PT Mulia Boga Raya

Financial statements
as of December 31, 2018 and for the year then ended
with independent auditors' report

PT. MULIA BOGA RAYA

Kaw. BIIE Jl. Inti II Blok C7 No. 5A Cibatu
Cikarang Selatan - Bekasi
Telp. (021) 8990 8468 Fax. (021) 8990 8485

**DIRECTOR'S STATEMENT LETTER
RELATING TO THE RESPONSIBILITY
ON THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2018 AND
FOR THE YEAR THEN ENDED
PT MULIA BOGA RAYA**

We, the undersigned:

Name	: Susanto Gunawan
Alamat kantor/Office address	: Kawasan BIIE, Jl. Inti II Blok C7 No. 5a, Cibatu, South Cikarang, Bekasi, West Java
Domicile as stated in ID card	: West Jakarta
Telephone number	: 021 – 8990 8468
Position	: Director

Declare that:

1. We are responsible for the preparation and presentation of the financial statements of the Company;
2. the financial statements of the Company has been prepared and presented in accordance with Indonesian Financial Accounting Standards (SAK);
3. a. All information in the financial statements of the Company has been disclosed in a complete and truthful manner;
   b. The financial statements of the Company does not contain any incorrect information or material fact, nor do they omit information or material facts;
4. We are responsible for the Company's internal control systems

We certified the accuracy of this statement and authorized for issuance of the financial statements of the Company.

For and on behalf of the Director
PT MULIA BOGA RAYA

June 19, 2019

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PT. MULIA BOGA RAYA

Susanto Gunawan
Director

PT MULIA BOGA RAYA
FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2018
AND FOR THE YEAR THEN ENDED
WITH INDEPENDENT AUDITORS' REPORT

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Building a better working world

Purwantono, Sungkoro & Surja

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Independent Auditors' Report

Report No. 01453/2.1032/AU.1/04/1561-1/1/VI/2019

The Shareholders, Board of Commissioners and Director
PT Mulia Boga Raya

We have audited the accompanying financial statements of PT Mulia Boga Raya, which comprise the statement of financial position as of December 31, 2018, and the statements of profit or loss and other comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of such financial statements in accordance with Indonesian Financial Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on such financial statements based on our audit. We conducted our audit in accordance with Standards on Auditing established by the Indonesian Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether such financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Independent Auditors' Report (continued)

Report No. 01453/2.1032/AU.1/04/1561-1/1/VI/2019 (continued)

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of PT Mulia Boga Raya as of December 31, 2018, and its financial performance and cash flows for the year then ended, in accordance with Indonesian Financial Accounting Standards.

Other matter

The financial statements of the Company as of December 31, 2017, and for the year then ended, which are presented as corresponding figures to the financial statements as of December 31, 2018 and for the year then ended, were audited by other independent auditors whose report dated May 21, 2019 expressed an unmodified opinion with other matters paragraph regarding the reissuance of the financial statements to record the liability for employee benefits in accordance with Statement of Financial Accounting Standards No. 24 (Revised 2015), "Employee Benefits" and revise the presentation of such financial statements.

Purwantono, Sungkoro & Surja

Benediktio Salim, CPA
Public Accountant Registration No. AP.1561

June 19, 2019

PT MULIA BOGA RAYA
STATEMENT OF FINANCIAL POSITION
As of December 31, 2018
(Expressed in Rupiah, unless otherwise stated)

	Notes	December 31, 2018	December 31, 2017
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4	23,220,021,152	25,643,984,065
Trade receivables - net	5,9,13	122,576,561,645	112,524,850,382
Other receivables		740,682,420	399,314,787
Inventories	6,9,13	171,582,356,959	125,326,843,150
Prepaid value added tax	12a	-	10,130,652,061
Prepaid expenses and advance		4,736,468,751	3,149,400,549
TOTAL CURRENT ASSETS		**322,856,090,927**	**277,175,044,994**
NON-CURRENT ASSETS			
Fixed assets - net	7,9,13, 16,17,24	182,939,273,529	204,691,138,527
Restricted time deposits	8,9	22,513,407,966	20,999,400,000
Deferred tax assets	12f	5,419,725,258	3,009,688,682
Other non-current assets		2,745,712,823	2,090,667,973
TOTAL NON-CURRENT ASSETS		**213,618,119,576**	**230,790,895,182**
TOTAL ASSETS		**536,474,210,503**	**507,965,940,176**

The accompanying notes to the financial statements form
an integral part of these financial statements taken as a whole.

PT MULIA BOGA RAYA
STATEMENT OF FINANCIAL POSITION (continued)
As of December 31, 2018
(Expressed in Rupiah, unless otherwise stated)

	Notes	December 31, 2018	December 31, 2017
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Short-term bank loans	9,13,24	40,971,324,838	15,838,952,489
Trade payables	10	50,644,079,584	72,183,670,821
Other payables	21b,24	2,157,602,566	2,890,496,814
Derivative payable	9,21b	147,541,030	-
Accrued expenses	11	28,128,565,668	23,458,512,492
Taxes payable	12b	14,573,324,064	9,197,519,461
Current maturities of long-term debts:			
Bank loans	9,13,24	4,090,729,411	6,268,153,654
Consumer finance payables	7,13,24	865,213,290	816,209,044
TOTAL CURRENT LIABILITIES		**141,578,380,451**	**130,653,514,775**
NON-CURRENT LIABILITIES			
Liability for employee benefits	20	13,695,953,294	10,932,925,721
Long-term debts - net of current maturities:			
Bank loans	9,13,24	5,744,087,076	10,234,816,487
Consumer finance payables	7,13,24	670,882,720	455,942,956
TOTAL NON-CURRENT LIABILITIES		**20,110,923,090**	**21,623,685,164**
TOTAL LIABILITIES		**161,689,303,541**	**152,277,199,939**
EQUITY			
Share capital - par value Rp1,000,000 per share			
Authorized - 100,000 shares			
Issued and fully paid - 60,000 shares	14	60,000,000,000	60,000,000,000
Retained earnings	25	312,945,421,052	294,355,148,968
Other comprehensive income			
Actuarial gains on employee benefits liability	12f,20,25	1,839,485,910	1,333,591,269
EQUITY		**374,784,906,962**	**355,688,740,237**
TOTAL LIABILITIES AND EQUITY		**536,474,210,503**	**507,965,940,176**

The accompanying notes to the financial statements form
an integral part of these financial statements taken as a whole.

PT MULIA BOGA RAYA
STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
For the Year Ended December 31, 2018
(Expressed in Rupiah, unless otherwise stated)

		Year Ended December 31,	
	Notes	**2018**	**2017**
NET SALES	15	856,750,384,301	788,531,073,755
COST OF GOODS SOLD	7,16,21a	555,042,585,618	533,835,107,965
GROSS PROFIT		**301,707,798,683**	**254,695,965,790**
Operating expenses	7,17	(198,950,199,571)	(193,283,034,353)
Other income	18,25	2,120,864,131	2,622,011,215
Other expenses	19,21b,25	(8,891,681,794)	(1,509,843,000)
INCOME FROM OPERATIONS		**95,986,781,449**	**62,525,099,652**
Finance income		547,157,097	285,682,115
Finance cost		(3,294,780,947)	(5,041,801,200)
INCOME BEFORE INCOME TAX EXPENSE		**93,239,157,599**	**57,768,980,567**
INCOME TAX EXPENSE - NET	12c,12d	(25,759,996,627)	(14,892,134,790)
INCOME FOR THE YEAR		**67,479,160,972**	**42,876,845,777**
OTHER COMPREHENSIVE INCOME			
Item that will not be reclassified to profit or loss:			
Actuarial gain on employee benefits liability	20	674,526,188	1,778,121,692
Tax relating to item that will not be reclassified to profit or loss	12f	(168,631,547)	(444,530,423)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**67,985,055,613**	**44,210,437,046**

The accompanying notes to the financial statements form
an integral part of these financial statements taken as a whole.

PT MULIA BOGA RAYA
STATEMENT OF CHANGES IN EQUITY
For the Year Ended December 31, 2018
(Expressed in Rupiah, unless otherwise stated)

			Other comprehensive income		
	Notes	**Authorized, issued and fully paid share capital**	**Actuarial gains on employee benefits liability - net**	**Retained earnings**	**Total equity**
Balance as of January 1, 2017		**60,000,000,000**	**-**	**251,478,303,191**	**311,478,303,191**
Actuarial gain on employee benefits liability - net	12f,20,25	-	1,333,591,269	-	1,333,591,269
Income for the year		-	-	42,876,845,777	42,876,845,777
Balance as of December 31, 2017		**60,000,000,000**	**1,333,591,269**	**294,355,148,968**	**355,688,740,237**
Declaration of cash dividends	21b	-	-	(48,888,888,888)	(48,888,888,888)
Actuarial gain on employee benefits liability - net	12f,20	-	505,894,641	-	505,894,641
Income for the year		-	-	67,479,160,972	67,479,160,972
Balance as of December 31, 2018		**60,000,000,000**	**1,839,485,910**	**312,945,421,052**	**374,784,906,962**

The accompanying notes to the financial statements form
an integral part of these financial statements taken as a whole.

