29 August 2018, the Company granted 21,653,058 share awards ("Awards") to the executive Director of the Company, pursuant to the PSP for performance from 27 June 2016 to 31 December 2018. The vesting period of the Awards as determined by the Administration Committee of the Company, authorised and appointed by the Board to administer the Plan, is as follows:

	2018
	Number of PSP
29 August 2018	3,100,000
27 June 2020	7,685,778
27 June 2021	10,867,280
	21,653,058

As at 31 December 2018, 18,553,058 Awards remain outstanding.

The fair value of the PSP granted was estimated by management using the last traded price at grant date less the present value of expected dividend during the vesting period as a valuation basis.

The fair value of the Plan as at the date of grant was SGD 0.038 (approximately Rp405). The inputs to the model used are shown below.

Dividend yield (%)	0%
Expected volatility (%)	0%
Last traded share price (Rp)	405

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

31. Commitments and contingencies

Capital commitments

Capital expenditures relates to machineries for decking products contracted for as at 31 December 2018 but not recognised in the financial statements amounting to nil (2017: nil).

Operating lease commitments – as lessee

The Group has various operating lease agreements for the rental of office. Office leases have an average life of between 1 and 5 years and contain renewable options. Lease terms do not contain escalation clauses or contingent rentals and do not contain restrictions on the Group's activities concerning dividends, additional debt or further leasing. Operating lease payments recognised as an expense in the profit or loss for the financial year ended 31 December 2018 amounted to Rp5,696 million (31 December 2017: Rp5,770 million, 1 January 2017: Rp6,076 million).

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

Group	2018 Rp'million	31.12.2017 Rp'million	1.1.2017 Rp'million
Not later than one year	6,258	5,378	6,254
Later than one year but not later than five years	759	1,516	–
	7,017	6,894	6,254

32. Related party disclosures

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

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

In addition to those related party information disclosed elsewhere in the financial statements, the following transactions between the Group and related parties who are not members of the Group took place during the year at terms agreed between the parties.

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32. Related party disclosures (cont'd)

Group	2018 Rp'million	2017 Rp'million
Office rental paid/payable to PT Sampoerna Land	4,947	6,401
Interest expenses paid/payable to PT Bank Sahabat Sampoerna	4,612	5,137
Freight charged paid/payable to PT Pelayaran Nelly Dwi Putri Tbk	722	3,002
Cooperation for cultivation of trees with PT Wahana Sekar Agro	90	172
Purchase of veneer from:		
- PT Wijaya Triutama Plywood Industri	–	1,159
- PT Basirih Industrial	–	2,496

Certain Sunarko family members (one of whom is a director of the Company) are substantial shareholders of PT Pelayaran Nelly Dwi Putri Tbk (a listed company in Indonesia), PT Basirih Industrial and PT Wijaya Triutama Plywood Industri.

PT Sampoerna Land, PT Wahana Sekar Agro and PT Bank Sahabat Sampoerna are controlled by the Sampoerna family, which is related to a substantial shareholder of the Company.

Compensation to directors and key management personnel

Group	2018 Rp'million	2017 Rp'million
Directors fees	2,502	2,297
Short-term employee benefits	37,750	34,450
Central provident Fund contribution	160	–
Performance share plan	2,327	–
	42,739	36,747
Comprise amount paid to:		
- Directors of the Company	19,674	13,563
- Other key management personnel	23,065	23,184
	42,739	36,747

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

Financial guarantee

The Company has granted financial guarantee to the lenders for interest bearing loans for certain subsidiaries (Note 27).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

33. Financial risk management objectives and policies

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

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

There have been no changes to the Group'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 and the Company's financial instruments will fluctuate because of changes in market interest rates. The Group's and the Company's exposure to interest rates risk arises primarily from their loans and borrowings and cash in bank.

The Group's policy is to manage interest cost using a mix of fixed and floating rate borrowings. The objectives for the mix between fixed and floating rate borrowings are set to reduce the impact of an upward change in interest rate while enabling benefits to be enjoyed if interest rates fall.

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. Surplus funds are placed with reputable banks and financial institutions which generate interest income for the Group.

