

Annual Report 2018

# FIRST

## RESOURCES

**Established in 1992**

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**Listed on SGX since 2007**

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**Launched Policy on Sustainable  
Palm Oil in 2015**

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# CONTENTS

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**02**  
Corporate Profile

**04**  
Our Presence

**06**  
Business Flow  
Chart

**08**  
Operational  
Highlights

---

**10**  
Financial Highlights

**12**  
Message to  
Shareholders

**16**  
Operational Review

**18**  
Financial Review

**20**  
Board of Directors

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**24**  
Corporate Information

**25**  
Corporate  
Governance

**41**  
Financial Statements

**142**  
Statistics of  
Shareholding



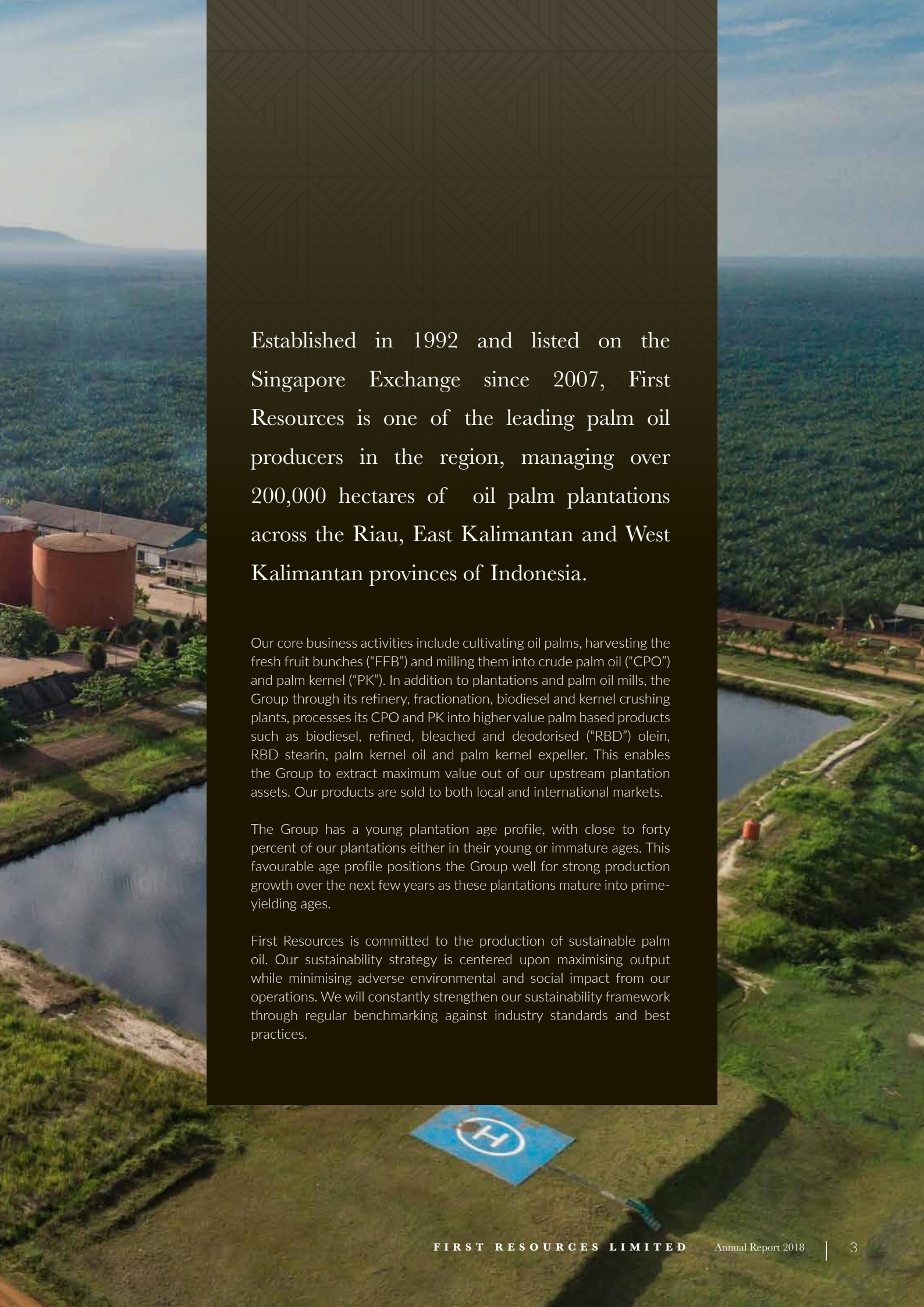




# CORPORATE PROFILE





An aerial photograph of a palm oil plantation. In the foreground, there's a body of water reflecting the sky. To the left, a processing facility with several large orange cylindrical storage tanks and some buildings is visible. The background is filled with vast green palm oil plantations stretching towards distant hills under a clear blue sky.

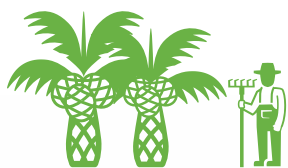
Established in 1992 and listed on the Singapore Exchange since 2007, First Resources is one of the leading palm oil producers in the region, managing over 200,000 hectares of oil palm plantations across the Riau, East Kalimantan and West Kalimantan provinces of Indonesia.

Our core business activities include cultivating oil palms, harvesting the fresh fruit bunches ("FFB") and milling them into crude palm oil ("CPO") and palm kernel ("PK"). In addition to plantations and palm oil mills, the Group through its refinery, fractionation, biodiesel and kernel crushing plants, processes its CPO and PK into higher value palm based products such as biodiesel, refined, bleached and deodorised ("RBD") olein, RBD stearin, palm kernel oil and palm kernel expeller. This enables the Group to extract maximum value out of our upstream plantation assets. Our products are sold to both local and international markets.

The Group has a young plantation age profile, with close to forty percent of our plantations either in their young or immature ages. This favourable age profile positions the Group well for strong production growth over the next few years as these plantations mature into prime-yielding ages.

First Resources is committed to the production of sustainable palm oil. Our sustainability strategy is centered upon maximising output while minimising adverse environmental and social impact from our operations. We will constantly strengthen our sustainability framework through regular benchmarking against industry standards and best practices.

## OUR PRESENCE



210,885

hectares of oil palm plantations



15

Palm oil mills



6,321

hectares of rubber plantations



Corporate Office



Oil Palm Plantation /  
Land Bank



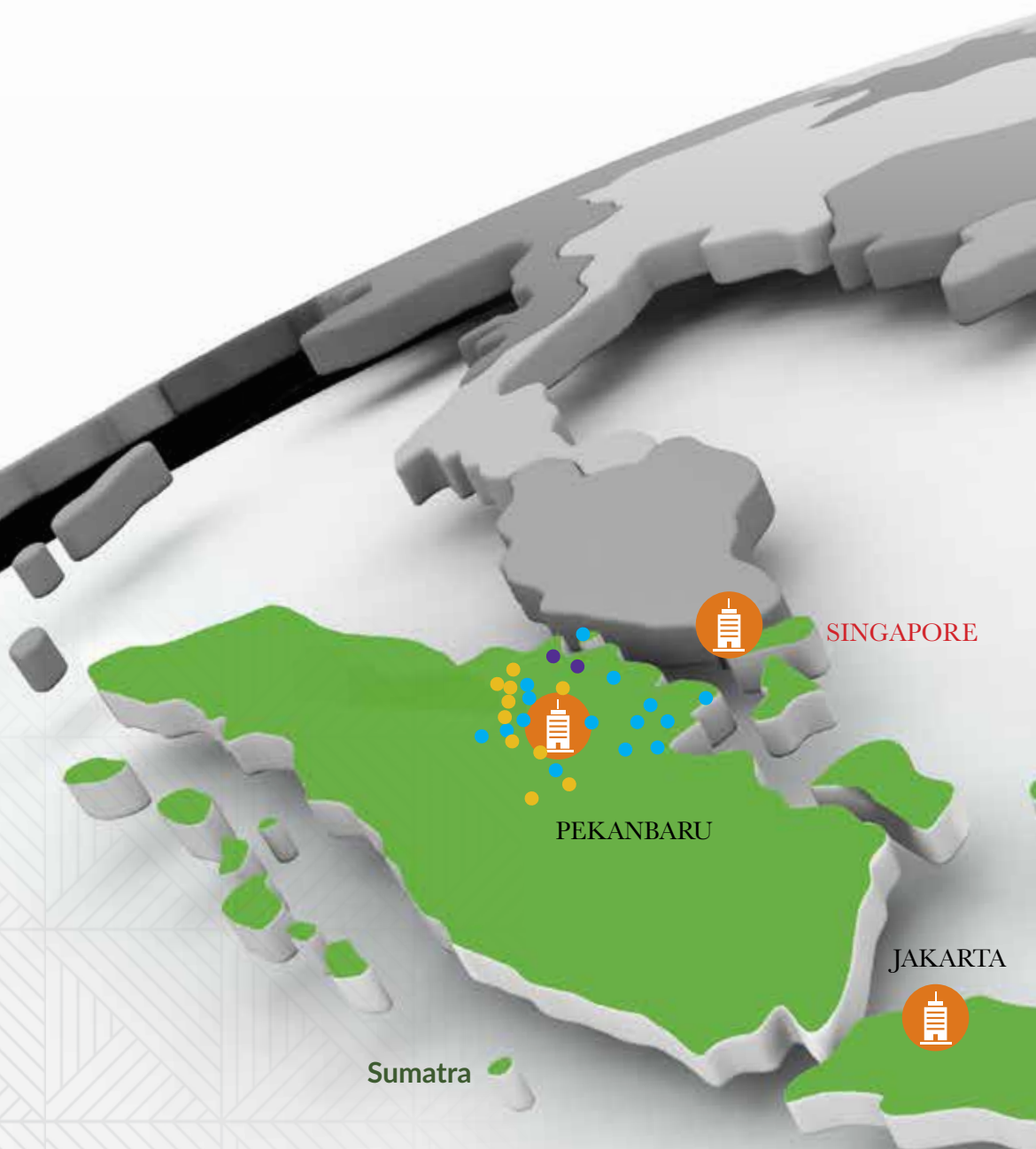
Oil Palm Plantation  
with Mill



Processing Plant



Rubber Plantation /  
Land Bank







2

Processing plants

Refining & Biodiesel combined capacity of

850,000

tonnes per annum

Kernel crushing capacity of

210,000

tonnes per annum



Java

# BUSINESS FLOW CHART



01

## NURSERIES CULTIVATION

Our palm oil seeds are produced in our dedicated seed garden. The seeds are cultivated in our pre-nurseries before they are transferred to our open field nurseries. Seedling development is closely supervised and a stringent culling process is observed.



02

## FIELD PLANTING

After a year in the open field nurseries, seedlings in their best conditions are transplanted to the estates and are classified as immature palms.



03

## UPKEEP

For the first three years, immature palms undergo an intensive upkeep programme which involves fertilisation and weeding. The upkeep programme for mature palms is largely similar except for the lower frequency of certain upkeep work. Our research station provides specific agronomy recommendations based on trials and tests done on each block of plantation.



04

## HARVESTING

Harvesting of FFB from the palms begin only when an appropriate number of fruitlets start detaching from the FFB, indicating optimal ripeness. Optimal ripeness is critical in maximising CPO output and yield.





05



06



07

## MILLING

Harvested FFB are transported to our mills within a tight 24-hour window for milling. This ensures that the FFB is milled with minimal spoilage, another key control for maximising CPO output and yield. The milling process involves the separation of the fruitlets from the bunches and the crushing of the fruitlets to obtain CPO and PK.

## PROCESSING

Through our refinery, fractionation, biodiesel and kernel crushing plants, the CPO and PK are processed into higher value palm-based products. This vertical integration enables the Group to extract maximum value out of our plantation assets.

## SALES TO CUSTOMERS

Our products are sold to both local and international markets. Our product offerings are:

- Crude Palm Oil
- Refined Palm Oil Products
- Biodiesel
- Palm Kernel Products



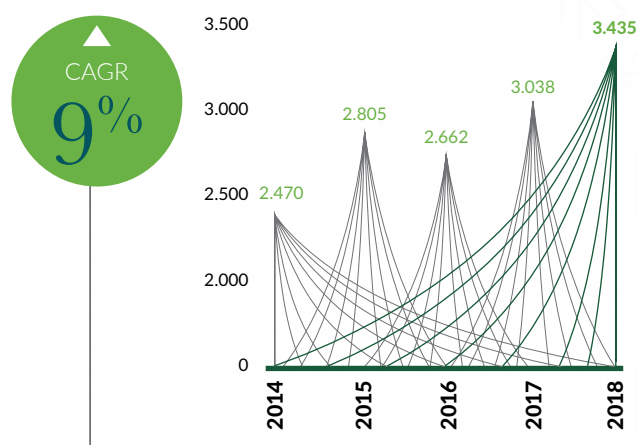
# OPERATIONAL HIGHLIGHTS

FINANCIAL YEAR	2014	2015	2016	2017	2018
<b>OIL PALM PLANTATION AREA (Hectares)</b>					
<b>Total Planted Area</b>	<b>194,567</b>	<b>207,575</b>	<b>208,691</b>	<b>210,001</b>	<b>210,885</b>
Mature	132,220	147,905	158,597	173,409	<b>190,820</b>
Immature	62,347	59,670	50,094	36,592	<b>20,065</b>
<b>Nucleus Planted Area</b>	<b>165,936</b>	<b>178,338</b>	<b>179,398</b>	<b>179,521</b>	<b>180,172</b>
Mature	114,377	128,042	136,798	147,377	<b>161,759</b>
Immature	51,559	50,296	42,600	32,144	<b>18,413</b>
<b>Plasma Planted Area</b>	<b>28,631</b>	<b>29,237</b>	<b>29,293</b>	<b>30,480</b>	<b>30,713</b>
Mature	17,843	19,863	21,799	26,032	<b>29,061</b>
Immature	10,788	9,374	7,494	4,448	<b>1,652</b>
<b>PRODUCTION VOLUME (Tonnes)</b>					
<b>Total Fresh Fruit Bunches ("FFB")</b>	<b>2,469,884</b>	<b>2,804,606</b>	<b>2,661,554</b>	<b>3,037,842</b>	<b>3,435,159</b>
Nucleus	2,212,006	2,530,357	2,367,767	2,682,944	<b>3,061,819</b>
Plasma	257,878	274,249	293,787	354,898	<b>373,340</b>
<b>Crude Palm Oil ("CPO")</b>	<b>630,988</b>	<b>687,248</b>	<b>634,941</b>	<b>702,368</b>	<b>823,679</b>
<b>Palm Kernel ("PK")</b>	<b>145,811</b>	<b>160,021</b>	<b>148,270</b>	<b>170,664</b>	<b>188,471</b>
<b>PRODUCTIVITY</b>					
<b>FFB Yield per Mature Hectare (tonnes)</b>	<b>18.7</b>	<b>19.0</b>	<b>16.8</b>	<b>17.5</b>	<b>18.0</b>
<b>CPO Yield per Mature Hectare (tonnes)</b>	<b>4.3</b>	<b>4.3</b>	<b>3.8</b>	<b>3.9</b>	<b>4.1</b>
<b>CPO Extraction Rate (%)</b>	<b>22.8</b>	<b>22.7</b>	<b>22.5</b>	<b>22.2</b>	<b>22.9</b>
<b>PK Extraction Rate (%)</b>	<b>5.3</b>	<b>5.3</b>	<b>5.3</b>	<b>5.4</b>	<b>5.2</b>



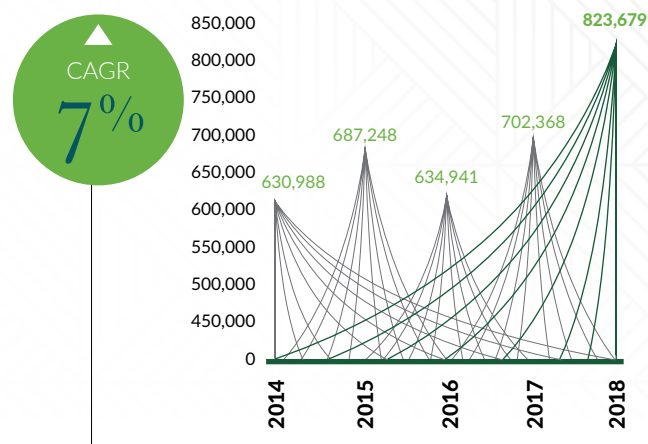
## FRESH FRUIT BUNCHES PRODUCTION

(million tonnes)



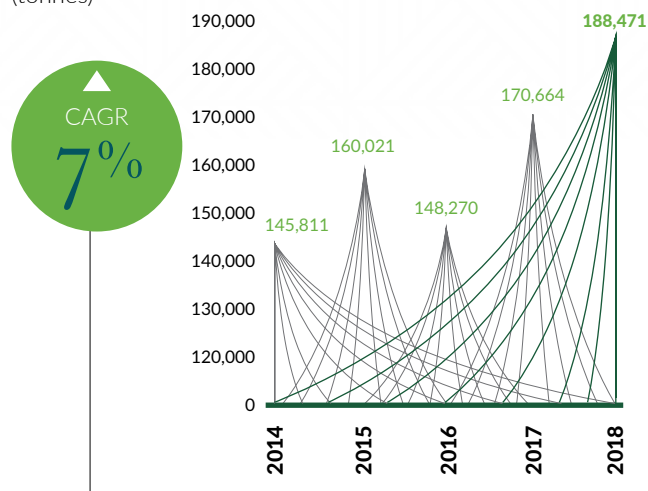
## CRUDE PALM OIL PRODUCTION

(tonnes)



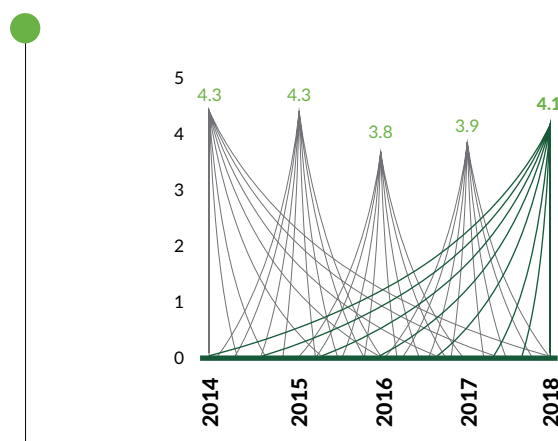
## PALM KERNEL PRODUCTION

(tonnes)



## CPO YIELD

(tonnes/mature hectare)



**Note:**  
CAGR = Compounded Annual Growth Rate



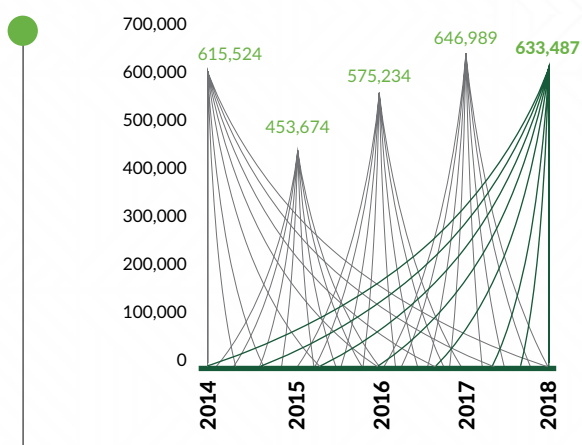
# FINANCIAL HIGHLIGHTS

FINANCIAL YEAR	2014 <sup>(9)</sup>	2015	2016	2017	2018
<b>INCOME STATEMENT (US\$'000)</b>					
Sales	615,524	453,674	575,234	646,989	<b>633,487</b>
Gross profit	323,399	231,713	267,263	306,691	<b>278,787</b>
Gains/(losses) arising from changes in fair value of biological assets	1,940	689	13,184	(2,382)	<b>(3,456)</b>
Profit from operations	270,993	169,821	207,705	226,923	<b>187,152</b>
EBITDA <sup>(1)</sup>	299,748	219,115	251,345	292,130	<b>257,892</b>
Profit before tax	251,945	144,833	183,072	208,879	<b>181,115</b>
Net profit attributable to owners of the Company	173,409	95,653	125,373	137,700	<b>120,001</b>
Underlying net profit <sup>(2)</sup>	171,640	95,135	115,486	139,487	<b>122,593</b>
<b>BALANCE SHEET (US\$'000)</b>					
Total assets	1,997,855	1,568,215	1,699,551	1,730,995	<b>1,571,037</b>
Total liabilities	882,105	793,824	773,368	708,803	<b>585,022</b>
Total equity	1,115,750	774,391	926,183	1,022,192	<b>986,015</b>
Equity attributable to owners of the Company	1,063,189	736,071	881,173	971,905	<b>932,165</b>
<b>FINANCIAL STATISTICS</b>					
EBITDA margin (%)	48.7	48.3	43.7	45.2	<b>40.7</b>
Basic earnings per share (US cents) <sup>(3)</sup>	10.95	6.04	7.91	8.69	<b>7.58</b>
Net debt to equity (times) <sup>(4)</sup>	0.21	0.37	0.20	0.21	<b>0.29</b>
EBITDA to interest coverage (times) <sup>(5)</sup>	15.5	9.0	10.1	12.9	<b>14.3</b>
Net asset value per share (US\$) <sup>(6)</sup>	0.67	0.46	0.56	0.61	<b>0.59</b>
Return on assets (%) <sup>(7)</sup>	9.6	6.3	8.1	8.5	<b>7.7</b>
Return on equity (%) <sup>(8)</sup>	16.9	12.5	15.5	14.9	<b>12.6</b>

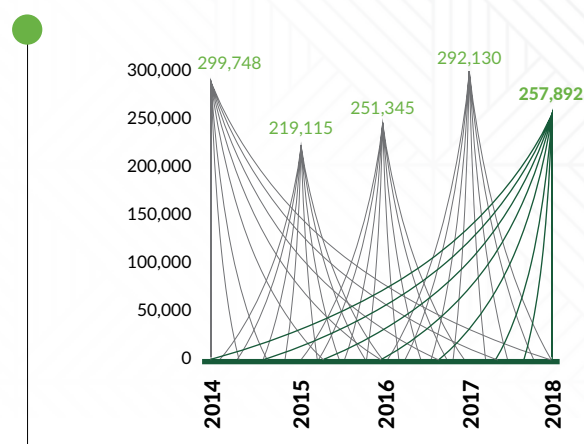
## Notes:

- <sup>(1)</sup> EBITDA = Profit from operations before depreciation, amortisation and gains/(losses) arising from changes in fair value of biological assets
- <sup>(2)</sup> Underlying net profit = Net profit attributable to owners of the Company adjusted to exclude net gains/(losses) arising from changes in fair value of biological assets
- <sup>(3)</sup> Basic earnings per share = Net profit attributable to owners of the Company / Weighted average number of ordinary shares in issue during the financial year
- <sup>(4)</sup> Net debt to equity = Borrowings and debt securities less cash and bank balances / Total equity
- <sup>(5)</sup> EBITDA to interest coverage = EBITDA / Total interest and profit distribution paid or payable on borrowings and debt securities
- <sup>(6)</sup> Net asset value per share = Equity attributable to owners of the Company / Number of ordinary shares in issue at end of the financial year
- <sup>(7)</sup> Return on assets = Net profit for the year / Average total assets
- <sup>(8)</sup> Return on equity = Net profit attributable to owners of the Company / Average equity attributable to owners of the Company
- <sup>(9)</sup> Figures have not been adjusted to take into account the effects from the adoption of the amendments to FRS 16 *Property, Plant and Equipment* and FRS 41 *Agriculture – Bearer Plants* effective 1 January 2016, which is equivalent to SFRS(I) 1-16 *Property, Plant and Equipment* and SFRS(I) 1-41 *Agriculture – Bearer Plants* effective 1 January 2018

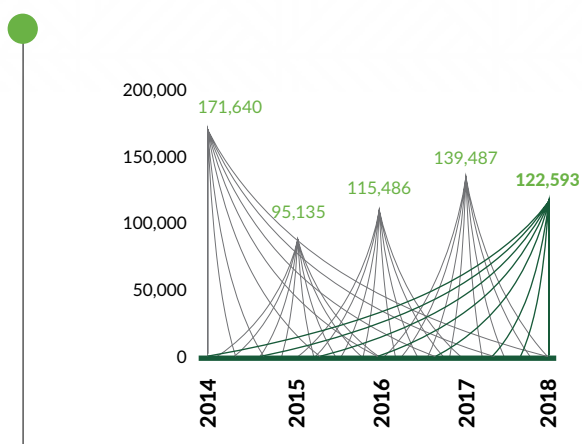
## SALES (US\$'000)



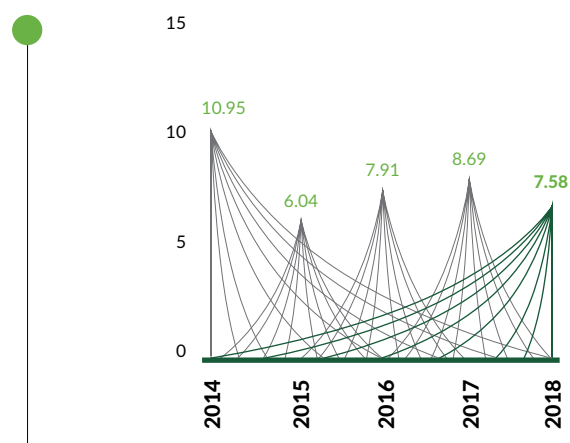
## EBITDA (US\$'000)



## UNDERLYING NET PROFIT (US\$'000)



## BASIC EARNINGS PER SHARE (US cents)





# MESSAGE

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## TO SHAREHOLDERS

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“

The Indonesian government eventually legislated the use of B20 for the subsidised and unsubsidised fuel markets in September 2018. This led to Indonesia becoming the largest producer and the largest consumer of palm oil at the same time.

”

# Dear Shareholders,

The financial year 2018 that has just ended has indeed been a very challenging one, and we unabashedly bid it good riddance.

On the macroeconomic front, the most impactful development in 2018 was definitely the trade war between the US and China. China's imposition of a 25% tariff on U.S. soybean imports has been front and centre of China's retaliation. While the focal point has been on U.S. soybeans, given the competition between palm oil and soybean oil, there were inevitably immediate and long-term spill-over effects on palm oil demand and therefore prices. As of the date of this letter, both sides are still haggling over terms of a truce and there is no visibility on what will eventually transpire. But to our mind, long term behaviours of both the Chinese consumers and the American farmers have been irreversibly affected. Chinese businesses would desire for better supply diversification for animal feed and vegetable oil, and the American farmers would also be as bothered by their heavy reliance on the Chinese market and the ubiquitous soybean crop. As to the extent to which all these will benefit palm oil or not, we will only find out in the longer run after the economic perturbations have worked through the system.

India, which is the largest import market for palm oil, also raised import duties on crude and refined palm oil in March 2018 in the name of protecting their domestic farmers. However it is a curious fact that import duties were raised only for palm oil and not soft oils, which include soybean oil. It was not until June 2018 that import duties on soft oils were raised to partially address the import tariff disparity. Expectedly, palm oil's blunted price competitiveness resulted in poorer import demand throughout 2018. Specifically India's palm import declined from 9.3 million tonnes in 2017 to 8.8 million tonnes in 2018. And to think that, when 2018 was still young, forecasters were generally anticipating India to import circa 10 million tonnes of palm oil!

The double whammy of poorer demand from China and India was exacerbated by supply side factors. After crawling out slowly from the strongest El Nino episode in recent memory, we finally saw our FFB yields make a full recovery in 2018. This experience was widely shared throughout the Indonesian plantation sector. Oil World estimates that Indonesia produced 41.4 million tonnes of palm oil in 2018, which means a 9 million tonnes increment over its 2016 production level of 32.4 million tonnes – staggering growth, especially when you consider the two year time frame!

While this robust production growth was the result of continued yield recovery post-El Nino, this is also no doubt a function of the new plantings that have occurred in the last decade.

The combination of these developments pressured prices of crude palm oil ("CPO") throughout 2018. CPO prices started the year around US\$643 on free-on-board basis and plummeted to a low of US\$414 per tonne in November 2018. Indonesia was still imposing export levy of US\$50 per tonne of crude palm oil, which meant net selling price was as low as US\$364 then. At such abysmal levels, many younger plantations would have suffered from negative operating profit. Not since the financial crisis in 2008 have we seen such dire situation.

Perhaps the brightest spot in 2018 was the ramping up of Indonesia's biodiesel mandate. In the second quarter of 2018, palm oil prices within Indonesia had fallen to such a level that biodiesel became more affordable than diesel. Further weakness in palm oil prices in the third quarter made biodiesel economical even in the international markets. It was also during this period that Indonesia's trade deficit and government deficit were rapidly worsening. In this situation where palm biodiesel was so attractively priced vis-à-vis energy prices, biodiesel quickly assumed the role of a saviour, both to the Indonesian economy as well as to the palm industry. The Indonesian government eventually legislated the use of B20 for the subsidised and unsubsidised fuel markets in September 2018. This led to Indonesia becoming the largest producer and the largest consumer of palm oil at the same time.

## PERFORMANCE REVIEW

Against this challenging backdrop, the Group's results in FY2018 remained satisfactory. Operationally, we were aided by an overall increase in production arising from yield recovery and contribution from newly mature estates. Our total FFB harvested for FY2018 increased 13.1% to 3.4 million tonnes. The Group's FFB yield for the year rose in tandem with the robust increase in production volume, from 17.5 tonnes per hectare in FY2017 to 18.0 tonnes per hectare in FY2018. CPO extraction rate also improved to 22.9% in FY2018 as compared to 22.2% in FY2017.

Although palm oil prices were deteriorating through the year, our financial performance was supported by realised average selling prices that were superior to market levels due to some price hedging activity. Through conservative balance sheet management, we also reduced our gross indebtedness in 2018, enabling us to cushion the effects of rising interest rates on unhedged liabilities and also to book a lower interest expense in 2018.



# MESSAGE TO SHAREHOLDERS

However, on the flip side, the Group's financial performance was impacted by the effects of a net inventory build-up of approximately 69,000 tonnes as compared to a drawdown of approximately 28,000 tonnes in FY2017. This volume is roughly equivalent to our one-month production. Put in another way, we produced for 12 months and sold approximately 11 months' worth of production. Having come about due to shipment delays and other operational issues, such delayed volumes will be recognised in subsequent periods when inventory levels become more normalised.

All said, First Resources' top line remained stable at US\$633.5 million, a marginal decline of 2.1%, and EBITDA came in at US\$257.9 million, a year-on-year decline of 11.7%. Plantation EBITDA continued to generate the bulk of our earnings. And assessing our upstream profitability via EBITDA per hectare of mature nucleus, our plantations booked US\$1,544 of EBITDA per hectare in FY2018 as compared to US\$1,846 achieved in FY2017. While this is on the lower end of what we have achieved in the past, in light of the challenging market environment and the replacement cost of ~US\$5,000 per hectare, we take comfort that we have performed satisfactorily in 2018.

## SUSTAINABILITY REVIEW

Despite the difficult period, we are proud that we continued to invest in and strengthen our sustainability efforts. Sustainability is truly a core tenet in our business approach, as it should be for any business with aspirations to be long-lasting. Our Board takes into consideration sustainability issues and concerns relating to environmental and social factors as part of its strategic formulation, and oversees the identification, management and monitoring of material sustainability risks as part of its risk management process. In 2018, as well as looking ahead, we have and will continue to strengthen our sustainability framework and

strategies through regular engagements with stakeholders and by keeping ourselves abreast of evolving sustainability standards.

