

**RSM!** AAJ Associates

**PT SIERAD PRODUCE Tbk  
AND SUBSIDIARIES**

**Independent Auditors' Report  
and  
Consolidated Financial Statements  
For the Years Ended  
December 31, 2007 and 2006**

**Aryanto Amir Jusuf & Mawar**  
Registered Public Accountants

**DIRECTORS' STATEMENT  
REGARDING  
THE RESPONSIBILITY FOR PT SIERAD PRODUCE TBK AND SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENT  
AS OF DECEMBER 31, 2007**

We the undersigned:

1. Name : Budiardjo Tek  
Office Address : Gedung Plaza City View Lt. 1-2  
Jl. Kemang Timur No. 22  
Jakarta 12510  
  
Residential Address : Jl Brawijaya I A No. 20  
Kebayoran Baru, Jakarta Selatan  
Phone : (62-21) 719 3888  
Title : President Director
  
2. Name : Rodolfo P. Pantoja  
Office Address : Gedung Plaza City View Lt. 1-2  
Jl. Kemang Timur No. 22  
Jakarta 12510  
  
Residential Address : Jl. Terogong Kecil Blok F No.81  
Pondok Indah Jakarta Selatan  
Phone : (62-21) 719 3888  
Title : Finance Director

Declare that :

1. We are responsible for the preparation and the presentation of the consolidated financial statements of PT Sierad Produce Tbk ("the Company");
2. The Company's consolidated financial statements have been prepared and presented in accordance with generally accepted accounting principles in Indonesia;
3. a. All information has been fully and correctly disclosed in the Company's consolidated financial statements;  
b. The Company's consolidated financial statements do not contain false material information or facts, nor do they omit material information or facts; and
4. We are responsible for the Company's internal control system.

This is our declaration, which has been made truthfully.

Jakarta, March 18, 2008



**Budiardjo Tek**  
President Director  
PT SIERAD PRODUCE Tbk.

**Rodolfo P. Pantoja**  
Finance Director

Gedung Plaza City View, Lt. 1  
Jl. Kemang Timur No. 22  
Jakarta 12510 - Indonesia

Tel : (62-21) 719 3888 Fax : (62-21) 719 3889

# RSM AAJ Associates

*This report is originally issued in Indonesian language*

**Number : R/114-E/2/03/08**

**Aryanto Amir Jusuf & Mawar**

Registered Public Accountants

Plaza ABDA, Floor 10 & 11

Jl. Jend. Sudirman Kav. 59 Jakarta 12190, Indonesia

Phone : (62) (21) 5140 1340

Fax : (62) (21) 5140 1350

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## Independent Auditors' Report

Stockholders, Commissioners and Directors  
**PT Sierad Produce Tbk**

We have audited the consolidated balance sheets of PT Sierad Produce Tbk and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards established by the Indonesian Institute of Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PT Sierad Produce Tbk and subsidiaries as of December 31, 2007 and 2006, and the results of their operations, changes in their stockholders' equity and their cash flows for the years then ended in conformity with accounting principles generally accepted in Indonesia.

Aryanto Amir Jusuf & Mawar is an independent member firm of RSM International, an affiliation of independent accounting and consulting firms

Licence numbers :  
Minister of Finance : KEP-269/KM.6/2004  
Capital Market Supervisory Board  
(BAPEPAM) : S-772/PM/1994  
Bank Indonesia : No. 063

Branch Office :  
Jl. Mayjen Sungkono  
Komplek Darmo Park I Blok III B 17-19  
Surabaya 60256 - Indonesia

*This report is originally issued in Indonesian language*

As disclosed in Note 35 to the consolidated financial statements, the economics and social condition in Indonesia still affected the operation of the Company and its subsidiaries in the future. Although the global economic condition in 2007 was highlighted by the sharp increase of international oil price which was followed by the instability of financial market condition and global stock exchange conditions prior to third quarter, Indonesia's economic condition on first quarter of 2008 was quite stable, shown by decrease in interest rate of Bank Indonesia Certificate which was followed by decrease in bank loan interest rate and inflation rate, and increase in Rupiah's exchange rate. In general, the poultry industry condition was not fully recovered yet and worsened by the significant increase of the feed raw material price. Although the feed and other poultry product demand were increased, the Company's condition still affected by the availability of supply and stability of feed raw material price in the market and the poultry market condition as well. Note 35 to the consolidated financial statements disclosed the steps which has and to be executed by the Company and subsidiaries in response to these conditions. The accompanying consolidated financial statements do not reflect any adjustment for these conditions.

**Drs. Aryanto Agus Mulyo**

License Number: 98.1.0076

Jakarta, March 18, 2008

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The accompanying financial statements are not intended to present the financial position, results of operations and changes in shareholders' equity, and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than those in Indonesia. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in Indonesia.

**PT SIERAD PRODUCE Tbk AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

As of December 31, 2007 and 2006  
(In Full Rupiah)

