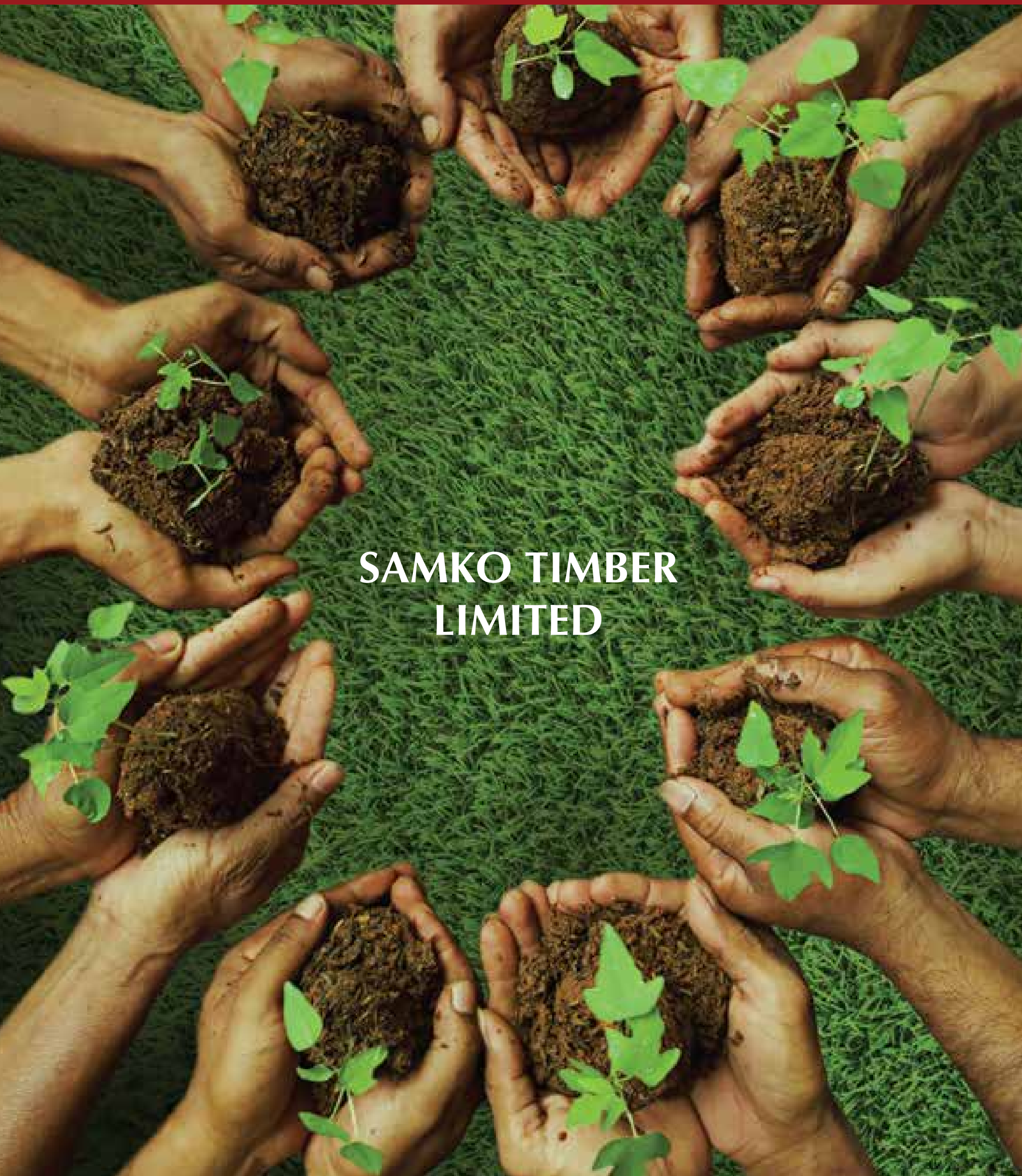
SAMPOERNA KAYOE

UNLIMIT POSSIBILITIES

annual report 2017



SAMKO TIMBER LIMITED

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REVIEW

FINANCIALS

Samko Timber has always been committed to sustainability and fully supports the adoption of the new SGX sustainability reporting guidelines. Samko Timber would be coming up with its first Sustainability Report for 2017. 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.

COMPANY BACKGROUND

Samko Timber Limited and its subsidiaries ("Samko" or "Samko Timber" or the "Group") is Indonesia's leading, vertically integrated wood resource processor. Supported by 35,659 ha of industrial forest plantation in Sumatra, 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 approximately 800,000m^3.

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 28 countries across the world, including the Asia Pacific region, Europe, the Middle East, and the United States of America.

CHAIRMAN STATEMENT

Dear Shareholders,

2017 has been a tumultuous year marked by natural disasters, geopolitical tensions, and deep political divisions in many parts of the world. Catastrophic storms and flooding wrecked homes and livelihood in the Caribbean, South Asia, and the United States. Tensions between the United States and North Korea were at its peak while the impact of Brexit is on the back burner as the process for leaving the European Union will take two years. Nonetheless, on the economic front, the global economy continued to improve as gross domestic product ("GDP") accelerated over much of the world in the broadest cyclical upswing since the start of the decade and 2017 ended on a high note[1].

Indonesia posted 5.1% growth for 2017 due to strong investment and export growth and emerged as a trillion dollar economy in 2017, but economic growth was lower than the 5.2% initially projected[2]. This was due to sluggish private consumption which accounts for more than half of the country's GDP. The central bank has cut benchmark interest rate eight times since 2016 by a total of 2 percentage points. So far, however, this has not spurred more activity. On a positive note, government spending grew in the third quarter of 2017 with a boost in infrastructure development and the launch of economic deregulation packages to cut red tape. For the second half of the year, Indonesia's economy strengthened modestly underpinned by higher commodity prices, stronger global growth, rebounding international trade, and relatively accommodative monetary and financial conditions. From Rp13,436, the Rupiah depreciated slightly against the US Dollar to close at Rp13,548 as at 31 December 2017.

The Group's sales increased 11% year-on-year ("yoy") to Rp3,463 billion due to the increase in export and domestic sales volume despite a slight decline in the overall average selling prices. Gross profit surged 91% yoy to Rp496 billion mainly due to higher sales, lower unit production costs as production volume increased, lower labour costs and lower overhead costs. With the cost structure rationalisation effort, the Group managed to reduce its operating expenses and finance costs significantly, thus returning to the black with a net attributable profit of Rp30 billion despite 2017 being a challenging year.

Streamlining Operations

2017 was marked by several corporate and operational developments following the Group's labour rationalisation in 2016.

During the year under review, operations were reviewed and consolidated and manpower was reduced, which led to significant cost reductions and a more streamlined operational team. The Group has embarked on a quest to search and build a competent, strong and dedicated operational management team. This resulted in a number of key management changes in 2017. With a leaner structure and new senior management on board in full and direct control of the Group's overall operations and production in Indonesia, the Group is currently in a stronger position to execute the strategies to grow the business.

The Group continued to divest its investment in non-core assets to strengthen the Group's financial position and to streamline its operations. In October 2017, the Group has reached an agreement with a third party buyer to sell its factory and land located in Balaraja, Tangerang, West Java, for a consideration of Rp70 billion. The transaction has obtained its blessing from the shareholders at an extraordinary general meeting in December 2017 and is expected to be completed in 2018.

1 http://www.straitstimes.com/business/economy/mas-chief-sounds-caution-over-goldilocks-economy-and-its-three-bears
2 https://www.thestar.com.my/business/business-news/2018/01/04/indonesia-economy-hits-trilliondollar-milestone/

Subsequently in November 2017, the Group has undertaken an internal restructuring which involves the merger of the Group's subsidiaries in Indonesia into one entity, PT Sumber Graha Sejahtera, as part of the Group's effort to streamline and rationalise the Group's structure, strengthen the corporate branding, and improve business performance and tax efficiency.

Looking Ahead

Traditionally, household consumption accounts for more than half of Indonesia's GDP. This is mainly due to robust consumption from the rising middle class and household consumption is estimated to improve further going forward on the back of rising wages. On the other hand, the government intends to reduce the nation's reliance on household consumption and increase the contribution of investment. The government has particularly been boosting spending on infrastructure development as this would cause the multiplier effect and encourage structural economic and social growth across the country. The availability of quality infrastructure would also attract more private investment. This is a long term commitment and it is a positive trend from the Group's point of view as this will spur the local economy and accelerate local demand for the Group's product.

Meanwhile, rising commodity prices are also expected to boost the economy as Indonesia is one of the world's big commodity exporters. Similar to their counterparts in the region, Indonesian plywood manufacturers are facing log supply shortage and escalating labour costs. The Group has undertaken some exercises focusing on optimising the plywood line of business, resulting in higher productivity and lower production costs. These exercises are ongoing and are expected to continue producing positive results. Thus, we have also received positive feedbacks from overseas markets and anticipate to increase our production capacity to cater for potential increase in the demands.

The Group has laid a strong foundation for the next phase of development of the Group towards a better future. The Group has identified the following building blocks to re-invent itself for a sustainable future. First and foremost, the Group will identify more revenue drivers through the value adding of existing products and diversification of products. The Group will continue to explore new market, develop and be innovative in our product offerings. Secondly, the Group will continue to streamline its resources and maintain regular cost reviews of operations. The Group will continue to monitor the situation, exercise prudent cash management, and to raise debt funding as and when necessary. And last but not least, the Group will continue to identify pockets of opportunity within the industry or value chain and to identify suitable technology to further improve the Group's efficiency and productivity.

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 to express my heartfelt gratitude to Mr Aris Sunarko, who has stepped down as Executive Chairman and Executive Director on 28 April 2017, for his valuable contributions to the Group during his tenure. We wish him all the best in his future endeavours.

The Group is optimistic that it is steadily moving towards a sustainable future and this is by no means easy. The management has strived hard to nurse the Group's business back to health, and more importantly, we are working even harder to ensure the sustainability of the Group's business and to protect long term shareholder value. On behalf of the Board, I would like to thank our shareholders, staff, business partners and customers for their unwavering support, understanding and patience during the challenging period over the past few years.

Let's look forward to a better future.

Eka Dharmajanto Kasih
Non-Executive Chairman

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 2017 ("FY2017"). It was an eventful journey since my appointment as Chief Executive Officer of the Group in June 2016 as the Group embarked on a restructuring exercise to strengthen its business and balance sheet. Despite the challenging environment for the industry, the Group has made huge strides in FY2017 and achieved a turn around after two years.

Financial Review

For FY2017, the Group's sales increased by 11% year-on-year ("yoy") to Rp3,463 billion, amid the increase in sales volume for both domestic and export markets by 10% and 39% respectively, while the total average selling prices ("ASP") were slightly down by 4%. Local market demand for our products was relatively weak for the first half of the year and ASP continued to soften. The situation started to get better during the second half of the year as domestic demand improved significantly. Export sales were stable throughout the first half of the year and subsequently experienced a surge for the second half of the year. The composition of the Group's export sales to overall sales rose from 32% to 37% in FY2017.

In tandem with the increase in sales, the Group's gross profit jumped by 91% to Rp496 billion. This was mainly due to higher sales generated particularly from the sales volume, supported by lower units production costs incurred as a result of higher production volume, lower labour costs mainly driven by the Group's cost cutting exercise in FY2016, and lower overhead costs. The Group is pleased that its cost-cutting measures and restructuring has reaped desirable results, which was reflected in the improving profitability as gross profit margin increased 6 percentage points from 8% for FY2016 to 14% for FY2017.

The Group's other income declined significantly from Rp104 billion in FY2016 to Rp4 billion in FY2017 due to the absence of one-off gain on disposal of investment in PT SLJ Global Tbk of Rp96 billion, foreign exchange gain of Rp6 billion, and net gain on disposal of property, plant and equipment of Rp2 billion, respectively, in FY2016. Other income in FY2017 came mainly from Rp2 billion of fair value gain of biological asset and the recovery of Rp2 billion of advance payment to suppliers.