To keep our shareholders and the market abreast of our progress on the sustainability front, we have decided to publish our Sustainability Report earlier, concurrent with this annual report. Our Sustainability Report for FY2018, which is to be read in conjunction with this annual report, can also be found on our corporate website. It aims to provide greater details of our sustainability commitments and progress to a wider community of stakeholders.

2018 marks the third year since we launched our No Deforestation, No Peat and No Exploitation ("NDPE") Policy on Sustainable Palm Oil. We continue to make significant progress in this area, including keeping tightly to our commitment of no development on High Conservation Value areas, High Carbon Stock forests and peatland. In these past three years, many stakeholders have taken a very keen interest in this policy, which has been over and above RSPO Principles and Criteria until quite recently. Alongside this NDPE policy, we have also continued to enhance our traceability information for CPO and FFB purchases. We have engaged numerous buyers, suppliers and other stakeholders concerning our NDPE policy and its implementation. A grievance dashboard accessible from our website provides timely and transparent updates on cases. You will be able to read more in depth on our sustainability efforts and developments in our Sustainability Report.

In line with our aim to minimise our impact on the environment, we are discontinuing the practice of circulating printed copies of the Company's annual reports and related documents to shareholders. While we seek your support and understanding, printed materials are available at request.

To keep our shareholders and the market abreast of our progress on the sustainability front, we have decided to publish our Sustainability Report earlier, concurrent with this annual report. Our Sustainability Report for FY2018, which is to be read in conjunction with this annual report, can also be found on our corporate website.



**MOST TRANSPARENT  
COMPANY AWARD**

**AGRICULTURE  
WINNER**



## PROSPECTS REVIEW

The Group expects continued production growth in FY2019 due to maturing plantations. However production growth is expected to be more modest in 2019. And we expect industry-wide supply trend to be similar. We are also more sanguine on demand prospects in 2019, as main destination markets such as China and India are expected to import more this year, in contrast to 2018's contractions. Moreover Indonesia's B20 biodiesel mandate in full flow throughout 2019 will also bolster demand from the largest palm oil consuming country in the world. We have seen palm oil prices recovered from its lows in the fourth quarter of FY2018. However we continue to stay vigilant given current environment, where inventory levels in Indonesia and Malaysia remain near historical highs.

Oil palm plantation business is indeed a very long-term business. As a perennial crop, the oil palm trees that we care for bear fruits for 25 years or more. We have to remain steadfast to our endeavour, looking through the numerous price cycles that we will encounter. Ultimately, our faith in our business is built upon long-term fundamentals of the palm oil industry. And that belief has not been shaken. Palm oil's utility in our daily lives is irrefutable. It will be ecologically disastrous to completely substitute palm oil with other less productive oilseeds. And like clockwork, the slowdown in new oil palm plantings will eventually be reflected in the form of slower supply growth.

Our competitive advantage lies in the ownership and management of high-quality plantation assets. While we cannot control macro developments and the price cycle, we continue to work hard to ensure our plantation assets are positioned to deliver satisfactory returns during lower segments of the price cycle, and to allow us to maximise returns when prices eventually recover. As higher productivity automatically translates into lower cash cost of production, we challenge ourselves to continually raise our land productivity through better management, mechanisation and new technological tools. Moreover, given the constraints on hectareage growth, productivity growth is our and the industry's only remaining avenue for growth going forward.

## ACKNOWLEDGMENTS AND APPRECIATION

As a gesture of appreciation for our shareholders' support, the Board is pleased to propose a final dividend of 2.00 Singapore cents per share, bringing full-year ordinary dividend for FY2018 to 3.25 Singapore cents per share. As such, the Group would be paying out ~31% of our underlying net profit in FY2018, while retaining sufficient liquidity to fund business growth and working capital requirements.

We would like to thank our fellow directors on the Board for their guidance and inputs during the year. In particular, we express our sincere gratitude to Ms Ng Shin Ein who will not be seeking re-election at the forthcoming Annual General Meeting. Ms Ng has served on our Board, Remuneration Committee and Nominating Committee since 2007 and will be vacating her office as part of the on-going Board renewal process. Although several of our remaining board members have served for more than nine years, they continue to demonstrate uncompromised independence, and the Board and management continue to benefit from their objective exchanges.

We also want to convey our appreciation to our staff and management team for the dedication and hard work they had put in. The team's effort was recognised when First Resources was named Winner of the Most Transparent Company (Agriculture) at the Investors' Choice Awards 2018 organised by the Securities Investors Association (Singapore).

Finally, we thank all shareholders for being a part of this journey.

### **LIM MING SEONG**

*Chairman and Independent Director*

### **CILIANDRA FANGIONO**

*Executive Director and Chief Executive Officer*



## Plantation Age Profile

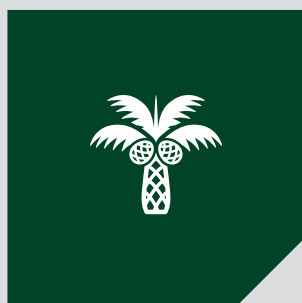
Total **210,885** hectares



**10%**

Immature  
(0-3 Years)

**20,065**  
hectares



**28%**

Young  
(4-7 Years)

**59,977**  
hectares



**36%**

Prime  
(8-17 Years)

**76,513**  
hectares



**26%**

Old  
(18 Years and above)

**54,330**  
hectares

Bolstered by continued yield recovery and contribution from newly mature estates, the Group turned in another year of record production volume with 3,435,159 tonnes of FFB harvested in FY2018, a 13.1% increase from the 3,037,842 tonnes in FY2017.

### PLANTATIONS AND PALM OIL MILLS

The Group's nucleus plantations recorded FFB production growth of 14.1% to 3,061,819 tonnes in FY2018, while our plasma plantations delivered a 5.2% improvement to 373,340 tonnes. Our Riau plantations continued to be the core production contributor, accounting for 73% of the Group's total FFB nucleus production in FY2018, with the remaining 27% coming from our West and East Kalimantan estates.

In terms of efficiency, our total FFB blended yield per mature hectare for the year continued to recover, coming in at 18.0 tonnes per hectare compared to 17.5 tonnes per hectare in FY2017. Our nucleus estates saw an improvement in FFB yield to 18.9 tonnes per hectare compared to 18.2 tonnes per hectare, while our plasma estates recorded a FFB yield of 12.8 tonnes per hectare compared to 13.6 tonnes per hectare in the previous year.

CPO production grew by 17.3% year-on-year to 823,679 tonnes in FY2018, on the back of the growth in FFB production volumes and improvement in oil extraction rate. Oil extraction rate went up from 22.2% in FY2017 to 22.9% in FY2018, with CPO yield improving to 4.1 tonnes per hectare from 3.9 tonnes per hectare a year ago. Production volumes of our palm kernel also saw a 10.4% year-on-year increase to 188,471 tonnes, with an extraction rate of 5.2% compared to 5.4% a year ago.

The Group's cash cost of production per tonne of nucleus CPO, on an ex-mill basis, came in at US\$237 per tonne in FY2018, an increase of 9.2% from the US\$217 per tonne registered in FY2017.

## REFINERY AND PROCESSING

The Group sold a total of 1,011,037 tonnes of processed products to both the domestic and international markets in FY2018, with the increase of 12.3% reflecting the higher utilisation of our processing plants during the year. Sales of our processed products include biodiesel, refined, bleached and deodorised ("RBD") palm oil, RBD palm olein, RBD stearin, palm fatty acid distillate, crude glycerine, palm kernel oil and palm kernel expeller.

## UPSTREAM ASSETS

During the year, the Group added 884 hectares of oil palms compared to 1,310 hectares in 2017, bringing our total plantation under management to 210,885 hectares. In line with the stringent sustainability policies and practices that has been adopted by the Group and the rest of the palm oil industry in recent years, the slower new planting pace has become the new norm, as companies shift their focus towards improving efficiencies in plantation management. As part of the Group's long-term plan in rejuvenating its older plantations, we have replanted approximately 1,000 hectares of oil palm estates during 2018 and will continue with our replanting programme in a measured approach going forward.

Following the completion of our first palm oil mill in East Kalimantan in 2017, the Group has embarked on the construction of our 16<sup>th</sup> and 17<sup>th</sup> mills in West and East Kalimantan during 2018 to cater to the growth in production from our maturing plantations in the Kalimantan region. Looking ahead, we are expecting to complete construction of these two mills in 2019 and will be commencing construction of our 18<sup>th</sup> palm oil mill, along with some upgrading and maintenance works for our existing mills.

As at 31 December 2018, our plantation profile remained young at a weighted average age of 11 years, with close to 40% of our plantations in their immature or young age. With the relatively young age profile and our continuing efforts in the stringent maintenance of our plantations, the Group is well-positioned for steady production growth in the next few years as these plantations grow into prime-yielding ages.

With approximately 7,000 hectares of our nucleus plantations coming into maturity in 2019, the Group expects continued production growth for the year, albeit at a slower pace than 2018.



FFB Harvested  
3,435,159  
tonnes



CPO Production  
823,679  
tonnes



# FINANCIAL REVIEW

**F**irst Resources registered an EBITDA of US\$257.9 million in FY2018 as compared to US\$292.1 million in FY2017. Results were impacted by a net inventory build-up during the year, which resulted in overall sales volume increasing by a smaller extent than the growth in production volumes. In addition, the weakness in palm oil prices experienced by the whole industry, which saw CPO prices (FOB Indonesia basis) fall to US\$414 per tonne in November, also affected the Group's average selling prices. Excluding the net losses arising from changes in fair value of biological assets, the Group's underlying net profit for FY2018 came in at US\$122.6 million.

## SALES, COST OF SALES AND GROSS PROFIT

Sales volumes of CPO and PK under the Plantations and Palm Oil Mills segment grew by 16.8% and 14.1% to 826,842 tonnes and 190,298 tonnes respectively, while sales volumes from the Refinery and Processing segment increased by 12.3% to 1,011,037 tonnes. The higher sales volumes in FY2018 were mainly driven by the robust production growth, partially offset by the effects of a net inventory build-up of 69,000 tonnes in FY2018, compared to a drawdown of 28,000 tonnes in FY2017. The continued growth in sales volumes helped First Resource's topline remain stable at US\$633.5 million, a marginal decline of 2.1%, despite the steep fall in palm oil prices during the year.

The Group's cost of sales comprises mainly harvesting costs, plantation maintenance costs, plantation general expenses and processing costs, as well as purchases of FFB and other palm oil products from plasma farmers or third parties. Cost of sales increased by 4.2% to US\$354.7 million in FY2018 from US\$340.3 million in FY2017.

Reflecting the effect of the lower average selling prices, gross profit for the year declined by 9.1% to US\$278.8 million in FY2018, with gross profit margin coming in at 44.0% as compared to 47.4% in FY2017.

## CHANGES IN FAIR VALUE OF BIOLOGICAL ASSETS

The fair value of the Group's biological assets is determined based on the expected net cash inflows of the agricultural produce (i.e. FFB) growing on bearer plants. Any resultant gains or losses arising from changes in fair value are recognised in the income statement.

The Group recognised losses arising from changes in fair value of biological assets amounting to US\$3.5 million in FY2018 as compared to US\$2.4 million in FY2017. The fair value losses recorded in FY2018 was mainly due to the lower FFB price used in the valuation as compared to the previous year.

## OPERATING EXPENSES

Total operating expenses increased from US\$77.4 million in FY2017 to US\$88.2 million in FY2018, largely driven by the higher freight charges incurred.

## Sales Volumes



## NET FINANCIAL EXPENSES

The Group's net financial expenses declined by 17.6% to US\$17.0 million in FY2018, mainly due to the reduction in interest expenses from the repayment of Islamic medium term notes ("IMTN") during 2017, which were partially refinanced using bank loans.

## EBITDA

With the fall in average selling prices outweighing the contribution from higher sales volumes, the Group's EBITDA dipped by 11.7% to US\$257.9 million in FY2018. The Plantations and Palm Oil Mills segment continues to be the main earnings driver for the Group, complemented by the favourable margins from the Refinery and Processing segment.

## BALANCE SHEET

The Group's total assets amounted to US\$1,571.0 million as at 31 December 2018, as compared to US\$1,731.0 million as at 31 December 2017. Non-current assets decreased by US\$51.3 million to US\$1,241.4 million, mainly due to the weakening of the Indonesian Rupiah ("IDR") against United States Dollar ("USD") during the year as well as the depreciation of bearer plants and property, plant and equipment. These were partially offset by the Group's capital expenditure on oil palm plantations, palm oil mills and other property, plant and equipment. Current assets declined by 24.8% to US\$329.6 million, mainly due to the decrease in cash and bank balances, partially offset by the higher inventories, prepaid taxes and advances for purchase of property, plant and equipment.

Total liabilities decreased by 17.5% from US\$708.8 million as at 31 December 2017 to US\$585.0 million as at 31 December 2018, mainly from the repayment of bank loans amounting to US\$113.5 million during the year.

The Group maintained its healthy balance sheet position with a low net gearing of 0.29 times and cash and bank balances of US\$99.9 million as at 31 December 2018.

## CASH FLOWS

The Group generated net cash from operating activities of US\$112.4 million in FY2018 as compared to US\$231.7 million in FY2017, mainly due to the effects from lower average selling prices, a net inventory build-up, as well as changes in other working capital.

Net cash used in investing activities remained stable at US\$93.9 million, a marginal increase of 0.9% from the previous year. The cash used in investing activities primarily relates to the Group's capital expenditure on oil palm plantations, palm oil mills and other property, plant and equipment.

The Group used US\$197.0 million in financing activities in FY2018 as compared to US\$12.3 million in FY2017. The higher cash used in financing activities in FY2018 was mainly due to the repayment of bank loans amounting to US\$113.5 million and higher dividends paid during the year.

Overall, the Group's cash and cash equivalents decreased by US\$178.4 million during the year, bringing the Group's cash and bank balances to US\$99.9 million as at 31 December 2018.



EBITDA  
US\$257.9  
million



EBITDA Margin  
40.7%



# BOARD OF DIRECTORS

01



03



04



05



07



08



- 01/ Lim Ming Seong
- 02/ Ciliandra Fangiono
- 03/ Fang Zhixiang
- 04/ Teng Cheong Kwee
- 05/ Tan Seow Kheng
- 06/ Chang See Hiang
- 07/ Ong Beng Kee
- 08/ Ng Shin Ein

01

**LIM MING SEONG****Chairman and  
Independent Director**

Mr Lim Ming Seong was appointed to the Board in October 2007 and was last re-elected as a Director in April 2018. Mr Lim is also the Chairman of CSE Global Ltd and sits on the board of StarHub Ltd. Mr Lim was with the Singapore Technologies group from 1986 through 2002, where he held various senior management positions and was Group Director when he left. Prior to joining Singapore Technologies, Mr Lim was with the Singapore Ministry of Defence.

Mr Lim holds a Bachelor of Applied Science (Honours) in Mechanical Engineering from the University of Toronto and a Diploma in Business Administration from the former University of Singapore. Mr Lim also participated in the Advance Management Programs conducted by INSEAD and Harvard Business School.

**Present Directorships in  
Other Listed Companies**

CSE Global Ltd and Starhub Ltd

**Present Principal Commitments**

Nil

**Past Directorships in Other Listed  
Companies Held Over the  
Preceding 5 Years**

Nil

**Past Principal Commitments  
Held Over the Preceding 5 Years**

Nil

02

**CILIANDRA FANGIONO****Executive Director and  
Chief Executive Officer**

Mr Ciliandra Fangiono was appointed to the Board in April 2007 and was last re-elected as a Director in April 2017. He has been with the Group for more than a decade, playing a key role in charting the Group's strategic directions. Under his leadership, the Group has expanded its plantation assets rapidly and has grown into an integrated player with its own processing capabilities. Prior to joining the Group, Mr Fangiono was at the Investment Banking Division of Merrill Lynch, Singapore, where he worked on mergers, acquisitions and fund-raising exercises by corporates in the region.

Mr Fangiono holds a Bachelor and a Masters of Arts (Economics) from Cambridge University, United Kingdom. At Cambridge, he was a Senior Scholar in Economics and was awarded the PriceWaterhouse Book Prize.

**Present Directorships in  
Other Listed Companies**

Nil

**Present Principal Commitments**

First Resources Limited

**Past Directorships in Other Listed  
Companies Held Over the  
Preceding 5 Years**

Nil

**Past Principal Commitments  
Held Over the Preceding 5 Years**

Nil

03

**FANG ZHIXIANG****Executive Director and  
Deputy Chief Executive Officer**

Mr Fang Zhixiang (Sigih Fangiono) was appointed to the Board in November 2014 and was re-elected as Director in April 2018. He has joined the Group since 2002 and has held the position as Deputy Chief Executive Officer since 2007. As Deputy Chief Executive Officer, he is jointly responsible for the day-to-day management of the Group. In particular, he focuses on the management of plantations and palm oil mills, and manages the Group's corporate affairs. He began his career at PT Surya Dumai Industri Tbk as an Assistant Production Director.

Mr Fang graduated from Bronte College, Toronto, Canada.

**Present Directorships in  
Other Listed Companies**

Nil

**Present Principal Commitments**

First Resources Limited

**Past Directorships in Other Listed  
Companies Held Over the  
Preceding 5 Years**

Nil

**Past Principal Commitments  
Held Over the Preceding 5 Years**

Nil



# BOARD OF DIRECTORS

04

## TENG CHEONG KWEE

**Independent Director**

Mr Teng Cheong Kwee was appointed to the Board in October 2007 and was last re-elected as a Director in April 2018. He also serves as independent director of several other listed companies. Mr Teng was previously with the Singapore Exchange for more than 10 years, where he was Executive Vice President and Head of its Risk Management and Regulatory Division when he left. From 1985 to 1989, he served as assistant director and later a deputy director in the Monetary Authority of Singapore. During that period, he was also concurrently Secretary to the Securities Industry Council.

Mr Teng holds a Bachelor of Engineering (Industrial) with first class honours and a Bachelor of Commerce from the University of Newcastle, Australia.

### **Present Directorships in Other Listed Companies**

AEI Corporation Ltd., Memtech International Ltd. and AVIC International Maritime Holdings Limited

### **Present Principal Commitments**

Nil

### **Past Directorships in Other Listed Companies Held Over the Preceding 5 Years**

STATSChipPAC Ltd., Junma Tyre Cord Company Limited and Techcomp (Holdings) Limited

### **Past Principal Commitments Held Over the Preceding 5 Years**

Nil

05

## TAN SEOW KHENG

**Non-Executive Non-Independent Director**

Mr Tan Seow Kheng was appointed to the Board in November 2014 and was last re-elected as a Director in April 2017. His other appointments include serving as the General Manager of EWIS Development Pte Ltd, a company focused in property development in Singapore and Indonesia, as well as an Assistant Vice President of Marketing at Uniseraya Group, an Indonesian-based group principally involved in the timber and oil palm industry.

Mr Tan holds a Bachelor of Business Administration from the University of Wisconsin – Madison and has completed an Executive Diploma in Directorship awarded by Singapore Management University.

### **Present Directorships in Other Listed Companies**

Nil

### **Present Principal Commitments**

EWIS Development Pte Ltd

### **Past Directorships in Other Listed Companies Held Over the Preceding 5 Years**

Sincap Group Limited

### **Past Principal Commitments Held Over the Preceding 5 Years**

Nil

06

## CHANG SEE HIANG

**Independent Director**

Mr Chang See Hiang was appointed to the Board in March 2019 and would be subject to re-election as Director at the forthcoming Annual General Meeting scheduled on 29 April 2019. Mr Chang also serves as independent director of two other listed companies in Singapore and Malaysia. Mr Chang has been an advocate and solicitor of the Supreme Court of Singapore since 1979 and is the Senior Partner of his law practice, Chang See Hiang & Partners.

Spanning across 1988 to 2017, Mr Chang was appointed to various appointments including as a member of the (i) Singapore Turf Club; (ii) Appeal Advisory Panel under the Securities and Futures Act (Cap 289) / Financial Advisers Act (Cap 110) / Insurance Act (Cap 142); (iii) Casino Regulatory Authority of Singapore Board; and (iv) Securities Industry Council.

Mr Chang graduated from the University of Singapore with a Bachelor of Law (Honours) degree.

### **Present Directorships in Other Listed Companies**

Jardine Cycle & Carriage Limited and IHH Healthcare Berhad

### **Present Principal Commitments**

Chang See Hiang & Partners

### **Past Directorships in Other Listed Companies Held Over the Preceding 5 Years**

Parkway Pantai Limited and Yeo Hiap Seng Limited

### **Past Principal Commitments Held Over the Preceding 5 Years**

Nil

**ONG BENG KEE****Independent  
Director**

Mr Ong Beng Kee was appointed to the Board in May 2010 and was last re-elected as a Director in April 2016. He is a retired career-planter with over 40 years of hands-on experience in large-scale plantation development, specifically oil palm, rubber, cocoa and the related processing facilities. Mr Ong served a large part of his career at Kuala Lumpur Kepong Bhd (KLK), a company listed on Bursa Malaysia. As Executive Director and Managing Director (Plantations), he spearheaded KLK's expansion drive into Sabah and Indonesia, overseeing large-scale oil palm cultivation.

Mr Ong was an active council member in various Malaysian plantation associations, particularly as chairman of the plantation wage council. He is an Associate Diploma holder of the Incorporated Society of Planters and has completed the Advanced Management Course at Templeton College, Oxford.

**Present Directorships in  
Other Listed Companies**

Nil

**Present Principal Commitments**

Nil

**Past Directorships in Other Listed  
Companies Held Over the  
Preceding 5 Years**

Nil

**Past Principal Commitments  
Held Over the Preceding 5 Years**

Quarry Land Sdn Bhd

**NG SHIN EIN****Independent  
Director**

Ms Ng Shin Ein was appointed to the Board in October 2007 and was last re-elected as a Director in April 2016. Ms Ng brings with her a rare blend of legal, business, financial and diplomatic experience.

Ms Ng is the co-founder of Gryphus Capital, a pan Asian private equity investment firm. She invests actively and leads a network of family offices and other private equity firms to provide strategic capital for companies. For these investments, she engages with portfolio companies, focusing on strategy and business development.

Prior to this, Ms Ng spent a number of years at the Singapore Exchange where she was responsible for developing Singapore's capital market and bringing foreign companies to list in Singapore. Additionally, she was part of the Singapore Exchange's IPO Approval Committee, where she contributed industry perspectives and also acted as a conduit between the marketplace and regulators.

Ms Ng Shin Ein was admitted as an advocate and solicitor of the Singapore Supreme Court in 1998 and practiced as a corporate lawyer in Messrs Lee & Lee. Whilst at Messrs Lee & Lee, she advised clients on joint ventures, mergers and acquisitions and fundraising exercises.

Ms Ng serves on the boards of Starhub Ltd, Yanlord Land Group Limited and other companies listed on the mainboard of the Singapore Exchange. She was also appointed the youngest ever director of Fairprice, Singapore's largest supermarket operator.

Apart from corporate boards, Ms Ng serves as Singapore's Non Resident Ambassador to the Republic of Hungary. She is also on the Board of Governors of the Singapore International Foundation.

**Present Directorships in  
Other Listed Companies**

Starhub Ltd, Yanlord Land Group Limited and AVARGA Limited

**Present Principal Commitments**

Nil

**Past Directorships in Other Listed  
Companies Held Over the  
Preceding 5 Years**

Eu Yan Sang International Ltd and Sabana Real Estate Investment Management Pte Ltd

**Past Principal Commitments  
Held Over the Preceding 5 Years**

Nil



# CORPORATE I N F O R M A T I O N

## BOARD OF DIRECTORS

### Lim Ming Seong

Chairman and Independent Director

### Ciliandra Fangiono

Executive Director and Chief Executive Officer

### Fang Zhixiang

Executive Director and Deputy Chief Executive Officer

### Teng Cheong Kwee

Independent Director

### Ng Shin Ein

Independent Director

### Ong Beng Kee

Independent Director

### Chang See Hiang

Independent Director

### Tan Seow Kheng

Non-Executive Non-Independent Director



## AUDIT COMMITTEE

**Teng Cheong Kwee** (Chairman)

**Ong Beng Kee**

**Chang See Hiang**

**Tan Seow Kheng**

## NOMINATING COMMITTEE

**Lim Ming Seong** (Chairman)

**Ciliandra Fangiono**

**Ng Shin Ein**

**Chang See Hiang**

## COMPANY REGISTRATION NUMBER

200415931M

## REMUNERATION COMMITTEE

**Ng Shin Ein** (Chairman)

**Lim Ming Seong**

**Teng Cheong Kwee**

## COMPANY SECRETARY

**Lai Kuan Loong, Victor**

## PLACE & DATE OF INCORPORATION

Singapore, 9 December 2004

## REGISTERED ADDRESS

8 Temasek Boulevard  
#36-02, Suntec Tower Three  
Singapore 038988  
Tel: (+65) 6602 0200  
Fax: (+65) 6333 6711

## AUDITOR

**Ernst & Young LLP**

One Raffles Quay  
North Tower, Level 18  
Singapore 048583

Partner-In-Charge: **Philip Ling**  
(Appointed since financial year ended  
31 December 2017)

## SHARE REGISTRAR

**Boardroom Corporate & Advisory  
Services Pte. Ltd.**

50 Raffles Place  
#32-01, Singapore Land Tower  
Singapore 048623  
Tel: (+65) 6536 5355  
Fax: (+65) 6536 1360

## STOCK EXCHANGE LISTING

**Singapore Exchange Securities  
Trading Limited**

# CORPORATE GOVERNANCE

First Resources Limited (the “Company”) is committed to maintaining high standards of corporate governance through transparency and effective disclosures. The Board and Management have used their best endeavours to align the Company’s governance framework with the recommendations of the Code of Corporate Governance 2012 (the “2012 CG Code”) issued by the Monetary Authority of Singapore (the “MAS”).

This report describes the Company’s corporate governance processes and practices with reference to the principles of the 2012 CG Code. The Board is pleased to inform that the Company is substantially in compliance with the 2012 CG Code and reasons for any deviation are explained below. The Board continually reviews and refines the Company’s corporate governance processes and practices in light of best practices, consistent with the needs and circumstances of the Group.

On 6 August 2018, the MAS issued a revised Code of Corporate Governance (the “2018 CG Code”), and accompanying Practice Guidance. The 2018 CG Code supersedes and replaces the 2012 CG Code that was issued in May 2012. The 2018 CG Code will apply for annual reports covering financial years commencing from 1 January 2019. The Board will work towards the implementation of the 2018 CG Code, where appropriate, in the next annual report.

## BOARD MATTERS

### Principle 1: The Board’s Conduct of Affairs

The primary function of the Board is to manage the Group in the best interest of shareholders and other stakeholders, and to pursue the continual enhancement of shareholder value.

In addition to its statutory responsibilities, the principal functions of the Board include:

- (a) providing entrepreneurial leadership, setting strategic objectives, and ensuring that the necessary financial and human resources are in place for the Company to meet its objectives;
- (b) establishing a framework of prudent and effective controls which enables risks to be assessed and managed, including the safeguarding of shareholders’ interests and the Company’s assets;
- (c) reviewing Management’s performance;
- (d) identifying the key stakeholder groups and recognising that their perceptions affect the Company’s reputation;
- (e) setting the Company’s values and standards (including ethical standards);
- (f) ensuring that obligations to shareholders and other stakeholders are understood and met; and
- (g) considering sustainability issues such as environmental and social factors, as part of its strategic formulation.

The Board discharges its responsibilities either directly or indirectly through various committees comprising members of the Board. The Board has established three committees: (i) Audit Committee; (ii) Nominating Committee; and (iii) Remuneration Committee. These committees function within clearly defined terms of reference and are each chaired by an Independent Director.



# CORPORATE GOVERNANCE

The Board and the various Board Committees comprise the following members:

Name	Board	Audit Committee	Nominating Committee	Remuneration Committee
Lim Ming Seong	Chairman and Independent Director	–	Chairman	Member <sup>(1)</sup>
Ciliandra Fangiono	Executive Director	–	Member	–
Fang Zhixiang	Executive Director	–	–	–
Teng Cheong Kwee	Independent Director	Chairman	–	Member
Ong Beng Kee	Independent Director	Member	–	–
Ng Shin Ein	Independent Director	–	Member	Chairman
Chang See Hiang <sup>(2)</sup>	Independent Director	Member	Member	–
	Non-Executive			
Tan Seow Kheng	Non-Independent Director	Member	–	–
Hee Theng Fong <sup>(3)</sup>	Independent Director	Member	–	Member

**Notes:**

<sup>(1)</sup> Mr Lim Ming Seong was appointed as a member of the Remuneration Committee with effect from 1 May 2018.

<sup>(2)</sup> Mr Chang See Hiang was appointed as an Independent Director and a member of the Audit Committee and Nominating Committee with effect from 1 March 2019.

<sup>(3)</sup> Mr Hee Theng Fong resigned as an Independent Director with effect from 1 May 2018.

All Directors exercise due diligence and independent judgement and make decisions objectively in the best interests of the Company. This is one of the performance criteria for the assessment of the effectiveness of the individual Directors.

The Board conducts regular scheduled meetings on a quarterly basis. Such meetings are typically scheduled before the start of each year in consultation with the Directors. Ad-hoc meetings may also be convened as and when warranted by matters requiring the Board's attention. If necessary, Board meetings may be conducted by way of telephone or video conferencing as permitted under the Company's Constitution. Time is set aside, after each scheduled Board meeting, for discussion amongst the Non-Executive Directors (including Independent Directors) without the presence of Management.

The Directors' attendance at Board and Board Committee meetings during the financial year ended 31 December 2018 is set out as follows:

Name	Board Meetings		Audit Committee Meetings		Nominating Committee Meetings		Remuneration Committee Meetings	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Lim Ming Seong	4	4	–	–	1	1	1	– <sup>(1)</sup>
Ciliandra Fangiono	4	4	–	–	1	1	–	–
Fang Zhixiang	4	4	–	–	–	–	–	–
Teng Cheong Kwee	4	4	4	4	–	–	1	1
Ong Beng Kee	4	4	4	4	–	–	–	–
Ng Shin Ein	4	4	–	–	1	1	1	1
Tan Seow Kheng	4	4	4	4	–	–	–	–
Hee Theng Fong <sup>(2)</sup>	4	1	4	1	–	–	1	1

**Notes:**

<sup>(1)</sup> Mr Lim Ming Seong was appointed as a member of the Remuneration Committee with effect from 1 May 2018.

<sup>(2)</sup> Mr Hee Theng Fong resigned as an Independent Director with effect from 1 May 2018.

# CORPORATE GOVERNANCE

The Group has adopted a set of internal guidelines setting forth financial authorisation and approval limits for investments, acquisitions, disposals and capital expenditures. Transactions falling outside the ordinary course of business and where the value of a transaction exceeds these limits have to be approved by the Board.

A formal letter of appointment, which sets out the director's duties and obligations, is provided to each Director upon appointment. Orientation programmes are also organised for newly appointed Directors. Newly appointed Directors who do not have prior experience as a director of a Singapore listed company are either briefed by the Company's legal advisors on their duties and obligations or undergo relevant courses conducted by external parties.

On an on-going basis, the Directors are briefed by the Company Secretary, external auditors and external professionals on updates to relevant regulations and governance requirements, accounting standards and industry regulations. In addition, the Chief Executive Officer ("CEO") regularly updates the Board on the business activities and strategies of the Group during Board meetings. The Board is also updated on any significant developments and matters relating to environmental, social or other sustainability issues and risks affecting the Group. During the year, the Board was updated on the changes to the Code of Corporate Governance and the SGX-ST Listing Manual.