|  | Note         | 2007<br>Rp                      | 2006<br>Rp                      |
|--|--------------|---------------------------------|---------------------------------|
| <b>ASSETS</b>  |              |                                 |                                 |
| <b>CURRENT ASSETS</b>  |              |                                 |                                 |
| Cash and Cash Equivalents  | 2.c, 2.d, 3  | 9,051,640,386                   | 16,679,001,980                  |
| Accounts Receivable  |              |                                 |                                 |
| <i>(Net of allowance for doubtful account as of December 31, 2007 and 2006 of Rp 116,758,758,756 and Rp 117,202,212,826, respectively)</i> |              |                                 |                                 |
|  | 2.f, 4       | 202,598,411,661                 | 169,482,241,436                 |
| Other Receivables  | 5            | 8,578,849,947                   | 10,494,949,087                  |
| Inventories  | 2.g, 6       | 312,630,912,658                 | 150,153,391,409                 |
| Livestock  | 2.h, 7       | 55,938,118,580                  | 38,408,749,387                  |
| Prepaid Expenses   |              | 3,133,951,379                   | 2,565,685,267                   |
| Prepaid Taxes  | 2.o, 8       | 7,747,470,021                   | 14,798,221,125                  |
| Purchase Advances  | 9            | 51,205,335,436                  | 33,642,396,158                  |
| Total Current Assets   |              | <u>650,884,690,068</u>          | <u>436,224,635,849</u>          |
| <b>NON CURRENT ASSETS</b>  |              |                                 |                                 |
| Investment in Associate - Net  | 2.e, 10      | --                              | --                              |
| Other Long Term Investments - Net  | 2.e, 11      | --                              | --                              |
| Due from Related Parties   | 30           | 42,423,468,210                  | 42,096,000,745                  |
| Deferred Tax Assets  | 2.o, 12.b    | 74,664,125,084                  | 100,296,147,708                 |
| Property, Plant and Equipment  |              |                                 |                                 |
| <i>(Net of accumulated depreciation as of December 31, 2007 and 2006 of Rp 365,924,320,292 and Rp 358,500,894,668, respectively)</i>       |              |                                 |                                 |
|  | 2.i, 2.l, 13 | 485,503,960,070                 | 447,079,779,629                 |
| Advance for Purchases of Property, Plant and Equipment   |              | 3,582,885,251                   | 773,911,866                     |
| Unutilized Assets  | 2.j, 14      | 37,446,931,719                  | 86,811,848,130                  |
| Refundable Deposits  |              | 266,698,000                     | 513,790,648                     |
| Total Non Current Assets   |              | <u>643,888,068,334</u>          | <u>677,571,478,726</u>          |
| <b>TOTAL ASSETS</b>  |              | <u><b>1,294,772,758,402</b></u> | <u><b>1,113,796,114,575</b></u> |

See the Accompanying Notes which are an integral part of these Consolidated Financial Statements

**PT SIERAD PRODUCE Tbk AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS (Continued)**

As of December 31, 2007 and 2006

(In Full Rupiah)

|  | Note      | 2007<br>Rp                      | 2006<br>Rp                      |
|--|-----------|---------------------------------|---------------------------------|
| <b>LIABILITIES, MINORITY INTERESTS AND STOCKHOLDERS' EQUITY</b>  |           |                                 |                                 |
| <b>CURRENT LIABILITIES</b>   |           |                                 |                                 |
| Accounts Payable   | 2.c, 15   | 150,708,261,985                 | 81,250,372,923                  |
| Accrued Expenses   | 16        | 14,900,304,146                  | 13,145,122,463                  |
| Taxes Payable  | 2.o, 12.c | 9,607,455,878                   | 8,772,481,867                   |
| Current Maturity of Long Term Loan   |           |                                 |                                 |
| Bank Loan  | 17        | 83,781,591,393                  | 216,097,764                     |
| Obligation Under Capital Lease   | 2.k, 18   | 1,165,476,934                   | 304,249,687                     |
| Other Current Liabilities  |           | 10,381,405,004                  | 11,353,608,173                  |
| Total Current Liabilities  |           | <u>270,544,495,340</u>          | <u>115,041,932,878</u>          |
| <b>NON CURRENT LIABILITIES</b>   |           |                                 |                                 |
| Long Term Loans - Net of Current Maturity  |           |                                 |                                 |
| Bank Loan  | 17        | 35,598,892                      | 212,377,906                     |
| Obligation Under Capital Lease   | 2.k, 18   | 2,438,513,293                   | 221,110,571                     |
| Estimated Liabilities on Employees' Benefits   | 2.p, 19   | 15,718,293,246                  | 13,514,729,586                  |
| Total Non Current Liabilities  |           | <u>18,192,405,431</u>           | <u>13,948,218,063</u>           |
| <b>MINORITY INTERESTS</b>  |           | <u>224,916,218</u>              | <u>225,898,671</u>              |
| <b>STOCKHOLDERS' EQUITY</b>  |           |                                 |                                 |
| Capital Stock  |           |                                 |                                 |
| Authorized Capital: 73,099,900 series A shares with par value of Rp 5,000 per share, 650,686,609 series B shares with par value of Rp 3,000 per share, and 65,140,785,747 series C shares with par value of Rp 100 per share |           |                                 |                                 |
| Subscribed and fully paid capital of 73,099,900 series A shares; 650,686,609 series B shares; and 8,667,321,984 series C shares  | 1.d, 20   | 3,184,291,525,400               | 3,184,291,525,400               |
| Additional Paid In Capital - Net   | 21        | 237,474,479,595                 | 237,474,479,595                 |
| Difference Resulting from Revaluation of Property, Plant and Equipment   | 22        | 347,703,892,066                 | 347,703,892,066                 |
| Translation Adjustments  | 1.c       | --                              | (34,433,888)                    |
| Deficits   |           | <u>(2,763,658,955,648)</u>      | <u>(2,784,855,398,210)</u>      |
| Total Stockholders' Equity   |           | <u>1,005,810,941,413</u>        | <u>984,580,064,963</u>          |
| <b>TOTAL LIABILITIES, MINORITY INTERESTS AND STOCKHOLDERS' EQUITY</b>  |           | <u><u>1,294,772,758,402</u></u> | <u><u>1,113,796,114,575</u></u> |

See the Accompanying Notes which are an integral part of these Consolidated Financial Statements