PT MULIA BOGA RAYA
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2018
(Expressed in Rupiah, unless otherwise stated)

	Notes	Year Ended December 31, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income tax expense		93,239,157,599	57,768,980,567
Adjustments to reconcile income before income tax expense to net cash provided by operating activities:			
Depreciation of fixed assets	7	27,825,797,353	17,623,035,156
Provision for employee benefits	20	3,598,439,748	3,366,435,704
Fixed assets written-off	19	1,138,806,103	-
Loss (gain) on sale of fixed assets	18,19	685,086,700	(216,158,852)
Provision for impairment losses on trade receivables	5	55,108,096	894,010,139
Unrealized gain of restricted time deposits and short-term bank loans - net		(1,446,150,000)	(173,050,719)
Changes in operating assets and liabilities:			
Trade receivables		(10,106,819,359)	4,821,142,935
Other receivables		(341,367,633)	1,619,050,704
Inventories		(46,255,513,809)	53,294,457,953
Prepaid value added tax		10,130,652,061	(4,741,413,647)
Prepaid expenses and advances		(1,147,900,330)	3,820,870,881
Other non-current assets		(655,044,850)	(678,749,712)
Trade payables		(21,539,591,237)	4,321,791,443
Other payables		(1,366,304,470)	(76,362,083,021)
Derivative payable		147,541,030	-
Accrued expenses		4,670,053,176	16,708,767,130
Taxes payable		269,476,248	908,452,304
Payment of liability for employee benefits	20	(160,885,987)	-
Payment of income tax		(23,232,336,395)	(15,978,998,536)
Net cash provided by operating activities		**35,508,204,044**	**66,996,540,429**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of fixed assets		1,287,558,181	1,081,818,183
Acquisition of fixed assets	7,24	(7,735,239,211)	(39,229,328,736)
Placement of time deposits		(67,857,966)	-
Net cash used in investing activities		**(6,515,538,996)**	**(38,147,510,553)**

The accompanying notes to the financial statements form an integral part of these financial statements taken as a whole.

PT MULIA BOGA RAYA
STATEMENT OF CASH FLOWS (continued)
For the Year Ended December 31, 2018
(Expressed in Rupiah, unless otherwise stated)

	Notes	Year Ended December 31, 2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from short-term bank loans	24	635,596,626,993	677,001,489,766
Payment of short-term bank loans	24	(610,464,254,644)	(692,109,866,197)
Payment of cash dividends	21b	(48,666,666,666)	-
Payment of long-term bank loans	24	(6,668,153,654)	(8,990,726,676)
Payment of consumer finance payables	24	(1,214,179,990)	(1,680,771,600)
Net cash used in financing activities		**(31,416,627,961)**	**(25,779,874,707)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(2,423,962,913)**	**3,069,155,169**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**25,643,984,065**	**22,574,828,896**
CASH AND CASH EQUIVALENTS AT END OF YEAR	4	**23,220,021,152**	**25,643,984,065**

The accompanying notes to the financial statements form an integral part of these financial statements taken as a whole.

(Expressed in Rupiah, unless otherwise stated)

1. GENERAL

PT Mulia Boga Raya (the "Company") was established based on Notarial Deed No. 25 of Makmur Tridharma, S.H., dated August 25, 2006. The Deed of Establishment was approved by the Ministry of Law and Human Rights of the Republic of Indonesia in its decision letter No. W7-00894.HT.01.01-TH.2006 dated September 25, 2006.

The Company's Articles of Association has been amended, most recently by Notarial Deed No. 8 of Hartanti Kuntoro, S.H., dated November 22, 2016, concerning the increase of the authorized, issued and fully paid capital and changes of Article 4 Point 2 of the Company's Article of Association to reflect the increase of the share capital. The amendment of the Articles of Association was reported and received by the Ministry of Justice and Human Rights through its letter No. AHU-0022571.AH.01.02.Tahun 2016 dated November 29, 2016, and was reported and received by the Ministry of Law and Human Rights through its letter No. AHU-AH.01.03.0103033 on the same date.

Based on Article 3 of the Articles of Association, the Company's scope of activities is trading, industry and services. Currently, the Company is a manufacturer in the cheese processing industry with the brand name "Prochiz" cheese.

The Company started its commercial operations in July 2008. The Company's office and plant are located at Bekasi International Industrial Estate, Jl. Inti II Block C7, No. 5A, Cibatu, South Cikarang, Bekasi, West Java, Indonesia.

The Company has a total of 417 and 373 permanent employees as of December 31, 2018 and 2017, respectively (unaudited).

As of December 31, 2018 and 2017, the Company's Board of Commissioners and Director are as follows:

December 31, 2018 and 2017

Commissioners		Director	
Lie Po Fung (Jaya)	- President Commissioner	Susanto Gunawan	- Director
Sandjaya Rusli	- Commissioner		

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation of the financial statements

The Company's financial statements have been prepared in accordance with Indonesian Financial Accounting Standards ("SAK"), which comprise the Statement of Financial Accounting Standards ("PSAK") and Interpretations to Financial Accounting Standards ("ISAK") issued by the Financial Accounting Standards Board of the Indonesian Institute of Accountants.

The financial statements are prepared on the accrual basis using the historical cost concept except as otherwise disclosed in the notes to the financial statements.

The statement of cash flows presents the changes in cash from operating, investing and financing activities. The statement of cash flows is prepared using the indirect method.

(Expressed in Rupiah, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a. Basis of preparation of the financial statements (continued)

The financial reporting period of the Company is January 1 to December 31.

The reporting currency used in the financial statements is Indonesian Rupiah, which is also the functional currency of the Company.

b. Changes in accounting policies

The Company adopted the following accounting standards, which are considered relevant starting on January 1, 2018:

- Amendments to PSAK No. 2: Statement of Cash Flows on the Disclosures Initiative, effective January 1, 2018, with earlier application permitted.

  The amendments require entities to provide disclosures that enable the financial statements users to evaluate the changes in liabilities arising from financing activities, including cash and non-cash flow changes.

- Amendments to PSAK No. 46: Income Taxes on the Recognition of Deferred Tax Assets for Unrealized Losses, effective January 1, 2018, with earlier application permitted.

  These amendments clarify that to determine whether the taxable income will be available so that the deductible temporary differences can be utilized, estimates of the most likely future taxable income can include recovery of certain assets of the entity which exceed their carrying amounts.

The adoption of the above mentioned accounting standards do not have significant impact to the Company’s financial statements.

c. Foreign currency transactions and balances

The Company maintains its accounting records in Rupiah. Transactions in currencies other than Rupiah are recorded at the prevailing rates of exchange in effect on the date of the transactions.

At the statement of financial position dates, all monetary assets and liabilities denominated in currencies other than Rupiah are translated into Rupiah at the middle exchange rates quoted by Bank Indonesia on those dates. The resulting net foreign exchange gains or losses are recognized in the current year’s statement of profit or loss and other comprehensive income.

The exchange rates used as of December 31, 2018 and 2017 are as follows:

	December 31, 2018	December 31, 2017
1 United States Dollar (USD)/Rupiah	14,481.00	13,548.00
1 European Euro (EUR)/Rupiah	16,559.75	16,173.62
1 Australian Dollar (AUD)/Rupiah	10,211.29	10,557.29

Transactions in other foreign currencies are considered not significant.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, cash in banks and time deposits with a maturity period of 3 (three) months or less since the date of placement, as long as these time deposits are not pledged as collateral for loans and other borrowings, and not restricted for use. Cash in banks and time deposits which are restricted or pledged as security for obligations are presented as part of “Other non-current assets”.

e. Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the weighted average method for raw materials, packaging and finished goods.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated cost necessary to make the sale.

The Company provides an allowance for obsolescence and decline in values of inventories to reduce the cost of inventories to net realizable value based on a review of market value and physical condition of inventories.

f. Prepaid expenses

Prepaid expenses are amortized and charged to operations over the periods benefited. The long-term portion of prepaid expenses is presented as “Other Non-current Assets” account in the statement of financial position.

g. Fixed assets

Fixed assets are stated at cost less accumulated depreciation, except for land rights which is not depreciated, and any impairment in value, if any. Fixed assets are depreciated using the straight-line method. The estimated useful lives of the depreciable assets are as follows:

	Years
Buildings and improvements	10 - 20
Machinery and equipment	4 - 8
Laboratorium equipment	4 - 8
Warehouse, furniture, fixtures and office equipment	4 - 8
Vehicles	4 - 8

Land rights are not depreciated.

The carrying amounts of fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be fully recoverable.

The carrying amount of an item of fixed assets is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from the derecognition of the asset is directly included in the statement of profit or loss and other comprehensive income when the item is derecognized.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g. Fixed assets (continued)

The asset’s residual values, useful lives and depreciation method are reviewed at each year end and adjusted prospectively, if necessary.

Constructions in-progress are stated at cost, including capitalized borrowing costs and other charges incurred in connection with the financing of the said asset constructions. The accumulated costs will be reclassified to the appropriate “Fixed Assets” account when the construction is completed. Assets under construction are not depreciated as these are not yet available for use.

Repairs and maintenance are taken to the statement of profit or loss and other comprehensive income when these are incurred. The cost of major renovation and restoration is included in the carrying amount of the related fixed asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Company, and is depreciated over the remaining useful life of the related asset.

h. Leases

The Company classifies leases based on the extent to which risks and rewards incidental to the ownership of a leased asset are vested upon the lessor or the lessee, and the substance of the transaction rather than the form of the contract.

<u>The Company, as a lessor</u>

Under an operating lease, the Company presents assets subject to operating leases in its statement of financial position according to the nature of the asset. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized as rent expense over the lease term on the same basis as rental income. Contingent rents, if any, are recognized as revenue in the periods in which they are earned. Lease income from operating leases are recognized as income on a straight-line method over the lease term.

<u>The Company, as a lessee</u>

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of the leased asset. Accordingly, the related lease payments are recognized in statement of profit or loss and other comprehensive income on a straight-line basis over the lease term.

i. Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, the Company estimates the asset’s recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. A previously recognized impairment is reversed only if there has been a change in the assumptions used to determine the asset’s recoverable amount since the last impairment loss is recognized. When an impairment loss is subsequently reversed, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of profit or loss and other comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j. Transactions with related parties

The Company applied PSAK No. 7 (Revised 2010), "Related Party Disclosures". The revised PSAK requires disclosure of related party relationships, transactions and outstanding balances, including commitments in the financial statements.

The transactions are made based on terms agreed by the parties, whereas such terms may not be the same as those transactions with unrelated parties.

All significant transactions and balances with related parties are disclosed in the relevant notes to the financial statements herein.

k. Revenue and expense recognition

Net sales represent revenue earned from the sale of the Company's products, net of returns, trade allowances, and value added tax. Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have been transferred to customers.