The Directors may also attend other appropriate courses and seminars at the Company's expense. These include programmes conducted by the Singapore Institute of Directors, of which the Company is a corporate member.

In addition to the formal Board meetings, the Board also organises Board strategy meetings periodically for in-depth discussions on strategic issues and direction of the Group, wherein due consideration is also given to key material environmental, social and governance factors identified for the Group. Such Board strategy meetings, which may be held offsite, include presentations by key executives on the Group's key business focus and growth plans going forward, as well as strategic issues relating to specific business areas. From time to time, the Company also organises site visits for the Directors to better apprise them of the Group's business. Such visits also provide the Non-Executive Directors with an opportunity to interact and engage with the key executives of the Group.

## Principle 2: Board Composition and Guidance

The Board comprises eight Directors of whom five are Independent Directors. Accordingly, more than half of the Board is made up of Independent Directors. In relation to gender diversity, one out of the eight Directors is a female.

Under the 2012 CG Code, an "independent" director is defined as one who has no relationship with the Company, its related corporations, its 10% shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgement with a view to the best interests of the Company. Mr Tan Seow Kheng is a candidate recommended by Infinite Capital Fund Limited ("Infinite Capital"), a substantial shareholder of the Company. Notwithstanding that Infinite Capital is only a 5% shareholder of the Company, the Board also took into consideration (1) Mr Tan Seow Kheng's past and present employment with Infinite Capital's affiliates; and that (2) Infinite Capital's affiliates have palm oil business and operate in the same industry as the Group. Hence, the Board deemed Mr Tan Seow Kheng as a Non-Executive Non-Independent Director.

The independence of each Director is reviewed annually by the Nominating Committee, particularly those who have served more than nine years from the date of their first appointment. The following Directors would have served on the Board for more than nine years as Independent Directors by the forthcoming Annual General Meeting ("AGM") to be held on 29 April 2019:

- (a) Mr Lim Ming Seong;
- (b) Mr Teng Cheong Kwee; and
- (c) Ms Ng Shin Ein.



# CORPORATE GOVERNANCE

The Nominating Committee rigorously reviewed the independence of these Directors, as recommended by the 2012 CG Code. The Nominating Committee (with Mr Lim Ming Seong and Ms Ng Shin Ein abstaining from reviewing his/her own independence), with the concurrence of the Board, is of the view that all three abovementioned Independent Directors are considered to be independent, notwithstanding that they have served more than nine years. These Directors have continuously demonstrated independence in character and judgement in the discharge of their responsibilities as Directors of the Company. The Board has also observed their participations and deliberations at Board meetings and other occasions and has no reason to doubt their ability to exercise independent judgement in the interest of the Company. Given their combined strength of objectivity, wealth of working experience and professionalism in carrying out their duties, the Board acknowledges and recognises the benefits of the experience and stability brought by these long-serving Independent Directors.

As part of the process of renewing the Board, Mr Chang See Hiang has been appointed as an Independent Director with effect from 1 March 2019. Consequent to his appointment as an Independent Director, Mr Chang was also appointed as a member of the Audit Committee and Nominating Committee.

Mr Ong Beng Kee, who was appointed to the Board in May 2010, continues to be independent.

Annually, a review of the size and composition of the Board (and Board Committees) is also undertaken by the Company to ensure alignment with the needs of the Group. The Nominating Committee is of the view that the current size and composition of the Board (and Board Committees) is appropriate for the scope and nature of the Group's operations and facilitates effective decision making.

The Nominating Committee is satisfied that the Board comprises Directors who, collectively, have the core competencies, such as industry knowledge, finance, accounting, legal, business and management experience, necessary to meet the Company's performance targets. In addition, the Directors, as a group, provide an appropriate balance and diversity of skill sets, experience and knowledge. These attributes encourage robust, open and constructive deliberations during Board meetings to challenge Management on its assumptions and proposals, which also mitigate the dominance of any individual or small group of individuals in the Board's decision-making process. Although the Board does not have a written policy with regards to diversity in identifying director nominees, it will consider the benefits of all aspects of diversity, including diversity of skills, experience, background, gender, age and other relevant factors.

New Directors, if any, will continue to be selected based on objective criteria set as part of the process for appointment of new Directors. All Board appointments are made based on merit, in the context of the skills, experience, independence and knowledge which the Board as a whole requires to be effective.

The Non-Executive and Independent Directors contribute to the board process by monitoring and reviewing Management's performance. For the financial year under review, the Non-Executive and Independent Directors have constructively challenged Management's proposals and decisions and reviewed Management's performance. They have unrestricted access to Management for any information that they may require to discharge their oversight function effectively. As Non-Executive and Independent Directors constitute a majority of the Board, objectivity on such deliberations is assured.

There were no alternate Directors appointed during the year.

Profiles and key information of individual Directors, including their directorships in other listed companies and principal commitments, both present and those held over the preceding five years, are disclosed on pages 20 to 23 of this Annual Report.

# CORPORATE GOVERNANCE

## Principle 3: Chairman and Chief Executive Officer

The Company has a separate Chairman and CEO to ensure that there is an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision making.

The Chairman of the Company is Mr Lim Ming Seong. Mr Lim, who is a Non-Executive Director, is not related to the CEO. As the Chairman, he bears primary responsibility for leading the Board to ensure its effectiveness on all aspects of its role including setting the agenda for Board meetings with input from Management. The Chairman also exercises control over the quality, quantity and timeliness of information flow between the Board and Management to encourage constructive relations within the Board and between the Board and Management. To promote a culture of openness and debate at the Board, he ensures that adequate time is available for discussion of all agenda items, in particular, strategic issues, and also facilitates the effective contribution of the Non-Executive Directors. At the AGM and other shareholder meetings, he plays a pivotal role in fostering constructive dialogue between shareholders, the Board and Management. The Chairman also promotes high standards of corporate governance for the Company, with the support of the Board, Company Secretary and Management.

The CEO, Mr Ciliandra Fangiono, drives the business strategies of the Company as set by the Board and manages the day-to-day business operations together with the other executive officers of the Company.

Given that the roles of the Chairman and CEO are separate and the Chairman is independent, no lead independent director is required to be appointed.

## Principle 4: Board Membership

As at the date of this report, the Nominating Committee comprises Mr Lim Ming Seong as Chairman, Mr Ciliandra Fangiono, Ms Ng Shin Ein and Mr Chang See Hiang as members. The majority of the Nominating Committee, including the Chairman, is independent. The Nominating Committee met once during the financial year under review.

The Nominating Committee is guided by its terms of reference which sets out its responsibilities. The terms of reference are in line with the 2012 CG Code. These include:

- (a) Reviewing board succession plans for Directors, in particular, the Chairman and for the CEO;
- (b) Evaluating the performance of the Board, its Board Committees and proposing objective performance criteria for Board's approval;
- (c) Establishing procedures for and making recommendations to the Board on all Board appointments and re-appointments;
- (d) Determining annually if a Director is independent pursuant to the guidelines set forth in the 2012 CG Code;
- (e) Evaluating if a Director is able to and has been adequately carrying out his or her duties as a Director when the Director concerned holds multiple board representations; and
- (f) Reviewing training and professional development programmes for the Board.

The Nominating Committee has assessed that although some Directors have other board representations, they have devoted sufficient time and attention to their role as Directors and to the affairs of the Group. The Nominating Committee believes that setting a maximum number of listed company board representations would not be meaningful as the contributions of the Directors should be best assessed through qualitative factors such as their attendance and time commitment to the affairs of the Company. The Nominating Committee would continue to review from time to time the board representations and other principal commitments of each Director to ensure that the Directors continue to meet the demands of the Group and are able to discharge their duties adequately. The Board and Nominating Committee are satisfied that all Directors have discharged their duties adequately for the financial year ended 31 December 2018.



# CORPORATE GOVERNANCE

The Nominating Committee has a process for the selection, appointment and re-appointment of Directors. The Nominating Committee will, on an annual basis, review the size and composition of the Board and will consider the results of the annual appraisal of the Board's performance. It will evaluate the range of skills, knowledge and experience on the Board, and assess whether new competencies are required to improve the Board's competitiveness. When a need for a new Director arises, either to replace a retiring Director or to enhance the Board's strength, the Nominating Committee will source for new candidates with the desired competencies. External help may be engaged to source for potential candidates if considered necessary. Where required, the Nominating Committee may also tap on its networking contacts to assist with identifying and shortlisting of candidates. Directors and Management may also make recommendations. The Nominating Committee will meet shortlisted candidates for an interview before making recommendation to the Board for consideration and approval.

All Directors are required to submit themselves for re-election at regular intervals and at least once every three years. In recommending a Director for re-election to the Board, the Nominating Committee will consider, amongst other things, the individual's competencies, commitment and contribution to the Board. After assessing the performance of the retiring Directors, the Nominating Committee has recommended the re-election of (i) Mr Ong Beng Kee who is retiring pursuant to Regulation 103 of the Company's Constitution; (ii) Mr Chang See Hiang pursuant to Regulation 109 of the Company's Constitution; and (iii) Mr Ciliandra Fangiono pursuant to Rule 720(5) of the SGX-ST Listing Manual at the forthcoming AGM. As part of the board renewal process, Ms Ng Shin Ein, who has served on the Board for more than nine years and who is due to retire pursuant to Regulation 103 of the Company's Constitution, will not be offering herself for re-election at the forthcoming AGM. Consequent to Ms Ng Shin Ein's retirement at the forthcoming AGM, she will also cease to be the Chairman of the Remuneration Committee and a member of the Nominating Committee. The Board has accepted these recommendations.

The Nominating Committee reviews succession plans for the Board and seeks to ensure that changes in Board membership are carried out progressively and in an orderly manner, for long-term continuity and stability.

Information regarding the Directors of the Company in respect of their dates of first appointment and last re-election/re-appointment is set out as follows:

Name	Date of initial appointment	Date of last re-election/ re-appointment
Lim Ming Seong	1 October 2007	30 April 2018
Ciliandra Fangiono	18 April 2007	28 April 2017
Fang Zhixiang	1 November 2014	30 April 2018
Teng Cheong Kwee	1 October 2007	30 April 2018
Ong Beng Kee	1 May 2010	27 April 2016
Ng Shin Ein	1 October 2007	27 April 2016
Chang See Hiang	1 March 2019	Not Applicable
Tan Seow Kheng	1 November 2014	28 April 2017

## Principle 5: Board Performance

The Nominating Committee undertakes a process to assess the effectiveness of the Board and its Board Committees. Directors are requested to complete a Board Evaluation Questionnaire to assess the overall effectiveness of the Board and the Board Committees. To ensure confidentiality, the Company Secretary compiles the Directors' responses to the Board Evaluation Questionnaire on a collective basis and present the results to the Nominating Committee. The results of the evaluation exercise are considered by the Nominating Committee which then makes recommendations to the Board aimed at helping the Board to discharge its duties more effectively. The Board Chairman, who is also the Chairman of the Nominating Committee, will act on the results of the performance evaluation and in consultation with the Nominating Committee propose, where appropriate, new members to be appointed to the Board or seek the resignation of existing members. The evaluation for the financial year ended 31 December 2018 confirmed that the Board and its Board Committees were generally functioning effectively during the year.

# CORPORATE GOVERNANCE

The Nominating Committee had extracted salient recommendations from the 2012 CG Code and incorporated these recommendations into the Board Evaluation Questionnaire. The performance of the Board was reviewed as a whole, focusing on factors such as board composition, board information, board processes, internal controls and risk management, board accountability, communication with top management and standards of conduct. The Nominating Committee also considered whether the Directors have reasonable understanding of the Group's business and the industry as well as the Directors' working relationship with the other members of the Board. These performance criteria shall not change from year to year, and where circumstances deem it necessary for any of the criteria to be changed, the Nominating Committee and the Board shall justify its decision for the change.

The Board believes that evaluation of individual Director's performance is a continuous process. For the financial year under review, the Nominating Committee took note of each individual Director's attendance at meetings of the Board, Board Committees and at general meetings; participation in discussions at meetings; the individual Director's functional expertise and his or her commitment of time to the Company and took such factors into consideration in the annual process of evaluating the performance of the individual Directors.

## **Principle 6: Access to Information**

Management has an on-going obligation to supply the Board with complete, adequate information in a timely manner. The Board is informed of all material events and transactions as and when they occur. The information that is provided by Management to the Board includes background or explanatory information relating to matters to be brought before the Board, budgets, forecasts and internal financial statements. In respect of budgets, any material variances between the projections and actual results are also disclosed and explained. In addition, the Board has separate and independent access to the Company's Management at all times. Request for information from the Board are dealt with promptly by Management.

As a general rule, Board papers are sent to Board members at least five working days before the Board meeting to afford the Directors sufficient time to review the Board papers prior to the meetings. For matters which require the Board's decision outside such meetings, Board papers will be circulated for the Board's consideration, with discussions and clarifications taking place between members of the Board and Management directly, before approval is granted.

The Directors also have separate and independent access to the Company Secretary. The Company Secretary attends all Board and Board Committee meetings and is responsible for ensuring that established procedures and all relevant statutes and regulations that are applicable to the Company are complied with. The Company Secretary assists the Chairman of the Board and the Chairman of each of the Board Committee and Management in the development of agendas for the various Board and Board Committee meetings. The appointment and the removal of the Company Secretary are subject to the Board's approval.

Should Directors, whether as a group or individually, need independent professional advice to fulfil their duties, such advice may be obtained from a professional firm, the cost of which will be borne by the Company.

## **REMUNERATION MATTERS**

### **Principle 7: Procedures for Developing Remuneration Policies**

### **Principle 8: Level and Mix of Remuneration**

### **Principle 9: Disclosure on Remuneration**

As at the date of this report, the Remuneration Committee comprises Ms Ng Shin Ein as Chairman, Mr Teng Cheong Kwee and Mr Lim Ming Seong as members. All three members are Independent Directors. Mr Lim Ming Seong was appointed as a member of the Remuneration Committee in place of Mr Hee Theng Fong with effect from 1 May 2018.

The Remuneration Committee is guided by its terms of reference that are in line with the 2012 CG Code.

# CORPORATE GOVERNANCE

The role of the Remuneration Committee is to review and recommend to the Board remuneration policies and packages for the Directors and key executives of the Group. The aim is to build and retain a capable and committed management team. To ensure that the remuneration package is sufficient and competitive to retain and motivate key executives, the Remuneration Committee also takes into consideration the existing compensation standards of the industry in which the Company operates in. The Remuneration Committee covers all aspects of remuneration, including but not limited to Directors' fees, salaries, allowances, bonuses and benefits in kind.

The Remuneration Committee, when required, has access to expert advice both within and outside the Company, on remuneration of directors.

The following table shows the Directors' remuneration paid in the year ended 31 December 2018:

Name	Directors' Fee	Fixed Salary	Variable Bonus	Total Remuneration
<b>Executive Directors:</b>				
Ciliandra Fangiono	–	56%	44%	S\$1,527,000
Fang Zhixiang	–	56%	44%	S\$1,207,000
<b>Non-Executive Directors:</b>				
Lim Ming Seong	100%	–	–	S\$90,000
Teng Cheong Kwee	100%	–	–	S\$80,000
Ong Beng Kee	100%	–	–	S\$70,000
Ng Shin Ein	100%	–	–	S\$75,000
Tan Seow Kheng	100%	–	–	S\$70,000
Hee Theng Fong <sup>(1)</sup>	100%	–	–	S\$75,000

**Note:**

<sup>(1)</sup> The Director's fees paid to Mr Hee Theng Fong in the year ended 31 December 2018 was for his full year of service from 1 January to 31 December 2017. He resigned as an Independent Director with effect from 1 May 2018 and the fees for his service from 1 January to 30 April 2018 would be prorated accordingly and submitted to shareholders for approval at the forthcoming AGM.

The fee structure for the Directors' fees is as follows:

- (a) A single base fee of S\$60,000 for serving as Non-Executive Director;
- (b) Additional fee of S\$20,000 for serving as Chairman of the Board of Directors; and
- (c) Additional fee for serving as Chairman/Member on the following Board Committees:

Type of Committee	Chairman's Fee	Member's Fee
Audit Committee	S\$15,000	S\$10,000
Nominating Committee	S\$10,000	S\$5,000
Remuneration Committee	S\$10,000	S\$5,000

In determining the quantum of Directors' fees, factors such as frequency of meetings, effort and time spent, responsibilities of Directors and the need to pay competitive fees to retain, attract and motivate the Directors, are taken into account. The Non-Executive Directors are not overcompensated to the extent that their independence is compromised. Directors' fees recommended by the Board are subject to the approval of the shareholders at the forthcoming AGM. No Director is involved in deciding his or her own remuneration. The current remuneration framework for the Non-Executive Directors remains unchanged from that of the previous financial year ended 31 December 2017. The Director's fees are paid wholly in cash.

The CEO and Deputy CEO, both being Executive Directors, do not receive Directors' fees and are on service contracts which are subject to annual review by the Remuneration Committee. The contracts do not contain any onerous removal clauses.



# CORPORATE GOVERNANCE

The remuneration package for the CEO, Deputy CEO and other key executives consists of both fixed and variable components. The variable component in the form of bonus is determined based on the performance of the individual employee and the Group's performance in the relevant financial year. This is to align their interests with those of the shareholders and link rewards to corporate and individual performance. For the purpose of assessing the performance of the Executive Directors and key executives, key performance indicators comprising both quantitative and qualitative factors are set out at the beginning of each year and reviewed at the end of the financial year. The Company does not have any contractual provisions which allow it to reclaim incentive components of remuneration from Executive Directors and key executives as such provisions may have a negative impact on attracting and retaining talent in the Company. The remuneration of the CEO, Deputy CEO and other key executives is paid wholly in cash.

The following table shows the remuneration of our top five key executives (who are not Directors or the CEO of the Company) paid in the year ended 31 December 2018:

Name	Fixed Salary	Variable Bonus	Remuneration Band
Executive A	69%	31%	S\$500,000 – S\$750,000
Executive B	59%	41%	S\$250,000 – S\$500,000
Executive C	64%	36%	S\$250,000 – S\$500,000
Executive D	57%	43%	S\$250,000 – S\$500,000
Executive E	82%	18%	S\$250,000 – S\$500,000

The total remuneration of the top five key executives (who are not Directors or the CEO of the Company) paid in the year ended 31 December 2018 amounted to S\$2,011,000.

The Company believes that it may not be in the best interest of the Company to disclose the remuneration of key executives on an individually named basis as recommended by the 2012 CG Code, as such disclosure may affect its ability to motivate, retain and nurture employees. In view of the competitive environment and limited talent pool in the industry that the Group operates in, the Company is of the opinion that such disclosure should be on a no-name basis.

There were no termination, retirement and post-employment benefits paid to Directors and the top five key executives in the year ended 31 December 2018. In addition, the Remuneration Committee was satisfied that the service contracts with the Executive Directors and key executives do not contain termination clauses that are overly generous.

The Company does not have any long-term incentive scheme or schemes involving the offer of shares or grant of options following the expiry of the initial share plans in November 2017.

For transparency, the 2012 CG Code also recommends disclosure of the remuneration of employees who are immediate family members of a Director or the CEO, and whose remuneration exceeds S\$50,000 during the year. Mr Ciliandra Fangiono and Mr Fang Zhixiang are brothers and their remuneration is set out in the Directors' remuneration table above. Ms Serene Lim is the wife of Mr Ciliandra Fangiono, and her remuneration is between the band of S\$100,000 – S\$150,000.

## ACCOUNTABILITY AND AUDIT

### Principle 10: Accountability

The Board provides shareholders with a comprehensive and balanced assessment of the Group's performance, position and prospects on a quarterly basis when it releases its results through the SGXNet and the Company's website.

Financial results for the first three quarters are released no later than 45 days from the end of the quarter. Annual financial results for the full year are released within 60 days from the financial year-end.

Other price sensitive information is disseminated to shareholders through announcements via SGXNet, press releases and the Company's website. The Company's Annual Report is also accessible on the Company's website.

# CORPORATE GOVERNANCE

Management provides the Board with management accounts on a quarterly basis and as the Board may require from time to time. Such reports enable the Board members to make a balanced and informed assessment of the Group's performance, position and prospects.

The Company also observes obligations of continuing disclosure under the SGX-ST Listing Manual. The Company has received signed undertakings from all its Directors and executive officers pursuant to Rule 720(1) of the SGX-ST Listing Manual.

## **Principle 11: Risk Management and Internal Controls**

## **Principle 12: Audit Committee**

As at the date of this report, the Audit Committee comprises Mr Teng Cheong Kwee as Chairman, Mr Ong Beng Kee, Mr Tan Seow Kheng and Mr Chang See Hiang as members, the majority of whom, including the Chairman, are independent. The Audit Committee met four times during the financial year under review.

The majority of the Audit Committee, including the Chairman, has accounting or related financial management expertise or experience. The Board is of the view of that the members of the Audit Committee are appropriately qualified to discharge their responsibilities. None of the Audit Committee members were previous partners or directors of the Company's external auditor, Ernst & Young LLP, within the last 12 months or hold any financial interest in the external auditor.

The Audit Committee is guided by its terms of reference which sets out its responsibilities. The terms of reference are in line with the 2012 CG Code.

The Audit Committee performs the following principal duties:

- assists the Board of Directors in the discharge of its responsibilities on financial and accounting matters;
- reviews the audit plans, scope of work, results and quality of audits carried out by internal and external auditors;
- reviews the co-operation given by Management to the external and internal auditors;
- reviews significant financial reporting issues and judgements relating to financial statements for each financial year, quarterly and annual financial statements and the auditor's report before submission to the Board of Directors for approval;
- reviews the integrity of any financial information presented to our shareholders;
- reviews the adequacy and effectiveness of the Group's system of risk management and internal controls, including financial, operational, compliance and information technology controls via reviews carried out by the internal auditors, and taking into consideration the external auditors' findings arising from their annual audit;
- reviews the nature and extent of non-audit services provided by the external auditors yearly to determine their independence;
- recommends to the Board of Directors the appointment and re-appointment of external auditors, approves the compensation and terms of engagement of the external auditors;
- meets with the external and internal auditors without the presence of the Company's Management annually;
- reviews the effectiveness of the internal audit function;
- reviews the appointment, remuneration and resignation of the Head of Internal Audit;

# CORPORATE GOVERNANCE

- reviews interested person transactions, if any;
- reviews potential conflicts of interest, if any;
- reviews all hedging policies to be implemented, if any;
- investigates any matter within its terms of reference; and
- reviews the risk management structure and any oversight of risk management processes and activities to mitigate and manage risk at acceptable levels determined by the Board of Directors.

Apart from the duties listed above, the Audit Committee shall commission and review the findings of internal investigations into matters where there is any suspected fraud or irregularity, or failure of internal controls or infringement of any law, rule or regulation which has or is likely to have a material impact on the Company's results of operations and/or financial position. Each member of the Audit Committee shall abstain from voting on any resolution in respect of matters in which he is interested.

The Audit Committee keeps abreast of the changes to accounting standards and issues that may have a direct impact on the financial statements by referring to the best practices and guidance in the Guidebook for Audit Committee in Singapore and the reports issued from time to time in relation to the Financial Reporting Surveillance Programme administered by the Accounting and Corporate Regulatory Authority. During the year under review, the Audit Committee was also briefed on the changes in accounting standards that would impact the Group's consolidated financial statements by the external auditors at the Audit Committee meetings.

In the review of the financial statements, the Audit Committee has considered and reviewed the significant financial reporting issues and judgements relating to financial statements. The following significant matters impacting the financial statements were discussed with Management and the external auditors and were reviewed by the Audit Committee:

Significant matters	How the Audit Committee reviewed these matters and what decisions were made
Goodwill Impairment	<p>The Audit Committee considered the approach and methodology applied in performing the annual goodwill impairment assessment. It reviewed the key assumptions used in the discounted cash flow model such as pre-tax discount rate, projected crude palm oil price and terminal growth rate.</p> <p>Goodwill impairment was also an area of focus for the external auditor, who has included this item as a key audit matter in its audit report for the financial year ended 31 December 2018.</p>
Recoverability of Deferred Tax Assets	<p>The Audit Committee considered the appropriateness of the accounting treatment in relation to the recognition of deferred tax assets, which took into consideration forecast of future profitability in determining recoverability of the deferred tax assets through taxable income in future years.</p> <p>Deferred tax assets was also an area of focus for the external auditor, who has included this item as a key audit matter in its audit report for the financial year ended 31 December 2018.</p>

Following the review, the Audit Committee recommended to the Board to approve the financial statements for the financial year ended 31 December 2018.

The Audit Committee has full access to and co-operation of Management. The Audit Committee also has full discretion to invite any Director or executive officer to attend its meetings and has been given adequate resources to discharge its functions. During the year, the Audit Committee met with the external and internal auditors without the presence of Management.



# CORPORATE GOVERNANCE

The Audit Committee has undertaken a review of the nature and extent of all non-audit services provided by the external auditors during the financial year and is satisfied that such services has not, in the Audit Committee's opinion, compromised the independence of the external auditors. The aggregate amount and breakdown of the audit and non-audit fees paid/payable to the external auditors is found in Note 7 "General and Administrative Expenses" in the Financial Statements of this Annual Report. The external auditors have also affirmed their independence in their report to the Audit Committee. Accordingly, the Audit Committee has recommended the re-appointment of the external auditors at the AGM of the Company.

The Company is in compliance with the requirements under SGX-ST Listing Manual Rules 712 and 715(1) on the appointment of a same auditing firm in Singapore to audit its accounts and the accounts of its subsidiaries and significant associated companies and Rule 715(2) on the appointment of a suitable auditing firm for its foreign incorporated subsidiaries and associated companies.

The Company has put in place a whistle-blowing policy, endorsed by the Audit Committee, which provides for a mechanism by which employees and any other persons may, in confidence, raise concerns about possible unethical conduct and improprieties in financial reporting or other matters. The objective of this policy is to encourage the reporting of such matters in good faith, with the confidence that employees and other persons making such reports will be treated fairly and, to the extent possible, protected from reprisal. All information received is treated with confidentiality and anonymous reporting is accepted for protecting the identity and interest of all whistle-blowers.

The Company does not tolerate nor condone any actions taken against any employee in retaliation for raising a compliance or integrity issue, and may institute disciplinary action against any party found to have taken such retaliatory action against whistle-blowers.

All whistle-blowing reports are received by the Internal Audit function on behalf of the Audit Committee. The Internal Audit function will conduct an initial review of the reports received and recommend for remedial, disciplinary or other corrective actions to be taken by the Company. A summary of the investigations conducted is reported to the Audit Committee for its attention on a quarterly basis. Whistle-blowing matters, where substantiated and material, are reported to the Audit Committee immediately.

The Audit Committee ensures that independent investigations and appropriate follow-up actions are carried out, where applicable. Details of the Group's whistle-blowing policy, including the different modes of reporting via an internal compliance hotline and email address, have been disseminated and made available to all employees. On an ongoing basis, the Group's whistle-blowing policy is covered during staff training as part of the Group's efforts to promote awareness of fraud control.

## Risk Management

The Board, through the Audit Committee, reviews the adequacy of the Group's risk management process to ensure that robust risk management and internal control systems are in place to manage risks in a way that is aligned with the Group's risk tolerance. The Company has put in place a Group Risk Management Framework to enhance its risk management process. The Framework lays out the processes for the identification of key risks within the business and assessment of the operating effectiveness of the Company's internal controls and also outlines the Group's risk tolerance levels. As part of the Framework, the Company maintains a risk register which identifies the key risks of the Group as well as the corresponding internal controls and action plans in place to manage or mitigate those risks. Key sustainability risks relating to material environmental and social issues identified for the Group are also included within the risk register. The risk register is maintained and reviewed by Management on a regular basis and the overall findings and recommendations from the risk assessment exercise are reported to the Audit Committee annually.

The Company has identified and reviewed its key risks to assess the adequacy and effectiveness of the Company's risk management and internal control systems, specifically on financial, operational, compliance and information technology risks. As part of the risk management process, material sustainability issues and concerns relating to environmental and social factors are also taken into consideration in the identification of key operational risks for the Group. Apart from the Group's risk management process, key business risks are thoroughly assessed by Management and each significant transaction is comprehensively analysed so that Management understands the risks involved before the transaction is embarked on. The Board, through the Audit Committee, will continuously identify, review and monitor the key risks, control measures and management actions as part of the risk management process, which also incorporates sustainability risk management.

# CORPORATE GOVERNANCE

Some of these risks are discussed in Note 41 “Financial Risk Management Objectives and Policies” in the Financial Statements of this Annual Report.

## Internal Controls

The Company’s internal auditors conducts independent reviews of the adequacy and effectiveness of the Company’s internal controls, including financial, operational, compliance and information technology controls addressing the key risks identified in the overall risk framework of the Group. Any material non-compliance or failures in internal controls and recommendations for improvements are reported to the Audit Committee. The Audit Committee also reviews the effectiveness of the actions taken by Management on the recommendations made by the internal auditors in this respect.

In the course of the statutory audit, the Company’s external auditors will highlight any material internal control weaknesses which have come to their attention in the course of carrying out their audit procedures, which are designed primarily to enable them to express their opinion on the financial statements. Such material internal control weaknesses noted during their audit, and recommendations, if any, by the external auditors are reported to the Audit Committee.

The Board has received assurance from the CEO and Vice President of Finance:

- that the financial records have been properly maintained and the financial statements for the year ended 31 December 2018 give a true and fair view of the Company’s operations and finances; and
- regarding the effectiveness of the Company’s risk management and internal control systems.

Based on the internal controls established and maintained by the Company, work performed by the internal and external auditors and reviews performed by Management, as well as the assurance from the CEO and Vice President of Finance, the Board, with the concurrence of the Audit Committee, is of the view that the Company’s system of risk management and internal controls were adequate and effective as at 31 December 2018 to address financial, operational, compliance and information technology risks which the Group considers relevant and material to its operations.

The system of risk management and internal controls provides reasonable, but not absolute, assurance that the Company will not be adversely affected by any event that could be reasonably foreseen as it strives to achieve its business objectives. However, the Board also notes that no system of risk management and internal controls could provide absolute assurance in this regard, or absolute assurance against the occurrence of material errors, poor judgment in decision making, human error, losses, fraud or other irregularities.

## Principle 13: Internal Audit

The Company has established an in-house Internal Audit (“IA”) function that is independent of the activities that it audits. The in-house IA reports to the Audit Committee functionally and to the CEO administratively.

The IA function adopts the International Standards for the Professional Practice of Internal Auditing (the IIA Standards) issued by the Institute of Internal Auditors.

To ensure that audits are performed effectively, the Company employs suitably qualified professional staff with the relevant experience. The in-house IA function is adequately resourced and has the appropriate standing within the Company. On an annual basis, the Audit Committee has also reviewed and is satisfied with the adequacy and effectiveness of the IA function and that the IA function has maintained its independence from the activities that they audit.

The IA function adopts a risk-based approach in formulating the annual audit plan which aligns its activities to the key risks across the Group’s business. The reviews performed by the internal auditors are aimed at assisting the Board in evaluating the adequacy and effectiveness of risk management, controls and governance processes.

# CORPORATE GOVERNANCE

During the year, the IA function conducted its audit reviews based on the annual audit plan which was approved by the Audit Committee. The annual audit plan also incorporates the audit of key risk areas identified under the Group Risk Management Framework. Each quarter, the IA function would submit a report to the Audit Committee on the key audit findings and actions to be taken by Management on such findings. Key findings are also highlighted at Audit Committee meetings for discussion and follow up actions. The Audit Committee monitors the timely and proper implementation of the required corrective, preventive or improvement measures to be undertaken by Management.