The Group's selling expenses for FY2017 decreased by 8% to Rp109 billion mainly due to more customers using the term of delivery of Free on Board (FOB) instead of Cost and Freight (CNF), resulting in freight costs being paid by the customers. General and administrative expenses have decreased 14% to Rp291 billion yoy due mainly to decrease in staff related costs, professional fees, and rental expenses, offset by higher pension costs.

The Group's finance expense decreased 14% to Rp86 billion mainly due to lower interest rate for IDR loans and a significant reduction in bank borrowings which were paid down using the proceeds from the rights issue and the sale of PT SLJ Global Tbk from a year earlier. Other expenses declined 69% to Rp44 billion for FY2017 mainly due to the absence of one-off expenses such as workers separation expenses due to the organisational restructuring in FY2016 and the write-off of VAT receivables.

As a result of the above, the Group was able to narrow its loss before tax from Rp334 billion in FY2016 to Rp29 billion in FY2017. Based on the current performance and future projections, the Group was confident that the Group will be able to utilise the tax losses carried forward for the coming years. Therefore the Group has decided to recognise the prior years' deferred tax assets amounted to Rp59 billion in FY2017. This resulted in a tax credit of Rp56 billion in FY2017 and the Group was able to achieve a net attributable profit of Rp30 billion in FY2017.

Operational Review

The Group continued to embark on its quest on organisation restructuring in 2017 to first normalise the business and subsequently optimise the business. Since the beginning of 2017, we have carried out an organisation review and started to align our resources optimally to ensure that the right people assume the right job with clearly defined responsibilities. This resulted in changes of key management at the beginning of the year. We have also developed a set of performance metric which is in line with our corporate strategy to measure and monitor our performance on an ongoing basis.

On 9 October 2017, the Group's subsidiary, PT Sumber Graha Sejahtera ("PT SGS"), has entered into a deed of binding sale and purchase agreement ("SPA") in relation to the proposed disposal of its factory and land located in Balaraja, Tangerang, West Java. The transaction is expected to complete in 2018 and the Group expects to receive net proceeds of approximately S$6.1 million from the proposed disposal, which will be used for capital expenditure requirements for expansion and development of other businesses of the Group as well as general working capital.

In line with the Group's effort to streamline and rationalise the Group's structure, the Group has completed the merger of 14 subsidiary companies in Indonesia into PT SGS on 6 November 2017. With the unified structure, we believe it will strengthen our corporate branding, improve efficiency, reduce operational costs as well as enhance business performance.

The Group has undertaken a brand transformation exercise during the year as we seek to refresh, reposition and grow our business. On the business front, we aim to continue being one of the leading industry players through our innovative and sustainable solutions. With this in mind, we have rebranded our products under the "Sampoerna Kayoe" brand. The "Three Hands" symbol in the "Sampoerna Kayoe" logo depicts that the spirit of collaboration is at the center of our core values, as reflected in our "Three Hands" philosophy of working alongside our business partners, employees, and the community, as we strive towards a more sustainable business model.

Outlook & Future Strategies

Indonesia will hold its regional elections this year while the presidential election will be held in 2019. While we expect the government spending on infrastructure projects in Indonesia to spur the local demand for our products, we are also mindful that the domestic market may come under pressure due to uncertainties during this period that will affect the investment climate and business climate of the country. As a result, we have been actively boosting our export sales by selling more in existing overseas markets as well as broaden our market coverage. We are seeing a healthy growth from Malaysia and Japan, while penetration in the US market since early 2016 has yielded favourable results. During the year, we have also successfully penetrated new markets like France, Italy and other European countries. We will continue to explore new market, develop and be innovative in our product offerings.

We intend to increase our production capacity to cater for potential increase in the demand. Through the optimization of process flow at our manufacturing facilities in 2017, we were able to reduce the head counts by more than 30% while increasing total production output from 630,000 m^3 to 730,000 m^3 annually. The Group's long term plan is to build a fully automation factory which will further increase production capacity and lower labour costs. This will require huge capital spending which the current resource and demand cannot justify, so we are exploring with a few small pilot projects to semi-automate our existing production lines.

Renaissance Bali Uluwatu Resort & Spa
(JW Marriott Group)

Raw material availability and raw material prices remain as one of the key challenges of our business. As we are increasing our production volume to meet demand, we may face the risk of interrupted supplies of raw materials due to extreme weather condition in some parts of Indonesia. At the moment, approximately 90% of the Group's supply comes from community and plantation forests. We continually strive to create new commercial growing areas and seek out new sources of plantation wood in the field. In view of the rising price pressure from mixed light hardwood ("MLH"), the Group is accelerating the penetration of combination plywood products, a combination of MLH with Sengon wood, and full Sengon wood based products as the price of Sengon timber price is more stable.

As a prominent player in the global market of timber products, the Group is aware of the need to stay competitive. Apart from being technologically advanced in timber manufacturing processes, the Group has relentlessly invested in research and development ("R&D") in the development of new and higher-quality timber products, and the development of substitute products that aggressively target the current market. Our current research focuses on five functions, namely machine technology, process engineering, new raw materials, supporting materials, and selective breeding of Sengon and rubber tree. We strongly believe that continuous R&D will enable the Group to deliver higher-quality products through process improvement and new raw and supporting materials, securing both the economic and environmental sustainability of our business.

Appreciation

Established in 1978, we have sailed through changing business and political dynamics and steadily grown over the years through organic expansion and acquisition to achieve a total production capacity of more than 800,000 m^3 annually. Our experience, expertise, and success allowed us to become one of the major wood processing companies in Indonesia with a commitment to environment sustainability. The journey would have not been possible without the support of our business partners, customers and shareholders whom I highly appreciate. I thank you for being part of the journey, it's a real pleasure, and would like to invite you to stay on as we see much potential in the current platform that have yet to be unlocked.

In closing, I would like to extend my appreciation to the dedication of our Board of Directors, management team, and staff. We seek your continued cooperation and support as we continue to scale greater heights in the years ahead.

Riko Setyabudhy Handoko
Executive Director and Chief Executive Officer

MILESTONE

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

1978

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

1989

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

1993

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

1999

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

2002

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

2004

- Establishment of PT SUB (PT Sejahtera Usaha Bersama)

2005

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

2006

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

2008

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

2009

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

2010

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

2011

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

2012

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

2013

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

Mandapa, a Ritz-Carlton Reserve, Ubud, Bali

2014

- Securing the license and approval from the Minister of Forestry of the Republic of Indonesia for a concession of industrial timber plantation 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

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
- Sale of one factory of PT SGS (PT Sumber Graha Sejahtera) (processing facilities in Tangerang - Banten)
- Launching of our new brand, i.e. "Sampoerna Kayoe"

BOARD OF DIRECTORS

Mr Eka Dharmajanto Kasih

Non-Independent and Non-Executive Chairman

Aged 67, 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
Independence Commissioner

Other Principal Commitments:
Nil

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

Mr Riko Setyabudhy Handoko

Executive Director and Chief Executive Officer

Aged 45, 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 39, 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:
22 April 2016

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 Arundaya Surya Timur
Director
PT Vata Surya Nirvana
Director
PT Vata Kirana Nirvana
Director
PT Kharisma Putra Adwaya
Director
PT Sahya Sakha Syandana
Director

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 58, 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:
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 59, Mr Ng Cher Yan was appointed to the Board in December 2007. He started his career with an international accounting firm and is currently practicing as a Chartered Accountant in PLUS LLP. Mr Ng holds directorships in several companies listed on the Singapore Exchange Trading Securities Limited. Mr Ng holds a Bachelor of Accountancy from the National University of Singapore and is also qualified as a Chartered Accountant in Australia. Mr Ng is a fellow member of the Institute of Chartered Accountants in Singapore, and a member of the Institute of Chartered Accountants in Australia.

Date of first appointment as a director:
14 December 2007

Date of last re-election as a director:
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 Company Ltd
Independent Director

Mr Sim Idrus Munandar

Independent and Non-Executive Director

Aged 63, 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:
24 April 2015

Present Directorship:
Other Listed Companies

Kencana Agri Limited
Independent Director

Other Principal Commitments:
Nil

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

Mr Wee Ewe Lay Laurence John

Independent and Non-Executive Director

Aged 60, 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:
22 April 2016

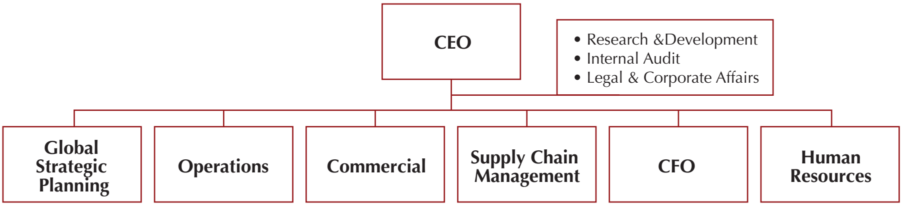
Present Directorship:
Other Listed Companies
Nil

Other Principal Commitments:
Quahe Woo & Palmer LLC
Director

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

Renaissance Bali Uluwatu Resort & Spa
(JW Marriott Group)

SENIOR MANAGEMENT



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

- *Head of Finance & Accounting Division and CFO: Nil**
  ** Mr Tio I Huat, Finance and Accounting Manager, is currently overseeing the finance team until this position is filled.*
- *Head of Operations Division : Mr Harry Handojo*
- *Head of Commercial Division : Mr Rudiyanto Tan*
- *Head of Supply Chain Management Division : Mr Albertus Budyanto Wibisono*
- *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*

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.


Landmark Residence, Bandung, West Java, Indonesia

Mr. Tio I Huat joined the Group in 2016 and for the interim period, while the CFO position is still vacant, is in charged for overseeing the Finance and Accounting Division of the Group. During that period he is responsible for controlling day-to-day and overall operational financial matters of the Group. Prior to joining the Group, Mr. Tio possesses 23 years of experience in different industries and positions. He held position as the Head of Internal Audit in Nirvana Development for two years, position as the Finance Director in Truba Group for seven years, position as the Finance & Accounting Manager in Asia Pulp and Paper Group (APP) for seven years, and other related positions in Argo Manunggal Group, Prasetio Utomo & Co., and PT. Indofood Sukses Makmur – Bogasari Flour Mills. He holds a Bachelor degree in Accounting from University of Kristen Krida Wacana, Indonesia.

Mr Albert Wibisono joined the Group in 2016 and is responsible for the Supply Chain Management Division. He was with HM Sampoerna, Indonesia's largest tobacco company, for 11 years. There, he served several different roles, from finance and accounting to strategic human resources, as well as head of an affiliate engaging in non-tobacco business. Mr Wibisono also has 10 years of experience in education and management consulting. He holds a BA in Finance from the University of Surabaya, Indonesia, and an Master of Business Aministration from the California State University, Hayward, California, the United States of America.

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.

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 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 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 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 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.

SAMPOERNA KAYOE

HEVEATECH

Ciputra World 2 Serviced Apartment,
Jakarta, Indonesia

HEVEATECH DOOR

SAMPOERNA KAYOE

Landmark Residence, Bandung, West Java, Indonesia

SAMPOERNA KAYOE

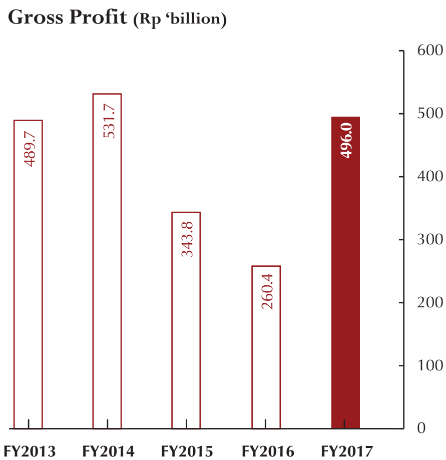
UNLIMIT
POSSIBILITIES

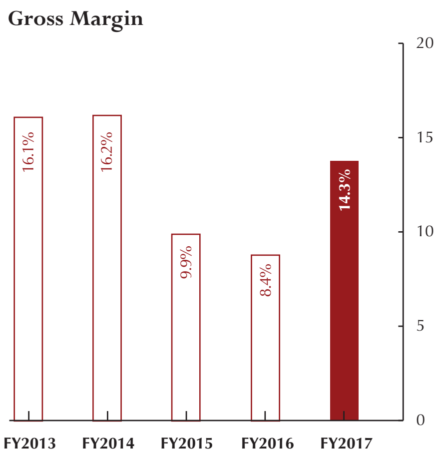
SAMPOERNA KAYOE

UNLIMIT
POSSIBILITIES

HEVEATECH DECKING

FINANCIAL HIGHLIGHTS





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 selfregulatory 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. 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 and Management remain accountable to the Board.