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

The Group's borrowing interest rates are mainly floating rates. At the end of each reporting period, if the borrowing interest rates had been 100 basis points lower/ higher with all other variables held constant, the Group's profit after tax in 2018 would have been Rp3,929 million (2017: Rp6,435 million) lower/higher.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

33. 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 Group entities, primarily US$. The Group hold cash and cash equivalents primarily denominated in foreign currencies for working capital purposes (Note 22). The Group's trade receivable and payable balances at the reporting date have similar exposure. The foreign currency in which these transactions are denominated is mainly in US$.

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 exchange rate against US$, with all other variables held constant.

	Group	
	2018	**2017**
	Rp'million	Rp'million
Strengthened 2.5%	8,910	4,049
Weakened 2.5%	(8,910)	(4,049)
Strengthened 5%	17,820	8,099
Weakened 5%	(17,820)	(8,099)
Strengthened 7.5%	26,730	12,148
Weakened 7.5%	(26,730)	(12,148)
Strengthened 10%	35,640	16,197
Weakened 10%	(35,640)	(16,197)

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

(c) *Credit risk*

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's and the Company's 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), the Group and the 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.

A significant increase in credit risk is presumed if a debtor is more than 90 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
- It is becoming probable that the counterparty will enter bankruptcy or other financial reorganisation

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

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

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

The Group categorises a loan or receivable for potential write-off when a debtor fails to make contractual payments more than 365 days past due. Financial assets are written 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 company continues to engage enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

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 provision as at 31 December 2018 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.

Summarised below is the information about the credit risk exposure on the Group's trade receivables and contract assets using provision matrix, grouped by geographical region:

Indonesia:

31 December 2018 (Rp'million)	**Current**	**More than 30 days past due**	**More than 60 days past due**	**More than 90 days past due**	**Total**
Gross carrying amount	128,260	8,767	2,664	31,296	170,987
Loss allowance provision	433	243	542	24,837	26,055

Other geographical areas:

31 December 2018 (Rp'million)	**Current**	**More than 30 days past due**	**More than 60 days past due**	**More than 90 days past due**	**Total**
Gross carrying amount	116,321	1,053	1,658	20,852	139,884
Loss allowance provision	–	–	–	15,992	15,992

Information regarding loss allowance movement of trade and other receivables are disclosed in Note 19.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

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

(d) *Liquidity risk*

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

The Group's and the Company's exposure to liquidity and cash flow risk arise mainly from general funding and business activities. Its objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and advances from related parties. The Group adopts prudent liquidity risk management by maintaining sufficient cash balances.

As the end of the reporting period approximately 87% (2017: 78%) of the Group's loans and borrowings (Note 27) will mature in less than one year based on the carrying amount reflected in the financial statements. The Group will continue to monitor and address this risk by monitoring liquidity ratios (including projecting cash flow) and maintaining debt financing plans.

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

	One year or less	One to five years	Total
	Rp'million	Rp'million	Rp'million
2018			
Trade and other payables	363,116	–	363,116
Other liabilities[1]	70,640	–	70,640
Interest bearing loans	1,036,837	106,961	1,143,798
Obligations under finance lease	34,198	50,772	84,970
Total undiscounted financial liabilities	1,504,791	157,733	1,662,524
31.12.2017			
Trade and other payables	283,433	–	283,433
Other liabilities[1]	100,045	–	100,045
Interest bearing loans	687,024	198,757	885,781
Obligations under finance lease	106	61	167
Total undiscounted financial liabilities	1,070,608	198,818	1,269,426
1.1.2017			
Trade and other payables	277,723	–	277,723
Other liabilities[1]	123,040	–	123,040
Interest bearing loans	606,170	310,573	916,743
Obligations under finance lease	457	167	624
Total undiscounted financial liabilities	1,007,390	310,740	1,318,130

(1) Excludes value-added tax and post-employment benefit liabilities

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

34. 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.

(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:

Group	Quoted prices in active markets for identical instruments (Level 1) Rp'million	Significant other observable inputs (Level 2) Rp'million	Significant unobservable inputs (Level 3) Rp'million	Total Rp'million
2018				
Non-financial assets				
Biological assets	–	–	44,294	44,294
2017				
Non-financial assets				
Biological assets	–	–	51,454	51,454

The following table shows the information about fair value measurements using significant unobservable inputs (Level 3).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

34. Fair value of assets and liabilities (cont'd)

(b) ***Assets and liabilities measured at fair value (cont'd)***

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)	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	• Estimated future timber market price per m3 with average price ranging from Rp661,761 to Rp1,606,819, weighted average of Rp1,138,734 • Adjusted Yield per hectare (8 m3 to 112 m3, weighted average of 79 m3) • 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.