**PT SIERAD PRODUCE Tbk AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

For the Years Ended December 31, 2007 and 2006  
(In Full Rupiah)

|   | Note      | 2007<br>Rp                   | 2006<br>Rp                   |
|---|-----------|------------------------------|------------------------------|
| <b>NET SALES</b>  | 2.m, 23   | 1,632,453,613,659            | 1,111,242,030,537            |
| <b>COST OF GOODS SOLD</b>   | 2.m, 24   | <u>1,473,863,801,507</u>     | <u>938,642,336,462</u>       |
| <b>GROSS PROFIT</b>   |           | <u>158,589,812,152</u>       | <u>172,599,694,075</u>       |
| <b>OPERATING EXPENSES</b>   |           |                              |                              |
| Selling Expenses  | 2.m, 25   | 21,372,770,915               | 18,642,590,043               |
| General and Administrative Expenses   | 2.m, 26   | <u>88,300,173,413</u>        | <u>85,699,425,950</u>        |
| Total Operating Expenses  |           | <u>109,672,944,328</u>       | <u>104,342,015,993</u>       |
| <b>INCOME FROM OPERATIONS</b>   |           | <u>48,916,867,824</u>        | <u>68,257,678,081</u>        |
| <b>OTHER INCOME (CHARGES)</b>   |           |                              |                              |
| Sales of Others   | 27        | 3,219,941,254                | 3,279,776,900                |
| Interest Income   |           | 370,795,502                  | 310,452,120                  |
| Insurance Claim   |           | 49,932,682                   | 680,274,146                  |
| Loss on Differences in Payment  |           | (149,594,680)                | (101,841,774)                |
| Loss on Investment Written-off  | 1.c       | (326,505,809)                | --                           |
| Gain (Loss) on Disposal of Property, Plant and Equipment<br>and Unutilized Assets | 13,14     | (464,949,722)                | 724,663,132                  |
| Bad Debt and Receivables Written-off Expenses                                     | 2.f, 4    | (805,127,380)                | (4,279,980,121)              |
| Restructuring Expenses  |           | (930,666,054)                | (1,118,881,330)              |
| Gain (Loss) on Foreign Exchange - Net   | 2.c, 34   | (1,010,087,335)              | 3,386,738,475                |
| Loss on Stocktaking Difference and Acquisition of Inventories                     | 6, 31.b   | (1,311,275,439)              | (2,824,726,512)              |
| Financial Charges   |           | (4,701,443,158)              | (1,855,502,003)              |
| Others - Net  |           | <u>3,973,362,092</u>         | <u>3,472,138,730</u>         |
| Other Income (Charges) - Net  |           | <u>(2,085,618,047)</u>       | <u>1,673,111,763</u>         |
| <b>INCOME BEFORE INCOME TAX</b>   |           | <u>46,831,249,777</u>        | <u>69,930,789,845</u>        |
| <b>INCOME TAX BENEFIT (EXPENSE)</b>   | 2.o, 12.a |                              |                              |
| Current   |           | --                           | --                           |
| Deferred  |           | <u>(25,632,022,624)</u>      | <u>(20,292,518,342)</u>      |
| Total Income Tax Expense  |           | <u>(25,632,022,624)</u>      | <u>(20,292,518,342)</u>      |
| <b>INCOME BEFORE MINORITY INTERESTS</b>   |           | 21,199,227,153               | 49,638,271,503               |
| <b>MINORITY INTERESTS</b>   |           | <u>(2,784,591)</u>           | <u>8,472,936</u>             |
| <b>INCOME BEFORE EXTRAORDINARY ITEM</b>   |           | <u>21,196,442,562</u>        | <u>49,646,744,439</u>        |
| <b>EXTRAORDINARY ITEM</b>   | 28        | <u>--</u>                    | <u>(8,693,008,368)</u>       |
| <b>NET INCOME</b>   |           | <u><u>21,196,442,562</u></u> | <u><u>40,953,736,070</u></u> |
| <b>BASIC EARNINGS PER SHARE</b>   | 2.q, 29   |                              |                              |
| Net Income  |           | 2.26                         | 4.36                         |

See the Accompanying Notes which are an integral part of these Consolidated Financial Statements

**PT SIERAD PRODUCE Tbk AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY**

For the Years Ended December 31, 2007 and 2006

(In Full Rupiah)

|  | Capital Stock     | Additional Paid<br>In Capital | Difference Resulting<br>from Revaluation<br>of Property, Plant<br>and Equipment | Translation<br>Adjustments | Deficits            | Total<br>Stockholders'<br>Equity |
|--|-------------------|-------------------------------|---|----------------------------|---------------------|----------------------------------|
|  | Rp                | Rp                            | Rp  | Rp                         | Rp                  | Rp                               |
| BALANCE AS OF DECEMBER 31, 2005                            | 3,184,291,525,400 | 237,474,479,595               | 347,703,892,066   | (34,433,888)               | (2,825,809,134,280) | 943,626,328,893                  |
| Net Income   | --                | --                            | --  | --                         | 40,953,736,070      | 40,953,736,070                   |
| BALANCE AS OF DECEMBER 31, 2006                            | 3,184,291,525,400 | 237,474,479,595               | 347,703,892,066   | (34,433,888)               | (2,784,855,398,210) | 984,580,064,963                  |
| Net Income   | --                | --                            | --  | --                         | 21,196,442,562      | 21,196,442,562                   |
| Effect of Investment Written-off<br>on Myanmar Sierad Ltd. | --                | --                            | --  | 34,433,888                 | --                  | 34,433,888                       |
| BALANCE AS OF DECEMBER 31, 2007                            | 3,184,291,525,400 | 237,474,479,595               | 347,703,892,066   | --                         | (2,763,658,955,648) | 1,005,810,941,413                |

See the Accompanying Notes which are an integral part  
of these Consolidated Financial Statements

**PT SIERAD PRODUCE Tbk AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the Years Ended December 31, 2007 and 2006  
(In Full Rupiah)