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

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

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

- Financial results announcements;
- Annual Reports and financial statements;
- 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**").

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 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 Committee 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.

CORPORATE GOVERNANCE STATEMENT

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 2017 ("**FY2017**"), 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 FY2017 are set out as follows:

		Board Committees			
	Board	**Audit Committee**	**Nominating Committee**	**Remuneration Committee**	**Board Risk Committee**
No. of meetings held	**4**	**4**	**1**	**1**	**4**
Name of Director			No. of meetings attended		
Aris Sunarko @ Ko Tji Kim(1)	1	1*	-	-	1
Michael Joseph Sampoerna	4	-	-	-	-
Eka Dharmajanto Kasih(2)	4	2*	-	-	3
Riko Setyabudhy Handoko	4	4*	1*	1*	4
Koh Tji Beng @ Ambran Sunarko	3	-	-	-	-
Ng Cher Yan	4	4	1	1	4
Sim Idrus Munandar(3)	4	4	1	1	4
Wee Ewe Lay Laurence John	4	4	1	1	4*

* Attendance by invitation of the relevant Board Committees

(1) Retired as Executive Chairman and Executive Director on 28 April 2017
(2) Appointed as Non-Executive Chairman and member of the Board Risk Committee on 28 April 2017
(3) Appointed as the Chairman of the Board Risk Committee on 1 March 2017

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.

CORPORATE GOVERNANCE STATEMENT

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.

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

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**") *(appointed on 28 April 2017)*
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

During FY2017, Mr Aris Sunarko @ Ko Tji Kim retired as the Executive Chairman and Executive Director and ceased as a member of the BRC of the Company following the conclusion of the annual general meeting ("**AGM**") held on 28 April 2017. At the same time, Mr Eka Dharmajanto Kasih, Non-Independent and Non-Executive Director of the Company, has been appointed as the Non-Executive Chairman and a member of the BRC of the Company.

The profiles of the Directors are set out on pages 10 to 13 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 and composition is appropriate, taking into account the scope, nature and size of operations of the Group.

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.

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.

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.

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 FY2017, 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.

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:

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.

CORPORATE GOVERNANCE STATEMENT

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 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.

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 FY2017, 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 Michael Joseph Sampoerna, Sim Idrus Munandar and Wee Ewe Lay Laurence John 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.

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.

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 FY2017. The NC will consider implementing such performance evaluation of each Director and Board Committee when the need arises.

CORPORATE GOVERNANCE STATEMENT

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.

The NC is of the view that each individual Director has contributed to the effectiveness of the Board as a whole. During FY2017, 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 FY2017 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 FY2017, 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:

(a) 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;

(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 recommands 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 FY2017, the RC had met to review, determine, and recommend to the Board, the payment of Directors' fees for the financial year ending 31 December 2018, payable quarterly in arrears, 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.

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.

CORPORATE GOVERNANCE STATEMENT

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.

Currently, the Company does not have any long-term incentive schemes. The Directors of the Company are proposing to implement a Samko Timber Performance Share Plan (the"**Plan**") and wish to seek shareholders' approval in relation to the proposed adoption of the Plan at the forthcoming extraordinary general meeting ("**EGM**") to be help on 27 April 2018, after the conclusion of the forthcoming AGM of the Company to be held on the same day.

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 FY2017, 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.

Disclosure on Directors' Fees and Remuneration

A breakdown of the level and mix of the remuneration payable to each individual Director for FY2017 are set out below:

Name of Director	Remuneration Band S$	Salary %	Director Fees %	Performance Based Bonuses %	Other Benefits %	Total %
Riko Setyabudhy Handoko	>$1,000,000	55.2	-	-	44.8	100
Michael Joseph Sampoerna	<$250,000	-	100	-	-	100
Eka Dharmajanto Kasih	<$250,000	-	100	-	-	100
Koh Tji Beng @ Ambran Sunarko	<$250,000	-	100	-	-	100
Ng Cher Yan	<$250,000	-	100	-	-	100
Sim Idrus Munandar	<$250,000	-	100	-	-	100
Wee Ewe Lay Laurence John	<$250,000	-	100	-	-	100

Disclosure Key Management Personnel's Remuneration

During FY2017, the Group had undertaken a reorganisation of the Group structure to streamline the Group's operation. As a result of the reorganisation, there were changes in the senior management team and the Group will be led by Mr Riko Setyabudhy Handoko, the CEO of the Company. The RC had reviewed and deliberated the remuneration packages and terms of employments of each of the key management personnel to be satisfactory and acceptable, and approved the service agreements for the key management personal and the Board had also endorsed the same.

CORPORATE GOVERNANCE STATEMENT

A breakdown of the ranges of gross remuneration paid in FY2017 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	Remuneration Band S$	Salary %	Performance Based Bonuses %	Other Benefits %	Total %
Ronawati Wongso[(1)]	$500,000 and <$750,000	69.5	-	30.5	100
Harry Handojo	$250,000 and <$500,000	77.7	3.1	19.2	100
Fredson Kotamena[(2)]	$250,000 and <$500,000	74.6	4.3	21.1	100
Rudiyanto Tan[(3)]	$250,000 and <$500,000	64.3	4.1	31.6	100
Sujoko Martin[(4)]	<$250,000	54.3	-	45.7	100
Yusran Mustary	<$250,000	96.2	3.8	-	100
Albertus Budyanto Wibisono[(5)]	<$250,000	86.7	-	13.3	100
Hendry Susanto[(6)]	<$250,000	88.6	-	11.4	100
Arief Zakaria[(7)]	<$250,000	88.1	3.2	8.7	100
Edward Tombokan[(8)]	<$250,000	70.4	-	29.6	100

(1) Appointed as Chief Financial Officer and Head of Finance and Accounting on 1 March 2017 and resigned on 1 March 2018
(2) Appointed as Head of Human Resources Division on 1 February 2017
(3) Appointed as Head of Commercial Division on 1 February 2017
(4) Resigned as Chief Financial Officer and Head of Finance and Accounting on 28 February 2017
(5) Appointed as Head of Log Procurement Division on 1 February 2017 and re-designated as Head of Supply Chain Management Division on 8 December 2017
(6) Appointed as Head of Internal Audit Division on 1 February 2017
(7) Appointed as Head of Legal and Corporate Affair Division on 1 February 2017
(8) Appointed as Head of Strategic Transformation Division (now known as Global Strategic Planning Division) on 8 December 2017

The total remuneration paid to the Directors and the key management personnel is set out on page 110 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 FY2017.

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.

III. ACCOUNTABILITY AND AUDIT

ACCOUNTABILITY

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

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

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

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.

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.

CORPORATE GOVERNANCE STATEMENT

The BRC comprises the following four members, two 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

As at the date of this report, the composition of the BRC has been changed as follows:

(i) The appointment of Mr Eka Dharmajanto Kasih, the Non-Executive Chairman of the Company, as a member of the BRC following the cessation of Mr Aris Sunarko @ Ko Tji Kim as a member of the BRC on 28 April 2017; and

(ii) The cessation of Ms Ronawati Wongso as a member of the BRC following her resignation as CFO and Head of Finance and Accounting Division of the Company on 1 March 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;

(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 FY2017 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.

As at the date of this report, the Company does not have a CFO. The Company has been actively searching for a suitably qualified candidate to take on this role since the resignation of the CFO and Head of Finance and Accounting, Ms Ronawati Wongso, on 1 March 2018. In the interim period, the duties of the CFO is tasked by Mr Tio I-Huat, the existing Finance and Accounting Manager.

For FY2017, the Board has received assurance from the CEO, the Finance and Accounting Manager and the 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.

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 59 to 122.

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

CORPORATE GOVERNANCE STATEMENT

The Board is of the opinion that the AC members are appropriately qualified to discharge their responsibilities. Two of the members, Messrs Ng Cher Yan and 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 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;

(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 SGX-ST Listing Manual;

CORPORATE GOVERNANCE STATEMENT

(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 FY2017 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.

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 payable to auditors is set out on page 83 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 SGX-ST Listing Manual. 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.

CORPORATE GOVERNANCE STATEMENT

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

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.

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 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.

IV. SHAREHOLDERS RIGHTS AND RESPONSIBILITIES

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

In line with the continuous disclosure obligations of the Company, under the SGX-ST Listing Manual 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 at http://www.samkotimber.com/web/html/index.php.

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.

CORPORATE GOVERNANCE STATEMENT

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.

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 FY2017, 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' mandates under Rule 920 of the SGX-ST Listing Manual at the EGM held on 28 April 2017.

The aggregate value of all transactions with interested persons (as defined in Chapter 9 of the SGX-ST Listing Manual) for FY2017 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	6,401	-
PT Bank Sahabat Sampoerna		
Finance expense	5,137	-
PT Pelayaran Nelly Dwi Putri		
Freight expense	1,583	1,419
PT Basirih Industrial		
Purchase of veneer	2,496	-
PT Wijaya Triutama Plywood Industri		
Purchase of veneer	-	1,159

MATERIAL CONTRACTS

Save as disclosed in 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 FY2017 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 2017.

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 2017 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, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

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:

	Direct interest		Deemed interest	
Name of director	**At the beginning of financial year/ date of appointment**	**At the end of financial year**	**At the beginning of financial year/ date of appointment**	**At the end of financial year**
Ordinary shares of the Company				
Koh Tji Beng @ Ambran Sunarko	148,473,230	148,473,230	–	–

There was no change in any of the above-mentioned interests in the Company between the end of the financial year and 21 January 2018.

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.

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 and compliance controls and risk management via reviews carried out by the internal auditor;

DIRECTORS' STATEMENT

Audit committee (cont'd)

- 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.

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

31 March 2018

INDEPENDENT AUDITOR'S REPORT

For the financial year ended 31 December 2017

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 2017, 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 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 Financial Reporting Standards in Singapore (FRSs) 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 2017 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.

Going concern assumption

As disclosed in note 2.1 to the consolidated financial statements, the Group was in a loss before tax position of Rp28,939 million for the year ended 31 December 2017, and as at 31 December 2017, its current liabilities exceeded its current assets by Rp218,192 million.

INDEPENDENT AUDITOR'S REPORT
For the financial year ended 31 December 2017

Key Audit Matters (cont'd)

Going concern assumption (cont'd)

The consolidated financial statements has been prepared on a going concern basis. Management's assessment on whether the Group will be able to continue meeting its obligations under the financing covenants and the availability of sufficient funding for its operations are important considerations for the going concern assumption and, as such, are significant aspects 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 2017 via access to 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.

Impairment assessment on property, plant and equipment and investment in a subsidiary

As at 31 December 2017, the Group's property, plant and equipment amounted to Rp 502,306 million. The management performed an impairment assessment on the property, plant and equipment located in Indonesia, which were held for the purpose of production activities.

During the financial year, the management also performed impairment assessment on the Company's investment in a subsidiary – PT Sumber Graha Sejahtera, where the main production activities are. The total carrying amount of the investment in this subsidiary amounted to Rp 406,319 million.

We considered the audit of the above impairment assessments to be key audit matter due to the magnitude of their net carrying amounts and the significant management judgement involved in the assessment process as the assumptions used were affected by future market and economic conditions. The management determined the recoverable amounts of the respective assets by calculating the value-in-use, using the discounted cash flow approach. Based on the impairment test, management concluded that these assets were not impaired as at 31 December 2017.

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 our evaluation of 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; and
- evaluated management's forecasting process by comparing previous forecasts to actual results

Key Audit Matters (cont'd)

Impairment assessment on property, plant and equipment and investment in a subsidiary (cont'd)

The disclosures made on the property, plant and equipment and investment in subsidiaries in Notes 12 and 13, respectively to the financial statements.