For biological assets, a significant increase/(decrease) in the discount rate would result in a significantly lower/(higher) fair value measurement. The following table shows the impact on the Level 3 fair value measurement of assets and liabilities that are sensitive to changes in unobservable inputs that reflect reasonably possible alternative assumptions. The positive and negative effects are approximately the same.

	2018		2017	
		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%	43,432	(862)	50,268	(1,186)
Decrease by 1%	45,185	891	52,681	1,277

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

34. Fair value of assets and liabilities (cont'd)

(b) ***Assets and liabilities measured at fair value (cont'd)***

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 assumptions by 1%. The movement in biological assets and valuation policies and procedures are disclosed and described in Note 14.

There were no transfers between level 1, 2 and 3 during the financial years ended 31 December 2018 and 2017.

(c) ***Assets and liabilities whose carrying amount approximates fair value***

Management has determined that the carrying amounts of cash in banks, trade and other receivables, trade and other payables and accrued operating expenses based on their notional amounts, 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.

35. Capital management

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

The primary objective of the Group's capital management is to ensure the Group's ability to operate as a going concern and to maintain a healthy capital structure in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the years ended 31 December 2018 and 2017.

The capital for the Group is tabulated below:

	Group	
	2018	2017
Description	Rp'million	Rp'million
Loans and borrowings (Note 27)	1,176,496	828,184
Equity attributable to the owners of the Company	202,418	81,754
Total equity and loans and borrowings	1,378,914	909,938

36. Segment information

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

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

2. ST division – refers to the operations of Samko 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 2018

36. Segment information (cont'd)

	SGS division		ST division		Adjustments and eliminations		Notes	Per consolidated financial statements	
	2018	2017	2018	2017	2018	2017		2018	2017
	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million		Rp'million	Rp'million
Revenue:									
External customers	1,974,399	1,880,350	2,379,360	1,582,212	–	–		4,353,759	3,462,562
Inter-segment	2,287,074	1,479,658	–	1,156	(2,287,074)	(1,480,814)	A	–	–
Total revenue	4,261,473	3,360,008	2,379,360	1,583,368	(2,287,074)	(1,480,814)		4,353,759	3,462,562
Results:									
Finance income	444	456	12	7	–	–		456	463
Finance expenses	(70,487)	(69,287)	(21,901)	(16,974)	–	–		(92,388)	(86,261)
Depreciation of property, plant and equipment	(97,340)	(87,858)	(609)	(1,139)	–	–		(97,949)	(88,997)
Amortisation of land use rights	(3,498)	(3,495)	–	–	–	–		(3,498)	(3,495)
Post-employment benefits expense	(48,775)	(44,669)	(1,405)	–	–	–		(50,180)	(44,669)
(Loss)/gain on change in fair value of biological assets	(5,321)	2,024	–	–	–	–		(5,321)	2,024
Workers separation expenses	(7,047)	(4,297)	(113)	–	–	–		(7,160)	(4,297)
Expense for the Group's re-organisation exercise	–	(33,684)	–	–	–	–		–	(33,684)

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

36. Segment information (cont'd)

	SGS division		ST division		Adjustments and eliminations		Notes	Per consolidated financial statements	
	2018	2017	2018	2017	2018	2017		2018	2017
	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million		Rp'million	Rp'million
(Allowance for)/recovery of advance to suppliers	(2,709)	2,095	–	–	–	–		(2,709)	2,095
Allowance for doubtful receivables	(1,887)	(1,980)	(17,202)	(2,982)	–	–		(19,089)	(4,962)
Bad debt	(2,400)	–	(568)	–	–	–		(2,968)	–
Gain on disposal of assets held for sale	30,014	–	–	–	–	–		30,014	–
Tax (expense)/benefit	(43,192)	61,437	(4,303)	(5,288)	–	–		(47,495)	56,149
Segment profit/(loss)	62,163	(1,901)	1,921	29,111	–	–		64,084	27,210
Assets:									
Deferred tax assets	60,468	109,948	1,557	1,370	–	–		62,025	111,318
Segment assets	2,090,032	1,559,997	957,778	845,819	(968,596)	(729,573)	B	2,079,214	1,676,243
Liabilities:									
Loans and borrowings	853,790	575,693	322,706	252,491	–	–		1,176,496	828,184
Income tax payable	14,074	9,354	421	4,088	–	–		14,495	13,442
Deferred tax liabilities	91	–	–	–	–	–		91	–
Segment liabilities	1,644,295	1,603,168	514,926	425,143	(286,107)	(438,639)	C	1,873,114	1,589,672