## SHAREHOLDER RIGHTS AND RESPONSIBILITIES

### **Principle 14: Shareholder Rights**

### **Principle 15: Communication with Shareholders**

### **Principle 16: Conduct of Shareholder Meetings**

The Company is committed to treat all shareholders fairly and equitably, through an open and non-discriminatory communication. The Company keeps its shareholders adequately informed of the changes in its business performance and prospects which may materially affect the price or value of the Company's shares.

The Company ensures that all material and price sensitive information which may affect the price or value of the Company's shares is promptly disseminated to the public on a comprehensive, accurate and timely basis via SGXNet and is not selectively disclosed. On the rare occasion when such information is inadvertently disclosed to a select group, the Company will make the same disclosure publicly to all others as soon as practicable.

Apart from the SGXNet, the investment community can also access announcements, quarterly results, annual reports, investor presentations, production updates and other corporate information on the dedicated Investor Relations section of our corporate website at [www.first-resources.com](http://www.first-resources.com). Our announcements are also disseminated by electronic mail to our subscribers in the form of news alerts, allowing investors to keep abreast of our latest performance and developments.

The Company has a dedicated Investor Relations ("IR") team which focuses on maintaining frequent interactions with the investment community in the form of meetings, investor roadshows, conference calls and results briefings. During the year, the IR team engaged close to 100 equity and fixed income investors in conference calls and meetings in Singapore, Malaysia and Hong Kong.

In addition, our IR team attends to queries or concerns from the investment community in a timely manner. Feedback and views received from them are also conveyed to Management by the IR team. The IR team is contactable at [investor@first-resources.com](mailto:investor@first-resources.com).

We conduct quarterly results briefings with analysts using the quarterly results materials which are posted on our corporate website. At such briefings, Management, together with the IR team, openly communicates the Group's financial and operational performances, business growth strategies as well as developments and initiatives on the sustainability front. The IR team also provides regular updates to the Board and Management on analysts' consensus estimates.

In recent years, sustainability-related topics have generated much interest from the investment community. The IR team works closely with the Group's Sustainability team to communicate the implementation progress of our Policy on Sustainable Palm Oil, as well as the related developments and new initiatives, to our stakeholders. In keeping with our commitment to keep our shareholders and the market abreast of the Group's progress on the sustainability front, we have concurrently published on our corporate website our sustainability report for the financial year ended 31 December 2018, which is to be read in conjunction with this Annual Report.

In line with the Company's sustainability efforts, the practice of circulating printed copies of the Company's annual reports and related documents (where applicable) ceases henceforth. Together with the sustainability report, the annual report and/or related documents are made available to shareholders via SGXNet and on the corporate website. The notice of AGM is also released via SGXNet, published in local newspapers and uploaded on the corporate website.



# CORPORATE GOVERNANCE

At each AGM, the CEO delivers a presentation to update shareholders on the Group's performance over the past year. Shareholders are encouraged to communicate their views and discuss with the Board and Management on matters affecting the Company. They are also given the opportunity to direct questions and concerns to the Directors, Management and external auditors before voting on the proposed resolutions. Shareholders are allowed to vote in person or by proxy if they are unable to attend the AGM. At the AGM, each distinct issue is proposed as a separate resolution.

The Company's Constitution allows a shareholder to appoint up to two proxies to attend and vote in the shareholder's place at the general meetings of shareholders. Pursuant to the introduction of the multiple proxies regime under the Singapore Companies (Amendment) Act 2014, indirect investors who hold the Company's shares through a nominee company or custodian bank or through a CPF agent bank may attend and vote at each general meeting of shareholders. Voting in absentia by mail, facsimile or email is currently not permitted to ensure proper authentication of the identity of shareholders and their voting intent.

Voting at general meetings of shareholders are conducted by poll thereby allowing all shareholders present or represented at the meeting to vote on a one share, one vote basis.

The Company conducts electronic poll voting for all the resolutions to be passed at general meetings for greater transparency in the voting process. An independent scrutineer firm is also present to validate the votes at each general meeting. The results of all votes for and against each resolution is tallied and instantaneously displayed at the meeting. The voting results are announced via SGXNet following each general meeting.

The Company Secretary prepares minutes of general meetings, which incorporate substantial comments or queries from shareholders and responses from the Board and Management. These minutes are available to shareholders upon their request.

The Company strives to provide sustainable dividend payments to our shareholders, while remaining committed to an optimal capital structure and maintaining flexibility to pursue growth. In considering the level of dividend payments, the Board takes into consideration of the Company's cash flow, capital expenditure plan, working capital requirements, general financial condition and other factors deemed relevant by the Board. Whilst interim dividends are declared and approved by the Board at each half-year, final dividends are recommended by the Board at each year-end for shareholders' approval at the AGM. For the financial year ended 31 December 2018, the Board has proposed a final dividend of 2.00 Singapore cents per share, which brings the full-year ordinary dividend to 3.25 Singapore cents per share, translating to an annual dividend payout ratio of 31% of the Group's underlying net profit.

## Code of Conduct

The Company has a Code of Conduct which serves as a general guideline for Management and employees in conducting their duties and responsibilities ethically. It outlines corporate values and ethical standards which are in line with the Group's vision and mission. Areas covered under the Code of Conduct include professionalism and work ethics, conflict of interest, political impartiality, anti-corruption and zero tolerance on fraud. All our employees will have to comply with applicable country laws, regulations and legal requirements. Any breach of the Code of Conduct can result in disciplinary action in accordance with the prevailing laws and regulations as well as termination of employment. The Code of Conduct is disseminated to employees, suppliers and other business partners.

# CORPORATE GOVERNANCE

## Dealing in Securities

The Company has adopted and issued an internal compliance code on securities trading, which provides guidance and internal regulations pertaining to dealings in the Company's securities by its Directors and officers. The Company's internal code prohibits its Directors and officers from dealing in the Company's securities during the "closed period", which is defined as two weeks before the date of announcement of results for each of the first three quarters of the Company's financial year, and one month before the date of announcement of the full year financial results, and ending on the date of the announcement of the relevant results. Directors and officers are also advised to adhere to the following rules at all times:

- (a) observe insider trading laws and avoid potential conflict of interests when dealing in securities;
- (b) not to deal in the securities when they are in possession of any unpublished material price-sensitive information of the Group; and
- (c) not to deal in the Company's shares on short-term considerations.

In addition, Directors are required to report to the Company Secretary within two business days whenever they deal in the Company's securities and the latter will make the necessary announcements in accordance with the requirements of the SGX-ST Listing Manual.

## Interested Person Transactions

To ensure that interested person transactions are conducted on normal commercial terms and will not be prejudicial to the interests of the Company and its minority shareholders, the Company has adopted internal guidelines and procedures for the review and approval of transactions with interested persons. All transactions with interested persons are monitored closely and reported in a timely manner to the Audit Committee for its review.

Shareholders have approved an interested person transactions mandate ("IPT Mandate") at the Extraordinary General Meeting on 30 April 2018. The IPT Mandate defines the threshold limits and review procedures for the transactions with interested persons carried out by the Group. Pursuant to the IPT Mandate, the Company also maintains a register of all such interested person transactions, which includes information pertinent to the evaluation of the interested person transactions.

Details of interested person transactions for the financial year ended 31 December 2018 as required under Rule 907 of the SGX-ST Listing Manual are set out as follows:

Name of interested person	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than S\$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than S\$100,000)
	US\$'000	US\$'000
Associates of Eight Capital Inc.	8,466	6,003
Associates of Ciliandra Fangiono & Fang Zhixiang	94	191

The Audit Committee has reviewed, and is satisfied that the transactions are conducted at arm's length and on terms that are fair and reasonable. The Audit Committee and the Board of Directors are satisfied that the terms of the above transactions are not prejudicial to the interests of the Company or its minority shareholders.

## Material Contracts

Save as disclosed, there are no other material contracts entered into by the Company and its subsidiaries involving the interest of the CEO, Director or controlling shareholder, which are either subsisting at the end of the financial year or if not then subsisting, entered into since the end of the previous financial year ended 31 December 2017.

# FINANCIAL STATEMENTS

## CONTENTS

---

**42**

Directors' Statement

**45**

Independent Auditor's Report

**49**

Consolidated Income Statement

**50**

Consolidated Statement of Comprehensive Income

**51**

Balance Sheets

**53**

Statements of Changes in Equity

**56**

Consolidated Cash Flow Statement

**58**

Notes to the Financial Statements



# DIRECTOR'S STATEMENT

The directors are pleased to present their report to the members together with the audited consolidated financial statements of First Resources Limited (the "Company") and its subsidiaries (collectively, the "Group") and the balance sheet and statement of changes in equity of the Company for the financial year ended 31 December 2018.

## OPINION OF THE DIRECTORS

In the opinion of the directors,

- (i) the consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2018 and the financial performance, changes in equity and cash flows of the Group and the changes in equity of the Company for the year ended on that date; and
- (ii) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

## DIRECTORS

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

Lim Ming Seong  
Ciliandra Fangiono  
Fang Zhixiang  
Teng Cheong Kwee  
Ong Beng Kee  
Ng Shin Ein  
Chang See Hiang  
Tan Seow Kheng

## ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES AND DEBENTURES

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

# DIRECTOR'S STATEMENT

## DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

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

Name of director	Direct interest		Deemed interest	
	At the beginning of financial year	At the end of financial year	At the beginning of financial year	At the end of financial year
<i>Ordinary shares of the Company</i>				
Lim Ming Seong	50,000	50,000	50,000	50,000
Ng Shin Ein	38,000	38,000	–	–
Tan Seow Kheng	30,000	30,000	–	–

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

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

## SHARE OPTION SCHEME AND PERFORMANCE SHARE PLAN

The Company does not have any share option scheme or performance share plan.

## AUDIT COMMITTEE

The Audit Committee ("AC") carried out its functions in accordance with Section 201B (5) of the Act, including the following:

- assists the Board of Directors in the discharge of its responsibilities on financial and accounting matters;
- reviews the audit plans, scope of work, results and quality of audits carried out by internal and external auditors;
- reviews the co-operation given by Management to the external and internal auditors;
- reviews significant financial reporting issues and judgements relating to financial statements for each financial year, quarterly and annual financial statements and the auditor's report before submission to the Board of Directors for approval;
- reviews the integrity of any financial information presented to our shareholders;
- reviews the adequacy and effectiveness of the Group's system of risk management and internal controls, including financial, operational, compliance and information technology controls via reviews carried out by the internal auditors, and taking into consideration the external auditors' findings arising from their annual audit;
- reviews the nature and extent of non-audit services provided by the external auditors yearly to determine their independence;

# DIRECTOR'S STATEMENT

## AUDIT COMMITTEE (CONT'D)

- recommends to the Board of Directors the appointment and re-appointment of external auditors, approves the compensation and terms of engagement of the external auditors;
- meets with the external and internal auditors without the presence of the Company's Management annually;
- reviews the effectiveness of the internal audit function;
- reviews the appointment, remuneration and resignation of the Head of Internal Audit;
- reviews interested person transactions, if any;
- reviews potential conflicts of interest, if any;
- reviews all hedging policies to be implemented, if any;
- investigates any matter within its terms of reference; and
- reviews the risk management structure and any oversight of risk management processes and activities to mitigate and manage risk at acceptable levels determined by the Board of Directors.

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

During the financial year, the AC convened four meetings and had also met with the external and internal auditors without the presence of the Company's management.

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

## AUDITOR

Ernst & Young LLP has expressed its willingness to accept re-appointment as auditor.

On behalf of the Board of Directors,

**Lim Ming Seong**

Chairman

**Ciliandra Fangiono**

Chief Executive Officer

Singapore  
28 March 2019

# INDEPENDENT AUDITOR'S REPORT

For the financial year ended 31 December 2018

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FIRST RESOURCES LIMITED

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### **Opinion**

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

In our opinion, the accompanying consolidated financial statements of the Group, the balance sheet and the statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards (International) (the "SFRS(I)") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2018 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and changes in equity of the Company for the year ended on that date.

### **Basis for Opinion**

We conducted our audit in accordance with Singapore Standards on Auditing (the "SSAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority ("ACRA") Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

#### *Goodwill Impairment*

As at 31 December 2018, goodwill is carried at US\$81.0 million which represents 7% of the total non-current assets and 8% of total equity. As part of the requirement under SFRS(I) 1-36 to assess goodwill impairment annually, management has prepared a discounted cash flow model to determine the recoverable value of the goodwill using the value in use method. The audit procedures over management's annual impairment test were significant to our audit because the assessment process is complex, involved significant management judgement and estimates, and is based on a number of key assumptions as disclosed in Note 16 to the financial statements.



# INDEPENDENT AUDITOR'S REPORT

For the financial year ended 31 December 2018

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FIRST RESOURCES LIMITED (CONT'D)

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D)

### **Key Audit Matters (cont'd)**

#### *Goodwill Impairment (cont'd)*

Given the complexity, we have engaged our internal valuation specialists to assist us in reviewing the appropriateness of the methodology and the reasonableness of certain assumptions used by management such as pre-tax discount rate, projected crude palm oil ("CPO") price, terminal growth rate and forecasted exchange rate. We also compared operational assumptions, such as projected capital expenditures, fresh fruit bunches ("FFB") yield and cost of production, against historical data to assess their reasonableness. We considered the robustness of management's budgeting process by comparing the actual results versus previously forecasted figures. Further, we assessed whether the future cash flows were based on the financial budgets approved by the Board of Directors and reviewed management's analysis of the sensitivity of the value-in-use amounts to changes in the projected CPO price. We also performed sensitivity analysis on the value-in-use amounts to changes in pre-tax discount rate and terminal growth rate.

We also focused on the adequacy of the note disclosures concerning those key assumptions to which the outcome of the impairment test is most sensitive. The note disclosures on goodwill, key assumptions and sensitivities are included in Note 16 to the financial statements.

#### *Recoverability of Deferred Tax Assets*

As at 31 December 2018, the Group has recognised deferred tax assets ("DTA") of US\$54.7 million. The recoverability of the DTA is significant to our audit because of the complexity of the estimation process which is dependent on management's forecast of the future profitability and impacts the amount of deferred tax assets that can be fully recovered in the future years.

As part of our assessment of management's forecast of the future profitability, we compared management's operational assumptions used in preparing the profit forecast such as FFB yield and cost of production against historical data and trend to assess their reasonableness. We also engaged the assistance of our internal valuation specialists to assess the reasonableness of certain key predictive assumptions such as the projected CPO price. In addition, we assessed the adequacy of the disclosures in Note 9(c) to the financial statements.

## OTHER INFORMATION

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

# INDEPENDENT AUDITOR'S REPORT

For the financial year ended 31 December 2018

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FIRST RESOURCES LIMITED (CONT'D)

### RESPONSIBILITIES OF MANAGEMENT AND DIRECTORS FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and SFRS(I), and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

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

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

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

# INDEPENDENT AUDITOR'S REPORT

For the financial year ended 31 December 2018

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FIRST RESOURCES LIMITED (CONT'D)

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D)

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

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

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

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In our opinion, the accounting and other records required by the Act to be kept by the Company and by the subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Philip Ling.

### Ernst & Young LLP

Public Accountants and  
Chartered Accountants

Singapore  
28 March 2019

# CONSOLIDATED INCOME STATEMENT

For the financial year ended 31 December 2018

	Note	2018 US\$'000	2017 US\$'000
Sales	4	633,487	646,989
Cost of sales	5	(354,700)	(340,298)
<b>Gross profit</b>		278,787	306,691
Losses arising from changes in fair value of biological assets	21	(3,456)	(2,382)
Selling and distribution costs	6	(57,540)	(47,627)
General and administrative expenses	7	(28,596)	(28,202)
Other operating expenses		(2,043)	(1,557)
<b>Profit from operations</b>		187,152	226,923
Gains on foreign exchange		8,256	4,845
Gains on derivative financial instruments		486	139
Net financial expenses	8	(17,043)	(20,689)
Other non-operating income/(expenses)		2,264	(2,339)
<b>Profit before tax</b>		181,115	208,879
Tax expense	9	(53,428)	(63,645)
<b>Profit for the year</b>		127,687	145,234
<b>Profit attributable to:</b>			
Owners of the Company		120,001	137,700
Non-controlling interests		7,686	7,534
		127,687	145,234
<b>Earnings per share attributable to owners of the Company (US cents)</b>			
- Basic	10	7.58	8.69
- Diluted	10	7.58	8.69

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



# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 31 December 2018

	Note	2018 US\$'000	2017 US\$'000
<b>Profit for the year</b>		127,687	145,234
<b>Other comprehensive income:</b>			
<b>Items that will not be reclassified subsequently to profit or loss</b>			
Remeasurement gains/(losses) on defined benefits plan		3,794	(2,081)
Income tax effect	9	(948)	520
		<u>2,846</u>	<u>(1,561)</u>
<b>Items that may be reclassified subsequently to profit or loss</b>			
Fair value gains on cash flow hedges		4,844	46,358
Fair value gains on cash flow hedges transferred to the income statement		(670)	(36,856)
Foreign currency translation		<u>(88,061)</u>	<u>(14,234)</u>
		<u>(83,887)</u>	<u>(4,732)</u>
<b>Other comprehensive income for the year, net of tax</b>		<u>(81,041)</u>	<u>(6,293)</u>
<b>Total comprehensive income for the year</b>		<u>46,646</u>	<u>138,941</u>
<b>Total comprehensive income attributable to:</b>			
Owners of the Company		41,933	132,016
Non-controlling interests		<u>4,713</u>	<u>6,925</u>
		<u>46,646</u>	<u>138,941</u>

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

# BALANCE SHEETS

As at 31 December 2018

		31.12.2018	Group 31.12.2017 (Restated)	01.01.2017 (Restated)	31.12.2018	Company 31.12.2017	01.01.2017
	Note	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>Non-current assets</b>							
Bearer plants	11	613,020	659,498	660,627	-	-	-
Plasma receivables	12	46,401	43,763	36,346	-	-	-
Property, plant and equipment	13	327,403	337,478	328,618	4,517	5,487	6,758
Land use rights	14	45,892	49,947	40,584	-	-	-
Investment in subsidiaries	15	-	-	-	481,587	523,527	523,527
Goodwill	16	81,013	86,592	87,313	-	-	-
Other intangible assets	17	20,515	22,211	22,564	-	-	15
Unquoted investment at FVTPL	18	5,775	-	-	5,775	-	-
Available-for-sale unquoted investment	18	-	5,775	-	-	5,775	-
Derivative financial assets	19	1,028	1,290	-	1,028	1,290	-
Tax recoverable		45,328	36,820	40,586	-	-	-
Deferred tax assets	9(c)	54,702	48,955	41,207	-	-	19
Loan to subsidiary	20	-	-	-	367,410	370,000	-
Other non-current assets		369	395	432	-	-	-
<b>Total non-current assets</b>		<b>1,241,446</b>	<b>1,292,724</b>	<b>1,258,277</b>	<b>860,317</b>	<b>906,079</b>	<b>530,319</b>
<b>Current assets</b>							
Biological assets	21	17,183	22,000	24,556	-	-	-
Plasma receivables	12	4,525	6,168	6,362	-	-	-
Inventories	22	97,562	66,908	78,203	-	-	-
Trade receivables	23	37,392	31,804	23,613	-	-	-
Other receivables	24	3,425	3,152	11,986	313	125	1,869
Derivative financial assets	19	2,882	4,327	1,933	994	-	-
Advances for purchase of property, plant and equipment	25	18,870	647	9,662	-	21	-
Other advances and prepayments	25	3,515	1,927	3,130	359	290	379
Prepaid taxes		44,338	22,447	23,584	-	-	-
Restricted cash balances	26	44,540	44,569	150,312	42,718	44,068	149,367
Cash and cash equivalents	26	55,359	234,322	107,933	4,028	34,654	377,504
<b>Total current assets</b>		<b>329,591</b>	<b>438,271</b>	<b>441,274</b>	<b>48,412</b>	<b>79,158</b>	<b>529,119</b>
<b>Total assets</b>		<b>1,571,037</b>	<b>1,730,995</b>	<b>1,699,551</b>	<b>908,729</b>	<b>985,237</b>	<b>1,059,438</b>

# BALANCE SHEETS

As at 31 December 2018

		31.12.2018	Group 31.12.2017 (Restated)	01.01.2017 (Restated)	31.12.2018	Company 31.12.2017	01.01.2017
	Note	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>Current liabilities</b>							
Trade payables	27	28,468	28,428	26,056	40	49	60
Other payables and accruals	28	31,317	33,551	30,912	3,934	5,923	8,634
Advances from customers	29	2,927	1,424	660	-	-	-
Loans and borrowings from financial institutions	30	30,111	20,970	1,672	27,582	19,277	-
Islamic medium term notes	31	-	-	222,542	-	-	222,542
Derivative financial liabilities	19	921	1,799	101,329	-	75	99,294
Provision for tax		21,244	21,496	18,122	900	1,733	499
<b>Total current liabilities</b>		114,988	107,668	401,293	32,456	27,057	331,029
<b>Non-current liabilities</b>							
Loans and borrowings from financial institutions	30	109,817	229,536	1,346	106,795	227,484	-
Islamic medium term notes	31	241,073	245,785	222,291	241,073	245,785	222,291
Derivative financial liabilities	19	79,580	81,286	109,430	79,580	81,286	109,430
Provision for post-employment benefits	32	21,490	22,473	16,537	-	-	-
Deferred tax liabilities	9(c)	18,074	22,055	22,471	528	795	-
<b>Total non-current liabilities</b>		470,034	601,135	372,075	427,976	555,350	331,721
<b>Total liabilities</b>		585,022	708,803	773,368	460,432	582,407	662,750
<b>Net assets</b>		986,015	1,022,192	926,183	448,297	402,830	396,688
<b>Equity</b>							
Share capital	33	394,913	394,913	394,913	394,913	394,913	394,913
Differences arising from restructuring transactions involving entities under common control	34	35,016	35,016	35,016	-	-	-
Other reserves	35	(115,119)	(34,297)	(29,986)	12,507	5,286	(2,595)
Retained earnings		617,355	576,273	481,230	40,877	2,631	4,370
<b>Equity attributable to owners of the Company</b>		932,165	971,905	881,173	448,297	402,830	396,688
Non-controlling interests		53,850	50,287	45,010	-	-	-
<b>Total equity</b>		986,015	1,022,192	926,183	448,297	402,830	396,688

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

# STATEMENTS OF CHANGES IN EQUITY

For the financial year ended 31 December 2018

Group	Attributable to owners of the Company				Equity attributable to owners of the Company US\$'000	Non-controlling interests US\$'000	Total equity US\$'000
	Share capital US\$'000 (Note 33)	Differences arising from restructuring transactions involving entities under common control US\$'000 (Note 34)	Other reserves US\$'000 (Note 35)	Retained earnings US\$'000			
<b>2018</b>							
At 31 December 2017 (As previously reported)	394,913	35,016	(386,582)	928,558	971,905	50,287	1,022,192
Effects of adopting SFRS(l) 1	-	-	352,285	(352,285)	-	-	-
At 31 December 2017 (As restated)	394,913	35,016	(34,297)	576,273	971,905	50,287	1,022,192
Effects of adopting SFRS(l) 9	-	-	-	(1,906)	(1,906)	-	(1,906)
At 1 January 2018 (As restated)	394,913	35,016	(34,297)	574,367	969,999	50,287	1,020,286
Profit for the year	-	-	-	120,001	120,001	7,686	127,687
<u>Other comprehensive income</u>							
Remeasurement gains on defined benefits plan	-	-	-	2,754	2,754	92	2,846
Net change in fair value of cash flow hedges	-	-	4,174	-	4,174	-	4,174
Foreign currency translation	-	-	(84,996)	-	(84,996)	(3,065)	(88,061)
Other comprehensive income for the year, net of tax	-	-	(80,822)	2,754	(78,068)	(2,973)	(81,041)
Total comprehensive income for the year	-	-	(80,822)	122,755	41,933	4,713	46,646
<u>Distributions to owners</u>							
Dividends paid	-	-	-	(79,767)	(79,767)	(1,150)	(80,917)
Total transactions with owners in their capacity as owners	-	-	-	(79,767)	(79,767)	(1,150)	(80,917)
At 31 December 2018	394,913	35,016	(115,119)	617,355	932,165	53,850	986,015



# STATEMENTS OF CHANGES IN EQUITY

For the financial year ended 31 December 2018

Group	Attributable to owners of the Company				Equity attributable to owners of the Company US\$'000	Non-controlling interests US\$'000	Total equity US\$'000
	Share capital US\$'000 (Note 33)	Differences arising from restructuring transactions involving entities under common control US\$'000 (Note 34)	Other reserves US\$'000 (Note 35)	Retained earnings US\$'000			
<b>2017</b>							
At 1 January 2017 (As previously reported)	394,913	35,016	(382,271)	833,515	881,173	45,010	926,183
Effects of adopting SFRS(l) 1	-	-	352,285	(352,285)	-	-	-
At 1 January 2017 (As restated)	394,913	35,016	(29,986)	481,230	881,173	45,010	926,183
Profit for the year	-	-	-	137,700	137,700	7,534	145,234
<u>Other comprehensive income</u>							
Remeasurement losses on defined benefits plan	-	-	-	(1,373)	(1,373)	(188)	(1,561)
Net change in fair value of cash flow hedges	-	-	9,502	-	9,502	-	9,502
Foreign currency translation	-	-	(13,813)	-	(13,813)	(421)	(14,234)
Other comprehensive income for the year, net of tax	-	-	(4,311)	(1,373)	(5,684)	(609)	(6,293)
Total comprehensive income for the year	-	-	(4,311)	136,327	132,016	6,925	138,941
<u>Distributions to owners</u>							
Dividends paid	-	-	-	(41,284)	(41,284)	(1,648)	(42,932)
Total transactions with owners in their capacity as owners	-	-	-	(41,284)	(41,284)	(1,648)	(42,932)
At 31 December 2017	394,913	35,016	(34,297)	576,273	971,905	50,287	1,022,192

# STATEMENTS OF CHANGES IN EQUITY

For the financial year ended 31 December 2018

Company	Share capital US\$'000 (Note 33)	Other reserves US\$'000 (Note 35)	Retained earnings US\$'000	Total equity US\$'000
<b>2018</b>				
At 31 December 2017 (As previously reported)	394,913	5,286	2,631	402,830
Effects of adopting SFRS(l) 9	-	-	(2,590)	(2,590)
At 1 January 2018 (As restated)	394,913	5,286	41	400,240
Profit for the year	-	-	120,603	120,603
Other comprehensive income				
Net change in fair value of cash flow hedges	-	7,221	-	7,221
Total comprehensive income for the year	-	7,221	120,603	127,824
Distributions to owners				
Dividends paid (Note 44)	-	-	(79,767)	(79,767)
Total transactions with owners in their capacity as owners	-	-	(79,767)	(79,767)
At 31 December 2018	394,913	12,507	40,877	448,297
<b>2017</b>				
At 1 January 2017	394,913	(2,595)	4,370	396,688
Profit for the year	-	-	39,545	39,545
Other comprehensive income				
Net change in fair value of cash flow hedges	-	7,881	-	7,881
Total comprehensive income for the year	-	7,881	39,545	47,426
Distributions to owners				
Dividends paid (Note 44)	-	-	(41,284)	(41,284)
Total transactions with owners in their capacity as owners	-	-	(41,284)	(41,284)
At 31 December 2017	394,913	5,286	2,631	402,830

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

# CONSOLIDATED CASH FLOW STATEMENT

For the financial year ended 31 December 2018

	2018 US\$'000	2017 (Restated) US\$'000
<b>Cash flows from operating activities</b>		
Profit before tax	181,115	208,879
Adjustments for:		
Depreciation of bearer plants and property, plant and equipment	65,138	61,099
Amortisation of land use rights and other intangible assets	2,146	1,726
Losses on disposal of bearer plants and property, plant and equipment	619	2,879
Financial expenses	19,325	23,389
Interest income	(2,282)	(2,700)
Gains on derivative financial instruments	(486)	(139)
Write-off of intangible assets	180	-
Losses arising from changes in fair value of biological assets	3,456	2,382
<b>Operating cash flows before changes in working capital</b>	269,211	297,515
Changes in working capital:		
Inventories	(36,133)	10,724
Receivables and other assets	(24,922)	4,304
Payables and other liabilities	5,232	10,912
Unrealised translation differences	(8,297)	(5,225)
<b>Cash flows generated from operations</b>	205,091	318,230
Financial expenses paid	(18,500)	(24,577)
Interest income received	2,319	3,474
Tax paid	(76,471)	(65,437)
<b>Net cash generated from operating activities</b>	112,439	231,690
<b>Cash flows from investing activities</b>		
Capital expenditure on bearer plants	(31,742)	(38,844)
Capital expenditure on property, plant and equipment	(45,031)	(37,670)
Payment of advances for purchase of property, plant and equipment	(19,203)	(655)
Development costs on plasma receivables	(8,751)	(8,654)
Proceeds from plasma receivables	11,371	9,034
Additions to land use rights	(1,193)	(11,348)
Additions to other intangible assets	(11)	-
Additions to available-for-sale unquoted investment	-	(5,775)
Proceeds from disposal of bearer plants and property, plant and equipment	703	901
<b>Net cash used in investing activities</b>	(93,857)	(93,011)

# CONSOLIDATED CASH FLOW STATEMENT

For the financial year ended 31 December 2018

	2018 US\$'000	2017 (Restated) US\$'000
<b>Cash flows from financing activities</b>		
Proceeds from bank loans	–	247,428
Repayment of bank loans	(113,542)	(833)
Payment of obligations under finance leases	(2,526)	(2,086)
Decrease in restricted cash balances	29	105,743
Dividends paid	(80,917)	(42,932)
Repayment of Islamic medium term notes	–	(319,655)
<b>Net cash used in financing activities</b>	<b>(196,956)</b>	<b>(12,335)</b>
Net (decrease)/increase in cash and cash equivalents	(178,374)	126,344
Effect of exchange rate changes on cash and cash equivalents	(589)	45
Cash and cash equivalents at 1 January	234,322	107,933
<b>Cash and cash equivalents at 31 December (Note 26)</b>	<b>55,359</b>	<b>234,322</b>

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



# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 1. GENERAL

### (a) Corporate information

First Resources Limited (the "Company") is a limited liability company, which is incorporated and domiciled in the Republic of Singapore and is listed on the Singapore Exchange Securities Trading Limited ("SGX-ST").

The Company's immediate and ultimate holding company is Eight Capital Inc., which is incorporated in the British Virgin Islands.

The registered office and principal place of business of the Company is located at 8 Temasek Boulevard, #36-02, Suntec Tower Three, Singapore 038988.

The principal activities of the Company are those of investment holding, general trading and the provision of technical assistance to its subsidiaries. The principal activities of the subsidiaries are as disclosed in Note 1(b).