Rental income and expenses are recognized when incurred on the accrual basis.

l. Liability for employee benefits

The Company recognizes liability for employee benefits in accordance with Labor Law No. 13/2003 dated March 25, 2003 ("Labor Law No. 13/2003"). The liability for employee benefits is estimated on the basis of actuarial reports. The Company uses, current service cost and past service cost.

Remeasurement, comprising of actuarial gains and losses, is recognized immediately in the statement of financial position through other comprehensive income ("OCI") in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods. Past service costs are recognized in profit or loss on the earlier of the date of the plan amendment or curtailment and the date that the Company recognizes restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. Service costs comprise current service costs and past service costs, gains and losses on curtailments and non-routine settlements, if any. Net interest expense or income and service costs are recognized in profit or loss.

m. Income tax

Final Tax

Tax regulation in Indonesia determined that certain taxable income is subject to final tax. Final tax applied to the gross value of transactions is applied even when the parties carrying the transaction are recognizing losses.

Final tax is no longer governed by PSAK No. 46 (Revised 2014).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m. Income tax (continued)

Current Tax

Current income tax for the current year are measured at the amount expected to be recovered from or paid to the taxation authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted as at the reporting dates.

Taxable profit differs from profit as reported in the statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are neither taxable nor deductible.

Amendments to tax obligations are recorded when Tax Assessment Letter (*Surat Ketetapan Pajak* - SKP) is received or, if appealed against by the Company, when the result of the appeal is determined.

Deferred Tax

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

Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for deductible temporary differences and accumulated fiscal losses to the extent that it is probable that taxable profit will be available in future years against which the deductible temporary differences and accumulated fiscal losses can be utilized.

The carrying amount of a deferred tax asset is reviewed at each reporting date 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 benefit of that deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted as at the reporting date.

Deferred tax assets and liabilities are offset in the statement of financial position, consistent with the presentation of current tax assets and liabilities.

n. Financial instruments

Financial Assets

Management determines the classification of its financial assets at initial recognition. The Company has financial assets classified as loans and receivables financial assets.

Loans and receivables financial assets are measured at fair value, and in the case of financial assets not at fair value through profit or loss, plus directly attributable transaction costs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n. Financial instruments (continued)

Financial Assets (continued)

Loans and receivables are non-derivative financial assets with fixed or determinable payments and are not quoted in an active market. They are included in current assets, except for maturities greater than 12 (twelve) months since the end of the reporting period. The Company's loans and receivables include cash and cash equivalents, trade receivables, other receivables, restricted time deposits and other non-current assets: employee loans and refundable deposits.

Impairment of Financial Assets

At each reporting date, the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Financial Liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

Short-term bank loans, trade payables, other payables, accrued expenses and long-term debts: bank loans and consumer finance payables are financial liabilities initially measured at fair value and subsequently measured at amortized cost using the effective interest rate ("EIR") method except where the effect of the discounting is not material and derivative payable which is classified as derivatives designated as hedging instruments in an ineffective hedge.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Derecognition of Financial Assets and Liabilities

<u>Financial Assets</u>

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when: (1) the rights to receive cash flows from the asset have expired; or (2) the Company has transferred its rights to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n. Financial instruments (continued)

Derecognition of Financial Assets and Liabilities (continued)

Financial Liabilities

A financial liability is derecognized when the related obligation is discharged or cancelled or has expired.

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 derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Hedge Accounting

The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging and further, on the type of hedging relationship.

For derivative instruments that are designated and qualify as a hedging instrument, the Company must designate the hedging instrument as a fair value hedge or cash flow hedge based on the exposure being hedged. The Company formally documents all relationship between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various transactions. Both at inception and at least quarterly thereafter, the Company formally assesses whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in either the fair value or cash flows of the hedged item. If a derivative ceases to be a highly effective hedge, the Company discontinues hedge accounting prospectively.

For cash flow hedges, the effective portion of changes in the fair value of the derivatives instruments are recorded as unrealized gain or loss from change in fair value of cash flow hedges derivative instruments in equity, and are recognized in profit or loss when the related hedged items affect income. Any portion considered to be ineffective including that arising from the unlikelihood of an anticipated transaction to occur, is recognized immediately in profit or loss.

For derivative instruments which do not qualify for hedge accounting or which are not designated as hedges, changes in fair value of the derivative instruments are recognized in profit or loss for the year.

o. Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) where, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

p. Accounting standards issued but not yet effective

The standards and interpretations that are issued by the Indonesian Financial Accounting Standards Board (DSAK), but not yet effective for the current financial statements are disclosed below. The Company intends to adopt these standards and interpretations, if applicable, when they become effective.

- PSAK No. 71: Financial Instruments, adopted from IFRS 9, effective January 1, 2020 with earlier application is permitted.

  This PSAK provides for classification and measurement of financial instruments based on the characteristics of contractual cash flows and business model of the entity; expected credit loss impairment model resulting in information that are more timely, relevant and understandable to users of financial statements; accounting for hedging that reflects the entity's risk management better by introducing more general requirements based on management's judgment.

- PSAK No. 72: Revenue from Contracts with Customers, adopted from IFRS 15, effective January 1, 2020 with earlier application is permitted.

  This PSAK is a single standard that is joint project between the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB), which regulates the revenue recognition model of contracts with customers, so that the entity is expected to conduct an analysis before recognizing the revenue.

- PSAK 73: Leases, adopted from IFRS 16, effective January 1, 2020 with earlier application is permitted, but not before an entity applies PSAK 72: Revenue from Contracts with Customers.

  This PSAK establishes the principles of recognition, measurement, presentation, and disclosure of the lease by introducing a single accounting model, with the requirement to recognize the right-of-use assets and liability of the lease; there are 2 optional exclusions in the recognition of the lease assets and liabilities: (i) short-term lease and (ii) lease with low-value underlying assets.

- ISAK No. 34: Uncertainty over Income Tax Treatments, effective January 1, 2019, with earlier application permitted.

  This Interpretation which is the interpretation of PSAK 46: Income Taxes, clarifies and provides guidance to reflect the uncertainty of income tax treatments in the financial statements.

- Amendments to PSAK 1 (2019) - Presentation of Financial Statements, effective January 1, 2019.

  This amendment provides clearer guidance for the entity may need to amend the descriptions used for particular line items in the financial statements and for the financial statements themselves.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

p. Accounting standards issued but not yet effective (continued)

- Amendments to PSAK 24 (2018) - Employee Benefits on the Plan Amendment, Curtailment or Settlement, effective January 1, 2019, with earlier application is permitted.

  This amendment provides clearer guidance for entities in recognizing past service costs, settlement gains and losses, current service costs and net interest after plan amendment, curtailment or settlement because they use the new actuarial assumptions (previously using actuary assumptions at the beginning of the period of annual report). In addition, Amendment to PSAK 24 also clarifies how the accounting requirements for plan amendment, curtailment or settlement can affect the upper limit of asset requirements which can be seen from the reduction in surplus which causes the impact of the asset's upper limit to change.

- 2018 Improvement to PSAK 46 - Income Taxes, effective January 1, 2019, with early application permitted.

  This improvement affirming the consequences of income tax on dividends (as defined in PSAK 71: Financial Instruments) arises when an entity recognizes liabilities to pay dividends. The consequences of the income tax are more directly related to past transactions or events that generate profits that can be distributed rather than distribution to the owner. Therefore, the entity recognizes the consequences of the income tax in profit or loss, other comprehensive income or equity in accordance with the entity's initial recognition of the past transaction or event.

The Company is presently evaluating and has not yet determined the effects of these accounting standards on its financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company’s financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amounts of the assets and liabilities affected in future periods.

Judgments

The following judgments are made by management in the process of applying the Company’s accounting policies that have the most significant effects on the amounts recognized in the financial statements:

<u>Classification of Financial Assets and Financial Liabilities</u>

The Company determines the classification of certain assets and liabilities as financial assets and financial liabilities by judging if they meet the definition set forth in PSAK No. 55 (Revised 2014). Accordingly, the financial assets and financial liabilities are accounted for in accordance with the Company’s accounting policies disclosed in Note 2n.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Judgments (continued)

The following judgments are made by management in the process of applying the Company's accounting policies that have the most significant effects on the amounts recognized in the financial statements: (continued)

Determination of Functional Currency

The Company uses its judgment to determine the entity's functional currency such that the functional currency of the Company is the currency of the primary economic environment in which the entity operates. It is the currency that mainly influences the revenue and expenses from sale of goods. Accordingly, management determined that the functional currency of the Company is Rupiah.

Leases

The Company has several leases for which the Company acts as lessee. The Company evaluates whether significant risks and rewards of ownership of leased assets are transferred based on PSAK No. 30 (Revised 2011), "Leases", which requires the Company to make judgment and estimates of the transfer of risks and rewards related to the ownership of asset.

Based on the review performed by the Company for the current rental agreements, the Company, as a lessor and a lessee, has determined that all significant risks and rewards incidental to ownership of the leased assets are not transferred to the Company, accordingly the rent transactions are classified as operating leases.

Allowance for Impairment Losses on Trade Receivables

The Company evaluates specific accounts where it has information that certain customers are unable to meet their financial obligations. In these cases, the Company uses judgment, based on the best available facts and circumstances, including but not limited to, the length of its relationship with the customer and the customer's current credit status based on third party credit reports and known market factors, to record specific allowances for customers against amounts due to reduce its receivable amounts that the Company expects to collect. These specific provisions are re-evaluated and adjusted as additional information received affects the amounts of allowance for impairment losses on trade receivables.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year/period are disclosed below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and Assumptions (continued)

Allowance for Obsolescence and Decline in Values of Inventories

Allowance for obsolescence and decline in values of inventories is estimated based on the best available facts and circumstances, including but not limited to, the inventories' own physical conditions, their market selling prices, estimated costs of completion and estimated costs to sell. The provisions are re-evaluated and adjusted as additional information received affects the amount estimated.

Depreciation of Fixed Assets

The costs of fixed assets are depreciated on a straight-line basis over their estimated useful lives. Management estimates the useful lives of these fixed assets from 4 (four) to 20 (twenty) years. These are common life expectancies applied in the industries where the Company conducts its business. Changes in the expected level of usage and technological development could impact the economic useful lives and the residual values of these assets, and therefore future depreciation charges could be revised.