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

36. Segment information (cont'd)

As at 1 January 2017	SGS division Rp'million	ST division Rp'million	Adjustments and eliminations Rp'million	Notes	Per consolidated financial statements Rp'million
Assets:					
Deferred tax assets	39,100	1,655	–		40,755
Segment assets	1,484,920	799,031	(717,200)	B	1,566,751
Liabilities:					
Loans and borrowings	559,776	271,756	–		831,532
Income tax payable	9,388	1,575	–		10,963
Deferred tax liabilities	1,651	16	–		1,667
Segment liabilities	1,828,632	385,128	(716,239)	C	1,497,521

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

A. Inter-segment revenues are eliminated upon consolidation.

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

	31.12.2018 Rp'million	31.12.2017 Rp'million	1.1.2017 Rp'million
Inter-segment assets	(968,596)	(729,573)	(717,200)

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

Inter-segment liabilities	(286,107)	(438,639)	(716,239)

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

36. Segment information (cont'd)

Geographical information

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

	Revenue		Non-current assets		
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	1.1.2017
	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million
Indonesia	2,210,341	2,050,741	609,418	696,305	696,137
North Asia	1,102,908	716,929	–	–	–
United States of America	393,223	195,991	–	–	–
Malaysia	327,464	259,594	69	112	142
Singapore	186,259	130,736	28	34	172
Europe	58,041	31,055	–	–	–
Australia	24,635	11,233	–	–	–
Middle East	20,042	45,967	–	–	–
South East Asia	17,733	18,963	–	–	–
Others	13,113	1,353	–	–	–
	4,353,759	3,462,562	609,515	696,451	696,451

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

37. Authorisation of financial statements for issue

The financial statements for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the directors on 5 April 2019.

STATISTICS OF SHAREHOLDINGS

As at 27 March 2019

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%

ANALYSIS OF SHAREHOLDINGS

Size of Shareholding			Number of Shareholders	%	Number of Shares	%
1	-	99	14	1.52	322	0.00
100	-	1,000	34	3.67	21,233	0.00
1,001	-	10,000	280	30.30	1,577,200	0.07
10,001	-	1,000,000	554	59.96	61,025,159	2.56
1,000,001		and above	42	4.55	2,314,526,591	97.37
			924	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 27 March 2019

TWENTY LARGEST SHAREHOLDERS

No.	Name of Shareholders	Number of Shares	%
1.	RAFFLES NOMINEES (PTE.) LIMITED	1,664,978,977	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	34,577,086	1.45
6.	HASAN HOLDINGS PTE LTD	28,485,846	1.20
7.	PANG YOKE MIN	27,000,000	1.14
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	15,359,191	0.65
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	11,390,500	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	3,390,983	0.14
	TOTAL	**2,279,573,406**	**95.91**

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.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Samko Timber Limited (the "**Company**") will be held at Carlton Hotel Singapore, Esplanade Room 3, Level 4, 76 Bras Basah Road, Singapore 189558 on Friday, 26 April 2019, at 3:00 p.m. for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Statement and the Audited Financial Statements of the Company for the financial year ended 31 December 2018 together with the Independent Auditors' Report thereon. **(Resolution 1)**

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

   Mr Ng Cher Yan **(Resolution 2)**
   Mr Riko Setyabudhy Handoko **(Resolution 3)**
   Mr Koh Tji Beng @ Ambran Sunarko **(Resolution 4)**

   *Mr Ng Cher Yan will, upon re-election as a Director of the Company, remain as the Lead Independent Director, the Chairman of the Audit Committee and a member of the Nominating, Remuneration and Board Risk Committees respectively, and will be considered independent pursuant to Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited ("**SGX-ST**").*

   Detailed information required pursuant to Rule 720(6) of the Listing Manual of the SGX-ST is on page 32 to page 41 of the annual report.