Fair value of biological assets

As at 31 December 2017, the Group's biological assets of Rp 51,454 million are stated at fair value less estimated point-of-sale cost at harvest. 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 judgement exercised by the Group and external valuation expert and were subjected to estimation uncertainty.

We assessed the competency, objectivity and capabilities of the external valuation expert engaged by the Group. We have also 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 our evaluation of 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 made on the fair value of biological assets in Note 14 to the financial statements.

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 2017, the Group's post-employment benefits liabilities amounted to Rp268,848 million. Management engaged an independent actuary to assist them in the computation of the post-employment benefit liabilities as at 31 December 2017.

We considered the computation of the 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:

- tested samples of the employees' details used in the computation to the human resource records and performed re-computation of the post-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.

INDEPENDENT AUDITOR'S REPORT

For the financial year ended 31 December 2017

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 FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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.

INDEPENDENT AUDITOR'S REPORT

For the financial year ended 31 December 2017

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

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

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

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

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

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

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

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

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

31 March 2018

CONSOLIDATED INCOME STATEMENT

For the financial year ended 31 December 2017

	Notes	2017 Rp'million	2016 Rp'million
Revenue	4	3,462,562	3,116,088
Cost of sales		(2,966,528)	(2,855,731)
Gross profit		496,034	260,357
Other items of income			
Finance income	5	463	671
Other income	6	4,382	104,058
Other items of expenses			
Selling expenses		(108,544)	(118,126)
General and administrative expenses		(291,064)	(340,278)
Finance expenses	7	(86,261)	(100,114)
Other expenses	8	(43,949)	(140,391)
Loss before tax	9	(28,939)	(333,823)
Income tax credit/(expense)	10	56,149	(73,556)
Net profit/(loss) for the year		27,210	(407,379)
Attributable to:			
Owners of the Company		30,092	(403,364)
Non-controlling interests		(2,882)	(4,015)
		27,210	(407,379)
Earnings/(loss) per share (in Rupiah)			
Basic and diluted	11	13	(281)

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 2017

	2017 Rp'million	2016 Rp'million
Net profit/(loss) for the year	27,210	(407,379)
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Net actuarial (loss)/gain on post-employment benefit	(4,195)	8,235
Items that may be reclassified subsequently to profit or loss		
Foreign currency translation (loss)/gain	(3,674)	387
Other comprehensive income for the year, net of tax	(7,869)	8,622
Total comprehensive income for the year	19,341	(398,757)
Attributable to:		
Owners of the Company	22,317	(394,666)
Non-controlling interests	(2,976)	(4,091)
	19,341	(398,757)

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

BALANCE SHEETS
As at 31 December 2017

	Notes	Group 2017 Rp'million	Group 2016 Rp'million	Company 2017 Rp'million	Company 2016 Rp'million
Non-current assets					
Property, plant and equipment	12	502,306	558,243	–	32
Investment in subsidiaries	13	–	–	437,486	126,076
Biological assets	14	51,454	49,971	–	–
Land use rights	15	57,877	61,372	–	–
Deferred tax assets	16	111,318	40,755	–	–
Other non-current assets	17	17,194	7,322	–	311,410
		740,149	717,663	437,486	437,518
Current assets					
Inventories	18	496,809	510,436	–	–
Trade and other receivables	19	269,131	175,196	35,624	32,670
Prepaid operating expenses	20	35,176	47,442	394	410
Advances to suppliers	21	58,246	17,870	–	–
Restricted deposits	22	12,987	12,555	–	–
Cash at banks and on hand	23	33,905	58,724	2,597	4,543
		906,254	822,223	38,615	37,623
Non-current assets held for sale	12,15	29,840	26,865	–	–
		936,094	849,088	38,615	37,623
Current liabilities					
Trade and other payables	24	283,433	277,723	20,766	12,844
Other liabilities	25	124,239	147,352	3,294	6,327
Advances from customers	26	86,050	12,439	–	–
Income tax payable		13,442	10,963	–	–
Loans and borrowings	27	647,122	502,499	–	–
		1,154,286	950,976	24,060	19,171
Net current (liabilities)/ assets		(218,192)	(101,888)	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 2017

	Notes	Group 2017 Rp'million	Group 2016 Rp'million	Company 2017 Rp'million	Company 2016 Rp'million
Non-current liabilities					
Loans and borrowings	27	181,062	329,033	–	–
Post-employment benefits	28	254,324	215,845	–	–
Deferred tax liabilities	16	–	1,667	–	–
		435,386	546,545	–	–
Net assets		86,571	69,230	452,041	455,970
Equity attributable to owners of the Company					
Share capital	29	2,501,056	2,501,056	2,501,056	2,501,056
Accumulated losses		(2,739,797)	(2,765,786)	(2,049,117)	(2,045,086)
Other reserves	30	320,495	327,204	102	–
		81,754	62,474	452,041	455,970
Non-controlling interests		4,817	6,756	–	–
Total equity		86,571	69,230	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 2017

Group	Attributable to owners of the Company								
	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
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	–	–	(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.

STATEMENTS OF CHANGES IN EQUITY
For the financial year ended 31 December 2017

	Attributable to owners of the Company							
Group	Share capital (Note 29)	Accumulated losses	Other Reserves, total	Restructuring reserves (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
Balance at 1 January 2016	2,188,645	(2,370,739)	326,823	309,050	17,773	144,729	10,847	155,576
Loss for the year	–	(403,364)	–	–	–	(403,364)	(4,015)	(407,379)
Other comprehensive income								
Net actuarial gain/(loss) on post-employment benefits	–	8,317	–	–	–	8,317	(82)	8,235
Foreign currency translation gain	–	–	381	–	381	381	6	387
Other comprehensive income for the year, net of tax	–	8,317	381	–	381	8,698	(76)	8,622
Total comprehensive income for the year	–	(395,047)	381	–	381	(394,666)	(4,091)	(398,757)
Contributions by owners								
Issue of new ordinary shares under Rights Issue	317,400	–	–	–	–	317,400	–	317,400
Share issuance expense	(4,989)	–	–	–	–	(4,989)	–	(4,989)
	312,411	–	–	–	–	312,411	–	312,411
Balance at 31 December 2016	2,501,056	(2,765,786)	327,204	309,050	18,154	62,474	6,756	69,230

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 2017

Company	**Share capital (Note 29)** Rp'million	**Accumulated losses** Rp'million	**Foreign currency translation reserves** Rp'million	**Total equity** Rp'million
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
Total comprehensive income for the year	–	(4,031)	102	(3,929)
Balance at 31 December 2017	2,501,056	(2,049,117)	102	452,041
Balance at 1 January 2016	2,188,645	(2,033,832)	–	154,813
Issue of new ordinary shares under Rights Issue	317,400	–	–	317,400
Share issuance expense	(4,989)	–	–	(4,989)
Loss for the year, representing total comprehensive income for the year	–	(11,254)	–	(11,254)
Balance at 31 December 2016	2,501,056	(2,045,086)	–	455,970

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 2017

	Notes	2017 Rp'million	2016 Rp'million
Operating activities			
Loss before tax		(28,939)	(333,823)
Adjustments for:			
Depreciation of property, plant and equipment	12	88,997	110,584
Interest expense	7	79,333	94,221
Post-employment benefits expense	28	44,669	41,543
Allowance for doubtful receivables	8	4,962	3,224
Amortisation of land use rights	8	3,495	3,776
Inventories written-down	8	104	445
Net gain on disposal of property, plant and equipment	6	(263)	(2,329)
Interest income	5	(463)	(671)
(Recovery of)/allowance for advance to suppliers	6/8	(2,095)	528
Net (gain)/loss on change in fair value of biological assets	6/8	(2,024)	5,853
Property, plant and equipment written off	8	–	1,244
Net VAT receivable written-off		–	40,740
Net gain on disposal of investment	6	–	(95,689)
Net unrealized foreign exchange loss/(gain)		987	(13,708)
Operating cash flow before changes in working capital		188,763	(144,062)
Changes in working capital			
Trade and other receivables		(98,184)	60,289
Inventories		13,523	57,094
Prepaid operating expenses		11,944	(51,031)
Advances to suppliers		(38,281)	4,451
Trade and other payables		5,710	(61,691)
Other liabilities		(27,754)	20,389
Advances from customers		73,611	(15,058)
Other non-current assets		(315)	230
Cash flow generated from/(used in) operating activities		129,017	(129,389)
Income taxes (paid)/refunded		(15,939)	10,355
Post-employment benefits paid	28	(12,935)	(57,460)
Net cash flows generated from/(used in) operating activities		100,143	(176,494)

CONSOLIDATED CASH FLOWS STATEMENT

For the financial year ended 31 December 2017

	Notes	2017 Rp'million	2016 Rp'million
Investing activities			
Purchase of property, plant, and equipment (Note (i))		(37,306)	(24,155)
Additions of biological assets	14	(172)	(221)
Interest received		463	671
Proceeds from disposal of property, plant and equipment		659	7,209
Proceeds from disposal of investment		–	95,689
Net cash flows (used in)/generated from investing activities		(36,356)	79,193
Financing activities			
Proceeds from loans and borrowings		2,021,207	1,999,702
Repayments of loans and borrowings		(2,050,510)	(2,162,969)
Interest paid		(70,575)	(84,778)
Placement of restricted deposits		(367)	(5,065)
Acquisition of non-controlling interest without a change in control		(2,000)	–
Proceeds from issuance of new shares, net of expenses		–	312,411
Net cash flows (used in)/generated from financing activities		(102,245)	59,301
Net decrease in cash and cash equivalents		(38,458)	(38,000)
Effect of exchange rate change on cash and cash equivalents		233	(419)
Cash and cash equivalents at 1 January		58,724	91,075
Cash and cash equivalents at 31 December		20,499	52,656

For the purpose of presenting the consolidated statement of cash flow, the consolidated cash and cash equivalents comprises the followings:

	Notes	2017	2016
Cash at banks and on hand	23	33,905	58,724
Less: Bank overdraft	27	(13,406)	(6,068)
Cash and cash equivalents		20,499	52,656

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

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

	2017	2016
Cash payment	37,306	24,155
Reclassification of advances made for the purpose of property, plant and equipment	–	13,084
Addition through finance lease	–	324
	37,306	37,563

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

1. General

Corporate information

Samko Timber Limited (the "Company") is a limited liability company which is incorporated 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 (FRS).

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

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

<u>Fundamental accounting concepts</u>

For the financial year ended 31 December 2017, the Group incurred loss before tax of Rp28,939 million (2016: Rp333,823 million) and at that date, the Group's current liabilities exceeded its current assets by Rp218,192 million (2016: Rp101,888 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.

<u>Change in functional currency of the Company</u>

Prior to 1 January 2017, all transactions in currencies other than the Indonesian Rupiah (Rp) were treated as transactions in foreign currencies and were recorded, on initial recognition, in Rp using the exchange rate at the transaction date.

With effect from 1 January 2017, as a result of a change in underlying transactions, events and conditions relevant to the Company during the year, the functional currency of the Company was changed from the Indonesian Rupiah ("Rp") to the United States dollar ("US$")

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2017

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

2.1 ***Basis of preparation (cont'd)***

Change in functional currency of the Company (cont'd)

The change of functional currency was a result of the increased influence of the US$ over the Company's economic environment and has been applied prospectively in the financial statements of the Company. The financial statements of the Group and Company will continue to be presented in Rp as management is of the opinion that having a Rp presentation would be more reflective of the Group's operations given that the Group's operations are mainly based in Indonesia.

Convergence with International Financial Reporting Standards

For annual financial period beginning on or after 1 January 2018, Singapore-incorporated companies listed on the Singapore Exchange will apply Singapore Financial Reporting Framework (International), a new financial reporting framework identical to International Financial Reporting Standards. The Group will adopt SFRS(I) on 1 January 2018.

The Group has performed an assessment of the impact of adopting SFRS(I). Other than the impact on adoption of the SFRS(I) 15 and SFRS(I) 9, the Group expects that adoption of SFRS(I) will have no material impact on the financial statements in the year of initial application. The Group expects the impact of adopting SFRS(I) 15 and SFRS(I) 9 will be similar to the impact on adoption of FRS 115 and FRS 109 as disclosed in Note 2.3.