Impairment of Non-Financial Assets

An impairment exists when the carrying value of an asset or Cash Generating Unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing the asset. The value in use calculation is based on a discounted cash flow model. The cash flows data are derived from budget for the next 5 (five) years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

Management believes that there are no events or changes in circumstances that may indicate any impairment in value of the Company's non-financial assets as of December 31, 2018 and 2017.

Income Tax

Significant judgment is involved in determining provision for corporate income tax. There are certain transactions and computation for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for expected corporate income tax issues based on estimates of whether additional corporate income tax will be due.

Deferred Tax Assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management estimates are required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

(Expressed in Rupiah, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and Assumptions (continued)

Employee Benefits

The determination of the Company's obligations and cost for employee benefits liability is dependent on its selection of certain assumptions used by management in calculating such amounts. Those assumptions include, among others, discount rates, annual salary increase rate. While the Company believes that its assumptions are reasonable and appropriate, significant differences in the Company's actual results or significant changes in the Company's assumptions may materially affect its estimated liability for employee benefits and net employee benefits expense.

4. CASH AND CASH EQUIVALENTS

The details of cash and cash equivalents are as follows:

	December 31, 2018	December 31, 2017
Cash on hand		
Rupiah	1,090,366,212	62,099,000
Euro	134,982,662	-
US Dollar	103,321,935	-
Other foreign currencies (each below Rp100,000,000)	30,528,723	-
Sub-total cash on hand	1,359,199,532	62,099,000
Cash in banks		
Rupiah		
PT Bank Central Asia Tbk	5,552,252,334	462,629,200
Citibank N,A., Jakarta Branch	3,575,528,038	7,392,161,084
PT Bank Maybank Indonesia Tbk	556,733,533	99,546,793
PT Bank Mega Tbk	24,205,415	47,675,327
US Dollar		
PT Bank Maybank Indonesia Tbk (USD284,499.63 as of December 31, 2018 and USD578,646.00 as of December 31, 2017)	4,119,839,142	7,839,496,008
Citibank N,A., Jakarta Branch (USD11,778.32 as of December 31, 2018 and USD115,397.91 as of December 31, 2017)	170,561,852	1,563,410,885
Euro		
PT Bank Maybank Indonesia Tbk (EUR152,129.51 as of December 31, 2018 and EUR643.99 as of December 31, 2017)	2,519,226,653	10,415,650
Australian Dollar		
PT Bank Maybank Indonesia Tbk (AUD33,538.84 as of December 31, 2018 and AUD15,775.84 as of December 31, 2017)	342,474,653	166,550,118
Sub-total cash in banks	16,860,821,620	17,581,885,065

(Expressed in Rupiah, unless otherwise stated)

4. CASH AND CASH EQUIVALENTS (continued)

The details of cash and cash equivalents are as follows: (continued)

	December 31, 2018	December 31, 2017
Cash equivalents		
Time deposits		
Rupiah		
PT Bank Maybank Indonesia Tbk	3,000,000,000	-
PT Bank Central Asia Tbk	2,000,000,000	8,000,000,000
Sub-total cash equivalents	5,000,000,000	8,000,000,000
Total	**23,220,021,152**	**25,643,984,065**

The ranges of annual interest rates of time deposits are as follows:

	Year Ended December 31,	
	2018	2017
Rupiah	5.75% - 7.25%	5.00% - 5.75%

5. TRADE RECEIVABLES

The details of trade receivables are as follows:

	December 31, 2018	December 31, 2017
Third parties		
PT Amaris Tirta Pratama	16,866,192,524	11,906,714,848
PT Mitra Periangan Persada	13,143,606,485	17,776,159,188
PT Fonterra Brands Indonesia	9,537,184,427	6,530,418,191
PT Mitra Sehati Sekata	9,314,638,817	8,191,093,307
PT Mitra Jaya Persada	6,539,538,526	7,634,997,030
PT Multi Makmur Abadi	5,264,325,050	6,054,774,675
PT Adikarya Distriboga	4,759,933,484	3,112,598,240
PT Citraprima Adilestari	3,146,864,208	2,474,764,864
UD Surya Nasional	2,627,598,273	3,336,749,032
PT Indomarco Prismatama	2,576,310,945	2,158,311,580
PT Agrinesia Raya	2,240,617,500	1,158,980,359
PT Prima Cahaya Luhur	2,071,610,841	2,620,859,437
PT Cahaya Setia Utama	1,489,105,433	2,156,569,015
PT Saktisetia Santosa	-	3,591,945,727
Others (each below Rp2 billion)	44,159,972,238	34,925,743,899
Total	123,737,498,751	113,630,679,392
Less allowance for impairment losses on trade receivables	(1,160,937,106)	(1,105,829,010)
Total	**122,576,561,645**	**112,524,850,382**

As of December 31, 2018 and 2017, the Company's management believes that the allowance for impairment losses on trade receivables is adequate to cover the possible losses that may arise from uncollectible trade receivables.

(Expressed in Rupiah, unless otherwise stated)

5. TRADE RECEIVABLES (continued)

As of December 31, 2018 and 2017, certain trade receivables of the Company are pledged for the loan facilities obtained from PT Bank Maybank Indonesia Tbk (Notes 9 and 13).

6. INVENTORIES

The details of inventories are as follows:

	December 31, 2018	December 31, 2017
Raw materials	103,858,439,185	80,851,211,066
Finished goods	54,997,188,317	37,131,933,166
Supplies	12,726,729,457	7,343,698,918
Total	**171,582,356,959**	**125,326,843,150**

Based on the review of the inventories balance, the Company's management believes that an allowance for decline in value and obsolescence of inventories as of December 31, 2018 and 2017 are not necessary.

The Company's inventories are covered by insurance against fire and other risks under blanket policies of Rp123,500,000,000 and Rp168,500,000,000 as of December 31, 2018 and 2017, respectively, with PT Asuransi Wahana Tata and PT Asuransi Sinar Mas, third parties, as of December 31, 2018 and with PT Asuransi Wahana Tata, a third party, as of December 31, 2017. The Company's management believes that the insurance coverage is adequate to cover possible losses arising from such risks.

As of December 31, 2018 and 2017, certain inventories of the Company are pledged for the loan facilities obtained from PT Bank Maybank Indonesia Tbk (Notes 9 and 13).

7. FIXED ASSETS

The compositions and movements of fixed assets are as follows:

	For the Year Ended December 31, 2018				
	Beginning Balance	Additions	Deduction	Reclassification	Ending Balance
Cost					
Land rights	33,778,629,195	-	-	(342,103,766)	33,436,525,429
Buildings and improvements	38,493,787,917	100,000,004	719,857,819	(1,265,933,677)	36,607,996,425
Machinery and equipment	152,727,055,163	2,994,389,212	1,121,993,320	1,608,037,443	156,207,488,498
Laboratorium equipment	1,574,820,426	135,299,000	452,433,077	-	1,257,686,349
Warehouse, furniture, fixtures and office equipment	23,149,977,519	3,246,712,995	3,637,541,847	-	22,759,148,667
Vehicles	12,804,787,435	3,148,150,000	1,924,959,235	-	14,027,978,200
Total cost	262,529,057,655	9,624,551,211	7,856,785,298	-	264,296,823,568
Accumulated depreciation					
Buildings and improvements	3,777,930,377	1,994,754,950	52,444,696	-	5,720,240,631
Machinery and equipment	34,983,048,434	19,311,365,409	993,976,820	-	53,300,437,023
Laboratorium equipment	1,061,914,737	186,045,732	405,400,811	-	842,559,658
Warehouse, furniture, fixtures and office equipment	12,073,638,407	4,720,130,073	1,458,490,597	-	15,335,277,883
Vehicles	5,941,387,173	1,613,501,189	1,395,853,518	-	6,159,034,844
Total accumulated depreciation	57,837,919,128	27,825,797,353	4,306,166,442	-	81,357,550,039
Net book value	**204,691,138,527**				**182,939,273,529**

(Expressed in Rupiah, unless otherwise stated)

7. FIXED ASSETS (continued)

The compositions and movements of fixed assets are as follows: (continued)

	For the Year Ended December 31, 2017				
	Beginning Balance	**Additions**	**Deduction**	**Reclassification**	**Ending Balance**
Cost					
Land rights	33,778,629,195	-	-	-	33,778,629,195
Buildings and improvements	36,359,914,642	2,133,873,275	-	-	38,493,787,917
Machinery and equipment	114,269,428,379	38,457,626,784	-	-	152,727,055,163
Laboratorium equipment	1,398,195,384	176,625,042	-	-	1,574,820,426
Warehouse, furniture, fixtures and office equipment	22,704,817,097	445,160,422	-	-	23,149,977,519
Vehicles	15,325,510,054	751,338,300	3,272,060,919	-	12,804,787,435
Total cost	223,836,494,751	41,964,623,823	3,272,060,919	-	262,529,057,655
Accumulated depreciation					
Buildings and improvements	2,951,512,265	826,418,112	-	-	3,777,930,377
Machinery and equipment	23,795,514,269	11,187,534,165	-	-	34,983,048,434
Laboratorium equipment	955,203,762	106,710,975	-	-	1,061,914,737
Warehouse, furniture, fixtures and office equipment	8,494,440,059	3,579,198,348	-	-	12,073,638,407
Vehicles	6,424,615,206	1,923,173,556	2,406,401,589	-	5,941,387,173
Total accumulated depreciation	42,621,285,561	17,623,035,156	2,406,401,589	-	57,837,919,128
Net book value	**181,215,209,190**				**204,691,138,527**

Depreciation expenses of fixed assets which were charged to statement of profit or loss and other comprehensive income are as follows:

	Year Ended December 31,	
	2018	**2017**
Cost of goods sold (Note 16)	25,683,660,614	15,362,893,727
Operating expenses (Note 17)	2,142,136,739	2,260,141,429
Total	**27,825,797,353**	**17,623,035,156**

The Company's land titles are under Building Use Rights ("*Hak Guna Bangunan*" or "HGB") which will expire on May 24, 2023, September 24, 2023, July 13, 2024 and November 19, 2037. The land are located in Bekasi International Industry Estate, Cibatu, Lemahabang, Bekasi, West Java; Lippo Cikarang Industry Area, Delta Silicon II Block F-25 No. 28, Cicau, Central Cikarang, Bekasi, West Java; Jl. Daan Mogot, Wijaya Kusuma, Grogol Petamburan, West Jakarta; and Jl. Pangeran Tubagus Angke, Angke Square, No. 99 Block A-8 and A-9, Wijaya Kusuma, Kecamatan Grogol Petamburan, West Jakarta, covering 4,800 square meters, 4,640 square meters, 1,110 square meters and 110 square meters, respectively. Management believes that the above HGB certificates can be extended upon their expiration.