3. To approve the payment of Director's fee of S$8,782 for the financial year ended 31 December 2018. *[See Explanatory Note (i)]* **(Resolution 5)**

4. To approve the payment of Directors' fees of S$244,714 for the financial year ending 31 December 2019, payable quarterly in arrears. (2018: S$227,150) **(Resolution 6)**

5. To re-appoint Messrs Ernst & Young LLP as the Auditors of the Company and to authorise the Directors of the Company to fix their remuneration. **(Resolution 7)**

6. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without any modifications:

7. **Authority to issue new shares**

   That pursuant to Section 161 of the Companies Act, Cap. 50 (the "**Companies Act**") and Rule 806 of the Listing Manual of the SGX-ST, the Directors of the Company be authorised and empowered to:

NOTICE OF ANNUAL GENERAL MEETING

(a) (i) allot and issue shares in the Company ("**Shares**") whether by way of rights, bonus or otherwise; and/or

(ii) make or grant offers, agreements or options (collectively, "**Instruments**") that might or would require Shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) options, warrants, debentures or other instruments convertible into Shares,

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors of the Company may in their absolute discretion deem fit; and

(b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue Shares in pursuance of any Instruments made or granted by the Directors of the Company while this Resolution was in force,

provided that:

(1) the aggregate number of Shares (including Shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) to be issued pursuant to this Resolution shall not exceed fifty per centum (50%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of Shares to be issued other than on a pro-rata basis to shareholders of the Company shall not exceed twenty per centum (20%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below);

(2) (subject to such calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of Shares that may be issued under sub-paragraph (1) above, the total number of issued shares (excluding treasury shares and subsidiary holdings) shall be based on the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company at the time of the passing of this Resolution, after adjusting for:

(a) new Shares arising from the conversion or exercise of any convertible securities;

(b) new Shares arising from exercising share options or vesting of share awards which are outstanding or subsisting at the time of the passing of this Resolution; and

(c) any subsequent bonus issue, consolidation or subdivision of Shares;

(3) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST), all applicable legal requirements under the Companies Act, and otherwise the Constitution of the Company; and

(4) unless revoked or varied by the Company in a general meeting, such authority shall continue in force until the conclusion of the next annual general meeting of the Company or the date by which the next annual general meeting of the Company is required by law to be held, whichever is earlier.
[See Explanatory Note (ii)] **(Resolution 8)**

NOTICE OF ANNUAL GENERAL MEETING

8. **Renewal of General Mandate for Charter and Freight Services to be provided by PT Pelayaran Nelly Dwi Putri ("PNDP")**

That:

(a) approval be and is hereby given, for the purposes of Chapter 9 of the Listing Manual of the SGX-ST, for the Company, its subsidiaries and associated companies that are entities at risk (as that term is used in Chapter 9 of the Listing Manual of the SGX-ST), or any of them, to enter into any of the transactions in relation to the general mandate for the charter and freight services to be provided by PNDP as described in the Appendix to the Company's Letter to Shareholders dated 11 April 2019 (the "**Circular**") with PNDP in connection therewith, provided that such transactions are made on normal commercial terms and in accordance with the review procedures for such interested person transactions;

(b) the approval given in sub-paragraph (a) above (the "**General Mandate for Charter and Freight Services**") shall, unless revoked or varied by the Company in general meeting, continue in force until the conclusion of the next annual general meeting of the Company; and

(c) the Directors of the Company and/or any of them be and are hereby authorised to complete and do all such acts and things (including executing all such documents as may be required) as they and/or he may consider expedient or necessary or in the interests of the Company to give effect to the renewal of the General Mandate for Charter and Freight Services and/or this Resolution.
[See Explanatory Note (iii)] **(Resolution 9)**

9. **Renewal of General Mandate for the Acquisition of Palm Logs from PT Sampoerna Agro Tbk and its subsidiaries (the "PSAT Group")**

That:

(a) approval be and is hereby given, for the purposes of Chapter 9 of the Listing Manual of the SGX-ST, for the Company, its subsidiaries and associated companies that are entities at risk (as that term is used in Chapter 9 of the Listing Manual of the SGX-ST), or any of them, to enter into any of the transactions in relation to the general mandate for the acquisition of palm logs from the PSAT Group as described in the Appendix to the Circular with the PSAT Group in connection therewith, provided that such transactions are made on normal commercial terms and in accordance with the review procedures for such interested person transactions;