2.2 ***Changes in accounting policies***

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Group has adopted all the new and revised standards which are effective for annual financial periods beginning on or after 1 January 2017, including the Amendments to FRS 7 Disclosure Initiative. The adoption of these standards did not have any effect on the financial performance or position of the Group and the Company.

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

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

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

Description	Effective for annual periods beginning on or after
FRS 115 Revenue from Contracts with Customers	1 January 2018
Amendments to FRS 115 Clarifications to FRS 115 Revenue from Contracts with Customers	1 January 2018
FRS 109 Financial Instruments	1 January 2018
Amendments to FRS 102 Classification and Measurement of Share-Based Payment Transactions	1 January 2018
FRS 116 Leases	1 January 2019
INT FRS 122 Foreign Currency Transactions and Advance Consideration	1 January 2018
INT FRS 123 Uncertainty over Income Tax Treatments	1 January 2019
Improvements to FRSs (March 2018)	
– Amendments to FRS 103: Business Combinations	1 January 2019
– Amendments to FRS 111: Joint Arrangements	1 January 2019
– Amendments to FRS 12: Income Taxes	1 January 2019
– Amendments to FRS 23: Borrowing Costs	1 January 2019
Amendments to FRS 110 and FRS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Date to be determined

As disclosed in Note 2.1, the Group will adopt SFRS(I) on 1 January 2018. Upon adoption of SFRS(I) on 1 January 2018, the SFRS(I) equivalent of the above standards that are effective on 1 January 2018 will be adopted at the same time.

Except for FRS 109, FRS 115 and FRS 116, the directors expect that the adoption of the other standards above will have no material impact on the financial statements in the period of initial application. The nature of the impending changes in accounting policy on adoption of FRS 109, FRS 115 and FRS 116 are described below.

<u>FRS 115 Revenue from Contracts with Customers</u>

FRS 115 establishes a five-step model to account for revenue arising from contracts with customers. Under FRS 115, revenue is recognised at an amount that reflects the consideration which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard is effective for annual periods beginning on or after 1 January 2018.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

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

2.3 ***Standards issued but not yet effective (con't)***

For the financial years ended 31 December 2017 and 2016, the Group recognises revenue from the sale of goods upon the transfer of significant risk and rewards of ownership of the goods to the customer, which generally coincides with delivery and acceptance of the goods sold.

A full retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. Management is currently assessing the impact of the new standard and plans to adopt the new standard on the required effective date.

<u>FRS 109 Financial Instruments</u>

FRS 109 introduces new requirements for classification and measurement of financial assets, impairment of financial assets and hedge accounting. Financial assets are classified according to their contractual cash flow characteristics and the business model under which they are held. The impairment requirements in FRS 109 are based on an expected credit loss model and replace the FRS 39 incurred loss model.

Impairment

FRS 109 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses on all trade receivables.

Management is currently assessing the impact of the new standard and plans to adopt the new standard on the required effective date without restating prior periods' information and recognises any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period at the date of initial application in the opening retained earnings.

<u>FRS 116 Leases</u>

FRS 116 requires lessees to recognise most leases on balance sheets to reflect the rights to use the leased assets and the associated obligations for lease payments as well as the corresponding interest expense and depreciation charges. The standard includes two recognition exemptions for lessees – leases of 'low value' assets and short-term leases. The new leases standard is effective for annual periods beginning on or after 1 January 2019.

The Group is currently in the process of analysing the transitional approaches and practical expedients to be elected on transition to FRS 116 and assessing the possible impact of adoption.

The Group plans to adopt the new standard on the required effective date by applying FRS 116 retrospectively with the cumulative effect of initial application as an adjustment to the opening balance of retained earnings as at 1 January 2019.

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

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;
- 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 FRS.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2017

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

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

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

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.

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. Summary of significant accounting policies (cont'd)

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) ***Change in functional currency***

The Company changed its functional currency from Rp to US$ on 1 January 2017. As a result of the change in the upper management of the Company, there is a change in the strategy and direction of the Company, there was an increasing influence of the US$ over the Company's economic environment and this triggered the change in functional currency.

Pursuant to FRS 21, The Effects of Changes in Foreign Exchange Rates, the effect of the change in functional currency was accounted for prospectively at the respective date of change. The figures as at the date of change of the functional currency, and the comparative figures for the financial year ended 31 December 2016 were not restated as the impact would not be material to the accounts.

(b) ***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 recognized in profit or loss.

(c) ***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 2017

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.

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

2.8 ***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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

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

2.9 ***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.

2.10 ***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.

2.13 ***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.

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

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

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

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

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

2.14 *Financial instruments*

(a) ***Financial assets***

Initial recognition and measurement

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

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

(i) ***Loans and receivables***

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

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

2.14 *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.

Regular way purchase or sale of a financial asset

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

(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. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

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

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

(c) ***Offsetting of financial instruments***

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

2.15 ***Impairment of financial assets***

The Group assesses at each reporting date whether there is any objective evidence that a financial asset is impaired.

(a) ***Financial assets carried at amortised cost***

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in profit or loss.

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

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

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

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

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

(b) ***Financial assets carried at cost***

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on financial assets carried at cost had been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

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 ***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.

2.18 ***Provisions***

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

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

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

2.19 ***Financial guarantee***

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantees are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, financial guarantees are recognised as income in profit or loss over the period of the guarantee. If it is probable that the liability will be higher than the amount initially recognised less amortisation, the liability is recorded at the higher amount with the difference charged to profit or loss.

No financial guarantee is recognised on the balance sheets of the Group.

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

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

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

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

2.21 ***Borrowing costs***

Borrowing costs are 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.

2.22 **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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

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

2.22 *Employee benefit (cont'd)*

(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.

2.23 *Leases*

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets 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.

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

2.23 ***Leases (cont'd)***

As lessee (cont'd)

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

2.24 ***Non-current assets held for sale***

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use.

Property, plant and equipment and land-use rights once classified as held for sale are not depreciated or amortised.

2.25 ***Revenue***

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements to determine if it is acting as principal or agent.

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

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

(b) ***Interest income***

Interest income is recognised using the effective interest method.

2.26 ***Income taxes***

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

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

2.26 *Income taxes (cont'd)*

(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.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of each reporting period.

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

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

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

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(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.

2.27 ***Segment reporting***

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment manages report directly to the management of the Company who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 36, including the factors used to identify the reportable segments and the measurement basis of segment information.

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

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

2.29 ***Contingencies***

A contingent liability is:

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

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

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

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

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

Contingent liabilities and assets are not recognised on the balance 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 has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

Determination of functional currency

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. In determining the functional currencies of the entities in the Group, judgement is required to determine the currency that mainly influences sales prices for goods and services and of the country whose competitive forces and regulations mainly determines the sales prices of its goods and services. The functional currencies of the entities in the Group are determined based on management's assessment of the economic environment in which the entities operate and the entities' process of determining sales prices. Management has assessed that prices are mainly denominated and settled in the respective local currency of the entities of the Group. In addition, most of the entities' cost base is mainly denominated in their respective local currency. Therefore, management concluded that the functional currency of the entities of the Group is their respective local currency.

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

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 disclosed 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.

(a) ***Impairment of property, plant and equipment***

The Group assesses whether there are any indicators of impairment for property, plant and equipment at each reporting date. Property, plant and equipment are tested for impairment annually and at other times when such indicators exist. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

The carrying amount of the Group's property, plant, and equipment at the end of the reporting period is disclosed in Note 12.

(b) ***Deferred tax assets***

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the timing and level of future taxable profits together with future tax planning strategies. In determining the timing and level of future taxable profits together with future tax planning strategies, the Group assessed the profitability of expected future cash inflows based on expected revenues from existing orders and contracts.

Where taxable profits are expected in the foreseeable future, deferred tax assets are recognised on the unused tax losses. The carrying value of recognised tax losses at 31 December 2017 was Rp165,014 million (2016: Rp2,877 million) and the unrecognised tax losses at 31 December 2017 was Rp149,094 million (2016: Rp472,529 million).

If the Group was able to recognise all unrecognised deferred tax assets, profit would increase by Rp32,401 million (2016: Rp102,690 million).

(c) ***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 2017 were Rp13,442 million (2016: Rp10,963 million).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

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

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

(d) ***Valuation of biological assets***

Biological assets are measured at its fair value less estimated point-of-sale costs. Annual valuation by independent professional valuer is carried out to ascertain the fair value of biological assets. The carrying amount of biological assets as at 31 December 2017 was Rp51,454 million (2016: Rp49,971 million).

(e) ***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 value in use of the cash generating units. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash generating units 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 carrying amount of the investment in subsidiaries is sensitive to the valuation inputs such as sales price and discount rate. A reduction of 1% in selling price and an increase of 1% in the discount rates would have no variance in the carrying amount of the investment in subsidiaries of the Company as at 31 December 2017.

(f) ***Post-employment benefits***

The cost of the defined benefit pension plan and the present value of the pension obligation are determined using actuarial valuations. 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 2017 amounted to Rp268,848 million (2016: Rp231,275 million). Further details about pension obligations are disclosed in Note 28.

(g) ***Impairment of loans and receivables***

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset is impaired. Factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments are objective evidence of impairment. In determining whether there is objective evidence of impairment, the Group considers whether there is observable data indicating that there have been significant changes in the debtor's payment ability or whether there have been significant changes with adverse effect in the technological, market, economic or legal environment in which the debtor operates in. Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. The carrying amount of the Group's loans and receivables at the end of the reporting period is disclosed in Note 19 to the financial statements.

4. Revenue

	Group	
	2017	2016
	Rp'million	Rp'million
Domestic sales	2,184,035	2,122,933
Export sales	1,278,527	993,155
	3,462,562	3,116,088

5. Finance income

	Group	
	2017	2016
	Rp'million	Rp'million
Interest income	463	671

6. Other income

	Group	
	2017	2016
	Rp'million	Rp'million
Recovery of advance to suppliers	2,095	–
Net gain on change in fair value of biological assets	2,024	–
Net gain on disposal of property, plant and equipment	263	2,329
Net gain on disposal of investment [1]	–	95,689
Net foreign exchange gain	–	6,040
	4,382	104,058

[1] Net gain on disposal pertains to disposal of investment in PT SLJ Global Tbk for a total consideration of Rp95,689 million.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2017

7. Finance expenses

	Group	
	2017	**2016**
	Rp'million	Rp'million
Interest expense on:		
Bank borrowings	71,085	87,854
Bank borrowings from a related party	5,137	3,515
Obligation under finance lease	3,111	2,852
Bank charges	6,928	5,893
	86,261	100,114

8. Other expenses

	Group	
	2017	**2016**
	Rp'million	Rp'million
Allowance for doubtful receivables	4,962	3,224
Worker separation expenses	4,297	86,917
Amortisation of land use rights	3,495	3,776
Tax penalties	1,592	5,722
Net foreign exchange loss	247	–
Inventories written-down	104	445
Net loss on change in fair value of biological assets	–	5,853
Property, plant and equipment written off	–	1,244
Allowance for advance to suppliers	–	528
Others	29,252	32,682
	43,949	140,391

9. Loss before tax

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

	Group	
	2017	2016
	Rp'million	Rp'million
Audit fees paid to:		
– Auditor of the Company	1,420	1,109
– Other auditors	2,034	1,945
Factory overhead	766,678	789,988
Salaries and employees' benefits		
– Salaries	708,914	800,291
– Defined plan benefit	40,099	42,347
– Other short-term benefits	4,447	17,326
Post-employment benefits (Note 28)	44,669	41,543
Rental expenses	8,406	12,362
Depreciation of property, plant and equipment (Note 12)	88,997	110,584
Freight charges	90,584	97,514
Legal and other professional fees	37,840	48,393

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

10. Income tax (credit)/ expense

(a) *Major components of income tax expense*

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

	Group	
	2017	**2016**
	Rp'million	Rp'million
<u>Consolidated income statement:</u>		
Current income tax:		
Current income taxation	14,286	10,742
Impairment of prepaid taxes	–	36,359
Under/(over) provision in respect of previous years	151	(757)
	14,437	46,344
Deferred income tax (Note 16)		
Origination and reversal of temporary differences	(11,310)	27,212
Benefits from previously unrecognised deferred tax assets	(59,276)	–
	(70,586)	27,212
Income tax (credit)/expense recognised in profit or loss	(56,149)	73,556
<u>Consolidated statement of comprehensive income:</u>		
Deferred income tax:		
Net actuarial loss on post-employment benefits	(1,644)	(1,758)

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

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

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

	Group	
	2017	**2016**
	Rp'million	Rp'million
Loss before taxation	(28,939)	(333,823)
Tax at domestic rates applicable in the countries where the Group operates	(12,830)	(80,237)
Income not subject to tax	(114)	(24,088)
Non-deductible expenses	21,961	18,401
Under/(over) provision of prior year income tax	151	(757)
Impairment of prepaid taxes	–	36,359
Deferred tax assets not recognised for the current year tax losses	11,230	126,264
Benefits from previously unrecognised deferred tax assets	(59,276)	–
Utilisation of deferred tax assets not recognised previously	(15,981)	–
Effect of partial tax exemption and tax relief	(1,578)	(1,561)
Others	288	(825)
Income tax (credit)/expense recognised in profit or loss	(56,149)	73,556

The corporate income tax applicable to the entities in Singapore is 17.0% (2016: 17.0%). The corporate income tax rate applicable to the subsidiaries in Indonesia is 25.0% (2016: 25.0%).