Fixed assets, except land, are covered by insurance against losses by fire and other risk under certain policy package with insurance coverage totaling to Rp106,824,050,000 and Rp144,392,000,000 as of December 31, 2018 and 2017, respectively, with PT Asuransi Wahana Tata, PT BCA Insurance and PT Asuransi Bina Dana Arta Tbk, third parties, in 2018, and with PT Asuransi Wahana Tata, PT Asuransi Central Asia and PT Asuransi Mitra Maparya, third parties, in 2017, which in the Company's management opinion, is adequate to cover any possible losses that may arise from the insured risk.

As of December 31, 2018 and 2017, the Company's land rights and certain machinery and equipment are pledged for the loan facilities obtained from PT Bank Maybank Indonesia Tbk (Notes 9 and 13).

7. FIXED ASSETS (continued)

In 2018 and 2017, the Company entered into Consumer Finance Agreements with PT Maybank Indonesia Finance and PT BCA Finance for vehicles (Note 13).

As of December 31, 2018 and 2017, the Company's management believes that there is no event or change in circumstances that may indicate any impairment of the fixed assets' value. The Company's management has also reviewed the assets' useful lives, method of depreciation and residual values and believes that they have been applied consistently and no adjustment is required.

8. RESTRICTED TIME DEPOSITS

As of December 31, 2018 and 2017, this account represents time deposits which placed at Citibank, N.A., Jakarta Branch, amounting to Rp22,513,407,966 (USD1,554,686) and Rp20,999,400,000 (USD1,550,000), respectively. These time deposits bear annual interest ranging from 1.28% to 1.56% for the years ended December 31, 2018 and 2017.

As of December 31, 2018 and 2017, these time deposits were pledged for the loan facilities obtained from Citibank, N.A., Jakarta Branch (Note 9).

9. SHORT-TERM BANK LOANS

The details of short-term bank loans are as follows:

	December 31, 2018	December 31, 2017
PT Bank Maybank Indonesia Tbk	40,971,324,838	14,350,621,233
Citibank, N.A., Jakarta Branch (USD109,856.16 as of December 31, 2017)	-	1,488,331,256
Total	**40,971,324,838**	**15,838,952,489**

The annual interest rates of bank loans were as follows:

	Year Ended December 31,	
	2018	2017
Rupiah	11.50% - 12.00%	11.50% - 12.00%
US Dollar	6.00%	6.00%

PT Bank Maybank Indonesia Tbk

In 2018 and 2017, the Company obtained Overdraft facility, with a maximum facility of Rp10,000,000,000 and Revolving Loan facilities (*Pinjaman Promes Berulang* - PPB), sub-limit with Bank Guarantee and Letter of Credit Line facilities, with a maximum facility amount of Rp60,000,000,000 for PPB 1 and Rp25,000,000,000 for PPB 2 as of December 31, 2018 and Rp85,000,000,000 as of December 31, 2017, or its equivalent in US Dollar for Letter of Credit Line Facility with maximum facility amount of USD165,000, from PT Bank Maybank Indonesia Tbk (Maybank). The facilities were used for the Company's working capital and will be due on January 10, 2019. Subsequently, the Company has extended these loan facilities until January 10, 2020 (Note 26a). The outstanding balance of Overdraft facility is Rp5,129,524,627 as of December 31, 2018 and Rp4,859,094,514 as of December 31, 2017. The outstanding balance of a Revolving Loan facilities is Rp35,841,800,211 as of December 31, 2018 and Rp9,491,526,719 as of December 31, 2017.

9. SHORT-TERM BANK LOANS (continued)

PT Bank Maybank Indonesia Tbk (continued)

These loan facilities were secured by the Company's land rights and buildings located at: (i) Bekasi International Industrial Estate, Cibatu, Lemahabang, Bekasi, West Java; (ii) Jl. Pangeran Tubagus Angke, Angke Square, No. 99 Block A-8 and A-9, Wijaya Kusuma, Grogol Petamburan, West Jakarta; and (iii) Lippo Cikarang Industry Area, Delta Silicon II Block F-25 No. 28, Cicau, Central Cikarang, Bekasi, West Java, machinery and equipment, inventories, trade receivables (Notes 5, 6 and 7).

During the period when the loans are still outstanding, the Company is required to maintain certain financial ratios, such as, leverage ratio at maximum of 2 times, debt to Earnings Before Interest Tax Depreciation and Amortization (EBITDA) ratio at maximum of 2.3 times in 2017 and thereafter at maximum of 2 times, current ratio at minimum of 1.5 times; total dividend at maximum 50% from Net Profit After Unusual Items (NPAUI) in the current period.

Citibank, N.A., Jakarta Branch

In 2018 and 2017, the Company obtained Omnibus Credit Line and Foreign Exchange (FC) Forward Line facilities, with total maximum facility amount of USD3,700,000 or its equivalent in Rupiah from Citibank, N.A., Jakarta Branch, (Citibank). As of December 31, 2018, the Omnibus Credit Line facility consist of: (i) Short-term Loan with a maximum facility of USD1,300,000; (ii) Receivables Financing, with a maximum facility of USD3,500,000; and (iii) Pre-shipment Financing, with a maximum facility of USD3,500,000. As of December 31, 2017, the Omnibus Credit Line facility consist of: (i) Overdraft with a maximum facility of USD350,000; (ii) Receivables Financing, with a maximum facility of USD3,500,000; and (iii) Pre-shipment Financing, with a maximum facility of USD3,500,000. The FC Forward Line facility has a maximum facility of USD200,000 as of December 31, 2018 and 2017. This facility was used for the Company's working capital and matured in October 2018. This loan facility was secured by the Company's time deposits placed in Citibank (Note 8) and fiduciary transfer ownership of accounts receivable with minimum amount of to USD3,150,000.

There is no outstanding balance of the Omnibus Credit Line facility as of December 31, 2018, while the outstanding balance as of December 31, 2017 amounted to USD109,856.16 (equivalent to Rp1,488,331,256).

As of December 31, 2018, the Company has outstanding foreign exchange contract amounting to USD644,578.40 with Citibank which matured on January 25, 2019 (Note 21b).

The Company has fully paid the loans to Citibank in 2018, therefore, on May 23, 2019, the Company and Citibank agreed to close the loan facilities (Note 26e).

The agreements covering the above loans contain negative covenants, among others, the Company will not, without obtaining prior written approval from the Bank i.e. obtain other credit or loan facilities from financial institutions or other third parties, except for trade payables which incurred in the ordinary course of business; incur, sell, transfer or pledge all or part of the assets of the wealth, except for sales in the ordinary course of business; make payment or repayment of all loans to third parties, except for normal payment in the ordinary of business of the debtor or guarantor; make an investment or change the nature and scope of the Company's business activities; submit a request to the commercial court to be declared bankrupt or submit a request to postpone payment of debt; change the composition of the Company's Boards of Commissioners and Directors and shareholders; merger, consolidations, purchase of shares/acquisition from other entity; make payments to shareholders, debtors and/or guarantor for the loans to the Company and/or guarantor; liquidate the Company; change the capital structure of Company, except for increase of share capital from retained earnings or issuance of new shares or payment form shareholders; and make payments of affiliated loans if the financial covenant is not fulfilled.

(Expressed in Rupiah, unless otherwise stated)

9. SHORT-TERM BANK LOANS (continued)

As of December 31, 2018, the Company has complied with all the requirements mentioned in the loan facility agreements.

10. TRADE PAYABLES

The details of trade payables are as follows:

	December 31, 2018	December 31, 2017
Third parties		
Fonterra Limited	21,095,880,688	58,660,404,612
PT Kerry Ingredients Indonesia	15,177,387,830	1,820,302,550
Grain Processing Corporation	1,444,457,739	-
PT Asianagro Agungjaya	1,422,047,550	1,301,726,250
Lyckeby Starch AB	1,043,264,250	-
PT Intikemas Putra Makmur	940,600,100	1,002,316,700
PT Wijayaputra Adiperkasa	747,204,575	1,425,158,990
PT Halim Sakti Pratama	710,277,108	539,032,879
PT Wilmar Cahaya Indonesia Tbk	702,577,700	2,488,503,600
PT Ingredion Indonesia	652,862,755	324,255,030
PT Supernova Flexible Packaging	624,126,800	-
PT Wahyu Abadi	556,965,750	-
PT Satyamitra Kemas Lestari	543,470,209	808,889,681
PT Sinarmas Agro Resources and Technology	539,550,000	-
Cargil Deutschland GMBH	536,955,480	-
Apeldoorn Flexible Packaging B.V.	-	1,146,067,565
Other (each below Rp500 million)	3,906,451,050	2,667,012,964
Total	**50,644,079,584**	**72,183,670,821**

11. ACCRUED EXPENSES

This account consists of accruals for the following:

	December 31, 2018	December 31, 2017
Promotion and advertising	23,234,063,853	13,724,695,420
Professional fees	923,150,000	-
Rental	864,269,074	366,503,129
Delivery	727,393,681	745,905,583
Utility	547,548,979	5,105,630,004
Repair and maintenance	428,152,337	663,155,190
Others	1,403,987,744	2,852,623,166
Total	**28,128,565,668**	**23,458,512,492**

(Expressed in Rupiah, unless otherwise stated)