### (b) Subsidiaries

The details of the Group's subsidiaries are as follows:

Subsidiaries	Country of incorporation	Principal activities	Effective group equity interest		
			31.12.2018 %	31.12.2017 %	01.01.2017 %
Direct Ownership:					
PT Ciliandra Perkasa ("PT CLP") <sup>(10)</sup>	Indonesia	Oil palm plantation and palm oil processing	95.51	95.51	95.51
PT Meridan Sejatisurya Plantation ("PT MSSP") <sup>(10)</sup>	Indonesia	Oil palm plantation	– <sup>(1)</sup>	93.56 <sup>(1)</sup>	93.56 <sup>(1)</sup>
PT Borneo Ketapang Permai ("PT BKP") <sup>(10)</sup>	Indonesia	Oil palm plantation	99.77 <sup>(2)</sup>	99.76 <sup>(2)</sup>	99.76 <sup>(2)</sup>
PT Adhitya Serayakorita ("PT ASK") <sup>(10)</sup>	Indonesia	Palm oil refining and palm kernel crushing	95.08 <sup>(3)</sup>	95.00 <sup>(3)</sup>	95.00 <sup>(3)</sup>
First Resources Trading Pte. Ltd. ("FRTPL") <sup>(9)</sup>	Singapore	Marketing and distribution of palm oil products	100.00	100.00	100.00
Lynhurst Investment Pte. Ltd. ("Lynhurst") <sup>(9)</sup>	Singapore	Investment holding	100.00	100.00	100.00
Pacific Agri Resources Pte. Ltd. ("PAR") <sup>(9)</sup>	Singapore	Investment holding	– <sup>(13)</sup>	– <sup>(13)</sup>	100.00
PT Falcon Agri Persada ("PT FAPE") <sup>(11)</sup>	Indonesia	Oil palm plantation	99.77 <sup>(4)</sup>	99.77 <sup>(4)</sup>	99.77 <sup>(4)</sup>

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 1. GENERAL (CONT'D)

### (b) Subsidiaries (cont'd)

Subsidiaries	Country of incorporation	Principal activities	Effective group equity interest		
			31.12.2018 %	31.12.2017 %	01.01.2017 %
Indirect Ownership:					
Subsidiaries of PT CLP					
PT Pancasurya Agrindo ("PT PSA") <sup>(10)</sup>	Indonesia	Oil palm plantation	95.35 <sup>(5)</sup>	95.32 <sup>(5)</sup>	95.32 <sup>(5)</sup>
PT Surya Intisari Raya ("PT SIR") <sup>(10)</sup>	Indonesia	Oil palm plantation	95.50	95.50	95.50
PT Perdana Intisawit Perkasa ("PT PISP") <sup>(10)</sup>	Indonesia	Oil palm plantation	95.50	95.50	95.50
PT Bumi Sawit Perkasa ("PT BSP") <sup>(10)</sup>	Indonesia	Oil palm plantation	95.44	95.44	95.44
PT Priatama Riau ("PT PTR") <sup>(10)</sup>	Indonesia	Oil palm plantation	95.46	95.46	95.44
PT Surya Dumai Agrindo ("PT SDA") <sup>(10)</sup>	Indonesia	Oil palm plantation	95.50	95.50	95.50
PT Pancasurya Garden ("PT PSG") <sup>(10)</sup>	Indonesia	Oil palm seed breeding	94.90	94.32	94.32
PT Wahana Prima Sejati ("PT WPS") <sup>(12)</sup>	Indonesia	Land ownership	94.71	94.71	–
PT Meridan Sejatisurya Plantation ("PT MSSP") <sup>(10)</sup>	Indonesia	Oil palm plantation	90.73 <sup>(1)</sup>	– <sup>(1)</sup>	– <sup>(1)</sup>
Subsidiaries of PT PSA					
PT Pancasurya Binasejahtera ("PT PSBS") <sup>(10)</sup>	Indonesia	Investment holding	95.34	95.31	95.31
PT Muriniwood Indah Industry ("PT MII") <sup>(10)</sup>	Indonesia	Oil palm plantation	95.34	95.31	95.31
PT Kalimantan Green Persada ("PT KGP") <sup>(11)</sup>	Indonesia	Investment holding	95.34	95.31	95.23
PT Gerbang Sawit Indah ("PT GSI") <sup>(10)</sup>	Indonesia	Oil palm plantation	95.34	95.31	95.31

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 1. GENERAL (CONT'D)

### (b) Subsidiaries (cont'd)

Subsidiaries	Country of incorporation	Principal activities	Effective group equity interest		
			31.12.2018 %	31.12.2017 %	01.01.2017 %
Indirect Ownership (cont'd):					
Subsidiaries of PT PSA (cont'd)					
PT Matthew Air Nusantara ("PT MAN") <sup>(10)</sup>	Indonesia	Aircraft ownership and management	95.43 <sup>(6)</sup>	95.41 <sup>(6)</sup>	95.41 <sup>(6)</sup>
PT Setia Agrindo Jaya ("PT SAJ") <sup>(10)</sup>	Indonesia	Investment holding	94.98	46.70	46.70
PT Karya Tama Bakti Mulia ("PT KTBM") <sup>(12)</sup>	Indonesia	Oil palm plantation	95.34	95.31	95.31
Subsidiaries of PT PSBS					
PT Subur Arummakmur ("PT SAM") <sup>(10)</sup>	Indonesia	Oil palm plantation	95.33	95.30	95.30
PT Arindo Trisejahtera ("PT ATS") <sup>(10)</sup>	Indonesia	Oil palm plantation	95.33	95.30	95.30
Subsidiaries of PT BKP					
PT Limpah Sejahtera ("PT LS") <sup>(10)</sup>	Indonesia	Oil palm plantation	98.11	95.92	95.92
PT Mitra Karya Sentosa ("PT MKS") <sup>(10)</sup>	Indonesia	Oil palm plantation	99.27	98.77	98.77
PT Umekah Saripratama ("PT USP") <sup>(10)</sup>	Indonesia	Oil palm plantation	98.52	98.07	98.07
PT Pulau Tiga Lestari Jaya ("PTLJ") <sup>(10)</sup>	Indonesia	Oil palm plantation	98.87	98.27	98.27
Subsidiaries of PT KGP					
PT Ketapang Agro Lestari ("PT KAL") <sup>(11)</sup>	Indonesia	Oil palm plantation	95.33	95.30	95.22
PT Borneopersada Energy Jaya ("PT BPEJ") <sup>(11)</sup>	Indonesia	Oil palm plantation	95.33	95.30	95.22

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 1. GENERAL (CONT'D)

### (b) Subsidiaries (cont'd)

Subsidiaries	Country of incorporation	Principal activities	Effective group equity interest		
			31.12.2018 %	31.12.2017 %	01.01.2017 %
Indirect Ownership (cont'd):					
Subsidiaries of PT KGP (cont'd)					
PT Borneosurya Mining Jaya ("PT BSMJ") <sup>(11)</sup>	Indonesia	Oil palm plantation	95.33	95.30	95.22
PT Borneo Damai Lestari ("PT BDL") <sup>(11)</sup>	Indonesia	Rubber plantation	95.33	95.30	95.22
PT Citra Agro Kencana ("PT CAK") <sup>(11)</sup>	Indonesia	Oil palm plantation	95.33	95.30	95.22
PT Borneopersada Prima Jaya ("PT BPPJ") <sup>(11)</sup>	Indonesia	Rubber plantation	95.33	95.30	95.22
PT Maha Karya Bersama ("PT MKB") <sup>(11)</sup>	Indonesia	Oil palm plantation	95.33	95.30	95.22
PT Borneo Damai Lestari Raya ("PT BDLR") <sup>(11)</sup>	Indonesia	Rubber plantation	95.34 <sup>(7)</sup>	95.31 <sup>(7)</sup>	95.23 <sup>(7)</sup>
Subsidiaries of PT SAJ					
PT Citra Palma Kencana ("PT CPK") <sup>(10)</sup>	Indonesia	Oil palm plantation	94.97	46.70	46.70
PT Indo Manis Lestari ("PT IML") <sup>(10)</sup>	Indonesia	Non-operating	94.97	46.70	46.70
PT Indogreen Jaya Abadi ("PT IJA") <sup>(10)</sup>	Indonesia	Oil palm plantation	94.97	46.70	46.70
PT Setia Agrindo Lestari ("PT SAL") <sup>(10)</sup>	Indonesia	Oil palm plantation	94.97	46.70	46.70
PT Setia Agrindo Mandiri ("PT SAGM") <sup>(10)</sup>	Indonesia	Oil palm plantation	94.97	46.70	46.70
Subsidiary of Lynhurst					
PT Swadaya Mukti Prakarsa ("PT SMP") <sup>(10)</sup>	Indonesia	Oil palm plantation	99.77 <sup>(8)</sup>	99.77 <sup>(8)</sup>	99.77 <sup>(8)</sup>



# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 1. GENERAL (CONT'D)

### (b) Subsidiaries (cont'd)

#### Notes:

- (1) PT MSSP is 95.00% held by PT CLP (31.12.2017 and 01.01.2017: 63.00% held by the Company and 32.00% held by PT CLP).
- (2) PT BKP is 95.00% held by the Company and 5.00% held by PT SAM.
- (3) PT ASK is 80.68% held by the Company and 15.08% held by PT CLP (31.12.2017 and 01.01.2017: 95.00% held by the Company).
- (4) PT FAPE is 95.00% held by the Company and 5.00% held by PT PSA.
- (5) PT PSA is 62.00% held by PT CLP and 38.00% held by PT ASK.
- (6) PT MAN is 51.00% held by PT PSA and 49.00% held by PT CLP.
- (7) PT BDLR is 99.99% held by PT KGP and 0.01% held by PT BDL.
- (8) PT SMP is 95.00% held by Lynhurst and 5.00% held by PT PSA.
- (9) Audited by Ernst & Young LLP, Singapore.
- (10) Audited by member firm of Ernst & Young Global in Indonesia.
- (11) Audited by KAP Johan Malonda in Indonesia.
- (12) Audited by KAP Selamat Sinuraya & Rekan in Indonesia.
- (13) PAR has been struck off in 2017.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

The consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company have been prepared in accordance with Singapore Financial Reporting Standards (International) ("SFRS(I)"). These financial statements for the year ended 31 December 2018 are the first the Group and the Company have prepared in accordance with SFRS(I).

In the previous financial years, the financial statements were prepared in accordance with Financial Reporting Standards in Singapore ("FRS"). An explanation of how the transition to SFRS(I) and application of new accounting standards effective on 1 January 2018 have affected the balance sheet is provided in Note 2.2.

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

The financial statements are presented in United States Dollar ("USD" or "US\$") and all values are rounded to the nearest thousand ("US\$'000") except when otherwise indicated.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.2 *First-time adoption of Singapore Financial Reporting Standards (International) ("SFRS(I)")*

As stated in Note 2.1, these are the first financial statements of the Group and the Company that have been prepared in accordance with SFRS(I). Accordingly, the Group and the Company have prepared financial statements that comply with SFRS(I) applicable as at 31 December 2018, together with the comparative period data for the year ended 31 December 2017, as described in the summary of significant accounting policies. On preparing the financial statements, the Group's and the Company's opening balance sheets were prepared as at 1 January 2017, the date of transition to SFRS(I).

The adoption of SFRS(I) has no material impact on the financial statements except as described below.

#### **Exemptions applied on adoption of SFRS(I)**

SFRS(I) allows first-time adopters exemptions from the retrospective application of certain requirements under SFRS(I). The Group has applied the exemption to deem cumulative translation differences for foreign operations to be zero at the date of transition on 1 January 2017. As a result, cumulative translation losses of US\$352.3 million were reclassified from foreign translation reserve to set-off against the opening retained earnings as at 1 January 2017.

#### **New accounting standards effective on 1 January 2018**

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

#### **SFRS(I) 9 Financial Instruments**

SFRS(I) 9 introduces new requirements for classification and measurement of financial assets, impairment of financial assets and hedge accounting and is effective for annual periods beginning on or after 1 January 2018.

The Group has adopted SFRS(I) 9 on 1 January 2018 without restating prior periods' information and recognised any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period at the date of initial application in the opening retained earnings.

##### Classification and measurement

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

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

The Group's debt instruments have contractual cash flows that are solely payments of principal and interest. Debt instruments that were measured at amortised cost previously are held to collect contractual cash flows, and accordingly measured at amortised cost under SFRS(I) 9.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.2 First-time adoption of SFRS(I) (cont'd)

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

##### Classification and measurement (cont'd)

SFRS(I) 9 requires all equity instruments to be carried at fair value through profit or loss, unless an entity chooses on initial recognition, to present fair value changes in other comprehensive income. As a result of the adoption of the new classification and measurement requirements, the Group's "Available-for-sale unquoted investment" has been redesignated as "Unquoted investment at FVTPL".

The Group and the Company have assessed which business model apply to the financial assets held by the Group and the Company as at 1 January 2018 and classified the financial instruments into the appropriate categories in accordance with SFRS(I) 9.

	FRS 39 carrying amount on 31.12.2017 US\$'000	Re- classifications US\$'000	SFRS(I) 9 carrying amount on 01.01.2018 US\$'000
FVTPL	–	–	–
Reclassified from AFS	–	5,775	5,775
<b>FVTPL balances and reclassifications at 1 January 2018</b>	–	5,775	5,775
FVOCI	5,775	–	5,775
Reclassified to FVTPL	–	(5,775)	(5,775)
<b>FVOCI balances and reclassifications at 1 January 2018</b>	5,775	(5,775)	–

##### Impairment

SFRS(I) 9 requires the Group and the Company to record expected credit losses on all of its loans, trade receivables, plasma receivables and financial guarantees, either on a 12-month or lifetime basis.

The Group has elected to apply the simplified approach and record lifetime expected losses on its trade receivables, plasma receivables and financial guarantees while the Company has elected to apply the general approach and also record expected credit loss on its loan to subsidiary. Upon application of the expected credit loss model, allowance for expected credit losses of US\$2.5 million and US\$2.6 million were recognised in opening retained earnings of the Group and the Company respectively on 1 January 2018. The corresponding tax impact to the Group arising from the adoption of SFRS(I) 9 resulted in an increase in deferred tax assets of US\$591,000 and a corresponding increase in opening retained earnings of the same amount.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.2 First-time adoption of SFRS(I) (cont'd)

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

##### Impairment (cont'd)

The reconciliation of allowances for expected credit losses for the Group are as follows:

	Trade receivables US\$'000	Plasma receivables US\$'000	Financial guarantees US\$'000
Opening loss allowance as at 1 January 2018	–	–	–
Provision for financial guarantee as at 1 January 2018	–	–	–
Amount restated through opening retained earnings	479	1,448	570
Adjusted loss allowance as at 1 January 2018	479	1,448	570

The reconciliation of allowance for expected credit loss for the Company is as follows:

	Loan to subsidiary US\$'000
Opening loss allowance as at 1 January 2018	–
Amount restated through opening retained earnings	2,590
Adjusted loss allowance as at 1 January 2018	2,590



# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.2 First-time adoption of SFRS(I) (cont'd)

The following is the reconciliation of the impact arising from first-time adoption of SFRS(I) on 1 January 2017 to the balance sheet of the Group. There is no material impact to the balance sheet of the Group from the application of the new accounting standards on 1 January 2017.

	01.01.2017 (FRS) US\$'000	Group SFRS(I) 1 adjustments US\$'000	01.01.2017 (SFRS(I)) US\$'000
<b>Assets</b>			
<b>Non-current assets</b>			
Bearer plants *	623,176	37,451	660,627
Plasma assets *	80,159	(80,159)	–
Plasma receivables *	–	36,346	36,346
Other non-current assets	561,304	–	561,304
<b>Current assets</b>			
Plasma receivables *	–	6,362	6,362
Other current assets	434,912	–	434,912
<b>Total assets</b>	1,699,551	–	1,699,551
<b>Total liabilities</b>	773,368	–	773,368
<b>Net assets</b>	926,183	–	926,183
<b>Equity</b>			
Share capital	394,913	–	394,913
Differences arising from restructuring transactions involving entities under common control	35,016	–	35,016
Other reserves			
- Foreign translation reserve	(351,892)	352,285	393
- Others	(30,379)	–	(30,379)
Retained earnings	833,515	(352,285)	481,230
<b>Equity attributable to owners of the Company</b>	881,173	–	881,173
Non-controlling interests	45,010	–	45,010
<b>Total equity</b>	926,183	–	926,183

\* The comparative figures have been presented to conform to the current year's classification of bearer plants and plasma receivables on the face of the balance sheet. As a result, the capital expenditure on bearer plants and development costs on plasma receivables in the FY2017 cash flow statement have been restated accordingly.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.2 First-time adoption of SFRS(I) (cont'd)

The following is the reconciliation of the impact arising from first-time adoption of SFRS(I) including application of the new accounting standards on 31 December 2017 and 1 January 2018 to the balance sheet of the Group.

	31.12.2017 (FRS) US\$'000	SFRS(I) 1 adjustments US\$'000	Group 31.12.2017 (SFRS(I)) US\$'000	SFRS(I) 9 adjustments US\$'000	01.01.2018 (SFRS(I)) US\$'000
<b>Assets</b>					
<b>Non-current assets</b>					
Bearer plants *	612,970	46,528	659,498	–	659,498
Plasma assets *	96,459	(96,459)	–	–	–
Plasma receivables *	–	43,763	43,763	(1,448)	42,315
Available-for-sale unquoted investment	5,775	–	5,775	(5,775)	–
Unquoted investment at FVTPL	–	–	–	5,775	5,775
Deferred tax assets	48,955	–	48,955	591	49,546
Other non-current assets	534,733	–	534,733	–	534,733
<b>Current assets</b>					
Plasma receivables *	–	6,168	6,168	–	6,168
Trade receivables	31,804	–	31,804	(479)	31,325
Other current assets	400,299	–	400,299	–	400,299
<b>Total assets</b>	1,730,995	–	1,730,995	(1,336)	1,729,659
<b>Current liabilities</b>					
Other payables and accruals	33,551	–	33,551	570	34,121
Other current liabilities	74,117	–	74,117	–	74,117
<b>Non-current liabilities</b>	601,135	–	601,135	–	601,135
<b>Total liabilities</b>	708,803	–	708,803	570	709,373
<b>Net assets</b>	1,022,192	–	1,022,192	(1,906)	1,020,286
<b>Equity</b>					
Share capital	394,913	–	394,913	–	394,913
Differences arising from restructuring transactions involving entities under common control	35,016	–	35,016	–	35,016
Other reserves	(386,582)	352,285	(34,297)	–	(34,297)
Retained earnings	928,558	(352,285)	576,273	(1,906)	574,367
<b>Equity attributable to owners of the Company</b>	971,905	–	971,905	(1,906)	969,999
Non-controlling interests	50,287	–	50,287	–	50,287
<b>Total equity</b>	1,022,192	–	1,022,192	(1,906)	1,020,286

\* The comparative figures have been presented to conform to the current year's classification of bearer plants and plasma receivables on the face of the balance sheet. As a result, the capital expenditure on bearer plants and development costs on plasma receivables in the FY2017 cash flow statement have been restated accordingly.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.2 First-time adoption of SFRS(I) (cont'd)

The following is the reconciliation of the impact arising from first-time adoption of SFRS(I) including application of the new accounting standards on 31 December 2017 and 1 January 2018 to the balance sheet of the Company. The adoption of SFRS(I) does not have any impact to the balance sheet of the Company as at 1 January 2017.

	31.12.2017 (FRS) US\$'000	Company SFRS(I) 9 adjustments US\$'000	01.01.2018 (SFRS(I)) US\$'000
<b>Assets</b>			
<b>Non-current assets</b>			
Available-for-sale unquoted investment	5,775	(5,775)	–
Unquoted investment at FVTPL	–	5,775	5,775
Loan to subsidiary	370,000	(2,590)	367,410
Other non-current assets	530,304	–	530,304
<b>Current assets</b>			
Other current assets	79,158	–	79,158
<b>Total assets</b>	985,237	(2,590)	982,647
<b>Total liabilities</b>	582,407	–	582,407
<b>Net assets</b>	402,830	(2,590)	400,240
<b>Equity</b>			
Share capital	394,913	–	394,913
Other reserves	5,286	–	5,286
Retained earnings	2,631	(2,590)	41
<b>Total equity</b>	402,830	(2,590)	400,240

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.3 Standards issued but not yet effective

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

Description	Effective for annual periods beginning on or after
SFRS(I) 16 <i>Leases</i>	1 January 2019
SFRS(I) INT 23 <i>Uncertainty over Income Tax Treatments</i>	1 January 2019
Amendments to SFRS(I) 9 <i>Prepayment Features with Negative Compensation</i>	1 January 2019
Annual Improvements to SFRS(I)s 2015-2017 Cycle	1 January 2019

Except for SFRS(I) 16, management expects that the adoption of the other standards above will have no material impact on the financial statements in the year of initial application. The nature of the impending changes in accounting policy on adoption of SFRS(I) 16 are described below.

#### SFRS(I) 16 *Leases*

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

The Group plans to adopt SFRS(I) 16 using the modified retrospective approach with the cumulative effect of initially applying the standard as an adjustment to the opening retained earnings as at 1 January 2019.

The Group has performed a preliminary impact assessment based on currently available information and does not expect any significant impact to the financial statements in the year of initial application. The assessment may be subject to changes arising from ongoing analysis until the Group adopts SFRS(I) 16 in 2019.

### 2.4 Basis of consolidation and business combinations

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

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

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

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

#### **(b) Business combinations**

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

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

Non-controlling interest in the acquiree, that are present ownership interests and entitle their holders to a proportionate share of net assets of the acquiree are recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill. The accounting policy for goodwill is set out in Note 2.12(a). In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in profit or loss on the acquisition date.

#### Business combinations involving entities under common control

Business combinations involving entities under common control are accounted for by applying the pooling of interest method. The assets and liabilities of the combining entities are reflected at their carrying amounts reported in the consolidated financial statements of the controlling holding company. Any difference between the consideration paid and the share capital of the "acquired" entity is reflected within equity as "Differences arising from restructuring transactions involving entities under common control". The statement of comprehensive income reflects the results of the combining entities for the full year, irrespective of when the combination takes place. Comparatives are presented as if the entities had always been combined since the date the entities had come under common control.

### 2.5 *Transactions with non-controlling interests*

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company, and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated balance sheet, separately from equity attributable to owners of the Company.

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



# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.6 Foreign currency

The financial statements are presented in USD, which is also the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

#### (a) Transactions and balances

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

Exchange differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting period are recognised in profit or loss except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity. The foreign currency translation reserve is reclassified from equity to profit or loss of the Group on disposal of the foreign operation.

#### (b) Consolidated financial statements

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

In the case of a partial disposal without loss of control of a subsidiary that includes a foreign operation, the proportionate share of the cumulative amount of the exchange differences are re-attributed to non-controlling interest and are not recognised in profit or loss. For partial disposals of associates or jointly controlled entities that are foreign operations, the proportionate share of the accumulated exchange differences is reclassified to profit or loss of the Group.

### 2.7 Biological assets

Biological assets relate to agricultural produce growing on bearer plants, which is referred to as Fresh Fruit Bunches ("FFB") and are stated at fair value less costs to sell. Gains or losses arising from the changes in fair value less estimated costs to sell of FFB at each reporting date are included in profit or loss for the period in which they arise.

The fair value of biological assets is estimated by reference to the projected harvest quantities and market price of FFB as at the balance sheet date, net of harvesting costs and estimated cost to sell.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.8 *Property, plant and equipment*

All items of property, plant and equipment are initially recorded at cost. Subsequent to recognition, property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Leasehold buildings and improvements	-	5 to 20 years
Machinery and installations	-	5 to 15 years
Farming and transportation equipment	-	5 to 20 years
Furniture, fittings, office equipment and others	-	3 to 5 years

Assets under construction included in property, plant and equipment are not depreciated as these assets are not yet available for use.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual value, useful life and depreciation method are reviewed at each reporting date and adjusted prospectively, if appropriate.

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

### 2.9 *Bearer plants*

Bearer plants primarily comprise of oil palm plantations and are measured at accumulated cost (before maturity) and at cost, less any subsequent accumulated depreciation and impairment losses (after maturity).

Upon maturity, bearer plants are depreciated on a straight-line basis over the estimated useful life of 20 years.

The carrying values of the bearer plants are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual value, useful life and depreciation method are reviewed at each reporting date and adjusted prospectively, if appropriate.

Bearer plants are derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the bearer plant is included in profit or loss in the year the asset is derecognised.

Cultivation of seedling is stated at cost. The accumulated cost will be reclassified to immature plantations at the time of planting.

Bearer plants also include land preparation costs which is the cost incurred to clear the land and to ensure that the plantations are in a state ready for the planting of seedlings.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.10 Land use rights

*Hak Guna Usaha* ("HGU") or *Right to Cultivate* and *Hak Guna Bangunan* ("HGB") or *Right to Build* are land rights that grant the registered holders of such rights use of the land for terms of 25 to 35 years, which can be extended for a further period of 25 years subject to agreement with the Government of Indonesia and payment of premium.

Land use rights are initially measured at cost. Following initial recognition, land use rights are measured at cost less accumulated amortisation. The land use rights are amortised on a straight-line basis over their terms of 25 to 35 years.

### 2.11 Plasma receivables

In support of the Indonesian Government policy, the Group develops plasma plantations under the schemes of *Perkebunan Inti Rakyat Transmigrasi* ("PIR") and *Kredit Koperasi Primer untuk Anggotanya* ("KKPA") for farmers who are members of rural cooperatives unit, *Koperasi Unit Desa* ("KUD").

The Group assumes responsibility for developing oil palm plantations to the productive stage. When the plantation is at its productive stage, it is considered to be completed and is transferred to the plasma farmers (conversion of plasma plantations). All costs incurred will be reviewed by the relevant authorities and the Group will be reimbursed for all approved costs which are financed by KUD or a bank. Conversion value refers to the value reimbursed to the Group upon conversion of the plasma plantations.

The plasma farmers sell all harvest to the Group at a price determined by the Government, which approximates the market price. Part of the proceeds will be retained by the Group and used to pay KUD or the bank for the loan taken by the plasma farmers. In situations where the sales proceeds are insufficient to meet the repayment obligations to the banks, the Group also provides temporary funding to the plasma farmers.

Accumulated development costs net of reimbursements are presented in the balance sheet. Any difference between the accumulated development costs of plasma plantations and their conversion value is charged to profit or loss. The plasma receivables are assessed for impairment in accordance with Note 2.17.

### 2.12 Intangible assets

#### (a) Goodwill

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

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

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

Where goodwill forms part of a cash-generating unit and part of the operation within that cash-generating unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operations disposed of and the portion of the cash-generating unit retained.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.12 Intangible assets (cont'd)

#### (b) Other intangible assets

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

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

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

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

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

### 2.13 Subsidiaries

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

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

### 2.14 Impairment of non-financial assets

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

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses of continuing operations are recognised in profit or loss.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.15 Financial instruments

#### (a) Financial assets

##### Initial recognition and measurement

Financial assets are recognised when, and only when the Group becomes a party to the contractual provisions of the financial instrument.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Trade receivables are measured at the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties, if the trade receivables do not contain a significant financing component at initial recognition.

##### Subsequent measurement

###### Investments in debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the contractual cash flow characteristics of the asset. The three measurement categories for classification of debt instruments are:

##### (i) Amortised cost

Financial assets that are held for the collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the assets are derecognised or impaired, and through amortisation process.

##### (ii) Fair value through other comprehensive income ("FVOCI")

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Financial assets measured at FVOCI are subsequently measured at fair value. Any gains or losses from changes in fair value of the financial assets are recognised in other comprehensive income, except for impairment losses, foreign exchange gains and losses and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised.

##### (iii) Fair value through profit or loss

Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt instrument that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss in the period in which it arises.



# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.15 Financial instruments (cont'd)

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

##### Subsequent measurement (cont'd)

###### Investments in equity instruments

On initial recognition of an investment in equity instrument that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in other comprehensive income. Dividends from such investments are to be recognised in profit or loss when the Group's right to receive payments is established. For investments in equity instruments which the Group has not elected to present subsequent changes in fair value in other comprehensive income, changes in fair value are recognised in profit or loss.

###### Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. Changes in fair value of derivatives are recognised in profit or loss.

##### Derecognition

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income for debt instruments is recognised in profit or loss.

##### Regular way purchase or sale of a financial asset

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

#### (b) Financial liabilities

##### Initial recognition and measurement

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

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

##### Subsequent measurement

After initial recognition, financial liabilities that are not carried at fair value through profit or loss are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.15 Financial instruments (cont'd)

#### (b) Financial liabilities (cont'd)

##### Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. On derecognition, the difference between the carrying amounts and the consideration paid is recognised in profit or loss.

#### (c) Offsetting of financial instruments

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

### 2.16 Transfers between levels of the fair value hierarchy

Transfers between levels of the fair value hierarchy are deemed to have occurred on the date of the event or change in circumstances that caused the transfers.

### 2.17 Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss and financial guarantee contracts. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is recognised for credit losses expected over the remaining life of the exposure, irrespective of timing of the default (a lifetime ECL).

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.18 Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost of inventories is determined using the weighted average method.

Where necessary, allowance is provided for damaged, obsolete and slow moving items to adjust the carrying value of inventories to the lower of cost and net realisable value.

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

### 2.19 Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### 2.20 Financial guarantee

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

Financial guarantees are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, financial guarantees are measured at the higher of the amount of expected credit loss determined in accordance with the policy set out in Note 2.17 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised over the period of the guarantee.

### 2.21 Provisions

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.22 Hedge accounting

The Group applies hedge accounting for certain hedging relationships which qualify for hedge accounting.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk);
- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment; or
- hedges of a net investment in a foreign operation.

At the inception of a hedging relationship, the Group formally designates and documents the hedging relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

The Group does not have any fair value hedges or hedges of net investment in foreign operations in 2018 and 2017.

Cash flow hedges which meet the strict criteria for hedge accounting are accounted for as follows:

The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income, while any ineffective portion is recognised immediately in profit or loss.

Amounts recognised as other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised as other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

When a cash flow hedge is discontinued, the cumulative gain or loss previously recognised in other comprehensive income will remain in the cash flow hedge reserve until the future cash flows occur if the hedged future cash flows are still expected to occur or reclassified to profit or loss immediately if the hedged future cash flows are no longer expected to occur.

### 2.23 Borrowing costs

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.24 Issuance costs on borrowings

Transaction costs directly attributable to the issuance of borrowings are deducted from the proceeds in the balance sheet as discounts and amortised over the maturity period using the effective interest method.

### 2.25 Share capital and share issuance expenses

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

### 2.26 Treasury shares

The Company's own equity instruments, which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount of treasury shares and the consideration received, if reissued, is recognised directly in equity. Voting rights related to treasury shares are nullified for the Company and no dividends are allocated to them respectively.

### 2.27 Employee benefits

#### (a) Defined contribution plans

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

#### (b) Defined benefit plans

The Group provides employee benefits as required under the Indonesian Labor Law No.13/2003. The cost of providing such benefits is determined using the projected unit credit actuarial valuation method, based on the report prepared by an independent firm of actuaries.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognised as expense in profit or loss. Past service costs are recognised when plan amendment or curtailment occurs.

Net interest on the defined benefit liability is the change during the period in the defined benefit liability that arises from the passage of time which is determined by applying the discount rate based on high quality corporate bonds to the defined benefit liability. Net interest on the defined benefit liability is recognised as expense in profit or loss.

Remeasurements comprising actuarial gains and losses (excluding net interest on defined benefit liability) are recognised immediately in other comprehensive income in the period in which they arise. Remeasurements are recognised in retained earnings within equity and are not reclassified to profit or loss in subsequent periods.

The net defined benefit liability is the aggregate of the present value of the defined benefit obligation (derived using a discount rate based on high quality corporate bonds) at the end of the reporting period.



# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.27 Employee benefits (cont'd)

#### (c) Employee leave entitlement

Employee entitlements to annual leave are recognised as a liability when they accrue to the employees. The estimated liability for leave is recognised for services rendered by employees up to the end of the reporting period.