|  | Note        | 2007<br>Rp                  | 2006<br>Rp                   |
|--|-------------|-----------------------------|------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |             |                             |                              |
| Cash Received from Customers   |             | 1,613,725,865,307           | 1,684,533,743,565            |
| Cash Paid to Suppliers and Other Third Parties   |             | (1,609,613,722,914)         | (1,603,859,580,134)          |
| Cash Paid to Employees   |             | (62,026,356,888)            | (69,415,587,501)             |
| Tax Payments - Net   |             | (7,420,753,935)             | (11,187,487,609)             |
| Interest Payment   |             | (4,670,674,837)             | (1,257,110,478)              |
| Net Cash Flows Used in Operating Activities  |             | <u>(70,005,643,267)</u>     | <u>(1,186,022,157)</u>       |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |             |                             |                              |
| Proceeds on Disposal of Property, Plant and Equipment and Unutilized Assets                  |             | 606,499,594                 | 1,100,600,000                |
| Acquisition of Property, Plant and Equipment   |             | (22,059,493,443)            | (12,785,548,330)             |
| Disposal of Investment   |             | 1,245,890,840               | 24,005,109,160               |
| Net Cash Flows Provided by (Used in) Investing Activities                                    |             | <u>(20,207,103,009)</u>     | <u>12,320,160,830</u>        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |             |                             |                              |
| Cash Received from Bank Loan   |             | 185,314,569,222             | --                           |
| Cash Paid for Bank Loan and Obligation Under Capital Lease                                   |             | (102,585,597,622)           | (557,659,484)                |
| Net Cash Flows Provided by (Used in) Financing Activities                                    |             | <u>82,728,971,600</u>       | <u>(557,659,484)</u>         |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                                  |             | (7,483,774,676)             | 10,576,479,189               |
| <b>UNREALIZED GAIN (LOSS) ON FOREIGN EXCHANGE ON CASH AND CASH EQUIVALENT AT END OF YEAR</b> |             | <u>7,656,084</u>            | <u>(46,224,732)</u>          |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                                  |             | (7,476,118,592)             | 10,530,254,457               |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>  |             | 16,679,001,980              | 8,081,971,529                |
| Adjustment on Cash and Cash Equivalents due to Disposal of Subsidiaries                      |             | (151,243,002)               | (1,933,224,005)              |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>  | 2.c, 2.d, 3 | <u><b>9,051,640,386</b></u> | <u><b>16,679,001,980</b></u> |
| <b>Cash and Cash Equivalents at End of Year Consist of:</b>                                  |             |                             |                              |
| Cash on Hand   |             | 877,151,389                 | 511,878,489                  |
| Cash in Banks  |             | 5,340,488,997               | 8,482,123,491                |
| Time Deposits  |             | 2,834,000,000               | 7,685,000,000                |
| <b>Total</b>   |             | <u><b>9,051,640,386</b></u> | <u><b>16,679,001,980</b></u> |

See the Accompanying Notes which are an integral part of these Consolidated Financial Statements

**PT SIERAD PRODUCE Tbk AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended December 31, 2007 and 2006  
(In Full Rupiah)

**1. General**

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**1.a. The Company's Establishment**

PT Sierad Produce Tbk ("the Company") was established based on deed No. 17 dated September 6, 1985 of Raden Santoso, notary in Jakarta, as amended by deed No. 27 dated April 16, 1986 of the same notary. The Articles of Association was approved by the Minister of Justice of the Republic of Indonesia in his decree No. C2-4506.HT.01.01.TH.86 dated June 26, 1986.

The Company's articles of association have been amended several times, most recently on October 4, 2007, Based on deeds of Company's Extraordinary General Meeting of Shareholders decision No. 30 by Dr. Irawan Soerodjo, SH, Msi, notary, concerning the change in the Company's management. This deed has been received and filed at database of Administration System of Legal Entity (Sisminbakum) Directorate of Department of Justice and Human Rights of the Republic of Indonesia based on its letters dated January 16, 2008.

In accordance with article 3 of the Company's Articles of Association, the Company's activities are to engage in the breeding of day old chicks, chicken slaughtering and integrated chicken processing with cold storage facility, poultry feed manufacturing and corn drying.

The Company's head office located at Plaza Citiview, Kemang Jakarta Selatan and its businesses are located in Bogor, Sukabumi, Tangerang, Lampung, Sidoarjo, and Magelang. Its products are marketed locally. The Company started its commercial operations in 1985.

In 2007, the Company has been re-operating the production of corn drying activity located in Lampung, which was previously stopped in 2005.

**1.b. Commissioners, Directors and Employees**

Based on deeds of Company's Extraordinary General Meeting of Shareholders decision No. 30 by Dr. Irawan Soerodjo, SH, Msi, a notary, dated October 4, 2007, it was approved the resignation of Ms Sri Sumiyarsi as Company's director and appointed Mr Rodolfo Paquia Pantoja as vice president director whom also act as a Company's non affiliated director.

A composition of commissioners and directors as of December 31, 2007 and 2006 is as follows:

|  | <u>2007</u>                      | <u>2006</u>                    |
|--|----------------------------------|--------------------------------|
| <b>Board of Commissioners</b>                        |                                  |                                |
| President Commissioner<br>(Independent Commissioner) | : Antonius Yunus Supit           | Antonius Yunus Supit           |
| Commissioner (Independent)                           | : Djohan Effendy                 | Djohan Effendy                 |
| Commissioner   | : Sri Lestari Anwar              | Sri Lestari Anwar              |
| Commissioner   | : Fransiscus Xaverius Awi Tantra | Fransiscus Xaverius Awi Tantra |

**PT SIERAD PRODUCE Tbk AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
 For the Years Ended December 31, 2007 and 2006  
 (In Full Rupiah)

|  | 2007                      | 2006                    |
|--|---------------------------|-------------------------|
| <b>Board of Directors</b>                            |                           |                         |
| President Director                                   | : Budiardjo Tek           | Budiardjo Tek           |
| Vice President Director<br>(Non Affiliated Director) | : Rodolfo Paquia Pantoja  | --                      |
| Director   | : Erik Harimurti Surono   | Erik Harimurti Surono   |
| Director   | : Albert Sitorus          | Albert Sitorus          |
| Director   | : Sik Wei Tjien           | Sik Wei Tjien           |
| Director   | : Helena Megawati Wardoyo | Helena Megawati Wardoyo |
| Director   | : --                      | Sri Sumiyarsi           |

The Audit Committee members as of December 31, 2007 and 2006 are as follows:

|                             |                        |
|-----------------------------|------------------------|
| Chairman of Audit Committee | : Antonius Yunus Supit |
| Member                      | : Eman Achmad Sulaeman |
| Member                      | : Wawat Sutanto        |

As of December 31, 2007 and 2006, the permanent employees of the Company and its subsidiaries are 1,571 and 2,229 employees, respectively (unaudited).