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

Expenses not deductible for tax purposes mainly related to tax effect on disallowed expenses, while the income not subjected to tax related to tax effect on non-taxable interest income.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

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

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

Tax losses:

As of 30 December 2017, the Group has tax losses of approximately Rp314,108 million (2016: 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. Out of these tax losses, approximately Rp149,094 million (2016: Rp472,529 million) that are available for offset against future taxable profits of the companies in which the losses arose, for which no deferred tax asset is recognised due to uncertainly 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 Rp702 million (2016: Rp791 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/ loss per share

The basic and diluted loss per share are calculated by dividing the loss for the year attributable to owners of the Company by the weighted average number of ordinary shares.

The following reflects the profit/ (loss) and share data used in the computation of basic and diluted earnings per share for the years ended 31 December:

	Group	
	2017	**2016**
	Rp'million	Rp'million
Profit/(loss) of the year attributable to owners of the Company used in computation of earnings per share	30,092	(403,364)

	Number of shares	**Number of shares**
Weighted average number of ordinary shares used for basic and diluted earnings per share computation	2,374,050,505	1,433,421,520

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

12. Property, plant and equipment

Group

						Construction in progress		Leased assets	
	Buildings and improvements	Machinery and heavy equipment	Electrical installations	Vehicles	Furniture, fixtures and equipment	Buildings	Machinery	Machinery and heavy equipment	Total
	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

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

Group (cont'd)

						Construction in progress		Leased assets	
	Buildings and improvements	Machinery and heavy equipment	Electrical installations	Vehicles	Furniture, fixtures and equipment	Buildings	Machinery	Machinery and heavy equipment	Total
	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million
Cost									
At 1 January 2016	347,911	1,222,923	48,281	53,510	86,836	10,792	45,685	46,873	1,862,811
Additions	475	–	165	1,101	1,513	5,362	28,947	–	37,563
Disposals	–	(132,897)	–	(2,010)	(997)	(484)	(1,985)	–	(138,373)
Reclassifications	(16,770)	82,831	3,767	–	786	(13,545)	(57,906)	(27,277)	(28,114)
Written-off	–	(2,863)	–	–	–	–	–	–	(2,863)
Translation reserve	–	–	–	(13)	(47)	–	–	–	(60)
At 31 December 2016	331,616	1,169,994	52,213	52,588	88,091	2,125	14,741	19,596	1,730,964
Accumulated depreciation and impairment									
At 1 January 2016	151,397	894,919	29,613	40,775	60,544	–	–	23,021	1,200,269
Depreciation charge for the year	16,633	74,499	4,140	3,397	8,182	–	–	3,733	110,584
Disposals	–	(131,102)	–	(1,472)	(919)	–	–	–	(133,493)
Reclassifications	(2,975)	9,594	–	–	–	–	–	(9,594)	(2,975)
Written-off	–	(1,619)	–	–	–	–	–	–	(1,619)
Translation reserve	–	–	–	(4)	(41)	–	–	–	(45)
At 31 December 2016	165,055	846,291	33,753	42,696	67,766	–	–	17,160	1,172,721
Net carrying amount									
At 31 December 2016	166,561	323,703	18,460	9,892	20,325	2,125	14,741	2,436	558,243

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

Company	Furniture, fixtures and equipment Rp'million
Cost	
At 1 January 2016	731
Disposal for the year	(178)
At 31 December 2016 and 1 January 2017	553
Translation reserve	4
At 31 December 2017	557
Accumulated depreciation	
At 1 January 2016	582
Depreciation charge for the year	83
Disposal for the year	(144)
At 31 December 2016 and 1 January 2017	521
Depreciation charge for the year	32
Translation reserve	4
At 31 December 2017	557
Net carrying amount	
At 31 December 2017	–
At 31 December 2016	32

Depreciation

Depreciation charges allocated to cost of sales and general and administrative expenses amounted to Rp83,215 million (2016: Rp104,548 million) and Rp5,782 million (2016: Rp6,036 million) respectively.

Assets pledged as security

Buildings and improvements, machinery and heavy equipment with aggregate net book value of Rp463,191 million in 2017 (2016: Rp530,677 million) are pledged as collateral for interest bearing loans (Note 27).

Assets written-off

In 2016, the assets written-off of Rp1,244 million pertains to obsolete equipment in a subsidiary within the SGS division, PT Panca Usaha Palopo Plywood, was recognised in "Other expenses" (Note 8) line item of profit or loss.

Non-current assets held for sale

In 2016, the board approved the disposal of the Group's factory in Tangerang, Indonesia. These assets has a net book value ('NBV') of Rp28,114 million (2016: Rp25,139 million) and is reclassified to assets held for sale.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

13. Investment in subsidiaries

	Company	
	2017	2016
	Rp'million	Rp'million
Unquoted shares, at cost	2,398,107	2,086,697
Impairment losses	(1,960,621)	(1,960,621)
	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	
		2017	2016
@ 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 Tanubrata Sutanto Fahmi & Rekan, Jakarta – a member of BDO International Limited*

13. Investment in subsidiaries (cont'd)

Restructuring of PT Sumber Graha Sejahtera ("SGS")

In November 2017, the Company has undertaken an internal restructuring which involves the merging of the following subsidiaries of PT Sumber Graha Sejahtera ("SGS"), a principal subsidiary of the Company in Indonesia, into SGS:

i. PT Panca Usaha Palopo Plywood;
ii. PT Putra Sumber Utama Timber;
iii. PT Sejahtera Usaha Bersama;
iv. PT Makmur Alam Sentosa;
v. PT Makmur Alam Lestari;
vi. PT Putra Sumber Kreasitama;
vii. PT Mitra Lestari Abadi;
viii. PT Dinamika Maju Bersama;
ix. PT Musi Rawas Lestari Makmur;
x. PT Surya Sumber Rejeki;
xi. PT Nusantara Makmur Sentosa;
xii. PT Kreatif Cipta Bersama;
xiii. PT Kreasi Putra Pratama; and
xiv. PT Sulawesi Powerindo

Impairment testing of investment in subsidiaries

During the financial year, management performed impairment tests for the investments in PT Sumber Graha Sejahtera, as the subsidiary had been making losses and the carrying amount of the investment in the separate financial statements exceeds the carrying amounts in the financial statements of the investee's net assets.

The recoverable amount of the subsidiary have 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 12.2%.

Acquisition of non-controlling interest without a change in control

On November 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 additonal interest acquired has 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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

14. Biological assets

	Company	
	2017	2016
	Rp'million	Rp'million
At fair value		
At 1 January	49,971	55,603
Capitalisation of expenses	172	221
Harvest of trees	(713)	–
Net change in fair value less estimated cost to sell	2,024	(5,853)
At 31 December	51,454	49,971

The Group's plantations are located in Java and Sulawesi with total planted areas that cover 1,447 hectares in 2017 (2016: 1,531 hectares). Plantation trees consist of Gmelina Arborea, Paraserianthes Falcataria, Anthocepalus Cadamba and Tectona Grandis with 74% aged between 1 – 7 years (2016: 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 (2016: 6 – 10 years);
(c) Yield is 13 – 283 (2016: 26 – 283) cubic meter per hectare;
(d) Average inflation rate is 4.6% (2016: 4.07%) per annum;
(e) Discount rate is 12.37% (2016: 12.20%) per annum; and
(f) Market price is derived from average market price per species.

As at 31 December 2017 and 2016, there was no biological asset pledged as collateral for interest bearing loans.

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

15. Land use rights

	Company	
	2017	**2016**
	Rp'million	Rp'million
Cost:		
At 1 January	105,044	107,798
Reclassification	–	(2,754)
At 31 December	105,044	105,044
Accumulated amortisation:		
At 1 January	43,672	40,924
Amortisation	3,495	3,776
Reclassification	–	(1,028)
At 31 December	47,167	43,672
Net carrying amount	57,877	61,372

Total land use rights amounts to 398 hectares. The land use rights are transferable and have a remaining tenure up to 27 years (2016: 28 years).

In 2016, the board has approved the disposal of the Group's land use rights in Tangerang, Indonesia. Land use rights associated with these assets amounting to Rp1,726 million were reclassified to assets held for sale during the year.

As at 31 December 2017, land use rights with the aggregate carrying amount of Rp47,196 million (2016: 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 2017

16. Deferred tax

Deferred tax as at 31 December relates to the following:

	Group			
	Consolidated balance sheets		Consolidated income statement	
	2017	2016	2017	2016
	Rp'million	Rp'million	Rp'million	Rp'million
Deferred tax assets:				
Unutilised tax losses	41,254	719	40,535	(25,900)
Difference in employees' benefits obligation	66,725	36,141	28,864	(2,989)
Difference in accounting and tax treatment of finance lease	–	231	(231)	6,296
Allowance for incentives	1,908	131	1,777	(573)
Allowance for inventory obsolescence	–	696	(696)	(3,928)
Allowance for bad debts	240	187	53	(1,603)
Allowance for advance to suppliers	906	650	256	34
Difference in depreciation for tax purposes	(185)	1,570	(1,755)	1,815
Other items	470	430	40	(8)
	111,318	40,755		
Deferred tax liabilities:				
Difference in employees' benefits obligation	–	4,443	(4,367)	4,980
Allowance for inventory obsolescence	–	386	(386)	386
Allowance for bad debts	–	490	(490)	490
Difference in depreciation for tax purposes	–	(962)	962	(188)
Difference in accounting and tax treatment of finance lease	–	(6,024)	6,024	(6,024)
	–	(1,667)		
Deferred income tax (Note 10)			70,586	(27,212)

17. Other non-current assets

	Group		Company	
	2017	2016	2017	2016
	Rp'million	Rp'million	Rp'million	Rp'million
Estimated claim for tax refund	12,525	2,845	–	–
Guarantee deposits - net	2,406	2,482	–	–
Advances for purchase of property, plant and equipment	1,815	1,983	–	–
Advance to a subsidiary	–	–	–	311,410
Others	448	12	–	–
	17,194	7,322	–	311,410

18. Inventories

	Group	
	2017	2016
	Rp'million	Rp'million
Balance sheets:		
At cost		
Raw materials	32,613	28,674
Work in progress	210,609	219,475
Indirect materials and spare parts	86,419	83,274
At lower of cost and net realisable value		
Finished goods	167,168	179,013
	496,809	510,436
Income statement:		
Inventories recognised as an expense in cost of sales	1,592,375	1,371,408
Inventories written-down in other expenses	104	445

As at 31 December 2017, inventories with the aggregate carrying amount of Rp409,229 million (2016: Rp424,819 million) have been pledged as collateral for interest bearing loans (Note 27).