(b) the approval given in sub-paragraph (a) above (the "**General Mandate for the Acquisition of Palm Logs**") shall, unless revoked or varied by the Company in general meeting, continue in force until the conclusion of the next annual general meeting of the Company; and

(c) the Directors of the Company and/or any of them be and are hereby authorised to complete and do all such acts and things (including executing all such documents as may be required) as they and/or he may consider expedient or necessary or in the interests of the Company to give effect to the renewal of the General Mandate for the Acquisition of Palm Logs and/or this Resolution.
[See Explanatory Note (iv)] **(Resolution 10)**

NOTICE OF ANNUAL GENERAL MEETING

By Order of the Board

Lai Kuan Loong Victor
Kiar Lee Noi
Secretaries
Singapore, 11 April 2019

Explanatory Notes:

(i) The Ordinary Resolution 5 in item 3 above relates to the additional Director's fee for Mr Eka Dharmajanto Kasih with effective from 1 July 2018, in light of increase of his roles and responsibilities as the Non-Executive Chairman.

(ii) The Ordinary Resolution 8 in item 7 above, if passed, will empower the Directors of the Company, effective until the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue Shares, make or grant Instruments convertible into Shares and to issue Shares pursuant to such Instruments, up to a number not exceeding, in total, fifty per centum (50%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company, of which up to twenty per centum (20%) may be issued other than on a pro-rata basis to shareholders.

For determining the aggregate number of Shares that may be issued, the total number of issued shares (excluding treasury shares and subsidiary holdings) will be calculated based on the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company at the time this Ordinary Resolution is passed after adjusting for new Shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time when this Ordinary Resolution is passed and any subsequent bonus issue, consolidation or subdivision of Shares.

(iii) The Ordinary Resolution 9 in item 8 above is to renew the mandate to enable the Company, its subsidiaries and associated companies that are entities at risk (as that term is used in Chapter 9 of the Listing Manual of the SGX-ST), or any of them, to enter into certain interested person transactions in relation to the General Mandate for the Charter and Freight Services with PNDP, as described in the Circular. The authority will, unless revoked or varied by the Company in general meeting, continue in force until the conclusion of the next annual general meeting of the Company. Please refer to the Circular for more details.

(iv) The Ordinary Resolution 10 in item 9 above is to renew the mandate to enable the Company, its subsidiaries and associated companies that are entities at risk (as that term is used in Chapter 9 of the Listing Manual of the SGX-ST), or any of them, to enter into certain interested person transactions in relation to the General Mandate for the Acquisition of Palm Logs with the PSAT Group, as described in the Circular. The authority will, unless revoked or varied by the Company in general meeting, continue in force until the conclusion of the next annual general meeting of the Company. Please refer to the Circular for more details.

NOTICE OF ANNUAL GENERAL MEETING

Notes:

1. (a) A member who is not a relevant intermediary, is entitled to appoint one or two proxies to attend and vote at the Annual General Meeting.

   (b) A member who is a relevant intermediary, is entitled to appoint more than two proxies to attend and vote at the Annual General Meeting, but each proxy must be appointed to exercise the rights attached to a different Share or Shares held by such member.

   "Relevant intermediary" has the meaning ascribed to it in Section 181 of the Companies Act, Cap. 50.

2. A proxy need not be a member of the Company.

3. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 7500A Beach Road, #08-305/307, The Plaza, Singapore 199591 not less than forty-eight (48) hours before the time appointed for holding the Annual General Meeting.

4. A Depositor's name must appear on the Depository Register maintained by The Central Depository (Pte) Limited as at seventy-two (72) hours before the time fixed for holding the Annual General Meeting in order for the Depositor to be entitled to attend and vote at the Annual General Meeting.

Personal data privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Annual General Meeting and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the Annual General Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Annual General Meeting (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "**Purposes**"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

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

Mr Koh Tji Beng @ Ambran Sunarko
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

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

REMUNERATION COMMITTEE
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
(Appointed on 14 May 2018)

SECRETARIES
Lai Kuan Loong Victor
Kiar Lee Noi

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7500A Beach Road
#08-305/307 The Plaza
Singapore 199591
Tel: 6298 2189
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
Ernst &Young LLP
One Raffles Quay
North Tower, Level 18
Singapore 048583

AUDIT PARTNER-IN-CHARGE
Jonathan Tan Po Hsiong
(Appointed since the financial year ended
31 December 2016)

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