**1.c. Structure of Subsidiaries**

The Company has ownership interest of more than 50%, directly or indirectly, and/or have exercise control on the management of the following subsidiaries:

| Subsidiaries               | Domicile | Nature of Business   | Percentage of Ownership<br>(Directly and Indirectly) | Year of Commercial Operation | Total Assets   |                |
|----------------------------|----------|--|--|------------------------------|----------------|----------------|
|                            |          |  |  |                              | 2007           | 2006           |
|                            |          |  |  |                              | Rp             | Rp             |
| PT Sierad Industries       | Jakarta  | Poultry equipment industry   | 99,00%   | 1996                         | 16,245,313,193 | 16,580,844,456 |
| PT Dwipa Mina Nusantara    | Bali     | Fishmill industry  | 100,00%  | 1996                         | 1,826,349,493  | 1,882,575,692  |
| PT Sierad Pangan Nusantara | Jakarta  | Food and beverages industries  | 99,99%   | Pre-Operation                | 7,495,176,821  | 7,495,176,821  |
| PT Sierad Corporation      | Jakarta  | Distribution and trading of poultry equipment, raw materials of poultry feed, and other products | 99,99%   | Discontinued Operations      | 5,408,414,874  | 6,937,214,742  |
| PT Transpasifik Niagareksa | Jakarta  | Trading  | 100,00%  | 1995                         | 5,631,882,564  | 5,631,519,100  |
| Myanmar Sierad Ltd.        | Myanmar  | Trading  | 90,00%   | Pre-Operation                | --*)           | 292,071,921    |

\*) Written-off in 2007

In 2003, based on the Shareholders' Minutes of Meeting of PT Sierad Corporation (SC) deed No. 25 dated October 21, 2003, by Diah Guntari Listianingsih Soemarwoto, SH, notary in Jakarta, the Shareholders' approved the Board of Directors of PT Sierad Corporation's proposal to discontinue the operational activities of PT Sierad Corporation and took necessary legal actions for the discontinuation of PT Sierad Corporation's operations in accordance with the rules and regulations prevailing in Indonesia. Up to the date of completion of financial statements, there is not any continuing management SC's plan concerning discontinued operation of SC.

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Considering the assets, liabilities, revenues, and expenses of SC as of December 31, 2007 and 2006, are not material, a separate presentation of "Discontinued Operations" is not presented in the consolidated financial statements in accordance with the SFAS No. 58, concerning "Discontinued Operations", and also no separate and detailed disclosure in the consolidated statement of income.

Up to December 31, 2007, PT Sierad Pangan Nusantara and PT Transpasifik Niagareksa, are still in development stage, inactive and pre operating, and there were no significant transactions relating to those companies.

In 2007, the Company was disposed its investment in Mynamar Sierad Ltd. amounted to Rp 9,149,035. The disposal was based on the Company's management consideration that the operational licence of Myanmar Sierad Ltd. was expired since February 26, 1998 and has not been extended.

**1.d. Public Offering of the Company's Stock**

On November 29, 1996, the Company received an effective notification from the Chairman of the Capital Market Supervisory Agency (Bapepam) in his letter No. S-1946/PM/1996 concerning the public offering of 250,000,000 shares with par value of Rp 500 per share. Thereafter, the Company has done several actions as follows:

| Year | Description   | Total Shares Outstanding<br>After Transaction (Share) |
|------|---|---|
| 1997 | Issuance of 76,436,000 series A shares with par value of 500 from conversion of bonds.  | 726,436,000   |
| 1998 | Conversion of bonds   | 730,999,000   |
| 2001 | Issuance of 6,506,866,083 series B shares with par value of Rp 300, therefore total outstanding shares are:<br>Series A<br>Series B | 730,999,000<br>6,506,866,083                          |
| 2004 | Reversed stock split of 10 times, therefore the Company's shares are:<br>Series A<br>Series B                                       | 73,099,900<br>650,686,609                             |
| 2005 | Conversion of Convertible bonds and Long Term Loan, therefore the outstanding shares are:<br>Series A<br>Series B<br>Series C       | 73,099,900<br>650,686,609<br>8,667,321,984            |

The latest increase of the Company's capital in 2005 was made through conversion of the convertible bonds and long term loan to the Company's stock by issuing of 8,667,321,984 series C shares, with par value of Rp 100 per share (see Note 20).

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**2. Summary of Accounting Policies**

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**2.a. Basis of Financial Statement Preparation**

The consolidated financial statements are prepared based on accounting principles generally accepted in Indonesia which consist of, among others, Statements of Financial Accounting Standard established by the Indonesian Institute of Accountants, regulation of the Capital Market Supervisory Agency (Bapepam) and guidelines of Financial Statement Presentation and Disclosure for Public Listed Company engaged in Poultry and Manufacturing Industries established by the Bapepam.

The basis of measurement in the preparation of these financial statements is historical cost concept, except for investments in certain securities which are stated at fair value, certain property, plant, and equipment which have been revalued in 2003 and inventories which are carried at the lower of cost or net realizable value. The financial statements are prepared by using accrual method, except for statements of cash flows.

The statements of cash flow are prepared by using the direct method and cash flows are classified into operating, investing and financing activities.

The reporting currency used in the preparation of the financial statements is Indonesian Rupiah.

**2.b. Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and its subsidiaries as described in Note 1.c.

The consolidated financial statements have been prepared on the basis of entity concept. All significant intercompany accounts, transactions and profits among consolidated companies have been eliminated to reflect the financial position and result of operation as a whole.

**2.c. Foreign Currencies Transactions and Balances**

Transactions during the year involving foreign currencies are recorded at the rates of exchange prevailing at the time the transactions were made. As at the balance sheet dates, monetary assets and liabilities denominated in foreign currencies are adjusted to reflect the prevailing exchange rates as at those dates.

The exchange rates as at December 31, 2007 and 2006 are as follows:

|       | <u>2007</u> | <u>2006</u> |
|-------|-------------|-------------|
|       | Rp          | Rp          |
| USD 1 | 9,419.00    | 9,020.00    |
| SGD 1 | 6,502.38    | 5,878.73    |
| EUR 1 | 13,759.76   | 11,858.15   |

The resulting gains or losses on foreign exchanges are credited or charged to current year's consolidated statements of income.