12. TAXATION

a. Prepaid value added tax

This account represents prepaid value added tax amounting to Rp10,130,652,061 as of December 31, 2017.

b. Taxes payable

	December 31, 2018	December 31, 2017
Income tax		
Article 15	293,061	102,231
Article 21	930,984,034	1,091,566,887
Article 23	309,323,392	124,934,096
Article 4(2)	115,243,556	41,795,555
Article 25	667,714,596	5,897,200,267
Article 29	12,377,734,451	2,041,920,425
Tax penalty	87,635,855	-
Value added tax	84,395,119	-
Total	**14,573,324,064**	**9,197,519,461**

c. A reconciliation between income before income tax expense, as shown in the statement of profit or loss and other comprehensive income, and estimated taxable income for the years ended December 31, 2018 and 2017, are as follows:

	Year Ended December 31,	
	2018	2017
Income before income tax expense per statement of profit or loss and other comprehensive income	93,239,157,599	57,768,980,567
Add (deduct):		
Temporary differences:		
Accrual of promotion expenses	5,301,951,392	-
Provision for employee benefits - net	3,437,553,761	3,366,435,704
Accrual of salaries and employee benefits	1,520,059,244	-
Provision for impairment loss on trade receivables	55,108,096	894,010,139
Permanent differences:		
Tax expenses	4,557,294,566	1,979,763,382
Depreciation	3,554,721,393	28,588,550
Entertainment and donation	2,235,970,772	76,889,185
Income income which already subjected to final tax	(547,157,097)	(285,682,115)
Estimated taxable income	**113,354,659,726**	**63,828,985,412**

(Expressed in Rupiah, unless otherwise stated)

12. TAXATION (continued)

c. A reconciliation between income before income tax expense, as shown in the statement of profit or loss and other comprehensive income, and estimated taxable income for the years ended December 31, 2018 and 2017, are as follows: (continued)

The income tax expense (benefit) is computed as follows:

	Year Ended December 31,	
	2018	**2017**
Estimated taxable income (rounded)	113,354,659,000	63,828,985,000
Income tax expense - current	(28,338,664,750)	(15,957,246,250)
Income tax benefit - deferred		
Accrual of promotion expenses	1,325,487,848	-
Provision for employee benefits	859,388,440	841,608,926
Accrual of salaries and employee benefits	380,014,811	-
Provision for impairment loss on trade receivables	13,777,024	223,502,534
Sub-total	2,578,668,123	1,065,111,460
Income tax expense - net	**(25,759,996,627)**	**(14,892,134,790)**

d. The reconciliation between income tax expense calculated by applying the applicable tax rate to the income before income tax expense and the income tax expense as shown in the statement of profit or loss and other comprehensive income for the years ended December 31, 2018 and 2017 are as follows:

	Year Ended December 31,	
	2018	**2017**
Income before income tax expense	93,239,157,599	57,768,980,567
At maximum marginal tax rate of 25%	(23,309,789,400)	(14,442,245,142)
Net permanent differences at maximum marginal rate	(2,586,996,683)	(521,310,279)
Interest income subject to final tax at final tax rate	136,789,274	71,420,529
Others	182	102
Income tax expense - net	**(25,759,996,627)**	**(14,892,134,790)**

e. The computation of estimated income tax payable is as follows:

	Year Ended December 31,	
	2018	**2017**
Income tax - current per statement of of profit or loss and other comprehensive income	28,338,664,750	15,957,246,250
Total prepayments of income taxes	15,960,930,299	13,915,325,825
Total estimated income tax payable	**12,377,734,451**	**2,041,920,425**

(Expressed in Rupiah, unless otherwise stated)

12. TAXATION (continued)

f. Deferred tax assets

The details of deferred tax assets are as follows:

	December 31, 2018			
	Beginning Balance	**Charged to Income for the Year**	**Debited (Credited) to Equity from Other Comprehensive Income**	**Ending Balance**
Liability for employee benefits	2,733,231,430	859,388,440	(168,631,547)	3,423,988,323
Accrual of promotion expenses	-	1,325,487,848	-	1,325,487,848
Accrual of salaries and employee benefits	-	380,014,811	-	380,014,811
Allowance for impairment losses on trade receivables	276,457,252	13,777,024	-	290,234,276
Total deferred tax assets	**3,009,688,682**	**2,578,668,123**	**(168,631,547)**	**5,419,725,258**

	December 31, 2017			
	Beginning Balance	**Charged to Income for the Year**	**Debited (Credited) to Equity from Other Comprehensive Income**	**Ending Balance**
Liability for employee benefits	2,336,152,927	841,608,926	(444,530,423)	2,733,231,430
Allowance for impairment losses on trade receivables	52,954,718	223,502,534	-	276,457,252
Total deferred tax assets	**2,389,107,645**	**1,065,111,460**	**(444,530,423)**	**3,009,688,682**

Management is of the opinion that the above deferred tax assets can be fully recovered through future taxable income.

g. Tax Amnesty

The Company has participated on tax amnesty program as defined under Law No. 11 Year 2016 on "Tax Amnesty" (Law) which effective on July 1, 2016. Tax Amnesty is a waiver of tax due, tax administration sanctions, and any of the sanctions through declaration of the asset and payment of redemption pursuant to the law. Tax amnesty is granted for tax obligation of the Company up to the fiscal year ended December 31, 2015 which covers income taxes and value added tax.

In regard with this program, the Company has obtained SKPP No. KET-10388/PP/WPJ.22/2016 dated December 28, 2016 and No. KET-7621/PP/WPJ.22/2017 dated April 10, 2017, where the net declared amount of tax amnesty asset is Rp190,229,890,665 with the following details:

a. Cash and cash equivalents totaling Rp3,800,000,000.
b. Trade receivables totaling Rp4,105,239,594.
c. Inventories totaling Rp161,937,781,665.
d. Fixed assets totaling Rp20,386,869,406.

The amnesty amount paid to the state treasury amounted to Rp1,509,843,000 on March 3, 2017 and Rp4,800,990,920 on December 12, 2016 and September 9, 2016.

(Expressed in Rupiah, unless otherwise stated)

13. LONG-TERM DEBTS

Bank loans

The details of long-term bank loans are as follows:

	December 31, 2018	December 31, 2017
PT Bank Maybank Indonesia Tbk	9,834,816,487	16,502,970,141
Less current maturities	(4,090,729,411)	(6,268,153,654)
Long-term portion	**5,744,087,076**	**10,234,816,487**

The annual interest rates of bank loans are as follows:

	Year Ended December 31,	
	2018	2017
Rupiah	10.50% - 11.00%	11.50%

In 2018 and 2017, the Company obtained Term Loan facilities with total maximum facility as follows:

	Period	December 31, 2018	December 31, 2017
Term Loan 2	January 10, 2014 - July 22, 2019	7,622,000,000	7,622,000,000
Term Loan 3	January 10, 2014 - July 2, 2017	-	2,460,884,938
Term Loan 5	January 10, 2014 - December 17, 2017	-	9,057,000,000
Term Loan 6	March 24, 2014 - March 20, 2019	8,000,000,000	8,000,000,000
Term Loan 8	August 18, 2016 - February 18, 2022	16,411,677,360	16,411,677,360

These facilities were used for financing of capital expenditures (purchase of machinery and equipment) (Term Loan 6 and 8) and refinancing loans from other banks (Term Loan 2, 3 and 5).

The outstanding balance of Term Loan 2 amounted to Rp808,393,939 and Term Loan 8 amounted to Rp9,026,422,548 as of December 31, 2018. The Company has accelerated the payment of Term Loan 6 on May 17, 2018.

The outstanding balance of Term Loan 2 amounted to Rp2,194,212,121, Term Loan 6 amounted to Rp2,000,000,000 and Term Loan 8 amounted to Rp12,308,758,020 as of December 31, 2017. The Company has fully paid Term Loan 3 and 5 on the due dates.

These loan facilities were secured by the same collateral with short-term bank loans. The Company is required to maintain certain ratios and negative covenants as disclosed in Note 9.

As of December 31, 2018, the Company has complied with all the requirements mentioned in the loan facility agreement.

Subsequently, the Company has fully paid Term Loan 8 on May 22, 2019 (Note 26d).

(Expressed in Rupiah, unless otherwise stated)

13. LONG-TERM DEBTS (continued)

Consumer finance

In 2018 and 2017, the Company entered into Consumer Finance Agreements with PT Maybank Finance Indonesia and PT BCA Finance, with lease terms of 3 (three) years and maturing on various dates.

Future minimum lease payments under the above-mentioned lease commitments as of December 31, 2018 and 2017 are as follows:

Year	December 31, 2018	December 31, 2017
2018	-	815,294,600
2019	865,213,290	456,857,400
2020	456,903,965	-
2021 and thereafter	213,978,755	-
Total	1,536,096,010	1,272,152,000
Less current maturities	(865,213,290)	(816,209,044)
Long-term portion	**670,882,720**	**455,942,956**

14. SHARE CAPITAL

The details of shares ownership as of December 31, 2018 and 2017 are as follows:

	December 31, 2018 and 2017		
Shareholders	**Number of Shares Issued and Fully Paid**	**Percentage of Ownership**	**Amount**
Lie Po Fung (Jaya)	30,000	50.00%	30,000,000,000
Sandjaya Rusli	16,500	27.50%	16,500,000,000
Berliando Lumban Toruan	7,000	11.66%	7,000,000,000
Agustini Muara	3,000	5.00%	3,000,000,000
Marcello Rivelino	1,750	2.92%	1,750,000,000
Amelia Fransisca	1,750	2.92%	1,750,000,000
Total	**60,000**	**100.00%**	**60,000,000,000**

Based on the Extraordinary General Meeting of Shareholders of the Company on October 2, 2017, which has been notarized by Notarial Deed No. 4 of Hartanti Kuntoro, S.H., on the same date, the shareholders agreed to: (i) record and reverse the shares owned by the late Robby Gunawan Gunadirdja on behalf of his heirs and approve the Company stock grants; and (ii) change of the composition of the Company's Board of Commissioners and Director.