### 2.28 Leases

#### (a) As lessee

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

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

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

#### (b) As lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

### 2.29 Revenue

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Revenue is recognised when the Group satisfies a performance obligation by transferring a promised good or service to the customer, which is when the customer obtains control of the good or service. A performance obligation may be satisfied at a point in time or over time. The amount of revenue recognised is the amount allocated to the satisfied performance obligation.

#### (a) Sale of goods

Revenue from sales arising from physical delivery of palm based products is recognised when the goods are delivered to the customer and all criteria for acceptance have been satisfied. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or possible return of goods.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.29 Revenue (cont'd)

#### (b) Interest income

Interest income is recognised using the effective interest method.

#### (c) Dividend income

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

### 2.30 Taxes

#### (a) Current income tax

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

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

#### (b) Deferred tax

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

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

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.30 Taxes (cont'd)

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

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

#### (c) Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax or Value-Added Tax ("VAT") except:

- where the sales tax or VAT incurred on a purchase of assets or services is not recoverable from the tax authority, in which case the sales tax or VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of sales tax or VAT included.

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

### 2.31 Segment reporting

For management purposes, the Group is organised into operating segments based on their products. Management regularly reviews the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 43, including the factors used to identify the reportable segments and the measurement basis of segment information.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.32 Contingencies

A contingent liability is:

- (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or
- (b) a present obligation that arises from past events but is not recognised because:
  - (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
  - (ii) the amount of the obligation cannot be measured with sufficient reliability.

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

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

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

### 3.1 Judgements made in applying accounting policies

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

#### (a) Determination of functional currency

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. In determining the functional currencies of the entities in the Group, judgement is required to determine the currency that mainly influences sales prices for goods and services and of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services. The functional currencies of the entities in the Group are determined based on management's assessment of the economic environment in which the entities operate and the entities' process of determining sales prices.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONT'D)

### 3.1 Judgements made in applying accounting policies (cont'd)

#### (b) Capitalisation of borrowing costs

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. In determining the amount of borrowing costs to be capitalised, if any, judgement is required to determine the amount of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, judgement is also required to determine the extent of expenditure on that asset financed via general borrowings and those funded via cash generated from operating activities. The Group manages its cash and bank balances and liquidity requirements on a pooled basis, which includes the cash generated from operating activities during the year as well as the cash and bank balances available at the beginning of the year. During the financial years ended 31 December 2018 and 2017, borrowing costs incurred by the Group were not capitalised as part of bearer plants as they were assessed to be not directly attributable to the costs incurred for the development of oil palm plantations. In addition, as the development of oil palm plantations forms part of the pooled liquidity requirements of the Group, management has also applied judgement to estimate the extent of such development costs that may have been financed via general borrowings and concluded that the magnitude of general borrowing costs that may be capitalised as part of bearer plants is assessed to be not material to the Group's financial statements.

### 3.2 Key sources of estimation uncertainty

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

#### (a) Biological assets

The Group carries its biological assets at fair value, with changes in fair value being recognised in profit or loss. The determination of the fair value of the biological assets requires the use of estimates on the projected harvest quantities and market price of FFB as at the balance sheet date. The carrying amount and key assumptions used to determine the fair value of the biological assets are further disclosed in Note 21 and Note 40(d) respectively.

#### (b) Fair value of unquoted investment at FVTPL

The fair value of the unquoted investment is determined based on a discounted cash flow model. The carrying amount and key assumptions used to determine the fair value of the unquoted investment are disclosed in Note 18 and Note 40(d) respectively.

#### (c) Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill and other intangible assets with indefinite useful lives are tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.



# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONT'D)

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

#### (c) Impairment of non-financial assets (cont'd)

The value in use calculation is based on a discounted cash flow model. Management estimates the expected future cash flows from the asset or cash-generating unit and chooses a suitable discount rate in order to calculate the present value of those cash flows. Further details of the key assumptions applied in the impairment assessment of goodwill are disclosed in Note 16.

The carrying amounts of the non-financial assets are disclosed in Notes 11, 13, 14, 15, 16 and 17 respectively.

#### (d) Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax provisions and recoverables already recorded. The Group establishes tax provisions and recoverables based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions and recoverables are based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the relevant tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile.

The carrying amounts of provision for tax and tax recoverable as at 31 December 2018 are US\$21.2 million (31 December 2017: US\$21.5 million; 1 January 2017: US\$18.1 million) and US\$45.3 million (31 December 2017: US\$36.8 million; 1 January 2017: US\$40.6 million) respectively.

#### (e) Deferred taxes

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

Where taxable profits are expected in the foreseeable future, deferred tax assets are recognised on the unused tax losses. The carrying amounts of deferred tax assets and liabilities are disclosed in Note 9(c).

#### (f) Defined benefit plan

The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, mortality rates and future salary increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The discount rate is based on the yields of government bonds in the specific country with maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases are based on management's projections, taking into consideration expected future inflation rates for the specific country.

The carrying amount of the provision for post-employment benefits, together with further details about the assumptions, is disclosed in Note 32.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONT'D)

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

#### (g) Provision for expected credit losses ("ECL")

##### (i) ECL on plasma receivables and financial guarantees provided for plasma bank loans

The Group computes expected credit loss for plasma receivables and the financial guarantees provided for plasma bank loans based on lifetime ECL. In calculating the expected credit loss rates, the Group considers the difference in credit spreads between the interest rate on loans provided by banks to the plasma farmers and the Indonesian Government bond yield rates, and adjusts for forward-looking information as well as reasonable forecasts of future economic conditions and interest rates.

Further information about the provisions for expected credit losses on plasma receivables and the financial guarantees provided for plasma bank loans are disclosed in Note 12 and Note 41(d) respectively.

##### (ii) ECL on trade receivables

The Group provides for lifetime expected credit losses for its trade receivables using a provision matrix. The provision rates are determined based on the Group's historical observed default rates analysed in accordance to days past due by grouping of customers based on company size and payment mode. The calculation of the expected credit losses also incorporates forward looking information such as forecasts of economic conditions in the industry that the customers operate in.

Further information about the provision for expected credit losses on the trade receivables is disclosed in Note 23 and Note 41(d) respectively.

## 4. SALES

The Group derives revenue from the transfer of goods at a point in time for the following products:

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Crude palm oil	15,141	28,884
Palm kernel	590	3,502
Fresh fruit bunches	13,034	14,338
Processed palm based products	604,722	600,265
	<u>633,487</u>	<u>646,989</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 5. COST OF SALES

	Group 2018 US\$'000	2017 US\$'000
Cost of inventories recognised as an expense	161,675	182,584
Depreciation of bearer plants and property, plant and equipment (Note 13)	61,892	57,668
Net employee benefit expense relating to defined benefit plans (Note 32)	3,613	3,114
Plantation, milling and processing costs	127,520	96,932
	<u>354,700</u>	<u>340,298</u>

## 6. SELLING AND DISTRIBUTION COSTS

	Group 2018 US\$'000	2017 US\$'000
Export taxes	21,434	21,760
Freight charges	31,309	21,266
Depreciation of property, plant and equipment (Note 13)	655	696
Others	4,142	3,905
	<u>57,540</u>	<u>47,627</u>

## 7. GENERAL AND ADMINISTRATIVE EXPENSES

The following items have been included in arriving at general and administrative expenses:

	Group 2018 US\$'000	2017 US\$'000
Audit fees paid to:		
- Auditors of the Company	173	158
- Affiliates of auditors of the Company	327	316
- Other auditors	38	39
Non-audit fees paid to:		
- Auditors of the Company	118	55
- Affiliates of auditors of the Company	-	119
Salaries, bonuses and other benefits (including Central Provident Fund contributions)	15,159	15,932
Net employee benefit expense relating to defined benefit plans (Note 32)	1,028	1,634
Operating lease rental (Note 38(b))	473	526
Depreciation of property, plant and equipment (Note 13)	2,591	2,735
Amortisation of other intangible assets (Note 13)	103	169
Directors' fees	<u>306</u>	<u>333</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 8. NET FINANCIAL EXPENSES

	Group 2018 US\$'000	2017 US\$'000
Interest expenses and amortisation on loans and borrowings from financial institutions carried at amortised cost	7,172	2,908
Profit distribution and amortisation on Islamic medium term notes carried at amortised cost	12,153	20,481
	19,325	23,389
Interest income from financial assets carried at amortised cost	(2,282)	(2,700)
	17,043	20,689

## 9. TAX EXPENSE

### (a) Major components of tax expense

The major components of tax expense for the financial years ended 31 December 2018 and 2017 are as follows:

	Group 2018 US\$'000	2017 US\$'000
<b>Income statement:</b>		
<i>Current income tax</i>		
- Current year	55,195	63,013
- Under provision in respect of previous years	463	4,724
<i>Deferred income tax</i>		
- Origination and reversal of temporary differences	(14,928)	(5,562)
- Under/(over) provision in respect of previous years	3,593	(2,458)
<i>Withholding tax</i>	9,105	3,928
	53,428	63,645
<b>Income tax related to other comprehensive income:</b>		
Actuarial movements on defined benefits plan	948	(520)
Net change in fair value of cash flow hedges	(339)	177
Foreign currency translation	(6,058)	(1,439)
	(5,449)	(1,782)

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 9. TAX EXPENSE (CONT'D)

### (b) Relationship between tax expense and accounting profit

The reconciliation between tax expense and the product of accounting profit multiplied by the applicable corporate tax rates for the financial years ended 31 December 2018 and 2017 is as follows:

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Profit before tax	181,115	208,879
Tax expense at domestic rate applicable to profits in the countries where the Group operates	42,615	51,823
Adjustments:		
Non-deductible expenses	3,306	9,050
Income not subject to tax	(666)	(1,127)
Deferred tax assets not recognised	104	1,195
Benefits from previously unrecognised tax losses	(24)	-
Effect of tax incentives	(5,057)	(3,434)
Under provision in respect of previous years	4,056	2,266
Withholding tax	9,105	3,928
Others	(11)	(56)
Tax expense recognised in profit or loss	53,428	63,645

The corporate tax rate for companies in Singapore and Indonesia is 17% and 25% (2017: 17% and 25%) respectively.

### (c) Deferred tax assets and liabilities

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred taxes relate to the same taxable entity and the same tax authority. The following amounts, determined after appropriate offsetting, were shown in the balance sheets:

	<b>Group</b>			<b>Company</b>		
	<b>31.12.2018</b>	<b>31.12.2017</b>	<b>01.01.2017</b>	<b>31.12.2018</b>	<b>31.12.2017</b>	<b>01.01.2017</b>
	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>
Deferred tax assets	54,702	48,955	41,207	-	-	19
Deferred tax liabilities	(18,074)	(22,055)	(22,471)	(528)	(795)	-



# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 9. TAX EXPENSE (CONT'D)

### (c) *Deferred tax assets and liabilities (cont'd)*

Deferred tax assets and liabilities (prior to offsetting) comprise the following:

	Consolidated balance sheet			Consolidated income statement	
	31.12.2018 US\$'000	31.12.2017 US\$'000	01.01.2017 US\$'000	2018 US\$'000	2017 US\$'000
<b>Group</b>					
<i>Deferred tax assets:</i>					
Unutilised tax losses	33,481	27,716	26,213	(7,675)	(1,742)
Provisions	2,424	2,825	1,925	930	(906)
Post-employment benefits	4,994	5,181	3,553	(1,074)	(1,139)
Bearer plants	15,183	17,052	18,160	723	970
Others	4,838	3,601	3,934	(1,363)	322
	<u>60,920</u>	<u>56,375</u>	<u>53,785</u>		
<i>Deferred tax liabilities:</i>					
Biological assets	(4,296)	(5,500)	(6,139)	(864)	(595)
Differences in depreciation for tax purposes	(2,462)	(5,102)	(8,658)	(2,236)	(3,547)
Obligations under finance leases	(593)	(864)	(730)	(219)	142
Fair value adjustments on acquisition of subsidiaries	(15,793)	(16,881)	(17,022)	–	–
Others	(1,148)	(1,128)	(2,500)	443	(1,525)
	<u>(24,292)</u>	<u>(29,475)</u>	<u>(35,049)</u>		
Net deferred tax assets	<u>36,628</u>	<u>26,900</u>	<u>18,736</u>		
Deferred income tax				<u>(11,335)</u>	<u>(8,020)</u>

	Balance sheet		
	31.12.2018 US\$'000	31.12.2017 US\$'000	01.01.2017 US\$'000
<b>Company</b>			
<i>Deferred tax assets:</i>			
Provisions	305	275	198
	<u>305</u>	<u>275</u>	<u>198</u>
<i>Deferred tax liabilities:</i>			
Differences in depreciation for tax purposes	(711)	(866)	(179)
Others	(122)	(204)	–
	<u>(833)</u>	<u>(1,070)</u>	<u>(179)</u>
Net deferred tax (liabilities)/assets	<u>(528)</u>	<u>(795)</u>	<u>19</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 9. TAX EXPENSE (CONT'D)

### (c) *Deferred tax assets and liabilities (cont'd)*

#### Unrecognised tax losses and tax credits

As at 31 December 2018, the Group has unrecognised tax losses and tax credits of US\$6.6 million (31 December 2017: US\$8.3 million; 1 January 2017: US\$7.3 million) and US\$295.8 million (31 December 2017: US\$332.7 million; 1 January 2017: US\$357.7 million) respectively. The related deferred tax assets of US\$1.7 million (31 December 2017: US\$2.1 million; 1 January 2017: US\$1.8 million) and US\$73.9 million (31 December 2017: US\$83.2 million; 1 January 2017: US\$89.4 million) attributable to such tax losses and tax credits respectively were not recognised due to uncertainty of their recoverability, especially the tax credits which can only be claimed over an extended number of years, subject to agreement of the tax authorities and compliance with certain provisions of the tax legislation of the country in which the companies operate. The tax losses will expire between 2019 and 2023 (31 December 2017: between 2018 and 2022; 1 January 2017: between 2017 and 2021).

#### Unrecognised temporary differences relating to investments in subsidiaries

As at 31 December 2018, 31 December 2017 and 1 January 2017, no deferred tax liability has been recognised for taxes that would be payable on the undistributed earnings of certain of the Group's subsidiaries as the Group has determined that undistributed earnings of these subsidiaries will not be distributed in the foreseeable future and such temporary differences for which no deferred tax liability has been recognised aggregate to US\$934.0 million (31 December 2017: US\$1,011.6 million; 1 January 2017: US\$882.2 million). The related deferred tax liability is estimated to be US\$93.4 million (31 December 2017: US\$101.2 million; 1 January 2017: US\$88.2 million).

## 10. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing profit for the year attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share is calculated by dividing profit for the year attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the financial year after adjustment for the effects of all dilutive potential ordinary shares.

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
Profit for the year attributable to owners of the Company (US\$'000)	120,001	137,700
Weighted average number of ordinary shares ('000)	1,584,073	1,584,073
Basic earnings per share (US cents)	7.58	8.69

There are no dilutive potential ordinary shares as at 31 December 2018 and 2017.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 11. BEARER PLANTS

Bearer plants primarily comprise of oil palm plantations.

	Group	
	2018	2017
	(Restated)	(Restated)
	US\$'000	US\$'000
<hr/>		
<b>Cost</b>		
At 1 January	827,357	805,496
Additions	34,778	43,277
Disposals	(3,377)	(3,636)
Reclassification to plasma receivables (Note 12)	(9,943)	(10,772)
Exchange differences	(53,063)	(7,008)
	<hr/>	
At 31 December	795,752	827,357
	<hr/>	
<b>Accumulated depreciation</b>		
At 1 January	167,859	144,869
Charge for the year (Note 13)	29,627	27,930
Disposals	(2,096)	(288)
Reclassification to plasma receivables (Note 12)	(1,916)	(3,214)
Exchange differences	(10,742)	(1,438)
	<hr/>	
At 31 December	182,732	167,859
	<hr/>	
	<b>Group</b>	
	<b>31.12.2018</b>	<b>31.12.2017</b>
		<b>(Restated)</b>
		<b>(Restated)</b>
	<b>US\$'000</b>	<b>US\$'000</b>
		<b>US\$'000</b>
<hr/>		
<b>Net carrying amount</b>	613,020	659,498
	<hr/>	
	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
<hr/>		
<b>Nucleus production volume (tonnes)</b>		
FFB	3,061,819	2,682,944
	<hr/>	
	<b>Group</b>	
	<b>31.12.2018</b>	<b>31.12.2017</b>
		<b>01.01.2017</b>
<hr/>		
<b>Nucleus planted area (hectares)*</b>		
Mature	162,364	147,377
Immature	22,781	37,115
	<hr/>	
	185,145	184,492
		184,363

\* Nucleus planted areas include rubber plantations.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 11. BEARER PLANTS (CONT'D)

The plantations have not been insured against the risks of fire, diseases and other possible risks.

Additions to bearer plants consist of:

	Group 2018 US\$'000	2017 US\$'000
Capital expenditure on bearer plants using cash	31,742	38,844
Capitalisation of depreciation on property, plant and equipment (Note 13)	3,036	4,433
	<u>34,778</u>	<u>43,277</u>

*Assets pledged as security*

As at 31 December 2018, 31 December 2017 and 1 January 2017, certain of the Group's bearer plants are pledged to secure facilities from financial institutions (Note 30).

## 12. PLASMA RECEIVABLES

Movements in plasma receivables during the reporting period are as follows:

	Group 2018 US\$'000	2017 (Restated) US\$'000
At 1 January	49,931	42,708
Additional development costs	9,003	9,145
Proceeds received	(11,371)	(9,034)
Reclassification from bearer plants (Note 11)	8,027	7,558
Exchange differences	(3,309)	(446)
Less: Allowance for expected credit losses	(1,355)	–
At 31 December	<u>50,926</u>	<u>49,931</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 12. PLASMA RECEIVABLES (CONT'D)

	31.12.2018	Group 31.12.2017 (Restated)	01.01.2017 (Restated)
	US\$'000	US\$'000	US\$'000
Current	4,525	6,168	6,362
Non-current	47,756	43,763	36,346
Less: Allowance for expected credit losses	(1,355)	–	–
	50,926	49,931	42,708

### Expected credit losses

The movement in allowance for expected credit losses of plasma receivables computed based on lifetime ECL is as follows:

	Group 2018 US\$'000
At 1 January	1,448
Charge for the year	–
Exchange differences	(93)
At 31 December	1,355

Reclassification from bearer plants to plasma receivables relates to costs incurred for development of plasma receivables previously capitalised under bearer plants, so as to be in line with the Indonesian Government's Ministry of Agriculture Regulation for plantation companies to develop plasma plantations for farmers in the local community who are members of rural cooperatives unit KUD.

Additions to plasma receivables consist of:

	Group 2018 US\$'000	2017 US\$'000
Development costs on plasma receivables using cash	8,751	8,654
Capitalisation of depreciation on property, plant and equipment (Note 13)	252	491
	9,003	9,145



# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold buildings and improvements US\$'000	Machinery and installations US\$'000	Farming and transportation equipment US\$'000	Furniture, fittings, office equipment and others US\$'000	Assets under construction US\$'000	Total US\$'000
<b>Group</b>						
<b>Cost</b>						
At 1 January 2017	242,604	189,948	63,342	10,714	20,010	526,618
Additions	16,095	13,042	4,896	1,025	15,159	50,217
Disposals	(304)	(2)	(1,897)	(50)	(407)	(2,660)
Reclassifications	15,341	2,082	4	–	(17,427)	–
Exchange differences	(2,387)	(1,759)	(448)	(97)	(128)	(4,819)
At 31 December 2017 and 1 January 2018	271,349	203,311	65,897	11,592	17,207	569,356
Additions	11,764	2,262	8,265	1,001	26,960	50,252
Disposals	–	–	(2,129)	(1)	–	(2,130)
Reclassifications	10,165	2,748	3	–	(12,916)	–
Exchange differences	(17,772)	(13,123)	(3,507)	(739)	(1,324)	(36,465)
At 31 December 2018	275,506	195,198	68,529	11,853	29,927	581,013
<b>Accumulated depreciation</b>						
At 1 January 2017	77,503	73,122	39,871	7,504	–	198,000
Charge for the year	17,449	13,376	5,968	1,300	–	38,093
Disposals	(286)	(2)	(1,892)	(48)	–	(2,228)
Exchange differences	(838)	(765)	(309)	(75)	–	(1,987)
At 31 December 2017 and 1 January 2018	93,828	85,731	43,638	8,681	–	231,878
Charge for the year	18,500	12,818	6,322	1,159	–	38,799
Disposals	–	–	(2,088)	(1)	–	(2,089)
Exchange differences	(6,344)	(5,884)	(2,190)	(560)	–	(14,978)
At 31 December 2018	105,984	92,665	45,682	9,279	–	253,610
<b>Net carrying amount</b>						
At 31 December 2018	169,522	102,533	22,847	2,574	29,927	327,403
At 31 December 2017	177,521	117,580	22,259	2,911	17,207	337,478
At 1 January 2017	165,101	116,826	23,471	3,210	20,010	328,618

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 13. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Transportation equipment US\$'000	Furniture, fittings, office equipment and others US\$'000	Total US\$'000
<b>Company</b>			
<b>Cost</b>			
At 1 January 2017	13,452	316	13,768
Additions	–	16	16
At 31 December 2017 and 1 January 2018	13,452	332	13,784
Additions	352	31	383
Disposals	(171)	–	(171)
At 31 December 2018	13,633	363	13,996
<b>Accumulated depreciation</b>			
At 1 January 2017	6,776	234	7,010
Charge for the year	1,264	23	1,287
At 31 December 2017 and 1 January 2018	8,040	257	8,297
Charge for the year	1,323	30	1,353
Disposals	(171)	–	(171)
At 31 December 2018	9,192	287	9,479
<b>Net carrying amount</b>			
At 31 December 2018	4,441	76	4,517
At 31 December 2017	5,412	75	5,487
At 1 January 2017	6,676	82	6,758

Additions to property, plant and equipment consist of:

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Capital expenditure on property, plant and equipment using cash	45,031	37,670
Reclassification from advances for purchase of property, plant and equipment	616	9,700
Obligations under finance leases	4,605	2,847
	<u>50,252</u>	<u>50,217</u>

*Assets under construction*

As at 31 December 2018, 31 December 2017 and 1 January 2017, the Group's assets under construction relate primarily to buildings and infrastructure, as well as machinery and installations.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 13. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

### *Assets held under finance leases*

As at 31 December 2018, the net carrying amount of property, plant and equipment held under obligations under finance leases amounted to US\$5.6 million (31 December 2017: US\$4.2 million; 1 January 2017: US\$4.1 million).

### *Assets pledged as security*

As at 31 December 2018, 31 December 2017 and 1 January 2017, certain subsidiaries' property, plant and equipment are pledged to secure facilities from financial institutions (Note 30).

### Depreciation and amortisation

The depreciation and amortisation charges for the financial years ended 31 December 2018 and 2017 are as follows:

	Group	
	2018	2017
	US\$'000	US\$'000
Depreciation of bearer plants (Note 11)	29,627	27,930
Depreciation of property, plant and equipment (Note 13)	38,799	38,093
Amortisation of land use rights (Note 14)	2,043	1,557
Amortisation of other intangible assets (Note 17)	103	169
	<u>70,572</u>	<u>67,749</u>
Depreciation included in cost of sales (Note 5)	61,892	57,668
Depreciation included in selling and distribution costs (Note 6)	655	696
Depreciation included in general and administrative expenses (Note 7)	2,591	2,735
Amortisation included in general and administrative expenses (Note 7)	103	169
Amortisation included in other operating expenses	2,043	1,557
Depreciation capitalised in bearer plants (Note 11)	3,036	4,433
Depreciation capitalised in plasma receivables (Note 12)	252	491
	<u>70,572</u>	<u>67,749</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 14. LAND USE RIGHTS

	Group	
	2018	2017
	US\$'000	US\$'000
<b>Cost</b>		
At 1 January	63,071	52,294
Additions	1,193	11,348
Exchange differences	(4,083)	(571)
At 31 December	60,181	63,071
<b>Accumulated amortisation</b>		
At 1 January	13,124	11,710
Amortisation charge for the year (Note 13)	2,043	1,557
Exchange differences	(878)	(143)
At 31 December	14,289	13,124

	Group		
	31.12.2018	31.12.2017	01.01.2017
	US\$'000	US\$'000	US\$'000
<b>Net carrying amount</b>	45,892	49,947	40,584
Amount to be amortised			
- Not later than one year	2,043	1,557	1,559
- Later than one year but not more than five years	8,174	6,228	6,236
- Later than five years	35,675	42,162	32,789
	45,892	49,947	40,584

Land use rights are in respect of:

- land premiums representing the cost of land rights owned by the Group which are amortised on a straight-line basis over their terms of 25 to 35 years. The terms can be extended for a further period of 25 years subject to agreement with the Government of Indonesia and payment of premium; and
- deferred land rights acquisition costs representing the cost associated with the legal transfer or renewal for titles of land rights such as, among others, legal fees, land survey and re-measurement fees, taxes and other related expenses. Such costs are also deferred and amortised on a straight-line basis over the terms of the related land rights of 25 to 35 years.

As at 31 December 2018, the Group's land use rights cover a total land area of 213,909 hectares (31 December 2017: 213,909 hectares; 1 January 2017: 203,354 hectares), representing HGU and HGB. The legal terms of the existing land use rights of the Group expire on various dates between 2020 and 2052.

### *Assets pledged as security*

As at 31 December 2018, 31 December 2017 and 1 January 2017, certain of the Group's land use rights are pledged to secure facilities from financial institutions (Note 30).

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 15. INVESTMENT IN SUBSIDIARIES

	Company		
	31.12.2018	31.12.2017	01.01.2017
	US\$'000	US\$'000	US\$'000
Unquoted equity shares, at cost	481,587	523,527	523,527

	Company	
	2018	2017
	US\$'000	US\$'000
At 1 January	523,527	523,527
Disposal of subsidiary (Note 15 (d))	(41,940)	–
At 31 December	481,587	523,527

### (a) Composition of the Group

The full list of subsidiaries is presented in Note 1(b).

### (b) Interest in subsidiaries with material non-controlling interest ("NCI")

The Group has the following subsidiaries that have NCI that are material to the Group.

Name of subsidiary	Principal place of business	Proportion of ownership interest held by non-controlling interests	Profit allocated to NCI during the reporting period US\$'000	Accumulated NCI at the end of reporting period US\$'000	Dividends paid to NCI during the reporting period US\$'000
<b>31 December 2018:</b>					
PT CLP	Indonesia	4.49%	6,072	39,234	1,149
<b>31 December 2017:</b>					
PT CLP	Indonesia	4.49%	6,381	37,381	1,648
<b>1 January 2017:</b>					
PT CLP	Indonesia	4.49%	5,974	33,774	345

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 15. INVESTMENT IN SUBSIDIARIES (CONT'D)

### (c) Summarised financial information about subsidiaries with material NCI

Summarised financial information including goodwill on acquisition and consolidation adjustments but before intercompany eliminations of subsidiaries with material non-controlling interests are as follows:

	PT CLP Group		
	31.12.2018	31.12.2017	01.01.2017
	US\$'000	US\$'000	US\$'000
<b>Summarised balance sheets</b>			
<b>Non-current</b>			
Assets	1,095,786	1,010,808	864,056
Liabilities	(396,918)	(423,080)	(25,263)
Net non-current assets	698,868	587,728	838,793
<b>Current</b>			
Assets	217,646	292,864	214,534
Liabilities	(42,702)	(48,056)	(301,133)
Net current assets/(liabilities)	174,944	244,808	(86,599)
<b>Net assets</b>	<b>873,812</b>	<b>832,536</b>	<b>752,194</b>

	PT CLP Group	
	2018	2017
	US\$'000	US\$'000
<b>Summarised statement of comprehensive income</b>		
Sales	426,428	435,692
Profit before tax	177,872	190,675
Tax expense	(42,633)	(48,561)
Profit for the year	135,239	142,114
Other comprehensive income	(71,487)	(12,732)
Total comprehensive income	63,752	129,382
<b>Other summarised information</b>		
Net cash generated from operating activities	108,686	180,203
Net cash used in investing activities	(224,433)	(54,486)
Net cash generated from financing activities	4,485	217,956



# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 15. INVESTMENT IN SUBSIDIARIES (CONT'D)

### (d) Disposal of subsidiary

During the financial year ended 31 December 2018, the Company transferred its 63.00% equity interest in PT Meridan Sejatisurya Plantation ("PT MSSP") to PT Ciliandra Perkasa ("PT CLP"), a direct subsidiary of the Company, for a cash consideration of approximately US\$126.4 million, which was arrived at after taking into consideration the current market value of the assets.

After the transfer, PT MSSP remained as a subsidiary of the Group, with effective group equity interest of 90.73% (31 December 2017: 93.56%; 1 January 2017: 93.56%).

### (e) Acquisition of subsidiary

During the financial year ended 31 December 2017, PT Wahana Prima Sejati ("PT WPS") became an indirect subsidiary of the Company through the subscription of 99.16% equity interest by PT CLP, a direct subsidiary of the Company. PT WPS is incorporated in Indonesia and holds a parcel of land in the East Kalimantan province of Indonesia, which is intended to be used for the Group's future palm oil processing business in the region. The subscription consideration amounting to approximately US\$8.1 million was arrived at after arm's length negotiations on a willing buyer and willing seller basis.

## 16. GOODWILL

	Group	
	2018 US\$'000	2017 US\$'000
<b>Cost</b>		
At 1 January	86,592	87,313
Exchange differences	(5,579)	(721)
At 31 December	81,013	86,592

### Impairment testing of goodwill

Goodwill arising from business combinations is allocated to individual cash-generating units ("CGU") for the purpose of impairment testing. The carrying amounts of goodwill allocated to each CGU are as follows:

	Group		
	31.12.2018 US\$'000	31.12.2017 US\$'000	01.01.2017 US\$'000
PT Borneo Ketapang Permai Group	4,587	4,903	4,944
PT Kalimantan Green Persada Group	8,968	9,585	9,665
PT Gerbang Sawit Indah	8,033	8,587	8,658
Lynhurst Group	30,781	32,901	33,175
PT Falcon Agri Persada	28,615	30,586	30,841
Others	29	30	30
	81,013	86,592	87,313

The recoverable amounts of the CGUs have been determined based on value in use calculations using cash flow projections from financial budgets approved by management.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 16. GOODWILL (CONT'D)

Key assumptions used for value in use calculations:

	31.12.2018	31.12.2017	01.01.2017
Terminal growth rate	3%	3%	3%
Pre-tax discount rate	11%	10%	10%
Projected CPO price	US\$664/tonne	US\$772/tonne	US\$743/tonne

The value in use calculations use a discounted cash flow model based on cash flow projections covering a period of 10 years, and projected CPO price of US\$664 per tonne (31 December 2017: US\$772 per tonne; 1 January 2017: US\$743 per tonne).

Cash flows beyond the projected periods are extrapolated using the estimated terminal growth rate indicated above. The terminal growth rate used does not exceed the long-term average growth rates in the industry.

The discount rate applied to the cash flow projections is pre-tax and derived from the weighted average cost of capital ("WACC") of the Group. The WACC takes into account both the cost of debt and the cost of equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest bearing borrowings the Group is obliged to service.

Based on the above analysis, management has assessed that the goodwill is not impaired as at 31 December 2018, 31 December 2017 and 1 January 2017.