**2.d. Cash Equivalents**

Cash equivalents consist of time deposits and other short term investments with maturities not more than or equal to three months since their placement and are not pledged as collateral.

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**2.e. Investments**

**Available for Sale Securities**

Investments in available for sale securities are carried at fair value. Any unrealized gains or losses resulting from the ownership of securities as at balance sheet date are charged to "Unrealized Gains (Losses) on Available for Sale Securities" as a separate component of the stockholders' equity in the consolidated balance sheet.

**Investments in Shares of Stock**

Investments in shares of stock wherein the Company has an ownership interest, directly or indirectly, of at least 20% but not exceeding 50% are accounted for under the equity method whereby the cost of investment is increased or decreased by the Company's share in the net earnings (losses) of the associated company since the acquisition date, and deducted by cash dividends received. The Company's share in the net earnings (losses) of an associate is adjusted by the amortization of the difference between the acquisition cost and the fair value of net assets at the acquisition date for 5 (five) years to 20 (twenty) years using the straight line method. The difference of fair value over the Company's portion on book value of property, plant, and equipment is depreciated in accordance with the residual estimated useful life of those related assets.

**2.f. Allowance for Doubtful Accounts**

Allowance for doubtful accounts is provided based on a review of the status of the individual debtors at the end of year. The outstanding receivables are written off against the allowance for doubtful accounts or directly from the account at the time management believes that these receivables are determined to be definitely uncollectible.

**2.g. Inventories**

Inventories are carried at the lower of cost or net realizable value. Cost is determined by using the average method. Damage or loss which has been found based on observation of physical stock taking in relation with production activity is charged to the cost of production, while in not relation with Company's production activity is recognized as gain (loss) on stocktaking difference of Inventories in current year to other income (expense).

**2.h. Livestock**

Livestock is carried at cost plus expenses incurred up to optimum production age, and after that age, at cost plus expenses incurred less depletion which is computed based on the productive period of the livestock using the straight-line method.

**2.i. Property, Plant and Equipment**

Direct acquisitions of property, plant and equipment, except certain property, plant, and equipment which have been revalued in 2003, are carried at cost less their accumulated depreciation. Depreciation is computed using the straight-line method based on the estimated useful lives of the assets, as follows:

|                               |                 |
|-------------------------------|-----------------|
| Buildings and Infrastructures | : 10 - 28 years |
| Machineries and Equipments    | : 10 years      |
| Office Furniture and Fixtures | : 3 - 10 years  |
| Vehicles                      | : 5 years       |

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Land is not be depreciated, unless:

- (a) The land is no longer viable for use in the primary operating activity of the entity;
- (b) The nature of primary operating activity is such as that the land and building are vacated when the project is completed; and
- (c) Management's prediction or the probability that extension or renewal of the title is highly unlikely or definitely will not be obtained.

The cost of maintenance and repairs is charged to the statement of income as incurred, significant renewals and betterments are capitalized. When assets are retired or otherwise disposed of, their carrying values and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the statements of income.

Difference between revaluation value and book value of property, plant, and equipment is classified under the account "Difference Resulting from Revaluation of Property, Plant and Equipment".

**2.j. Unutilized Assets**

Unutilized property and equipment are reclassified into unutilized assets, separate from property, plant and equipment account, and are not depreciation and carried at the lower of net book value or net realizable value.

**2.k. Leases Transactions**

Lease transactions are categorized as capital leases if all of the following criteria are present at the inception of lease:

- (i) The lessee has an option to purchase the leased assets at the end of the lease period at a mutually agreed upon price at the inception of the lease agreement;
- (ii) The sum of periodic lease payments made by the lessee plus residual value will cover the acquisition price of leased capital goods plus interest thereon, which represent the lessor's profit (full payout lease); and
- (iii) Lease period covers a minimum of 2 (two) years.

Assets under capital lease are carried at the present value of the lease payments at the beginning of the lease term plus residual value (option price) to be paid at the end of the lease period. Depreciation is computed by the straight line method based on the estimated useful life of similar assets, which are acquired by ordinary purchase.

**2.l. Construction in Progress**

Construction in progress represents costs directly associated with the construction of facilities and the preparation of property, plant and equipment for their intended use. These costs include borrowing costs during construction from loans used to construct such assets. Construction in progress is transferred to the respective property, plant and equipment accounts when the construction is substantially completed and are ready for their intended use.

**2.m. Revenue and Expense Recognition**

Sales are recognized when the goods are delivered to customers, while export sales are recognized when the goods are shipped (F.O.B. shipping point). Expenses are recognized when incurred (accrual basis).

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**2.n. Segment Information**

Business segment is determined as primary segment while geographical segment based on the location of assets is determined as secondary segment.

The reporting segment has already passed the 10% in significance test.

**2.o. Income Tax**

All temporary differences arising between the tax bases of assets and liabilities and their carrying value for financial reporting purposes are recognized as deferred tax using the liability method. Currently enacted tax rates are used to determine deferred income tax.

Deferred tax assets relating to the carry forward of unused tax losses are recognized to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilized. Amendments to taxation obligations are recorded when an assessment is received or, if appealed against, when the results of the appeal are determined.

Current tax is calculated based on taxable income which is commercial income after adjusted in accordance with the existing tax regulations.

**2.p. Estimated Liabilities on Employee Benefits**

Short-term employee benefits are recognized at undiscounted amount when an employee has rendered service to the Company during an accounting period.

Post-employment benefits are recognized at a discounted amount when an employee has rendered service to the Company during an accounting period. Liabilities and expenses are measured using actuarial techniques which include constructive obligation that arises from the Company's informal practices. In calculating the liabilities, benefits should be discounted by using projected unit credit method.

Termination benefits are recognized when, and only when, the Company is demonstrably committed to either:

- (a) terminate an employee or group of employees before the normal retirement date; or
- (b) provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

**2.q. Earning per Share**

Earnings per share is computed by dividing residual net income (income after income tax less dividend of primary stockholders) available for common stockholders by the weighted average number of shares outstanding during the period.