(Expressed in Rupiah, unless otherwise stated)

14. SHARE CAPITAL (continued)

The recording and reversal of the shares owned by the late Robby Gunawan Gunadirdja on behalf of his heirs and stock grants are as follows:

a. Berliando Lumban Toruan totaling of 7,000 shares;
b. Marcello Rivelino totaling of 1,750 shares;
c. Amelia Fransisca totaling of 1,750 shares;
d. Sandjaya Rusli totaling of 3,000 shares and Sandjaya Rusli to Agustini Muara totaling of 1,500 shares; and
e. Agustini Muara totaling of 1,500 shares from Robby Gunawan Gunadirdja and totaling of 1,500 shares from Sandjaya Rusli.

The changes were reported and received by the Ministry of Justice and Human Rights through its letter No. AHU-AH.01.03-0181454 dated October 17, 2017.

Capital management

The primary objective of the Company’s capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholders’ value.

In addition, the Company is also required by the Corporate Law effective August 16, 2007 to contribute and maintain a non-distributable reserve fund until the said reserve reaches 20% (twenty percent) of the issued and fully paid share capital.

The Company’s policy is to maintain a healthy capital structure in order to secure access to finance at a reasonable cost.

15. NET SALES

The details of sales are as follows:

	Year Ended December 31,	
	2018	**2017**
Local	837,359,291,188	776,812,768,334
Export	19,391,093,113	11,718,305,421
Total	**856,750,384,301**	**788,531,073,755**

The products which were sold for local sales are Prochiz Cheddar, Prochiz Gold, Prochiz Spreadable, Prochiz Easy Melt, Prochiz Slice, Anchor, Topchiz and Prochiz Slice Gold, while the products which were sold for export sales are Prochiz Cheddar, Prochiz Gold, Prochiz Spreadable, Prochiz Easy Melt and Prochiz Slice.

(Expressed in Rupiah, unless otherwise stated)

16. COST OF GOODS SOLD

The details of cost of goods sold are as follows:

	Year Ended December 31,	
	2018	2017
Raw materials used	472,344,984,708	450,534,695,273
Direct labor	31,697,921,654	30,266,661,149
Factory overhead		
Depreciation (Note 7)	25,683,660,614	15,362,893,727
Rental (Note 21a)	12,467,560,000	12,617,095,554
Factory supplies	11,357,916,876	10,326,466,634
Utilities	10,513,152,003	8,633,098,618
Repair and maintenance	6,627,211,306	6,037,066,673
Others	2,215,433,608	2,094,185,664
Total factory overhead	68,864,934,407	55,070,806,870
Total manufacturing costs	572,907,840,769	535,872,163,292
Balance of finished goods at beginning of year	37,131,933,166	35,094,877,839
Balance of finished goods at end of year	(54,997,188,317)	(37,131,933,166)
Total	**555,042,585,618**	**533,835,107,965**

17. OPERATING EXPENSES

The details of operating expenses are as follows:

	Year Ended December 31,	
	2018	2017
Promotion and advertising	94,215,100,117	115,876,390,814
Salaries and employee benefits	66,910,973,551	43,036,044,016
Shipping and delivery	8,020,707,793	5,531,869,235
Rental	5,985,897,951	5,067,211,935
Office supplies and warehouse	3,927,489,415	9,530,738,228
Employee benefits	3,437,553,761	3,366,435,704
Taxes and licenses	3,324,748,315	1,701,150,882
Travelling	3,282,618,472	3,244,508,484
Entertainment and donation	2,235,970,772	76,889,185
Depreciation (Note 7)	2,142,136,739	2,260,141,429
Professional fees	1,679,272,060	105,750,000
Transportation	1,143,322,921	1,070,039,536
Provision for impairment losses on trade receivables	1,043,771,471	925,859,685
Others	1,600,636,233	1,490,005,220
Total	**198,950,199,571**	**193,283,034,353**

(Expressed in Rupiah, unless otherwise stated)

18. OTHER INCOME

The details of other income are as follows:

	Year Ended December 31,	
	2018	**2017**
Gain on foreign exchange - net	-	613,741,802
Gain on sale of fixed assets - net	-	216,158,852
Others	2,120,864,131	1,792,110,561
Total	**2,120,864,131**	**2,622,011,215**

19. OTHER EXPENSES

The details of other expenses are as follows:

	Year Ended December 31,	
	2018	**2017**
Derivative expenses and loss on foreign exchange - net	4,688,750,880	-
Tax expenses	2,037,829,701	1,509,843,000
Loss on fixed assets written-off	1,138,806,103	-
Loss on sale of fixed assets - net	685,086,700	-
Others	341,208,410	-
Total	**8,891,681,794**	**1,509,843,000**

20. LIABILITY FOR EMPLOYEE BENEFITS

The liability for employee benefits recognized by the Company amounted to Rp13,695,953,294 and Rp10,932,925,721 as of December 31, 2018 and 2017, respectively.

The Company recorded the accrual based on the actuarial calculations as of December 31, 2018 and 2017 prepared by Kantor Konsultan Aktuaria Arya Bagiastra, an independent firm of actuaries, based on its reports No. 051/PSAK/KKA.AB/TR/V/19 dated May 8, 2019 using the “Projected Unit Credit Method”, which considered the following assumptions:

	December 31, 2018	**December 31, 2017**
Discount rate	8.69% per annum	7.29% per annum
Wages and salaries increase	8.00% per annum	8.00% per annum
Retirement age	55 years of age	55 years of age
Mortality table	TMI -11	TMI -11

TMI = Indonesian Mortality Table (*Tabel Mortalita Indonesia*)

(Expressed in Rupiah, unless otherwise stated)

20. LIABILITY FOR EMPLOYEE BENEFITS (continued)

The details of the employee benefits expense recognized in the 2018 and 2017 statement of profit or loss and other comprehensive income are as follows:

	Year Ended December 31,	
	2018	**2017**
Current service cost	785,281,696	793,357,534
Interest cost	2,813,158,052	2,573,078,170
Net employee benefits expense	**3,598,439,748**	**3,366,435,704**

Movements in the defined benefit liability as of December 31, 2018 and 2017 are as follows:

	December 31, 2018	**December 31, 2017**
Balance at the beginning of year	10,932,925,721	9,344,611,709
Net expenses recognized in the statement of profit or loss and other comprehensive income	3,598,439,748	3,366,435,704
Actual benefit payment	(160,885,987)	-
Total amount recognized in other comprehensive income	(674,526,188)	(1,778,121,692)
Balance at end of year	**13,695,953,294**	**10,932,925,721**

The movements of present value of defined benefit obligation are as follows:

	December 31, 2018	**December 31, 2017**
Beginning balance	10,932,925,721	9,344,611,709
Current service cost	2,813,158,052	2,573,078,170
Interest cost	785,281,696	793,357,534
Actual benefit payment	(160,885,987)	-
Actuarial gain on obligation	(674,526,188)	(1,778,121,692)
Ending balance	**13,695,953,294**	**10,932,925,721**

The effect of a one-percentage point change in the assumed discount rate is as follows:

	December 31, 2018	
	Increase	**Decrease**
Effect on defined benefit obligation	(1,354,690,798)	(247,095,811)
Effect on aggregate current service cost	1,600,614,752	290,764,468

(Expressed in Rupiah, unless otherwise stated)

20. LIABILITY FOR EMPLOYEE BENEFITS (continued)

The effect of a one-percentage point change in the assumed salary increase is as follows:

	December 31, 2018	
	Increase	**Decrease**
Effect on defined benefit obligation	1,587,257,442	288,289,820
Effect on aggregate current service cost	(1,366,922,405)	(249,293,650)

The maturity profile of liability for employee benefits as of December 31, 2018 is as follows:

	Amount
Within the next 12 months	456,965,725
Between 2 years and 5 years	7,405,745,014
Between 6 years and 10 years	13,758,891,634
Beyond 10 years	425,891,323,491
Total	**447,512,925,864**

The weighted average duration of the present value of employee benefits obligation at the end of the reporting period is 22.52 years.

21. SIGNIFICANT AGREEMENTS AND COMMITMENTS

a. Rental Agreement

On December 28, 2015, the Company entered into a rental agreement with PT Mulia Raya Agrijaya, a related party, for the use of warehouse located in Lippo Cikarang Industry Area, Delta Silicon III, Jl. Cendana Raya Blok F-10 No. 6A, Central Cikarang, Bekasi, West Java, Indonesia. The rental period is 3 (three) years until November 30, 2016. On December 20, 2016, the rental agreement is extended for 4 (four) years until December 31, 2019. Total rental expense amounted to Rp12,467,560,000 and Rp12,617,095,554, respectively, for the years ended December 31, 2018 and 2017, which is presented as part of “Cost of Goods Sold” in the statement of profit or loss and other comprehensive income.

b. Other

1. Based on the Decision of Shareholders on October 18, 2018 and March 14, 2018, the shareholders approved the distribution of cash dividends from retained earnings amounting to Rp26,666,666,666 and Rp22,222,222,222 based on percentage ownership. The cash dividends have been paid on October 25, 2018, October 24, 2018 and March 21, 2018 totaling Rp48,666,666,666. The remaining balance which has not been paid amounting to Rp222,222,222 is presented as part of “Other Payables” in the statement of financial position and has been fully paid on May 24, 2019.

2. The Company entered into foreign exchange transaction agreement with Citibank in 2018. As of December 31, 2018, the Company has outstanding foreign exchange contracts with Citibank which matured on January 25, 2019. The payables resulting from this transaction amounted to Rp147,541,030 as of December 31, 2018, which are presented as “Derivative Payable” in the statement of financial position. The derivative costs in relation to these agreements are presented as part of “Derivative Expenses and Loss on Foreign Exchange - Net” in the statement of profit or loss and other comprehensive income.

(Expressed in Rupiah, unless otherwise stated)

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

The table below is a comparison by class of the carrying amounts and fair value of the Company's financial instrument that are carried in the financial statements.

