

SAMKO TIMBER LIMITED

(Incorporated in the Republic of Singapore)
(Company Registration No. 200517815M)

RESPONSE TO SGX QUERIES REGARDING THE COMPANY'S ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

The board of directors (the “**Board**” or “**Directors**”) of Samko Timber Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) refers to the queries raised by Singapore Exchange Regulations (“**SGX RegCo**”) in its email on 30 April 2020 in relation to the Company’s annual report for the financial year ended 31 December 2019 (“**AR 2019**”) and wishes to provide the following information in response to such queries:

SGX RegCo Query 1:

Please explain the material discrepancy between the audited and unaudited financial statements for FY2019 with regard to the net cashflows generated from operating activities of Rp 36,980 million and Rp 157,014 million respectively.

Company's response:

The discrepancy of approximately Rp 120 billion (Rp 157 billion to Rp 37 billion) is due to:

- (i) the loan from a third party of Rp 98 billion and the loan from a customer of Rp 10 billion, totalling Rp 108 billion, recorded under “Other Liabilities” as disclosed in Note 26 to the financial statements are currently presented as cash inflows from financing activities in the audited financial statements for FY2019, instead of previously presented as cash inflows from operating activities in the unaudited financial statements for FY2019; and
- (ii) the unrealised exchange gain for bank borrowings of Rp12 billion, is currently presented under operating activities in the audited financial statements for FY2019, instead of previously presented under financing activities in the unaudited financial statements for FY2019.

SGX RegCo Query 2:

We refer to Note 7 of the Notes to the Financial Statements for FY2019, which reflects the amount Rp 19,674 million under “Forfeiture of customers’ deposits”. It was disclosed that the said amount *“relates to a customer’s deposits received under several sale contracts with one of the subsidiaries of the Group in 2007 and the customer did not proceed to complete the sale contracts since then. The Group has been advised by its legal counsel that the customer can now no longer make nor submit any valid and eligible claim against the subsidiary for a refund of those deposits, and accordingly, the Group forfeited the deposits and recognised the amounts in profit or loss during the current financial year.”*

- (a) If the deposits were received in 2007, when was the Group first informed that the customer would not be proceeding with the sale contracts?
- (b) How were these sale contracts recognised in the Group’s financial statements in the previous financial years?

Company's response:

- (a) The Company has not been in communication with the buyer for a long time and Management found out that this buyer has been struck-off since 2016.
- (b) These customer’s deposits were recorded under “Other liabilities” in the previous financial years in the statement of financial position and have been brought forward since.

SGX RegCo Query 3:

Listing Rule 710 requires issuers to explicitly state, when deviating from the provisions prescribed in the Code of Corporate Governance 2018 (the “Code”), an explanation on how the practices it had adopted are consistent with the intent of the relevant principle.

- (i) Provision 2.2 of the Code states that independent directors make up a majority of the Board where the Chairman is not independent.

Per page 32 of the annual report for FY2019, we note that the Company has not complied with Provision 2.2 of the Code as independent directors do not make up a majority of the Board where the Chairman is not independent.

As such, please explain how the practices adopted are consistent with the intent of Principle 2 of the Code, which requires the Board to have an appropriate level of independence and diversity of thought and background in its composition to enable it to make decisions in the best interest of the Company.

- (ii) Provision 8.1 of the Code states that the company discloses in its annual report the policy and criteria for setting remuneration, as well as names, amounts and breakdown of remuneration of:
 - (a) each individual director and the CEO; and
 - (b) at least the top five key management personnel (who are not directors or the CEO) in bands no wider than S\$250,000 and in aggregate the total remuneration paid to these key management personnel.

We refer to the Company’s disclosure on remuneration at pages 54, 55 and 56 of the annual report for FY2019. Where the Company’s practices deviate from the provisions of the Code, please explicitly state the provision from which it has deviated from and explain how the practices it had adopted are consistent with the intent of Principle 8 of the Code, which requires transparency on the Company’s remuneration policies, level and mix of remuneration, the procedure for setting remuneration and the relationships between remuneration, performance and value creation.

Company's response:

- (i) On page 32 of the AR 2019, the Company has explained that *“The Board noted that the Company is required to comply with the requirement for Independent Directors to make up a majority of the Board in view of the Non-Executive Chairman is not an Independent Director and is in the midst of making arrangements to change the Board composition to comply with the Code’s requirements.”*

Nevertheless, the Board is able to exercise objective judgments on corporate affairs independently and constructively challenge key decision, taking into consideration the long-term interest of the Group and its shareholders. The Board has a Lead Independent Director to provide leadership in situations where the Chairman, who is not independent, is conflicted. Besides, the Lead Independent Director representing the views of the Independent Directors and facilitating a two-way flow of information between shareholders, the Chairman and the Board. Further, the Company has in place an internal guideline for matters requiring Board’s approval. Therefore, no individual or a small group of individuals be allowed to dominate the Board’s decision making.

- (ii) The reason for the variation is explained on page 55 of the AR 2019. It stated that *“The Board has decided not to disclose the aforementioned details as recommended by the Code, given the competitive business environment and possible negative impact on the Group’s business interest, the disclosure of such detailed remuneration amongst the immediate family members of the Executive Director could have an adverse effect on working relationships and contributions to the operations of the Group.”*

The total remuneration of the Directors is Rp 19,080 million and the top eight (8) key management personnel is Rp 25,800 million, which were also disclosed in Note 34 on page 147 of AR 2019.

SGX RegCo Query 4:

Please provide information on whether the head of the internal audit function team has the relevant experience and qualifications.

Company's response:

On page 61 of the AR 2019, the Company has explained that *"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 AC is satisfied that Head of Internal Audit who holds a Bachelor of Accounting degree from Gadjah Mada University, Indonesia is a qualified and experienced personnel. Before joining the Company in 2016, 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. The in-house internal audit team comprises five (5) employees including the Head of Internal Audit who possess the relevant qualifications and experience.

BY ORDER OF THE BOARD

Riko Setyabudhy Handoko
Executive Director and Chief Executive Officer

1 May 2020