### ***Sensitivity to changes in assumptions***

Changes to the assumptions used by management to determine the recoverable amounts can have an impact on the results of the assessment. Management is of the opinion that no reasonably possible change in any of the key assumptions stated above would cause the carrying amount of the goodwill for each of the CGU to materially exceed their recoverable amount.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 17. OTHER INTANGIBLE ASSETS

	Land permits US\$'000	Software US\$'000	Total US\$'000
<b>Group</b>			
<b>Cost</b>			
At 1 January 2017	22,044	2,355	24,399
Exchange differences	(182)	(14)	(196)
At 31 December 2017 and 1 January 2018	21,862	2,341	24,203
Additions	–	11	11
Write off	–	(180)	(180)
Exchange differences	(1,409)	(102)	(1,511)
At 31 December 2018	20,453	2,070	22,523
<b>Accumulated amortisation</b>			
At 1 January 2017	–	1,835	1,835
Amortisation charge during the year (Note 13)	–	169	169
Exchange differences	–	(12)	(12)
At 31 December 2017 and 1 January 2018	–	1,992	1,992
Amortisation charge during the year (Note 13)	–	103	103
Exchange differences	–	(87)	(87)
At 31 December 2018	–	2,008	2,008
<b>Net carrying amount</b>			
At 31 December 2018	20,453	62	20,515
At 31 December 2017	21,862	349	22,211
At 1 January 2017	22,044	520	22,564

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 17. OTHER INTANGIBLE ASSETS (CONT'D)

	Software US\$'000
<b>Company</b>	
<b>Cost</b>	
At 1 January 2017, 31 December 2017 and 31 December 2018	475
<b>Accumulated amortisation</b>	
At 1 January 2017	460
Amortisation charge during the year	15
At 31 December 2017 and 31 December 2018	475
<b>Net carrying amount</b>	
At 31 December 2018	–
At 31 December 2017	–
At 1 January 2017	15

Land permits are not amortised. Amortisation will only commence upon reclassification from land permits to land use rights when HGU title has been obtained.

Software costs are amortised to profit or loss using the straight-line method over their estimated useful lives of three to five years.

## 18. UNQUOTED INVESTMENT

	Group and Company		
	31.12.2018	31.12.2017	01.01.2017
	US\$'000	US\$'000	US\$'000
<b>At fair value through profit or loss</b>			
- Unquoted investment	5,775	–	–
<b>At fair value through other comprehensive income</b>			
- Unquoted investment	–	5,775	–

The unquoted investment relates to a 50% interest in a limited partnership which the Group does not retain control or significant influence over. Upon adoption of SFRS(I) 9 on 1 January 2018, the investment is measured at fair value, with any gains or losses from changes in fair value recognised in profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 19. DERIVATIVE FINANCIAL ASSETS/LIABILITIES

	31.12.2018		31.12.2017		01.01.2017	
	Assets US\$'000	Liabilities US\$'000	Assets US\$'000	Liabilities US\$'000	Assets US\$'000	Liabilities US\$'000
<b>Group</b>						
Cross currency swaps	-	79,580	-	81,286	-	208,390
Commodity futures, options and swap contracts	1,888	825	4,327	1,724	1,642	2,035
Foreign currency options and forward contracts	26	96	-	-	291	334
Interest rate swaps	1,996	-	1,290	75	-	-
	3,910	80,501	5,617	83,085	1,933	210,759
Current	2,882	921	4,327	1,799	1,933	101,329
Non-current	1,028	79,580	1,290	81,286	-	109,430
	3,910	80,501	5,617	83,085	1,933	210,759
<b>Company</b>						
Cross currency swaps	-	79,580	-	81,286	-	208,390
Foreign currency options and forward contracts	26	-	-	-	-	334
Interest rate swaps	1,996	-	1,290	75	-	-
	2,022	79,580	1,290	81,361	-	208,724
Current	994	-	-	75	-	99,294
Non-current	1,028	79,580	1,290	81,286	-	109,430
	2,022	79,580	1,290	81,361	-	208,724

The Group classifies derivative financial instruments as financial assets/liabilities at fair value through profit or loss, except for certain derivatives designated as cash flow hedges, wherein hedge accounting has been applied.

### Cross currency swaps

The Company has entered into cross currency swaps with financial institutions to hedge the foreign currency risk on its Ringgit-denominated Islamic medium term notes, mitigating the risk of changes in foreign currency rates. Based on the cross currency swap agreements, the financial institutions will swap the principal as well as the profit distribution amounts of the Company's Islamic medium term notes from Malaysian Ringgit into USD. Cash flow hedge accounting has been applied to these cross currency swaps as they are considered to be highly effective hedging instruments. A net fair value gain of US\$6.6 million (2017: US\$6.6 million) has been included in other comprehensive income in respect of these contracts.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 19. DERIVATIVE FINANCIAL ASSETS/LIABILITIES (CONT'D)

### *Commodity futures, options and swap contracts*

The Group enters into certain commodity futures, options and swap contracts in order to hedge the commodity price risk related to the sale and purchase of palm based products. Cash flow hedge accounting may be applied to some of these derivatives as they are considered to be highly effective hedging instruments. A net fair value loss of US\$3.4 million (2017: gain of US\$2.1 million), with a related deferred tax credit of US\$0.3 million (2017: deferred tax charge of US\$0.2 million), has been included in other comprehensive income in respect of these contracts. Other commodity futures, options and swap contracts entered into by the Group are accounted for at fair value through profit or loss.

### *Foreign currency options and forward contracts*

The Group enters into certain foreign currency options and forward contracts in order to hedge the foreign currency risk related to the purchase of palm based products as well as the Company's forecasted dividend payments. Cash flow hedge accounting may be applied to some of these derivatives as they are considered to be highly effective hedging instruments. There were no foreign currency forward contracts that were hedge accounted for as at 31 December 2018 and 2017. During 2017, a net fair value loss of US\$0.3 million, with a related deferred tax credit of US\$29,000, had been included in other comprehensive income in respect of these contracts. Other foreign currency options and forward contracts entered into by the Group are accounted for at fair value through profit or loss.

### *Interest rate swaps*

The Company has entered into interest rate swaps with financial institutions to hedge the interest rate risk arising from its floating rate debts, mitigating the risk of changes in market interest rates. Based on the interest rate swap agreements, the floating rates on the Company's bank loans are swapped into fixed rates. Cash flow hedge accounting has been applied to these interest rate swaps as they are considered to be highly effective hedging instruments. A net fair value gain of US\$0.6 million (2017: US\$1.3 million) has been included in other comprehensive income in respect of these contracts.

## 20. LOAN TO SUBSIDIARY

The loan to subsidiary is denominated in USD, unsecured, bears interest at 5.50% per annum and is repayable on 31 December 2021 or may be extended upon mutual agreement. The Company does not have the intention of demanding for the settlement of the loan in the foreseeable future as the amount forms, in substance, a part of the Company's net investment in subsidiaries.

	Company		
	31.12.2018	31.12.2017	01.01.2017
	US\$'000	US\$'000	US\$'000
Loan to subsidiary	370,000	370,000	-
Less: Allowance for expected credit losses	(2,590)	-	-
	367,410	370,000	-



# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 20. LOAN TO SUBSIDIARY (CONT'D)

### Expected credit losses

The movement in allowance for expected credit losses of the loan to subsidiary computed based on lifetime ECL is as follows:

	<b>Company 2018 US\$'000</b>
At 1 January	2,590
Charge for the year	–
At 31 December	<u>2,590</u>

## 21. BIOLOGICAL ASSETS

Biological assets relate to agricultural produce growing on bearer plants, which is referred to as FFB, with the following movements in carrying value:

	<b>Group 2018 US\$'000</b>	<b>2017 US\$'000</b>
<b>Fair value</b>		
At 1 January	22,000	24,556
Losses arising from changes in fair value of biological assets	(3,456)	(2,382)
Exchange differences	<u>(1,361)</u>	<u>(174)</u>
At 31 December	<u>17,183</u>	<u>22,000</u>

## 22. INVENTORIES

	<b>31.12.2018 US\$'000</b>	<b>Group 31.12.2017 US\$'000</b>	<b>01.01.2017 US\$'000</b>
Palm based products	62,675	42,458	53,147
Fertilisers and chemicals	22,605	12,091	13,522
Spare parts and other consumables	<u>12,282</u>	<u>12,359</u>	<u>11,534</u>
	<u>97,562</u>	<u>66,908</u>	<u>78,203</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 23. TRADE RECEIVABLES

	Group		
	31.12.2018	31.12.2017	01.01.2017
	US\$'000	US\$'000	US\$'000
Trade receivables from:			
- Third parties	34,837	30,979	22,919
- Related parties	3,017	825	694
Less: Allowance for expected credit losses	(462)	-	-
	37,392	31,804	23,613

Trade receivables are non-interest bearing and generally due within 30 days. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

	Group		
	31.12.2018	31.12.2017	01.01.2017
	US\$'000	US\$'000	US\$'000
Indonesian Rupiah	13,319	7,584	11,111
United States Dollar	24,073	24,220	12,502
	37,392	31,804	23,613

### *Receivables that are past due but not impaired*

An analysis of trade receivables that are past due but not impaired as at the end of the reporting period is as follows:

	Group		
	31.12.2018	31.12.2017	01.01.2017
	US\$'000	US\$'000	US\$'000
Trade receivables past due:			
Lesser than 30 days	1,913	185	653
30 to 60 days	6	95	519
More than 60 days	611	436	431
	2,530	716	1,603

### Expected credit losses

The movement in allowance for expected credit losses of trade receivables computed based on lifetime ECL is as follows:

	Group 2018 US\$'000
At 1 January	479
Charge for the year	-
Exchange differences	(17)
At 31 December	462

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 24. OTHER RECEIVABLES

	Group			Company		
	31.12.2018	31.12.2017	01.01.2017	31.12.2018	31.12.2017	01.01.2017
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Interest receivable	216	261	1,029	87	92	1,833
Amounts due from related parties	33	496	301	–	–	–
Sundry receivables	3,176	2,395	10,656	226	33	36
	3,425	3,152	11,986	313	125	1,869

The amounts due from related parties are non-trade related, unsecured, non-interest bearing, repayable on demand and expected to be settled in cash.

Other receivables are denominated in the following currencies:

	Group			Company		
	31.12.2018	31.12.2017	01.01.2017	31.12.2018	31.12.2017	01.01.2017
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Indonesian Rupiah	1,037	2,762	10,185	–	–	–
United States Dollar	2,381	377	1,791	312	117	1,859
Singapore Dollar	7	13	10	1	8	10
	3,425	3,152	11,986	313	125	1,869

## 25. ADVANCES AND PREPAYMENTS

### *Advances for purchase of property, plant and equipment*

Advances for purchase of property, plant and equipment represent advance payments made to suppliers and contractors in relation to the following items:

	Group			Company		
	31.12.2018	31.12.2017	01.01.2017	31.12.2018	31.12.2017	01.01.2017
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Leasehold buildings and improvements	17,987	16	4,117	–	–	–
Machinery and installations	635	194	5,027	–	–	–
Others	248	437	518	–	21	–
	18,870	647	9,662	–	21	–

### *Other advances and prepayments*

Other advances and prepayments relate mainly to payments made for purchase of inventories and other miscellaneous items. These payments are non-interest bearing, unsecured and expected to be fulfilled within the next 12 months.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 26. CASH AND BANK BALANCES

	Group			Company		
	31.12.2018	31.12.2017	01.01.2017	31.12.2018	31.12.2017	01.01.2017
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Cash at banks and on hand	55,359	111,322	91,023	4,028	34,654	377,504
Time deposits	–	123,000	16,910	–	–	–
Cash and cash equivalents	55,359	234,322	107,933	4,028	34,654	377,504
Restricted cash balances	44,540	44,569	150,312	42,718	44,068	149,367
	99,899	278,891	258,245	46,746	78,722	526,871

As at the end of the reporting period, the Group has the following bank overdrafts which have been netted against cash at banks as the Group has the legal rights to set off the overdrafts against the cash at banks, which are with the same banks:

	Group		
	31.12.2018	31.12.2017	01.01.2017
	US\$'000	US\$'000	US\$'000
Cash at banks and on hand (Gross carrying amounts prior to offsetting)	112,409	166,473	607,943
Bank overdrafts (Gross amounts offset in the balance sheet)	(57,050)	(55,151)	(516,920)
Cash at banks and on hand (Net amounts in the balance sheet)	55,359	111,322	91,023

Cash at banks earn interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one month to three months (31 December 2017: one month; 1 January 2017: one month to three months), depending on the cash requirements of the Group, and earn interest at the respective short-term deposit rates. The weighted average effective interest rate of the Group's cash and cash equivalents during the year is 0.5% (2017: 0.5%) per annum.

Restricted cash balances relate to cash deposits maintained with brokers and banks which are not freely remissible for use by the Group.

Cash and bank balances are denominated in the following currencies:

	Group			Company		
	31.12.2018	31.12.2017	01.01.2017	31.12.2018	31.12.2017	01.01.2017
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Indonesian Rupiah	393	11,083	21,725	–	–	–
United States Dollar	96,798	265,824	235,530	45,993	77,746	526,291
Singapore Dollar	1,192	1,475	938	745	968	566
Others	1,516	509	52	8	8	14
	99,899	278,891	258,245	46,746	78,722	526,871

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 27. TRADE PAYABLES

	Group			Company		
	31.12.2018	31.12.2017	01.01.2017	31.12.2018	31.12.2017	01.01.2017
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Trade payables to:						
- Third parties	28,396	28,426	24,919	40	49	60
- Related parties	72	2	1,137	-	-	-
	28,468	28,428	26,056	40	49	60

Trade payables are non-interest bearing and generally due within 30 to 90 days.

Trade payables are denominated in the following currencies:

	Group			Company		
	31.12.2018	31.12.2017	01.01.2017	31.12.2018	31.12.2017	01.01.2017
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Indonesian Rupiah	27,946	27,466	24,734	-	-	-
United States Dollar	522	961	1,317	40	48	55
Others	-	1	5	-	1	5
	28,468	28,428	26,056	40	49	60

## 28. OTHER PAYABLES AND ACCRUALS

	Group			Company		
	31.12.2018	31.12.2017	01.01.2017	31.12.2018	31.12.2017	01.01.2017
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Accrued employee costs	16,300	17,593	14,451	2,124	1,793	1,530
Accrued financial expenses	1,726	2,234	4,156	1,607	2,133	4,027
Accrued contractor fees	7,135	7,075	5,954	-	-	-
Others	6,156	6,649	6,351	203	1,997	3,077
	31,317	33,551	30,912	3,934	5,923	8,634

Other payables and accruals are denominated in the following currencies:

	Group			Company		
	31.12.2018	31.12.2017	01.01.2017	31.12.2018	31.12.2017	01.01.2017
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Indonesian Rupiah	26,025	26,777	21,538	-	-	-
United States Dollar	2,569	4,500	7,470	1,658	4,013	6,979
Singapore Dollar	2,723	2,274	1,904	2,276	1,910	1,655
	31,317	33,551	30,912	3,934	5,923	8,634

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 29. ADVANCES FROM CUSTOMERS

Advances from customers represent advance payments relating to the sale of palm based products. These payments are trade related, unsecured, non-interest bearing and the obligations to the customers are expected to be fulfilled within the next 12 months.

Revenue recognised during the financial year ended 31 December 2018 that was included in the advances from customers at the beginning of the year amounted to US\$1.4 million (2017: US\$0.7 million).

## 30. LOANS AND BORROWINGS FROM FINANCIAL INSTITUTIONS

		Interest rate (per annum)				
	Maturity	2018 %	2017 %	31.12.2018 US\$'000	31.12.2017 US\$'000	01.01.2017 US\$'000
Group						
Current						
Bank loans	2019	2.7-4.2	2.5-3.0	27,582	19,277	–
Obligations under finance leases	2019	2.6-14.9	2.6-16.0	2,529	1,693	1,672
				30,111	20,970	1,672
Non-current						
Bank loans	2020-2022	2.7-4.2	2.5-3.0	106,795	227,484	
Obligations under finance leases	2020-2023	2.6-14.9	2.6-16.0	3,022	2,052	1,346
				109,817	229,536	1,346
				139,928	250,506	3,018
Company						
Current						
Bank loans	2019	2.7-4.2	2.5-3.0	27,582	19,277	–
Non-current						
Bank loans	2020-2022	2.7-4.2	2.5-3.0	106,795	227,484	–
				134,377	246,761	

### Bank loans

The Group's bank loans as at 31 December 2018 and 2017 comprise of unsecured term loan facilities from banks in Singapore.

As at 31 December 2018, the Group has undrawn committed unsecured credit facilities available of US\$100.0 million (31 December 2017: US\$50.0 million; 1 January 2017: Nil), which may be utilised for the Group's general corporate purposes.



# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 30. LOANS AND BORROWINGS FROM FINANCIAL INSTITUTIONS (CONT'D)

### *Obligations under finance leases*

The Group entered into capital lease agreements for the purchase of farming equipment and motor vehicles incidental to the ordinary course of its business.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are disclosed in Note 38(c).

Loans and borrowings from financial institutions are denominated in the following currencies:

	Group			Company		
	31.12.2018	31.12.2017	01.01.2017	31.12.2018	31.12.2017	01.01.2017
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Indonesian Rupiah	5,551	3,745	3,018	-	-	-
United States Dollar	134,377	246,761	-	134,377	246,761	-
	139,928	250,506	3,018	134,377	246,761	-

A reconciliation of liabilities arising from financing activities is as follows:

	Non-cash changes						
	Amortisation						
	01.01.2018	Cash	Cash	Foreign	of issuance	Others	31.12.2018
	US\$'000	inflows	outflows	exchange	costs	US\$'000	US\$'000
Bank loans							
- current	19,277	-	(19,792)	-	515	27,582	27,582
- non-current	227,484	-	(93,750)	-	643	(27,582)	106,795
Obligations under finance leases							
- current	1,693	-	(2,526)	(124)	-	3,486	2,529
- non-current	2,052	-	-	(150)	-	1,120	3,022
Islamic medium term notes (Note 31)							
- non-current	245,785	-	-	(4,880)	168	-	241,073
	496,291	-	(116,068)	(5,154)	1,326	4,606	381,001

The 'others' column relates to reclassification of non-current portion of loans and borrowings due to passage of time and new finance leases entered into for acquisition of property, plant and equipment.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 30. LOANS AND BORROWINGS FROM FINANCIAL INSTITUTIONS (CONT'D)

	01.01.2017 US\$'000	Cash inflows US\$'000	Cash outflows US\$'000	Non-cash changes			31.12.2017 US\$'000
				Foreign exchange US\$'000	Amortisation of issuance costs US\$'000	Others US\$'000	
Bank loans							
- current	-	9,845	(833)	-	11	10,254	19,277
- non-current	-	237,583	-	-	155	(10,254)	227,484
Obligations under finance leases							
- current	1,672	-	(2,086)	(15)	-	2,122	1,693
- non-current	1,346	-	-	(19)	-	725	2,052
Islamic medium term notes (Note 31)							
- current	222,542	-	(319,655)	15,739	408	80,966	-
- non-current	222,291	-	-	23,325	169	-	245,785
	447,851	247,428	(322,574)	39,030	743	83,813	496,291

The 'others' column relates to reclassification of non-current portion of loans and borrowings due to passage of time, new finance leases entered into for acquisition of property, plant and equipment and settlement of cross currency swaps upon maturity of the Islamic medium term notes.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 31. ISLAMIC MEDIUM TERM NOTES

	Maturity date	Distribution rate (per annum)	Group and Company		
			31.12.2018 US\$'000	31.12.2017 US\$'000	01.01.2017 US\$'000
First issuance	31 July 2017	4.45%	–	–	133,770
Second issuance	8 December 2017	4.30%	–	–	89,180
Third issuance	5 June 2020	4.35%	144,837	147,765	133,770
Fourth issuance	27 October 2021	4.85%	96,558	98,510	89,180
			241,395	246,275	445,900
Less:					
Issuance costs			1,183	1,183	4,330
Accumulated amortisation			(861)	(693)	(3,263)
			322	490	1,067
Islamic medium term notes, net			241,073	245,785	444,833
Current			–	–	222,542
Non-current			241,073	245,785	222,291
			241,073	245,785	444,833

On 18 June 2012, the Company was granted approval by the Securities Commission of Malaysia to establish a Ringgit-denominated Islamic medium term note programme ("Programme") of up to MYR 2.0 billion under the laws of Malaysia. The tenure of the Programme shall be up to 10 years from the date of the first issuance being 31 July 2012.

Under the Programme, the Company may issue Islamic medium term notes from time to time in Malaysian Ringgit in various amounts and tenors of more than a year and up to a maximum tenor of 10 years. The Islamic medium term notes are unsecured, bear periodic distribution rates payable semi-annually in arrears, and will not be listed on any stock exchange.

The Company had repaid the first and second issuances of the Islamic medium term notes on 31 July 2017 and 8 December 2017 respectively.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 32. PROVISION FOR POST-EMPLOYMENT BENEFITS

The Group recognised employment benefits for all its permanent employees in Indonesia pursuant to Indonesian Labor Law No. 13/2003. The provision for employment benefits is based on the calculation of an independent actuary, using the "Projected Unit Credit" method. No fund was provided for such liability for employment benefits.

The assumptions used in determining the provision for post-employment benefits are as follows:

	31.12.2018	31.12.2017	01.01.2017
Normal Pension Age	55 Years	55 Years	55 Years
Salary Increment Rate per annum	8%	8%	8%
Discount Rate per annum	8.51%	7.10%	8.30%
Mortality Rate	Table Mortality Indonesia 2011	Table Mortality Indonesia 2011	Table Mortality Indonesia 2011
Disability Rate	1% of mortality rate	1% of mortality rate	1% of mortality rate
Resignation Rate	0% to 5%	0% to 5%	0% to 1%
Valuation Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit

Changes in the present value of defined benefit obligation are as follows:

	Group	
	2018	2017
	US\$'000	US\$'000
At 1 January	22,473	16,537
Net employee benefit expense charged to profit or loss (Note 36)	5,391	5,447
Remeasurement (gains)/losses		
- Actuarial (gains)/losses arising from changes in financial assumptions	(3,794)	2,081
Benefits paid	(1,100)	(1,487)
Exchange differences	(1,480)	(105)
At 31 December	21,490	22,473

The following summarises the components of net employee benefit expense relating to defined benefit plans recognised in profit or loss as follows:

	Group	
	2018	2017
	US\$'000	US\$'000
Interest cost on benefit obligation	1,126	967
Current service cost	4,225	4,480
Past service cost	40	-
	5,391	5,447

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 32. PROVISION FOR POST-EMPLOYMENT BENEFITS (CONT'D)

The breakdown of net employee benefit expense relating to defined benefit plans is as follows:

	Group	
	2018	2017
	US\$'000	US\$'000
Cost of sales (Note 5)	3,613	3,114
General and administrative expenses (Note 7)	1,028	1,634
Others	750	699
	<u>5,391</u>	<u>5,447</u>

The sensitivity analysis below has been determined based on reasonable possible changes of each significant assumption on the defined benefits obligation as of the end of the reporting period, assuming if all the other assumptions were held constant.

		Group		
		Change in present value of defined benefit obligation		
	Increase/ (decrease)	31.12.2018	31.12.2017	01.01.2017
		US\$'000	US\$'000	US\$'000
Discount rate	1% increase	(2,058)	(2,405)	(1,713)
	1% decrease	2,425	2,867	2,034
Future salary growth	1% increase	2,504	2,913	2,093
	1% decrease	<u>(2,156)</u>	<u>(2,485)</u>	<u>(1,789)</u>

## 33. SHARE CAPITAL

	Group and Company			
	2018		2017	
	No. of shares '000	US\$'000	No. of shares '000	US\$'000

### Issued and fully paid ordinary shares

At 1 January and 31 December	<u>1,584,073</u>	<u>394,913</u>	<u>1,584,073</u>	<u>394,913</u>
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The holders of ordinary shares (except treasury shares) are entitled to receive dividends as and when declared by the Company. Each ordinary share carries one vote per share without restriction. The ordinary shares have no par value.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 34. DIFFERENCES ARISING FROM RESTRUCTURING TRANSACTIONS INVOLVING ENTITIES UNDER COMMON CONTROL

This represents the difference between the consideration paid and the share capital of the “acquired” entities.

## 35. OTHER RESERVES

The composition of other reserves is as follows:

	Group			Company		
	31.12.2018	31.12.2017	01.01.2017	31.12.2018	31.12.2017	01.01.2017
		(Restated)	(Restated)			
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Capital reserve	(29,096)	(29,096)	(29,096)	–	–	–
Revaluation reserve	279	279	279	–	–	–
Gain on sale of treasury shares	10,322	10,322	10,322	10,322	10,322	10,322
Hedging reserve	1,792	(2,382)	(11,884)	1,792	(5,429)	(13,310)
Foreign translation reserve	(98,416)	(13,420)	393	393	393	393
	(115,119)	(34,297)	(29,986)	12,507	5,286	(2,595)

### Capital reserve

Capital reserve represents the premium paid for the acquisition of non-controlling interests over the fair value of the identifiable assets and liabilities of a subsidiary.

### Revaluation reserve

Revaluation reserve represents increases in the fair value of property, plant and equipment, net of tax, and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in other comprehensive income.

### Gain on sale of treasury shares

This represents the gain arising from sale of treasury shares. No dividend may be paid, and no other distribution (whether in cash or otherwise) of the Company's assets (including any distribution of assets to members on a winding up) may be made in respect of this reserve.



# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 35. OTHER RESERVES (CONT'D)

### *Hedging reserve*

Hedging reserve represents the cumulative fair value changes, net of tax, of the derivative financial instruments designated as cash flow hedges.

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>
At 1 January	(2,382)	(11,884)	(5,429)	(13,310)
Fair value gains on cash flow hedges, net of tax and non-controlling interests	4,844	46,358	1,960	44,706
Reclassification to profit or loss				
- Sales	(5,931)	(31)	-	-
- Losses/(gains) on foreign exchange	4,880	(39,063)	4,880	(39,063)
- Net financial expenses	381	2,238	381	2,238
At 31 December	1,792	(2,382)	1,792	(5,429)

### *Foreign translation reserve*

The foreign translation reserve represents exchange differences arising from the translation of the financial statements of companies in the Group whose functional currencies are different from that of the Group's presentation currency and a loan to subsidiary which forms part of the Company's net investment in subsidiaries.

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>US\$'000</b>	<b>(Restated) US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>
At 1 January	(13,420)	393	393	393
Foreign currency translation adjustments	(84,996)	(13,813)	-	-
At 31 December	(98,416)	(13,420)	393	393

## 36. EMPLOYEE BENEFITS

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Salaries, bonuses and other benefits	87,255	73,786
Net employee benefit expense relating to defined benefit plans (Note 32)	5,391	5,447
Central Provident Fund contributions	272	268
	92,918	79,501

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 37. RELATED PARTY DISCLOSURES

### (a) Transactions with related parties

In addition to those related party information provided elsewhere in the relevant notes to the consolidated financial statements, the following significant transactions between the Group and related parties (who are not members of the Group) took place during the financial year at terms agreed between the parties:

	Group	
	2018	2017
	US\$'000	US\$'000
Office lease rental	617	638
Purchases of goods	10,068	20,678
Sales of goods	2,725	-
Net settlement for commodity swap contracts	876	75
Milling income	468	-

### (b) Compensation of key management personnel

	Group	
	2018	2017
	US\$'000	US\$'000
Salaries, bonuses and other benefits	6,276	5,815
Directors' fees	341	333
Net employee benefit expense relating to defined benefit plans	280	326
Central Provident Fund contributions	50	51
	6,947	6,525
Comprise amounts paid to:		
- Directors of the Company	2,368	2,168
- Other key management personnel	4,579	4,357
	6,947	6,525

## 38. COMMITMENTS AND CONTINGENCIES

### (a) Capital commitments

Significant capital expenditure contracted for as at the end of the reporting period but not recognised in the financial statements are as follows:

	Group		
	31.12.2018	31.12.2017	01.01.2017
	US\$'000	US\$'000	US\$'000
Capital commitments in respect of property, plant and equipment	20,175	1,452	19,218

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 38. COMMITMENTS AND CONTINGENCIES (CONT'D)

### (b) Operating lease commitments

*As lessee*

In addition to the land use rights disclosed in Note 14, the Group has entered into commercial leases to lease land and buildings. These non-cancellable operating leases have remaining lease terms of between one to three years. There are no restrictions placed upon the lessee by entering into these leases. Operating lease payments recognised in profit or loss amounted to US\$473,000 (2017: US\$526,000) (Note 7).

Future minimum lease payments under non-cancellable operating leases are as follows:

	Group		
	31.12.2018	31.12.2017	01.01.2017
	US\$'000	US\$'000	US\$'000
Within one year	218	580	241
After one year but not more than five years	83	87	299
	301	667	540

### (c) Finance lease commitments

*As lessee*

The Group has finance leases for certain property, plant and equipment. These leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	31.12.2018		31.12.2017		01.01.2017	
	Minimum lease payments	Present value of minimum lease payments (Note 30)	Minimum lease payments	Present value of minimum lease payments (Note 30)	Minimum lease payments	Present value of minimum lease payments (Note 30)
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>Group</b>						
Not later than one year	3,061	2,529	2,109	1,693	1,996	1,672
Later than one year but not more than five years	3,383	3,022	2,231	2,052	1,533	1,346
Total minimum lease payments	6,444	5,551	4,340	3,745	3,529	3,018
Less: Amount representing finance charges	(893)	–	(595)	–	(511)	–
Present value of minimum lease payments	5,551	5,551	3,745	3,745	3,018	3,018

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 38. COMMITMENTS AND CONTINGENCIES (CONT'D)

### (d) *Contingent liabilities*

The Company has provided corporate guarantees to certain external parties in the ordinary course of business, guaranteeing the obligations of a subsidiary in the event of any non-performance by the subsidiary in respect of its contracts with these external parties. As at 31 December 2018, the Company's contingent liabilities arising from these corporate guarantees amounted to US\$0.1 million (31 December 2017: US\$0.5 million; 1 January 2017: US\$1.5 million).

Certain subsidiaries have guaranteed US\$29.6 million (31 December 2017: US\$21.5 million; 1 January 2017: US\$21.8 million) in respect of plasma farmers' loans repayable to banks at the time when the plasma plantations are converted. These loans are being repaid by the plasma farmers on an instalment basis through a withholding mechanism on sales of the plasma crops to the Group.

## 39. CLASSES OF FINANCIAL ASSETS AND LIABILITIES

As at the end of the reporting period, the following are the different classes of financial assets and liabilities:

	Group			Company		
	31.12.2018	31.12.2017	01.01.2017	31.12.2018	31.12.2017	01.01.2017
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>Assets</b>						
<u>At amortised cost</u>						
Plasma receivables	50,926	49,931	42,708	-	-	-
Trade receivables	37,392	31,804	23,613	-	-	-
Other receivables	3,425	3,152	11,986	313	125	1,869
Loan to subsidiary	-	-	-	367,410	370,000	-
Restricted cash balances	44,540	44,569	150,312	42,718	44,068	149,367
Cash and cash equivalents	55,359	234,322	107,933	4,028	34,654	377,504
	191,642	363,778	336,552	414,469	448,847	528,740
<u>At fair value through other comprehensive income</u>						
Derivative financial assets	1,996	4,676	789	1,996	1,290	-
Available-for-sale unquoted investment	-	5,775	-	-	5,775	-
	1,996	10,451	789	1,996	7,065	-
<u>At fair value through profit or loss</u>						
Derivative financial assets	1,914	941	1,144	26	-	-
Unquoted investment at FVTPL	5,775	-	-	5,775	-	-
	7,689	941	1,144	5,801	-	-

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 39. CLASSES OF FINANCIAL ASSETS AND LIABILITIES (CONT'D)

	Group			Company		
	31.12.2018	31.12.2017	01.01.2017	31.12.2018	31.12.2017	01.01.2017
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>Liabilities</b>						
<u>At amortised cost</u>						
Trade payables	28,468	28,428	26,056	40	49	60
Other payables and accruals	31,317	33,551	30,912	3,934	5,923	8,634
Loans and borrowings from financial institutions	139,928	250,506	3,018	134,377	246,761	–
Islamic medium term notes	241,073	245,785	444,833	241,073	245,785	444,833
	440,786	558,270	504,819	379,424	498,518	453,527
<u>At fair value through other comprehensive income</u>						
Derivative financial liabilities	79,580	81,361	208,723	79,580	81,361	208,390
<u>At fair value through profit or loss</u>						
Derivative financial liabilities	921	1,724	2,036	–	–	334

## 40. FAIR VALUE OF ASSETS AND LIABILITIES

### (a) Fair value hierarchy

The Group categorises fair value measurements using a fair value hierarchy that is dependent on the valuation inputs used as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date,
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, and
- Level 3 – Unobservable inputs for the asset or liability.