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19. Trade and other receivables

	Group		Company	
	2017	2016	2017	2016
	Rp'million	Rp'million	Rp'million	Rp'million
Trade receivables				
- Third parties	261,920	163,471	18,026	10,065
Other receivables				
- Third parties	7,211	11,725	–	–
- Subsidiary companies	–	–	17,598	22,605
Total trade and other receivables	269,131	175,196	35,624	32,670
Add:				
- Cash at banks and on hand (Note 23)	33,905	58,724	2,597	4,543
- Restricted deposits (Note 22)	12,987	12,555	–	–
- Guarantee deposits – net (Note 17)	2,406	2,482	–	–
Total loans and receivables	318,429	248,957	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 2017, consolidated trade receivables with an aggregate carrying amount of Rp160,965 million (2016: Rp122,528 million) have been pledged as collateral for interest bearing loans (Note 27).

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

Receivables that are past due but not impaired

The Group and Company has trade receivables amounting to Rp56,092 million (2016: Rp48,618 million) and Rp15,793 million (2016: Rp21,416 million), 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	
	2017	2016	2017	2016
	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

19. Trade and other receivables (cont'd)

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:

	Group		Company	
	2017	2016	2017	2016
	Rp'million	Rp'million	Rp'million	Rp'million
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	15,125	17,392	969	1,007
Charge for the year	4,962	3,224	465	–
Written-off	–	(5,423)	–	–
Translation	111	(68)	54	(38)
At 31 December	20,198	15,125	1,488	969

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.

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

	Group		Company	
	2017	2016	2017	2016
	Rp'million	Rp'million	Rp'million	Rp'million
United States Dollar	4,556	8,666	–	–
Malaysian Ringgit	162	1,848	–	–
Singapore Dollar	–	–	17,598	24,574

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20. Prepaid operating expenses

	Group	
	2017	**2016**
	Rp'million	Rp'million
Value-added tax and income taxes	20,163	20,485
Insurance	7,235	443
Rental	3,844	6,754
Others	3,934	19,760
	35,176	47,442

21. Advances to suppliers

	Group	
	2017	**2016**
	Rp'million	Rp'million
For the procurement of:		
Logs	19,352	6,919
Veneers	8,930	397
Spare parts	23,007	4,937
Others	6,957	5,617
	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 Rp7,373 million (2016: Rp6,309 million) are denominated in United States dollar.

23. Cash at banks and on hand

	Group		Company	
	2017	2016	2017	2016
	Rp'million	Rp'million	Rp'million	Rp'million
Cash on hand	1,999	2,048	–	–
Cash at banks	31,906	34,676	2,597	4,543
	33,905	36,724	2,597	4,543
Short term deposit	–	22,000	–	–
Cash at banks and on hand	33,905	58,724	2,597	4,543
Interest rate per annum	0.1% - 2.0%	0.1% - 8.0%	0.1%	0.1%

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 are denominated in foreign currencies are as follows:

	Group		Company	
	2017	2016	2017	2016
	Rp'million	Rp'million	Rp'million	Rp'million
United States Dollar	7,274	10,589	–	–
Singapore Dollar	1,302	1,803	821	3,863
Others	371	667	–	7

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

24. Trade and other payables

	Group		Company	
	2017	2016	2017	2016
	Rp'million	Rp'million	Rp'million	Rp'million
Trade payable				
- Third parties	247,747	265,031	–	–
- Related parties	143	8,650	–	–
- Subsidiary companies	–	–	20,766	12,804
Other payable				
- Third parties	35,543	4,042	–	40
Total trade and other payables	283,433	277,723	20,766	12,844
Add:				
- Other liabilities[(1)] (Note 25)	100,045	123,040	3,244	6,282
- Loans and borrowings (Note 27)	828,184	831,532	–	–
Total financial liabilities carried at amortised cost	1,211,662	1,232,295	24,010	19,126

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

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	
	2017	2016	2017	2016
	Rp'million	Rp'million	Rp'million	Rp'million
United States Dollar	6,368	9,271	–	–
Singapore Dollar	7	66	–	40
Euro	66	820	–	–

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25. Other liabilities

	Group		Company	
	2017	2016	2017	2016
	Rp'million	Rp'million	Rp'million	Rp'million
Accrual for operating expenses	96,644	119,037	3,244	6,282
Post-employment benefits (Note 28)	14,524	15,430	–	–
Value-added tax	9,670	8,882	50	45
Accrued interest	3,245	3,075	–	–
Others	156	928	–	–
	124,239	147,352	3,294	6,327

26. Advances from customers

	Group	
	2017	2016
	Rp'million	Rp'million
Local	85,580	6,779
Export	470	5,660
	86,050	12,439

This account represents advances received from customers for sales of the Group's products. Included in the advances from customers-local was advances of Rp59,921 million received from the employee cooperative.

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For the financial year ended 31 December 2017

27. Loans and borrowings

	Group	
	2017	**2016**
	Rp'million	Rp'million
Current		
Interest bearing loans	647,022	502,080
Obligation under finance lease	100	419
	647,122	502,499
Non-current		
Interest bearing loans	181,004	328,875
Obligation under finance lease	58	158
	181,062	329,033
Total loans and borrowings	828,184	831,532

(i) ***Interest bearing loans***

(a) Total facilities up to US$34,395,000 (approximately: Rp465,983 million) and Rp428,850 million (2016: US$34,395,000 (approximately: Rp462,131 million) and Rp428,850 million) comprising term loans, demand loans, pre and post export financing, bank guarantee and foreign exchange line. Term loans is payable on monthly installments (2016: quarterly installments). Interest for US$ and Rp loan is at LIBOR plus 4.25% - 4.75% and lender prime lending rate plus 1% - 1.75% per annum (2016: 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%.	544,718	535,748
(b) US$20,000,000 (approximately: Rp270,960 million) multi-currency specific advance facility and payable within 1 - 3 months. Interest rate per annum to be agreed at each withdrawal of advance.	230,316	237,817

27. Loans and borrowings

	Group 2017 Rp'million	Group 2016 Rp'million
(i) ***Interest bearing loans (cont'd)***		
(c) Total facilities up to Rp58,000 million for Post Import Financing Non Letter of Credit. The loans are repayable within 1 month from withdrawal and bear interest at lender prime lending rate plus 0.5% per annum (Jan-Mar 2017: JIBOR one-month plus 4.75% per annum, 2016: JIBOR one-month plus 4.75% per annum). 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.	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
(e) Rp60,000 million revolving overdraft facility and is payable 12 months since the date of withdrawal. Interest is 13.5% per annum.[1]	13,406	6,068
	828,026	830,955
Effective interest rate per annum	4%-13.5%	4%-13.5%
Within one year	647,022	502,080
Between two and five years	181,004	328,875
	828,026	830,955

(1) The facility is from a lender who is controlled by the Sampoerna family, the substantial shareholders of the Company. All the existing lenders had given their consent for the Group to use the bank loan facility on the condition that the Group has increased the equity capital of the relevant subsidiary, PT Sumber Graha Sejahtera ("SGS") in 2017.

During the current financial year, SGS breached the financial covenants for not maintaining certain covenants listed above. The bank is contractually entitled to request for immediate repayment of the outstanding loan amount in the events of breach of covenant.

On 2 November 2017, the bank issues a waiver letter to SGS not recall for immediate repayment of the loan with condition that no dividend payment to be made as long as the covenant breach is continuing.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

27. Loans and borrowings (cont'd)

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

The interest bearing loans are secured by following:

(a) Guarantee undertaking from two major shareholders of the Company, the Company and certain subsidiaries; and

(b) Secured over the land use rights, buildings, machinery, inventories, account receivables, bank balances of certain subsidiaries. All other assets of these subsidiaries are on negative pledge to the financial institution and some restriction on dividend payment is imposed on them.

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

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

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

	2017		2016	
	Minimum payments	Present value of minimum payments	Minimum payments	Present value of minimum payments
	Rp'million	Rp'million	Rp'million	Rp'million
Group				
Within one year	106	100	457	419
Between two and five years	61	58	167	158
Total minimum lease payments	167	158	624	577
Less: interest	(9)	–	(47)	–
Present value of minimum lease payments	158	158	577	577
Effective interest rate per annum	1% - 13%		4% - 16%	

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

As at 31 December 2017, the net book value of assets under finance lease amounts to Rp1,624 million (2016: Rp2,436 million).

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For the financial year ended 31 December 2016

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**	**Repayment**	**Foreign exchange movement**	**Non-cash item**	**Other**	**Ending balance**
	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million
2017							
Secured bank loans							
- current	116,513	–	(116,784)	1,903	–	150,971	152,603
- non-current	332,705	–	–	–	–	(150,971)	181,734
Obligations under finance leases							
- current	419	–	(419)	–	–	100	100
- non-current	158	–	–	–	–	(100)	58
Revolving credit	385,941	2,024,884	(1,933,307)	8,126	–	–	485,644
Deferred charges	(10,272)	(3,677)	–	–	8,588	–	(5,361)
Total	825,464	2,021,207	(2,050,510)	10,029	8,588	–	814,778

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28. Post-employment benefits

The Group calculate and record 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 2017 was 5,790 people (2016: 6,401 people).

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

	Group	
	2017	**2016**
	Rp'million	Rp'million
Benefit liabilities:		
Beginning of the year	231,275	253,669
Expenses during the year	44,669	41,543
Actual payments during the year	(12,935)	(57,460)
Actuarial loss/(gain) during the year	5,839	(6,477)
Ending of the year	268,848	231,275
Less: current portion (Note 25)	14,524	15,430
Non-current portion	254,324	215,845
Net benefit expense:		
Current service costs	26,218	30,758
Interest costs	19,468	23,500
Net curtailments effect or termination	(1,017)	(12,715)
Net benefit expense	44,669	41,543

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

	Group	
	2017	**2016**
Discount rate per annum	7.34% - 7.42%	8.05% - 8.49%
Mortality table*	TMI III – 2011	TMI III - 2011
Rates of increase in compensation per annum	10%	10%
Retirement age	55 years old	55 years old

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

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	
	2017	**2016**
	Rp'million	Rp'million
Before tax	(5,839)	6,477
Tax charge	1,644	1,758
After tax	(4,195)	8,235

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	
	2017	**2016**	**2017**	**2016**
	Rp'million	Rp'million	Rp'million	Rp'million
As reported using discount rate of 7.34%-7.42% (2016: 8.05%-8.49%) per annum	268,848	231,275	44,669	41,543
Increase by 100 basis points	237,419	205,362	26,218	30,758
Decrease by 100 basis points	305,265	261,986	26,218	30,758

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For the financial year ended 31 December 2017

29. Share capital

	Group and Company			
	2017		2016	
	Number of shares	Rp'million	Number of shares	Rp'million
Issued and fully paid				
At 1 January	2,374,050,505	2,501,056	1,401,445,464	2,188,645
Issue of new ordinary shares under Rights Issue	–	–	972,605,041	317,400
Share issuance expense	–	–	–	(4,989)
	2,374,050,505	2,501,056	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.

Renounceable rights issue

On 8 December 2016, the Company completed a rights issue, and issued 972,605,041 ordinary shares in the capital of the Company at an issue price of S$0.035 for each Rights Share, on the basis of 5 Rights Share for every 7 existing ordinary shares of the Company. The newly issued shares rank pari passu in all respects with the existing ordinary shares of the Company. Net proceeds of Rp312,411 million were received.

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.

31. Commitments and contingencies

Financial support

The Company has agreed to provide financial support to a subsidiary having current liabilities in excess of its current assets by Rp337,899 million (2016: Rp531,072 million).

Capital commitments

Capital expenditures relates to machineries for decking products contracted for as at 31 December 2017 but not recognised in the financial statements amounting to nil (2016: 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 2017 amounted to Rp5,770 million (2016: Rp6,076 million).