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**3. Cash and Cash Equivalents**

|  | <b>2007</b>          | <b>2006</b>           |
|--|----------------------|-----------------------|
|  | <b>Rp</b>            | <b>Rp</b>             |
| <b>Cash on Hand</b>  |                      |                       |
| Rupiah   | 867,412,143          | 499,151,269           |
| US Dolar (2007: USD 1,034.00; 2006: USD 1,411.00)                    | 9,739,246            | 12,727,220            |
| <b>Cash in Bank</b>  |                      |                       |
| Rupiah   |                      |                       |
| PT Bank Permata Tbk  | 3,596,153,536        | 5,467,766,610         |
| PT Bank Central Asia Tbk   | 1,157,143,941        | 2,150,008,998         |
| PT Bank Negara Indonesia (Persero) Tbk                               | 342,784,949          | 306,504,327           |
| PT Bank Mandiri (Persero) Tbk  | 66,657,237           | 54,808,592            |
| PT Bank International Indonesia Tbk                                  | 967,704              | 1,012,704             |
| US Dolar   |                      |                       |
| PT Bank Permata Tbk (2007: USD 18,154.18; 2006: USD 55,656.57)       | 170,994,220          | 502,022,261           |
| PT Bank Negara Indonesia (Persero) Tbk (2007: USD 614.44; 2006: Nil) | 5,787,410            | --                    |
| <b>Time Deposit</b>  |                      |                       |
| PT Bank Permata Tbk (Rupiah)   | 1,218,000,000        | 7,685,000,000         |
| PT Bank Central Asia Tbk (Rupiah)                                    | 1,616,000,000        | --                    |
| <b>Total</b>   | <b>9,051,640,386</b> | <b>16,679,001,980</b> |
|  | <b>2007</b>          | <b>2006</b>           |
| Annual Interest Rates on Time Deposit:                               |                      |                       |
| Rupiah   | 3.6% - 6.3%          | 7.5% - 11%            |
| Period   |                      |                       |
| Rupiah   | 1 month              | 1 month               |

There are no placements in banks which are related parties.

**4. Accounts Receivable**

Details of accounts receivable by nature of its sales/operating activity are as follows:

|   | <b>2007</b>            | <b>2006</b>            |
|---|------------------------|------------------------|
|   | <b>Rp</b>              | <b>Rp</b>              |
| Receivable from Sales - Feedmill                        | 161,398,289,344        | 139,800,202,041        |
| Receivable from Sales - Day Old Chickens                | 95,108,513,309         | 101,805,129,496        |
| Receivable from Sales - Dressed Chicken and Frozen Food | 48,632,668,245         | 40,451,259,978         |
| Receivable from Sales - Others                          | 14,217,699,519         | 4,627,862,747          |
| Total   | 319,357,170,417        | 286,684,454,262        |
| Less: Allowance for Doubtful Accounts                   | (116,758,758,756)      | (117,202,212,826)      |
| <b>Total</b>  | <b>202,598,411,661</b> | <b>169,482,241,436</b> |

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Movement of Allowance for Doubtful Accounts:

|   | <u>2007</u><br>Rp             | <u>2006</u><br>Rp             |
|---|-------------------------------|-------------------------------|
| Beginning Balance                                       | 117,202,212,826               | 113,329,943,835               |
| Additions   | 249,001,870                   | 4,279,980,121                 |
| Deductions  | (692,455,940)                 | (348,231,083)                 |
| Adjustment Relating to Disposal of Subsidiaries in 2006 | --                            | (59,480,047)                  |
| <b>Ending Balance</b>                                   | <b><u>116,758,758,756</u></b> | <b><u>117,202,212,826</u></b> |

Details of aging receivables based on its invoice dates are:

|                       | <u>2007</u><br>Rp             | <u>2006</u><br>Rp             |
|-----------------------|-------------------------------|-------------------------------|
| Up to 1 month         | 133,860,434,337               | 96,813,724,222                |
| > 1 month - 2 months  | 2,014,506,565                 | 11,408,320,365                |
| > 2 month - 3 months  | 3,535,334,473                 | 2,975,028,263                 |
| > 3 months            | 179,946,895,042               | 175,487,381,412               |
| <b>Ending Balance</b> | <b><u>319,357,170,417</u></b> | <b><u>286,684,454,262</u></b> |

All receivables are from third parties and there is no receivable from related parties. All accounts receivable are denominated in Rupiah.

Based on a review of the status of the individual debtors at the end of the year, the Company's management believes that the allowance for doubtful accounts is adequate to cover any possible losses on uncollectible accounts.

In 2007, the Company had direct written-off of trade receivables amounted to Rp 556,125,510 as based on the Company's analysis, this receivables are uncollectible in the future.

## **5. Other Receivables**

Other receivables consist of:

|   | <u>2007</u><br>Rp           | <u>2006</u><br>Rp            |
|---|-----------------------------|------------------------------|
| Other Receivable from Wendy International Corporation | 4,470,000,000               | 4,470,000,000                |
| Employees Receivable                                  | 1,828,157,609               | 2,165,981,394                |
| Receivable on Investment Disposal (see Note 28)       | --                          | 1,245,890,840                |
| Miscellaneous (below Rp 200 million each )            | 2,280,692,338               | 2,613,076,853                |
| <b>Total</b>  | <b><u>8,578,849,947</u></b> | <b><u>10,494,949,087</u></b> |

Management believes that all other receivables are collectible, therefore no allowance for doubtful account is provided.