The details of financial assets and liabilities are as follows:

	December 31, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Loans and receivables				
Cash and cash equivalents	23,220,021,152	23,220,021,152	25,643,984,065	25,643,984,065
Trade receivables - net	122,576,561,645	122,576,561,645	112,524,850,382	112,524,850,382
Other receivables	740,682,420	740,682,420	399,314,787	399,314,787
Restricted time deposits	22,513,407,966	22,513,407,966	20,999,400,000	20,999,400,000
Non-current assets:				
Employee loans	934,413,078	934,413,078	-	-
Refundable deposits	456,240,688	456,240,688	610,552,958	610,552,958
Total financial assets	**170,441,326,949**	**170,441,326,949**	**160,178,102,192**	**160,178,102,192**
Financial liabilities:				
Financial liabilities measured at amortized cost				
Short-term bank loans	40,971,324,838	40,971,324,838	15,838,952,489	15,838,952,489
Trade payables	50,644,079,584	50,644,079,584	72,183,670,821	72,183,670,821
Other payables	2,157,602,566	2,157,602,566	2,890,496,814	2,890,496,814
Derivative payable	147,541,030	147,541,030	-	-
Accrued expenses	28,128,565,668	28,128,565,668	23,458,512,492	23,458,512,492
Current maturities of long-term debts:				
Bank loans	4,090,729,411	4,090,729,411	6,268,153,654	6,268,153,654
Consumer finance payables	865,213,290	865,213,290	816,209,044	816,209,044
Long-term debts - net of current maturities:				
Bank loans	5,744,087,076	5,744,087,076	10,234,816,487	10,234,816,487
Consumer finance payables	670,882,720	670,882,720	455,942,956	455,942,956
Total financial liabilities	**133,420,026,183**	**133,420,026,183**	**132,146,754,757**	**132,146,754,757**

The Company has determined that the fair value of cash and cash equivalents, trade receivables - net, other receivables, trade payables, other payables and accrued expenses approximate their carrying amounts largely due to short-term maturities of these instruments.

The fair values of restricted time deposits, non-current assets: employee loans and refundable deposits, bank loans, derivative payable and consumer finance payables are calculated using discounted cash flows using market interest rates.

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The primary risks that arise from the financial instruments of the Company are interest rate risk, foreign exchange rate risk, credit risk and liquidity risk. These risks are managed by considering the changes and the volatility of financial market both in Indonesia and internationally. The Company's Board of Directors have analyzed and specified policies to manage those risks which are summarized as follows:

a. Interest rate risk

Interest rate risk is a risk arising from changes in market interest rate which leads to the fluctuations of the fair value or the future cash flows of financial instruments. The interest rate risk of the Company is mainly from short-term and long-term bank loans for its working capital. Loans with diverse floating interest rates leads to interest rate risk on the fair value of a financial instruments owned by the Company. The Company manages this risk by entering into a loan agreement with parties which give lower interest rates than other banks.

b. Foreign exchange rate risk

Foreign exchange rate risk is a risk arising from changes in foreign exchange rate which leads to the fluctuations of the fair value or the future cash flows of financial instruments. Although the Company's report is presented in Rupiah, the Company still face foreign exchange risk because the Company has some trade payables and some purchases which are mainly in US Dollar. If sales and purchases of the Company are in currencies other than Rupiah, and are not balanced in the sense of quantum and/or time selection, the Company encounters foreign exchange risk.

To manage foreign exchange risk, the Company enters into various foreign exchange contracts with banks. This contract is recorded as a transaction which is not assigned as value protection where changes in fair value are credited or expensed to the statement of profit or loss and other comprehensive income.

c. Credit risk

Credit risk is a risk where the Company will face a loss which arises from customers, clients or third party who fail to meet their contractual obligation. There is no credit risk which is significantly focused. Credit risk which is encountered by the Company comes from credits given to customers. To reduce this risk, there is a policy to ensure the product sales are to be made to customers who can be trusted and proven to have a good credit history. The Company will have to analyze and apply a conservative credit policy, monitor receivable balance continuously to maximize installment billings and reduce the possibility of impairment of receivable amounts.

d. Liquidity risk

Liquidity risk is the risk to a shortage of funds that the Company is unable to meet its obligations when they fall due. The Company manages its liquidity profile to be able to finance its capital expenditures by maintaining sufficient cash in bank and the availability of funding through an adequate amount of support from shareholders. The Company regularly evaluates its projected and actual cash flow information.

(Expressed in Rupiah, unless otherwise stated)

24. NON-CASH TRANSACTIONS

Significant non-cash transaction is as follows:

	December 31, 2018	December 31, 2017
Additional fixed assets through consumer finance payables	1,478,124,000	522,655,000
Purchase of fixed assets through other payables	411,188,000	2,212,640,087

The reconciliation of liabilities that arised from financing activities are as follows:

	January 1, 2018	Cash Flows (Proceeds and Payments - Net)	Non-cash Activities	December 31, 2018
Short-term bank loans	15,838,952,489	25,132,372,349	-	40,971,324,838
Long-term bank loans	16,502,970,141	(6,668,153,654)	-	9,834,816,487
Consumer finance payables	1,272,152,000	(1,214,179,990)	1,478,124,000	1,536,096,010
Total liabilities from financing activities	**33,614,074,630**	**17,250,038,705**	**1,478,124,000**	**52,342,237,335**

	January 1, 2017	Cash Flows (Proceeds and Payment - Net)	Non-cash Activities	December 31, 2017
Short-term bank loans	30,946,779,639	(15,108,376,431)	549,281	15,838,952,489
Long-term bank loans	25,493,696,817	(8,990,726,676)	-	16,502,970,141
Consumer finance payables	2,430,268,600	(1,680,771,600)	522,655,000	1,272,152,000
Total liabilities from financing activities	**58,870,745,056**	**(25,779,874,707)**	**523,204,281**	**33,614,074,630**

25. RECLASSIFICATION OF ACCOUNTS

To conform with the 2018 presentation, the Company have reclassified some accounts as follows:

	December 31, 2017		
	As reported	Reclassification	As reclassified
Statement of Financial Position			
Retained earnings	295,688,740,237	(1,333,591,269)	294,355,148,968
Other comprehensive income - Actuarial gains on employee benefits liability	-	1,333,591,269	1,333,591,269
Statement of Profit or Loss and Other Comprehensive Income			
Other income (expenses) - net	1,112,168,215	(1,112,168,215)	-
Other income	-	2,622,011,215	2,622,011,215
Other expenses	-	(1,509,843,000)	(1,509,843,000)

(Expressed in Rupiah, unless otherwise stated)

26. EVENTS AFTER THE REPORTING DATE

a. On February 6, 2019, based on Credit Offering Letter from Maybank, the Company and Maybank agreed to extend the period of Overdraft and Revolving Loan facilities from January 10, 2019 to January 10, 2020, while the Term Loan period is following the previous schedule of payment.

b. Based on the Decision of Shareholders on February 18, 2019, the shareholders approved the distribution of cash dividends from retained earnings amounting to Rp26,666,666,667 based on percentage ownership. This cash dividend has been paid on February 25, 2019.

c. Based on the Extraordinary General Meeting of Shareholders of the Company on April 15, 2019, which has been notarized by Notarial Deed No. 10 of Hartanti Kuntoro, S.H., on the same date, the shareholders approved to: (i) change the nominal value of the shares from Rp1,000,000 per share to Rp100 per share; and (ii) change of the composition of Board of Commissioner and Directors.

The details of shares ownership will be as follows:

Shareholders	Number of Shares Issued and Fully Paid	Percentage of Ownership	Amount
Lie Po Fung (Jaya)	300,000,000	50.00%	30,000,000,000
Sandjaya Rusli	165,000,000	27.50%	16,500,000,000
Berliando Lumban Toruan	70,000,000	11.66%	7,000,000,000
Agustini Muara	30,000,000	5.00%	3,000,000,000
Marcello Rivelino	17,500,000	2.92%	1,750,000,000
Amelia Fransisca	17,500,000	2.92%	1,750,000,000
Total	**600,000,000**	**100.00%**	**60,000,000,000**

The Company's Boards of Commissioner and Directors are as follows:

Commissioner		Directors	
Lie Po Fung (Jaya)	- President Commissioner	Sandjaya Rusli	- President Director
		Fridolina Alexandra Liliana	- Director
		Agustini Muara	- Director
		Susanto Gunawan	- Director

The changes were reported and received by the Ministry of Justice and Human Rights through its letter No. AHU-AH.01.03-0219031 dated April 25, 2019 and No. AHU-AH.01.03-0219027 on the same date.

d. The Company has fully paid Term Loan 8 on May 22, 2019 to Maybank.

e. On May 23, 2019, the Company and Citibank agreed to close the loan facilities.

(Expressed in Rupiah, unless otherwise stated)

26. EVENTS AFTER THE REPORTING DATE (continued)

f. Based on the Extraordinary General Meeting of Shareholders of the Company on May 20, 2019, which has been notarized by Notarial Deed No. 4 of Hartanti Kuntoro, S.H., on the same date, the shareholders give the approval for the sale and purchase of the Company's shares totalling of 30,000,000 shares owned by Lie Po Fung (Jaya) to Agustini Muara.

The details of shares ownership will be as follows:

Shareholders	Number of Shares Issued and Fully Paid	Percentage of Ownership	Amount
Lie Po Fung (Jaya)	270,000,000	45.00%	27,000,000,000
Sandjaya Rusli	165,000,000	27.50%	16,500,000,000
Berliando Lumban Toruan	70,000,000	11.66%	7,000,000,000
Agustini Muara	60,000,000	10.00%	6,000,000,000
Marcello Rivelino	17,500,000	2.92%	1,750,000,000
Amelia Fransisca	17,500,000	2.92%	1,750,000,000
Total	**600,000,000**	**100.00%**	**60,000,000,000**

The changes were reported and received by the Ministry of Justice and Human Rights through its letter No. AHU-AH.01.03-0276161 dated May 24, 2019.

27. COMPLETION OF THE FINANCIAL STATEMENTS

The management of the Company is responsible for the preparation of the financial statements which were completed and authorized for issuance by the Company's Directors on June 19, 2019.