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

	Group	
	2017	**2016**
	Rp'million	Rp'million
Not later than one year	5,378	6,254
Later than one year but not later than five years	1,516	–
	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	
	2017	**2016**
	Rp'million	Rp'million
PT Sampoerna Land		
- *Office rental*	6,401	5,242
PT Bank Sahabat Sampoerna		
- *Interest expenses*	5,137	3,515
PT Pelayaran Nelly Dwi Putri Tbk		
- *Freight charges*	3,002	6,280
PT Wijaya Triutama Plywood Industri		
- *Purchase of veneer*	1,159	–
PT Basirih Industrial		
- *Purchase of veneer*	2,496	–
PT Wahana Sekar Agro		
- *Cooperation for cultivation of trees*	172	221

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

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	
	2017	**2016**
	Rp'million	Rp'million
Directors fees	2,297	2,189
Short-term employee benefits	34,450	26,219
Central provident Fund contribution	–	46
	36,747	28,454
Comprise amount paid to:		
- Directors of the Company	13,563	14,273
- Other key management personnel	23,184	14,181
	36,747	28,454

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

32. Related party disclosures (cont'd)

Financial guarantee

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

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/(loss) after tax in 2017 would have been Rp6,435 million (2016: Rp6,504 million) lower/higher.

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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	
	2017	**2016**
	Rp'million	Rp'million
Strengthened 2.5%	4,049	5,280
Weakened 2.5%	(4,049)	(5,280)
Strengthened 5%	8,099	10,561
Weakened 5%	(8,099)	(10,561)
Strengthened 7.5%	12,148	15,841
Weakened 7.5%	(12,148)	(15,841)
Strengthened 10%	16,197	21,121
Weakened 10%	(16,197)	(21,121)

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 exposures to credit risk are primarily from trade and other receivables and bank balances. It is the Group's policy to monitor the financial standing of these receivables on an on-going basis to ensure that the Group is exposed to minimal credit risk. Bank balances are placed with credit worthy financial institutions. More than 95% of the Group's customers have been customers for more than 5 years with good credit standing. The Group adopts prudent credit risk assessment on new and existing customers by implementing a 'know-your-customer' policy.

Financial assets that are neither past due nor impaired

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

Information regarding financial assets that are either past due or impaired is disclosed in Note 19.

(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 78% (2016: 60%) 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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

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

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

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

(In Rp'million)	One year or less	One to five years	Over five years	Total
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
2016				
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

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 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

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 that are carried 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	**Significant other observable inputs**	**Significant unobservable inputs**	**Total**
	(Level 1)	(Level 2)	(Level 3)	
	Rp'million	Rp'million	Rp'million	Rp'million
2017				
Non-financial assets				
Biological assets	–	–	51,454	51,454
2016				
Non-financial assets				
Biological assets	–	–	49,971	49,971

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

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

(b) *Assets and liabilities that are carried at fair value (cont'd)*

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

Biological assets – Standing Timber

Type	Key unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Standing timber older than 7 years (the age at which it becomes marketable)	Estimated harvesting costs (Rp199,778 to Rp364,619, weighted average of Rp294,656)	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 Rp651,434 to Rp1,374,854, weighted average of Rp1,012,152 • Adjusted Yield per hectare (9 m3 to 155 m3, weighted average of 108 m3) • Discount rate at 12.37%	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.

	31 December 2017	
		Effect of reasonably possible alternative assumption
	Carrying amount	Profit or loss
	Rp'million	Rp'million
Recurring fair value measurements		
Increase by 1%	50,268	(1,186)
Decrease by 1%	52,681	1,227

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

(b) ***Assets and liabilities that are carried 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 2017 and 2016.

(c) ***Financial Instruments 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 2017 and 2016.

The capital for the Group is tabulated below:

	Group	
	2017	**2016**
Description	Rp'million	Rp'million
Loans and borrowings (Note 27)	828,184	831,532
Equity attributable to the owners of the Company	81,754	62,474
Total equity and loans and borrowings	909,938	894,006

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2017

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 2016

36. Segment information (cont'd)

	SGS division		ST division		Adjustments and eliminations		Notes	Per consolidated financial statements	
	2017	2016	2017	2016	2017	2016		2017	2016
	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million		Rp'million	Rp'million
Revenue:									
External customers	1,880,350	1,826,712	1,582,212	1,289,376	–	–		3,462,562	3,116,088
Inter-segment	1,479,658	1,205,351	1,156	1,496	(1,480,814)	(1,206,847)	A	–	–
Total revenue	3,360,008	3,032,063	1,583,368	1,290,872	(1,480,814)	(1,206,847)		3,462,562	3,116,088
Results:									
Finance income	456	648	7	23	–	–		463	671
Finance expenses	(69,287)	(84,413)	(16,974)	(15,701)	–	–		(86,261)	(100,114)
Depreciation of property, plant and equipment	(87,858)	(108,678)	(1,139)	(1,906)	–	–		(88,997)	(110,584)
Amortisation of land use rights	(3,495)	(3,776)	–	–	–	–		(3,495)	(3,776)
Post-employment benefits expense	(44,669)	(41,543)	–	–	–	–		(44,669)	(41,543)
Gain/(loss) on change in fair value of biological assets	2,024	(5,853)	–	–	–	–		2,024	(5,853)
Workers separation expenses	(4,297)	(85,267)	–	(1,650)	–	–		(4,297)	(86,917)
Expense for the Group's re-organisation exercise	(33,684)	–	–	–	–	–		(33,684)	–

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

36. Segment information (cont'd)

	SGS division		ST division		Adjustments and eliminations		Notes	Per consolidated financial statements	
	2017	2016	2017	2016	2017	2016		2017	2016
	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million	Rp'million		Rp'million	Rp'million
Recovery of/(allowance for) advance to suppliers	2,095	(528)	–	–	–	–		2,095	(528)
Allowance for doubtful receivables	(1,980)	(1,824)	(2,982)	(1,400)	–	–		(4,962)	(3,224)
Tax benefit/(expense)	61,437	(69,025)	(5,288)	(4,531)	–	–		56,149	(73,556)
Segment (loss)/profit	(1,901)	(375,999)	29,111	(31,380)	–	–		27,210	(407,379)
Assets:									
Deferred tax assets	109,948	39,100	1,370	1,655	–	–		111,318	40,755
Segment assets	1,559,997	1,484,920	845,819	799,031	(729,573)	(717,200)	B	1,676,243	1,566,751
Liabilities:									
Loans and borrowings	575,693	559,776	252,491	271,756	–	–		828,184	831,532
Income tax payable	9,354	9,388	4,088	1,575	–	–		13,442	10,963
Deferred tax liabilities	–	1,651	–	16	–	–		–	1,667
Segment liabilities	1,603,168	1,828,632	425,143	385,128	(438,639)	(716,239)	C	1,589,672	1,497,521

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

36. Segment information (cont'd)

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:

	2017 Rp'million	2016 Rp'million
Inter-segment assets	(729,573)	(717,200)

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

	2017 Rp'million	2016 Rp'million
Inter-segment liabilities	(438,639)	(716,239)

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	
	2017 Rp'million	2016 Rp'million	2017 Rp'million	2016 Rp'million
Indonesia	1,703,730	1,677,680	696,305	696,137
North Asia	844,628	683,896	–	–
Malaysia	478,906	402,053	112	142
United States of America	195,991	23,325	–	–
Singapore	130,736	168,354	34	172
Middle East	45,967	57,524	–	–
Europe	31,055	35,673	–	–
South East Asia	18,963	21,774	–	–
Australia	11,233	10,162	–	–
North East Asia	–	28,845	–	–
Others	1,353	6,802	–	–
	3,462,562	3,116,088	696,451	696,451

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

36. Segment information (cont'd)

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 2017 were authorised for issue in accordance with a resolution of the directors on 31 March 2018.

STATISTICS OF SHAREHOLDINGS

As at 27 March 2018

SHAREHOLDERS' INFORMATION

Class of shares	Number of issued shares excluding treasury shares and subsidiary holdings	Voting Rights
Ordinary Shares	2,374,050,505	One vote per share

There are no treasury shares and subsidiary holdings held in the issued share capital of the Company.

ANALYSIS OF SHAREHOLDINGS

Size of Shareholding			Number of Shareholders	%	Number of Shares	%
1	-	99	17	1.77	334	0.00
100	-	1,000	34	3.55	22,033	0.00
1,001	-	10,000	281	29.33	1,581,188	0.07
10,001	-	1,000,000	581	60.65	63,685,510	2.68
1,000,001		and above	45	4.70	2,308,761,440	97.25
			958	100.00	2,374,050,505	100.00

SUBSTANTIAL SHAREHOLDERS

(As recorded in the Register of Substantial Shareholders)

	Direct Interest	%	Deemed Interest	%
Sampoerna Forestry Limited	1,520,673,015	64.05	-	-
First Fortuna Holdings Pte Ltd	150,597,000	6.34	-	-
Koh Tji Kiong @ Amir Sunarko [(1)]	128,953,331	5.43	33,846,346	1.43
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 2018

TWENTY LARGEST SHAREHOLDERS

No.	Name of Shareholders	Number of Shares	%
1.	RAFFLES NOMINEES (PTE) LIMITED	1,588,350,292	66.90
2.	UOB KAY HIAN PRIVATE LIMITED	267,070,814	11.25
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	36,900,086	1.55
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	0.73
10.	HORNG JIIN SHUH @ HUNG CHING HSU	16,694,000	0.70
11.	DBS NOMINEES (PRIVATE) LIMITED	14,380,191	0.61
12.	KOH BOON HONG	12,804,000	0.54
13.	HSBC (SINGAPORE) NOMINEES PTE LTD	11,810,000	0.50
14.	FIRST FORTUNA HOLDINGS PTE LTD	10,597,000	0.45
15.	PATRICIA ALTHEA LEONG PECK HAN	7,200,000	0.30
16.	NOAH SHIPPING PTE LTD	5,657,000	0.24
17.	OCBC SECURITIES PRIVATE LIMITED	4,824,000	0.20
18.	SEE KIM HUA @TAN KIM HUA	4,400,000	0.19
19.	PHILLIP SECURITIES PTE LTD	3,923,083	0.17
20.	KHOO MENG KOON EDWIN	3,800,000	0.16
	TOTAL	**2,273,606,749**	**95.78**

PERCENTAGE OF SHAREHOLDING IN PUBLIC'S HANDS

Approximately 14.06% 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 the Company will be held at Carlton Hotel Singapore, Connaught Room, Level 2, 76 Bras Basah Road, Singapore 189558 on Friday, 27 April 2018, at 2:00 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 2017 together with the Auditors' Report thereon. **(Resolution 1)**

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

   Mr Michael Joseph Sampoerna **(Resolution 2)**
   Mr Sim Idrus Munandar **(Resolution 3)**
   Mr Wee Ewe Lay Laurence John **(Resolution 4)**

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

   Mr Wee Ewe Lay Laurence John will, upon re-election as a Director of the Company, remain as the Chairman of the Remuneration Committee and a member of the Audit and Nomination Committees respectively and will be considered independent.

3. To approve the payment of Directors' fees of S$227,150 for the financial year ending 31 December 2018, payable quarterly in arrears. (2017: S$227,150) **(Resolution 5)**

4. 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 6)**

5. 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 an Ordinary Resolution, with or without any modifications:

6. **Authority to issue shares**

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

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

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

NOTICE OF ANNUAL GENERAL MEETING

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) and 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 (i)] **(Resolution 7)**

By Order of the Board

Lai Kuan Loong Victor
Kiar Lee Noi
Secretaries
Singapore, 12 April 2018

NOTICE OF ANNUAL GENERAL MEETING

Explanatory Note:

(i) The Ordinary Resolution 7 in item 6 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.

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 (the "**Meeting**").

   (b) A member who is a relevant intermediary, is entitled to appoint more than two proxies to attend and vote at the 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, Chapter 50 of Singapore.

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 Meeting.

Personal data privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the 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 Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the 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
(appointed on 28 April 2017)

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

NOMINATION 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 *(appointed on 28 April 2017)*
Riko Setyabudhy Handoko
Ng Cher Yan

SECRETARIES

Lai Kuan Loong Victor
Kelly Kiar Lee Noi

REGISTERED OFFICE

7500A Beach Road
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Singapore 199591
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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)

Mandapa, a Ritz-Carlton Reserve, Ubud, Bali

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