Fair value measurements that use inputs of different hierarchy levels are categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 40. FAIR VALUE OF ASSETS AND LIABILITIES (CONT'D)

### (b) *Assets and liabilities measured at fair value*

The following table shows an analysis of each class of assets and liabilities measured at fair value at the end of the reporting period:

	Quoted prices in active markets for identical instruments (Level 1) US\$'000	Significant other observable inputs (Level 2) US\$'000	Significant unobservable inputs (Level 3) US\$'000	Total US\$'000
<b>31.12.2018</b>				
<b>Group</b>				
<b>Assets measured at fair value:</b>				
<u>Non-financial assets</u>				
Biological assets	–	–	17,183	17,183
<u>Financial assets</u>				
Derivative financial assets	1,888	2,022	–	3,910
Unquoted investment at FVTPL	–	–	5,775	5,775
	<u>1,888</u>	<u>2,022</u>	<u>5,775</u>	<u>9,685</u>
<b>Liabilities measured at fair value:</b>				
<u>Financial liabilities</u>				
Derivative financial liabilities	825	79,676	–	80,501
<b>Company</b>				
<b>Assets measured at fair value:</b>				
<u>Financial assets</u>				
Derivative financial assets	–	2,022	–	2,022
Unquoted investment at FVTPL	–	–	5,775	5,775
	<u>–</u>	<u>2,022</u>	<u>5,775</u>	<u>7,797</u>
<b>Liabilities measured at fair value:</b>				
<u>Financial liabilities</u>				
Derivative financial liabilities	–	79,580	–	79,580



# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 40. FAIR VALUE OF ASSETS AND LIABILITIES (CONT'D)

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

	Quoted prices in active markets for identical instruments (Level 1) US\$'000	Significant other observable inputs (Level 2) US\$'000	Significant unobservable inputs (Level 3) US\$'000	Total US\$'000
<b>31.12.2017</b>				
<b>Group</b>				
<b>Assets measured at fair value:</b>				
<u>Non-financial assets</u>				
Biological assets	–	–	22,000	22,000
<u>Financial assets</u>				
Derivative financial assets	2,352	3,265	–	5,617
Available-for-sale unquoted investment	–	–	5,775	5,775
	<u>2,352</u>	<u>3,265</u>	<u>5,775</u>	<u>11,392</u>
<b>Liabilities measured at fair value:</b>				
<u>Financial liabilities</u>				
Derivative financial liabilities	–	83,085	–	83,085
<b>Company</b>				
<b>Assets measured at fair value:</b>				
<u>Financial assets</u>				
Derivative financial assets	–	1,290	–	1,290
Available-for-sale unquoted investment	–	–	5,775	5,775
	<u>–</u>	<u>1,290</u>	<u>5,775</u>	<u>7,065</u>
<b>Liabilities measured at fair value:</b>				
<u>Financial liabilities</u>				
Derivative financial liabilities	–	81,361	–	81,361

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 40. FAIR VALUE OF ASSETS AND LIABILITIES (CONT'D)

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

	Quoted prices in active markets for identical instruments (Level 1) US\$'000	Significant other observable inputs (Level 2) US\$'000	Significant unobservable inputs (Level 3) US\$'000	Total US\$'000
<b>01.01.2017</b>				
<b>Group</b>				
<b>Assets measured at fair value:</b>				
<u>Non-financial assets</u>				
Biological assets	–	–	24,556	24,556
<u>Financial assets</u>				
Derivative financial assets	–	1,933	–	1,933
<b>Liabilities measured at fair value:</b>				
<u>Financial liabilities</u>				
Derivative financial liabilities	–	210,759	–	210,759
<b>Company</b>				
<b>Liabilities measured at fair value:</b>				
<u>Financial liabilities</u>				
Derivative financial liabilities	–	208,724	–	208,724

### (c) Level 2 fair value measurements

The following is a description of the valuation techniques and inputs used in the fair value measurement for assets and liabilities that are categorised within Level 2 of the fair value hierarchy:

#### **Derivative financial assets/liabilities**

##### Commodity options and swap contracts

Commodity options and swap contracts are valued using a valuation technique with market observable inputs. The most frequently applied valuation techniques include forward pricing and Black-Scholes models, using present value calculations. The models incorporate various inputs including commodity spot and forward rates, commodity volatility prices based on broker quotes and forward rate curves.

##### Cross currency swaps and interest rate swaps

Cross currency swap and interest rate swap contracts are valued using a valuation technique with market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including foreign exchange spot and forward rates, interest rate curves and forward rate curves.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 40. FAIR VALUE OF ASSETS AND LIABILITIES (CONT'D)

### (d) Level 3 fair value measurements

#### (i) Information about significant unobservable inputs used in Level 3 fair value measurements

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

Description	Fair value US\$'000	Valuation techniques	Unobservable inputs	Range
<b>31.12.2018</b>				
Biological assets	17,183	Income approach	Projected harvest quantities	232,000 tonnes
			Market price of FFB	US\$59/tonne –US\$98/tonne
Unquoted investment at FVTPL	5,775	Discounted cash flow	Discount rate	7.5% to 8.5%
<b>31.12.2017</b>				
Biological assets	22,000	Income approach	Projected harvest quantities	253,000 tonnes
			Market price of FFB	US\$95/tonne –US\$136/tonne
<b>01.01.2017</b>				
Biological assets	24,556	Income approach	Projected harvest quantities	218,000 tonnes
			Market price of FFB	US\$119/tonne –US\$166/tonne

For biological assets, changes in projected harvest quantities and market price of FFB will result in directionally similar changes in fair value measurement.

For unquoted investment at FVTPL, an increase (decrease) in the discount rate would result in a correspondingly lower (higher) fair value measurement.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 40. FAIR VALUE OF ASSETS AND LIABILITIES (CONT'D)

### (d) *Level 3 fair value measurements (cont'd)*

#### (ii) *Movements in Level 3 assets measured at fair value*

The movements in unquoted investment at FVTPL and biological assets measured at fair value are disclosed in Note 18 and Note 21 respectively.

#### (iii) *Valuation policies and procedures*

##### Fair value of biological assets

To determine the fair value of biological assets, the income approach has been adopted by the Group as being the most appropriate valuation technique. Under the income approach, the expected cash flows from the agricultural produce on the bearer plants are estimated based on the projected harvest quantities and the market price of FFB, net of harvesting costs and estimated cost to sell. The price of the FFB is largely dependent on the prevailing market prices of crude palm oil and palm kernel.

Management reviews the appropriateness of the fair valuation methodologies and assumptions adopted and also evaluate the appropriateness and reliability of the inputs used in the valuations.

Significant changes in fair value measurements from period to period are evaluated by management for reasonableness. Key drivers of the changes are identified and assessed for reasonableness against relevant information from independent sources, or internal sources if necessary and appropriate.

##### Fair value of unquoted investment

The fair value of the unquoted investment has been determined based on a discounted cash flow model.

The appropriateness of the valuation methodologies and assumptions adopted are reviewed by the management along with the appropriateness and reliability of the inputs (including those developed internally by the limited partnership) used in the valuations.

Significant changes in fair value measurements from period to period are evaluated for reasonableness. Key drivers of the changes are identified and assessed for reasonableness against relevant information from independent sources, or internal sources if necessary and appropriate.

As at 31 December 2017, the fair value of the unquoted investment was determined by reference to the prices of recent transactions.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 40. FAIR VALUE OF ASSETS AND LIABILITIES (CONT'D)

### (e) *Assets and liabilities not carried at fair value but for which fair value is disclosed*

The following table shows an analysis of the assets and liabilities not measured at fair value but for which fair value is disclosed:

	Fair value measurements at the end of the reporting period using				Carrying amount US\$'000
	Quoted prices in active market for identical instruments (Level 1) US\$'000	Significant other observable inputs (Level 2) US\$'000	Significant unobservable inputs (Level 3) US\$'000	Total US\$'000	
Group and Company					
31.12.2018					
Liabilities					
Islamic medium term notes	–	242,196	–	242,196	241,073
31.12.2017					
Liabilities					
Islamic medium term notes	–	246,605	–	246,605	245,785
01.01.2017					
Liabilities					
Islamic medium term notes	–	445,758	–	445,758	448,833

### ***Determination of fair value***

Islamic medium term notes

The fair values as disclosed in the table above are estimated by reference to the latest transacted prices during 2018, 2017 and 2016.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 40. FAIR VALUE OF ASSETS AND LIABILITIES (CONT'D)

**(f) Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value**

The fair value of financial assets and liabilities by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value are as follows:

	31.12.2018		31.12.2017		01.01.2017	
	Carrying amount US\$'000	Fair value US\$'000	Carrying amount US\$'000	Fair value US\$'000	Carrying amount US\$'000	Fair value US\$'000
<b>Group and Company</b>						
<u>Financial liabilities</u>						
Islamic medium term notes	241,073	242,196	245,785	246,605	444,833	445,758

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group and the Company are exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include interest rate risk, market risk (including foreign currency risk and commodity price risk), credit risk and liquidity risk. The board of directors reviews and agrees on the policies and procedures for the management of these risks. The audit committee provides independent oversight to the effectiveness of the risk management process.

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

There has been no change to the Group's exposure to these financial risks or the manner in which it manages and measures the risks.

**(a) Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates.

The Group's exposure to interest rate risk arises primarily from its floating rate bank loans and deposits with financial institutions.

The Group monitors its interest rate risk closely and may use credit and interest rate swap contracts to manage interest rate risk arising from floating rate debt.

Sensitivity analysis for interest rate risk

At the end of the reporting period, had the interest rates been 50 basis points (2017: 50 basis points) higher/lower, ceteris paribus, the Group's profit before tax would have increased/(decreased) by US\$0.5 million (2017: US\$0.9 million), arising mainly as a result of higher interest income from deposits with financial institutions, and the Group's hedging reserve in other comprehensive income would have been US\$1.3 million (2017: US\$2.0 million) higher/lower, arising from changes in fair value of interest rate swap contracts.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

### (b) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group has transactional currency exposures arising from sales and purchases that are denominated in a currency other than the respective functional currencies of the Group's entities, primarily Indonesian Rupiah ("IDR") and USD. The foreign currencies in which these transactions are denominated are mainly USD, Singapore Dollar ("SGD") and Malaysian Ringgit ("MYR"). To the extent that the foreign denominated sales and purchases of the Group are not evenly matched in terms of quantum and/or timing, the Group has exposure to foreign currency risk.

The Group is also exposed to currency translation risk arising from its financial assets and liabilities that are denominated in currencies other than the respective functional currencies of the Group's entities.

The Group does not have any formal hedging policy for foreign exchange exposure. However, it may enter into foreign currency options and swap contracts to hedge against volatility in exchange rates.

The Group's foreign currency exposures are highlighted in Notes 23, 24, 26, 27, 28, 30 and 31 respectively.

#### Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of the Group's profit before tax and equity to a reasonably possible change in the IDR, SGD and MYR exchange rates against the USD as at the end of the reporting period, ceteris paribus.

	2018		2017	
	Profit before tax US\$'000	Equity US\$'000	Profit before tax US\$'000	Equity US\$'000
<b>Group</b>				
IDR against USD				
- strengthened 10% (2017: 10%)	(2,289)	122,960	(12,944)	122,679
- weakened 10% (2017: 10%)	2,798	(128,277)	15,821	(126,197)
SGD against USD				
- strengthened 5% (2017: 5%)	74	61	(40)	(32)
- weakened 5% (2017: 5%)	(74)	(61)	40	32
MYR against USD				
- strengthened 10% (2017: 10%)	152	951	51	1,060
- weakened 10% (2017: 10%)	(152)	(951)	(51)	(1,060)



# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

### (c) *Commodity price risk*

The Group's exposure to commodity price risk arises primarily from its purchases of raw materials and sales of palm based products. Prices of raw materials and palm based products may fluctuate significantly depending on the market situation and factors such as weather, government policy, level of demand and supply in the market and the global economic environment. During periods of unfavourable price volatility, the Group may enter into forward physical contracts with our suppliers and customers or use commodity futures, options and swap contracts in the conduct of business to manage our price risk.

#### Sensitivity analysis for commodity price risk

During the reporting period, had the average selling prices of palm based products been 10% higher/lower, ceteris paribus, profit before tax for the financial year ended 31 December 2018 would have been US\$51.7 million (2017: US\$52.9 million) higher/lower.

At the end of the reporting period, had the market price of palm based products been 10% higher/lower, ceteris paribus, the Group's profit before tax and equity would have (decreased)/increased by the amounts shown below, as a result of changes in fair value of commodity futures, options and swap contracts:

	2018		2017	
	Profit	Equity	Profit	Equity
	before tax	US\$'000	before tax	US\$'000
	US\$'000		US\$'000	
<b>Group</b>				
Increase in prices of palm based products	-	-	(2,144)	(4,500)
Decrease in prices of palm based products	-	-	1,151	3,606

### (d) *Credit risk*

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations.

The Group's and the Company's exposure to credit risk arises primarily from trade and other receivables.

The Group trades only with recognised and creditworthy third parties and conducts business by requiring payment in advance, letter of credit, cash on delivery or may grant customers credit terms, where appropriate. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

For other financial assets (including cash and derivatives), the Group and the Company minimise credit risk by dealing exclusively with high credit rating counterparties.

The Group considers the probability of default upon initial recognition of a financial asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period.

The following are the quantitative and qualitative information about the expected credit losses provided by the Group.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

### (d) Credit risk (cont'd)

#### Trade receivables

The Group provides for lifetime ECL for its trade receivables using a provision matrix. The provision rates are determined based on the Group's historical observed default rates analysed in accordance to days past due by grouping of customers based on company size and payment mode. The calculation of the expected credit losses also incorporates forward looking information such as forecasts of economic conditions in the industry that the customers operate in.

Summarised below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

	Current US\$'000	<30 days past due US\$'000	31-60 days past due US\$'000	61-90 days past due US\$'000	>90 days past due US\$'000	Total US\$'000
<b>31.12.2018</b>						
Gross carrying amount	35,324	1,913	6	18	593	37,854
Loss allowance	252	57	1	3	149	462

Information regarding the movement in the allowance for expected credit loss of trade receivables is disclosed in Note 23.

#### Plasma receivables and financial guarantees provided for plasma bank loans

The Group computes expected credit loss for plasma receivables and the financial guarantees provided for plasma bank loans based on lifetime ECL. In calculating the expected credit loss rates, the Group considers the difference in credit spreads between the interest rate on loans provided by banks to the plasma farmers and the Indonesian Government bond yield rates, and adjusts for forward-looking information such as forecasts of future economic conditions and interest rates.

The movement in the allowance for expected credit losses of plasma receivables and the financial guarantees provided for plasma bank loans is as follows:

	Group Plasma receivables US\$'000	Financial guarantees US\$'000
At 1 January 2018	1,448	570
Charge for the year	-	-
Exchange differences	(93)	(37)
As at 31 December 2018	1,355	533

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

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

#### Excessive risk concentration

The Group's policies and procedures include specific guidelines on maintaining a diversified portfolio of counterparties, wherein counterparty limits are set to avoid excessive concentrations of credit risks in a single customer or bank. Any identified concentrations of credit risks are controlled and managed accordingly.

#### Exposure to credit risk

At the end of the reporting period, the Group's and the Company's maximum exposure to credit risk is represented by:

- the carrying amount of each class of financial assets recognised in the balance sheets; and
- an amount of US\$29.6 million (31 December 2017: US\$21.5 million; 1 January 2017: US\$21.8 million) relating to financial guarantees provided by certain subsidiaries for repayment of plasma farmers' loans to banks.

#### Credit risk concentration profile

The Group determines concentrations of credit risk by monitoring individual customers' outstanding balances on an ongoing basis.

At the end of the reporting period, 76.6% (31 December 2017: 81.1%; 1 January 2017: 83.6%) of the Group's trade receivables were due from five (31 December 2017: three; 1 January 2017: three) customers.

#### Financial assets that are neither past due nor impaired

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

#### Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 12 and Note 23.

### (e) *Liquidity risk*

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting obligations due to shortage of funds. The Group monitors its liquidity risk by actively managing its operating cash flows, debt maturity profile and availability of funding. The Group also aims at maintaining flexibility in funding by keeping credit facilities available with different banks, including trade finance lines and committed credit facilities that can be used for the Group's purchases and general corporate purposes.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

### (e) Liquidity risk (cont'd)

#### Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of the Group's and the Company's financial liabilities at the end of the reporting period based on contractual undiscounted repayment obligations.

	One year or less US\$'000	One to five years US\$'000	Over five years US\$'000	Total US\$'000
<b>Group</b>				
<b>31.12.2018</b>				
Trade and other payables	59,785	–	–	59,785
Loans and borrowings from financial institutions	35,869	117,742	–	153,611
Islamic medium term notes	10,983	253,889	–	264,872
Derivative financial liabilities:				
- Cross currency swaps (gross receipts)	(10,983)	(253,889)	–	(264,872)
- Cross currency swaps (gross payments)	11,985	334,246	–	346,231
- Other derivatives	921	–	–	921
	108,560	451,988	–	560,548
<b>31.12.2017</b>				
Trade and other payables	61,979	–	–	61,979
Loans and borrowings from financial institutions	29,507	246,665	–	276,172
Islamic medium term notes	11,232	270,228	–	281,460
Derivative financial liabilities:				
- Cross currency swaps (gross receipts)	(11,232)	(270,228)	–	(281,460)
- Cross currency swaps (gross payments)	12,013	346,231	–	358,244
- Interest rate swaps (settled net)	256	244	–	500
- Other derivatives	1,748	–	–	1,748
	105,503	593,140	–	698,643
<b>01.01.2017</b>				
Trade and other payables	56,968	–	–	56,968
Loans and borrowings from financial institutions	1,996	1,533	–	3,529
Islamic medium term notes	242,862	254,803	–	497,665
Derivative financial liabilities:				
- Cross currency swaps (gross receipts)	(242,862)	(254,803)	–	(497,665)
- Cross currency swaps (gross payments)	342,816	358,243	–	701,059
- Other derivatives	2,383	–	–	2,383
	404,163	359,776	–	763,939

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

### (e) Liquidity risk (cont'd)

#### Analysis of financial instruments by remaining contractual maturities (cont'd)

	One year or less US\$'000	One to five years US\$'000	Over five years US\$'000	Total US\$'000
<b>Company</b>				
<b>31.12.2018</b>				
Trade and other payables	3,974	–	–	3,974
Loans and borrowings from financial institutions	32,808	114,359	–	147,167
Islamic medium term notes	10,983	253,889	–	264,872
Derivative financial liabilities:				
- Cross currency swaps (gross receipts)	(10,983)	(253,889)	–	(264,872)
- Cross currency swaps (gross payments)	11,985	334,246	–	346,231
	48,767	448,605	–	497,372
<b>31.12.2017</b>				
Trade and other payables	5,972	–	–	5,972
Loans and borrowings from financial institutions	27,398	244,434	–	271,832
Islamic medium term notes	11,232	270,228	–	281,460
Derivative financial liabilities:				
- Cross currency swaps (gross receipts)	(11,232)	(270,228)	–	(281,460)
- Cross currency swaps (gross payments)	12,013	346,231	–	358,244
- Interest rate swaps (settled net)	256	244	–	500
	45,639	590,909	–	636,548
<b>01.01.2017</b>				
Trade and other payables	8,694	–	–	8,694
Islamic medium term notes	242,862	254,803	–	497,665
Derivative financial liabilities:				
- Cross currency swaps (gross receipts)	(242,862)	(254,803)	–	(497,665)
- Cross currency swaps (gross payments)	342,816	358,243	–	701,059
- Other derivatives	335	–	–	335
	351,845	358,243	–	710,088

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 42. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the financial years ended 31 December 2018 and 2017.

The Group monitors capital through its Debt/EBITDA ratio, which is gross debt divided by profit from operations before depreciation, amortisation and losses/gains arising from changes in fair value of biological assets ("EBITDA"). The Group's policy is to maintain a Debt/EBITDA ratio of no more than 3.75 times.

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Loans and borrowings from financial institutions (Note 30)	139,928	250,506
Islamic medium term notes (Note 31)	241,073	245,785
Gross debt	381,001	496,291
EBITDA	257,892	292,130
Debt/EBITDA	1.48 times	1.70 times

## 43. SEGMENT INFORMATION

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

### (a) *Plantations and Palm Oil Mills*

Plantations and palm oil mills segment is principally involved in the cultivation and maintenance of oil palm plantations and operation of palm oil mills.

### (b) *Refinery and Processing*

Refinery and processing segment markets and sells processed palm based products produced from the refinery, fractionation and biodiesel plants and other downstream processing facilities.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on EBITDA, which is not measured differently from EBITDA computed using the consolidated financial statements. Group financing (including finance costs) and income taxes are managed on a group basis and are not allocated to operating segments.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 43. SEGMENT INFORMATION (CONT'D)

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

	Plantations and Palm Oil Mills US\$'000	Refinery and Processing US\$'000	Elimination US\$'000	Total US\$'000
<b>2018</b>				
<b>Sales:</b>				
External customers	28,765	604,722	–	633,487
Inter-segment	506,058	–	(506,058)	–
<b>Total sales</b>	534,823	604,722	(506,058)	633,487
<b>Results:</b>				
<b>EBITDA</b>	249,743	16,989	(8,840)	257,892
Depreciation and amortisation	(59,755)	(7,529)	–	(67,284)
Losses arising from changes in fair value of biological assets	(3,456)	–	–	(3,456)
Profit from operations	186,532	9,460	(8,840)	187,152
Gains on foreign exchange				8,256
Gains on derivative financial instruments				486
Net financial expenses				(17,043)
Other non-operating income				2,264
<b>Profit before tax</b>				181,115
<b>2017</b>				
<b>Sales:</b>				
External customers	46,724	600,265	–	646,989
Inter-segment	478,158	–	(478,158)	–
<b>Total sales</b>	524,882	600,265	(478,158)	646,989
<b>Results:</b>				
<b>EBITDA</b>	272,040	18,621	1,469	292,130
Depreciation and amortisation	(55,134)	(7,691)	–	(62,825)
Losses arising from changes in fair value of biological assets	(2,382)	–	–	(2,382)
Profit from operations	214,524	10,930	1,469	226,923
Gains on foreign exchange				4,845
Gains on derivative financial instruments				139
Net financial expenses				(20,689)
Other non-operating expenses				(2,339)
<b>Profit before tax</b>				208,879



# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 43. SEGMENT INFORMATION (CONT'D)

### Geographical information

The Group operates primarily in Singapore and Indonesia. In presenting information on the basis of geographical segments, segment sales is based on the countries from which the customers are invoiced. Segment assets are based on the geographical location of the assets.

	Sale	
	2018	2017
	US\$'000	US\$'000
Singapore	517,637	495,069
Indonesia	115,850	151,920
	<u>633,487</u>	<u>646,989</u>

	Non-current assets		
	31.12.2018	31.12.2017	01.01.2017
	US\$'000	US\$'000	US\$'000
Singapore	68,511	73,918	75,813
Indonesia	1,019,701	1,082,203	1,064,325
	<u>1,088,212</u>	<u>1,156,121</u>	<u>1,140,138</u>

Non-current assets information presented above consist of bearer plants, property, plant and equipment, land use rights, goodwill, other intangible assets and other non-current assets.

### Information about major customers

Sales to two major customers amounted to US\$138.7 million (2017: US\$185.1 million) from the refinery and processing segment.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 44. DIVIDENDS

	<b>Group and Company</b>	
	<b>2018</b>	<b>2017</b>
	<b>US\$'000</b>	<b>US\$'000</b>
<b>Declared and paid during the financial year:</b>		
<i>Dividends on ordinary shares:</i>		
- Final tax exempt (one-tier) dividend for 2017: 2.15 Singapore cents (2016: 2.375 Singapore cents) per share	25,324	26,669
- Special tax exempt (one-tier) dividend for 2017: 3.40 Singapore cents (2016: Nil) per share	40,046	-
- Interim tax exempt (one-tier) dividend for 2018: 1.25 Singapore cents (2017: 1.25 Singapore cents) per share	14,397	14,615
	<u>79,767</u>	<u>41,284</u>
<b>Proposed but not recognised as a liability as at 31 December:</b>		
<i>Dividends on ordinary shares, subject to shareholders' approval at the AGM:</i>		
- Final tax exempt (one-tier) dividend for 2018: 2.00 Singapore cents (2017: 2.15 Singapore cents) per share	23,201*	25,324
- Special tax exempt (one-tier) dividend for 2017: 3.40 Singapore cents (2016: Nil) per share	-	40,046
	<u>-</u>	<u>40,046</u>

\* Based on USD/SGD exchange rate of 1.3655.

## 45. AUTHORISATION OF FINANCIAL STATEMENTS FOR ISSUE

The financial statements for the financial year ended 31 December 2018 were authorised for issue in accordance with a resolution of the directors on 28 March 2019.

# STATISTICS OF SHAREHOLDING

As at 12 March 2019

## SHAREHOLDERS' INFORMATION

Number of issued shares	:	1,584,072,969
Class of shares	:	Ordinary share
Voting rights	:	One vote per share

The Company does not have any treasury shares and subsidiary holdings as at 12 March 2019.

## DISTRIBUTION OF SHAREHOLDINGS

Size of Shareholdings	No. of Shareholders	%	No. of Shares	%
1 - 99	11	0.58	212	0.00
100 - 1,000	219	11.46	194,517	0.01
1,001 - 10,000	1,266	66.25	6,689,914	0.42
10,001 - 1,000,000	401	20.98	19,592,759	1.24
1,000,001 and above	14	0.73	1,557,595,567	98.33
	1,911	100.00	1,584,072,969	100.00

## TWENTY LARGEST SHAREHOLDERS

No.	Name	No. of Shares	%
1	Citibank Nominees Singapore Pte Ltd	552,400,600	34.87
2	Eight Capital Inc.	332,400,130	20.98
3	HSBC (Singapore) Nominees Pte Ltd	273,201,060	17.25
4	DBS Nominees (Private) Limited	131,977,874	8.33
5	Raffles Nominees (Pte) Limited	102,643,874	6.48
6	DB Nominees (Singapore) Pte Ltd	90,211,515	5.69
7	DBSN Services Pte. Ltd.	43,998,430	2.78
8	RHB Securities Singapore Pte. Ltd.	10,757,800	0.68
9	DBS Vickers Securities (Singapore) Pte Ltd	5,499,900	0.35
10	Advance Synergy Capital Ltd	4,992,000	0.32
11	Morgan Stanley Asia (Singapore) Securities Pte Ltd	4,471,170	0.28
12	UOB Kay Hian Private Limited	2,174,400	0.14
13	Ng Han Meng	1,800,091	0.11
14	CGS-CIMB Securities (Singapore) Pte. Ltd.	1,066,723	0.07
15	BNP Paribas Nominees Singapore Pte Ltd	950,100	0.06
16	Phillip Securities Pte Ltd	669,300	0.04
17	Lim & Tan Securities Pte Ltd	647,500	0.04
18	Merrill Lynch (Singapore) Pte. Ltd.	543,000	0.03
19	Teng Nam Seng	510,000	0.03
20	Maybank Kim Eng Securities Pte. Ltd.	490,193	0.03
		1,561,405,660	98.56

# STATISTICS OF SHAREHOLDING

As at 12 March 2019

## SUBSTANTIAL SHAREHOLDERS

(As recorded in the Register of Substantial Shareholders, as at 12 March 2019)

	Direct Interest	%	Deemed Interest	%
Eight Capital Inc.	1,025,166,230	64.72	-	-
Eight Capital Trustees Pte Ltd	-	-	1,025,166,230 <sup>(1)</sup>	64.72
Equity Trust (Jersey) Ltd	-	-	1,025,166,230 <sup>(2)</sup>	64.72
Infinite Capital Fund Limited	88,000,000	5.56	-	-
King Fortune International Inc.	-	-	88,000,000 <sup>(3)</sup>	5.56
Butterfield (Singapore) Pte Ltd	-	-	88,000,000 <sup>(4)</sup>	5.56
FIL Limited	-	-	83,271,700 <sup>(5)</sup>	5.26
Pandanus Partners L.P.	-	-	83,271,700 <sup>(6)</sup>	5.26
Pandanus Associates Inc.	-	-	83,271,700 <sup>(7)</sup>	5.26
International Value Advisers, LLC	-	-	90,734,699 <sup>(8)</sup>	5.73

### Notes:

- <sup>(1)</sup> Eight Capital Trustees Pte Ltd ("ECTPL") holds the entire share capital of Eight Capital Inc. ("Eight Capital") as trustee of the Eight Capital Trust II (the "Trust"), which is a discretionary family trust, and subject to the terms of the Trust. Eight Capital is the investment holding vehicle of the Trust and ECTPL is deemed interested in the shares held by Eight Capital.
- <sup>(2)</sup> Equity Trust (Jersey) Ltd is the trustee of Eight Cap Purpose Trust (the "Purpose Trust"). Pursuant to the Purpose Trust, Equity Trust (Jersey) Ltd is the sole shareholder of ECTPL and it is therefore deemed interested in the shares held by Eight Capital.
- <sup>(3)</sup> King Fortune International Inc. ("King Fortune") holds the entire issued and paid-up share capital of Infinite Capital Fund Limited and is deemed to be interested in the shares held by Infinite Capital Fund Limited.
- <sup>(4)</sup> Butterfield (Singapore) Pte Ltd (the "Trustee") is the sole shareholder of King Fortune and the trustee of the King Fortune Trust, a discretionary family trust. The shares held indirectly by King Fortune are property that is subject to the King Fortune Trust. Distribution of the income and capital of the King Fortune Trust to the beneficiaries of the King Fortune Trust are at the discretion of the Trustee.
- <sup>(5)</sup> FIL Limited's interests in the securities of First Resources Limited are currently entirely comprised as deemed interests. FIL Limited is deemed to have interests in the securities of First Resources Limited because such securities are held by funds and/or accounts managed by one or more of FIL Limited's direct and indirect subsidiaries, which are fund managers.
- <sup>(6)</sup> Pandanus Partners L.P. is deemed to have interests in the securities of First Resources Limited through its interest in the voting shares of FIL Limited, pursuant to Section 4(5) of the Securities and Futures Act.
- <sup>(7)</sup> Pandanus Associates Inc. is deemed to have interests in the securities of First Resources Limited through its interest in the voting shares of Pandanus Partners L.P., pursuant to Section 4(5) of the Securities and Futures Act.
- <sup>(8)</sup> International Value Advisers, LLC's shares in First Resources Limited are held under a nominee account.

## PERCENTAGE OF SHARES HELD BY THE PUBLIC

Approximately 18.73% of the Company's shares are held in the hands of public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of the SGX-ST.

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