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**6. Inventories**

|  | <u>2007</u><br>Rp             | <u>2006</u><br>Rp             |
|--|-------------------------------|-------------------------------|
| <b>Finished Goods:</b>                         |                               |                               |
| Feeds  | 12,134,044,369                | 8,534,042,200                 |
| Vaccine, Medicines and Others                  | 4,998,662,178                 | 5,217,375,886                 |
| Dressed Chicken and Frozen Food                | 1,826,491,217                 | 4,423,590,531                 |
| Poultry Equipment                              | 978,203,928                   | 1,004,501,409                 |
| Sub Total                                      | <u>19,937,401,692</u>         | <u>19,179,510,026</u>         |
| <b>Work in Process</b>                         | <u>14,412,570,734</u>         | <u>15,703,487,412</u>         |
| <b>Raw Materials and Supporting Materials:</b> |                               |                               |
| Raw Materials                                  | 244,462,964,154               | 83,985,068,584                |
| Packing Materials                              | 4,696,674,884                 | 4,545,295,132                 |
| Spare Parts and Other Indirect Materials       | 27,337,350,068                | 26,132,222,255                |
| Sub Total                                      | <u>276,496,989,106</u>        | <u>114,662,585,971</u>        |
| <b>Goods in Transit</b>                        | <u>1,783,951,126</u>          | <u>607,808,000</u>            |
| <b>Total</b>                                   | <u><u>312,630,912,658</u></u> | <u><u>150,153,391,409</u></u> |

The inventories of the Company are insured collectively with property, plant and equipment (see Note 13) against all risk, special for inventories, with a total insurance coverage of USD 30,518,900 and Rp 7,517,000,000 in 2007 and USD 16,550,000 and Rp 3,017,000,000 in 2006.

Management believes that the sum insured is sufficient to cover any possible losses.

The Company recognized a loss on the difference of inventories stocktaking which result of shrinkage and loss amounted to Rp 1,311,275,439 and Rp 2,824,726,512, in 2007 and 2006, respectively, which charged into the statement of income under other income (expenses).

**7. Livestock**

Livestock consist of:

|   | <u>2007</u><br>Rp            | <u>2006</u><br>Rp            |
|---|------------------------------|------------------------------|
| <b>Mature (Productive):</b>                       |                              |                              |
| Beginning Balance - Parent Stock                  | 18,513,355,554               | 19,633,716,945               |
| Reclassification from Immature Livestock          | 64,587,261,348               | 62,250,046,984               |
| Depletion Cost                                    | <u>(54,425,885,799)</u>      | <u>(63,370,408,375)</u>      |
| Ending Balance - Parent Stock                     | <u>28,674,731,103</u>        | <u>18,513,355,554</u>        |
| <b>Immature (Not Yet Productive):</b>             |                              |                              |
| Beginning Balance - Parent Stock                  | 19,895,393,833               | 18,581,452,921               |
| Capitalized Cost                                  | 71,955,254,992               | 63,563,987,896               |
| Reclassification to Mature (Productive) Livestock | <u>(64,587,261,348)</u>      | <u>(62,250,046,984)</u>      |
| Ending Balance - Parent Stock                     | <u>27,263,387,477</u>        | <u>19,895,393,833</u>        |
| <b>Total</b>                                      | <u><u>55,938,118,580</u></u> | <u><u>38,408,749,387</u></u> |

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Depletion of parent stock are charged in current year as part of cost of good sold of Rp 54,425,885,799 and Rp 63,370,408,375, respectively in 2007 and 2006.

**8. Prepaid Taxes**

|                          | <b>2007</b>                 | <b>2006</b>                  |
|--------------------------|-----------------------------|------------------------------|
|                          | <b>Rp</b>                   | <b>Rp</b>                    |
| <b>Income Tax</b>        |                             |                              |
| The Company              |                             |                              |
| Income Tax - Article 22  | 2,683,396,439               | 10,707,274,910               |
| Income Tax - Article 23  | 884,958                     | 502,434,964                  |
| Income Tax - Article 28A | --                          | 263,431,871                  |
| Subsidiaries             |                             |                              |
| PT Sierad Corporation    | 2,851,434,732               | 2,851,434,732                |
| PT Sierad Industries     | 121,000,054                 | 121,000,054                  |
| PT Dwipamina Nusantara   | 3,028,458                   | 3,028,458                    |
| <b>Value Added Tax</b>   |                             |                              |
| The Company              | 2,029,242,567               | 279,987,625                  |
| Subsidiaries             |                             |                              |
| PT Sierad Industries     | <u>58,482,813</u>           | <u>69,628,511</u>            |
| <b>Total</b>             | <b><u>7,747,470,021</u></b> | <b><u>14,798,221,125</u></b> |

In 2007, the Company obtained tax refund payments from an objection which has appealed in 2006 (see Note 12.c) amounted to Rp 6,530,359,741 and obtained interest income of Rp 1,767,911,532, which was recognized as other income in current year statements of income.

**9. Purchase Advances**

|   | <b>2007</b>                  | <b>2006</b>                  |
|---|------------------------------|------------------------------|
|   | <b>Rp</b>                    | <b>Rp</b>                    |
| Inventories Purchase Advance                                |                              |                              |
| Import (2007: USD 2,195,271.47 ; dan 2006 USD 1,464,432.94) | 20,677,262,017               | 13,209,185,119               |
| Domestic (Rupiah)   | 15,541,554,031               | 14,037,966,687               |
| Other Purchase Advance (Rupiah)                             | <u>14,986,519,388</u>        | <u>6,395,244,352</u>         |
| <b>Total</b>  | <b><u>51,205,335,436</u></b> | <b><u>33,642,396,158</u></b> |

Inventories purchase advance represents raw material purchase advance from third parties by import and domestic such as yellow crown, soyabean meal, corn gluten meal, domestic corn, Argentinian corn and Argentinian SBM.

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**10. Investment in Associate**

This account represents the investment of PT Sierad Pangan Nusantara (SPN), a subsidiary, in shares of stock of PT Bridor Indonesia (BI) amounted to Rp 1,300,839,000 or equivalent 25% of paid in capital of PT Bridor Indonesia. PT Bridor Indonesia's business is in food industry and distribution. The Company had no significant control over PT Bridor Indonesia, accordingly the investment is recorded at acquisition cost.

In 2003, as a request by SPN, the Court of Justice of Bekasi appointed an independent accountant under decision No. 105/Pdt.P/2002/PN.BKS to conduct a special audit on the financial statements of PT Bridor Indonesia for 1998, 1999, 2000, 2001 and part of 2002, in relation with the failure of PT Bridor Indonesia to provide their financial statements to SPN as stockholder, with the effect that the performance of PT Bridor Indonesia can not be monitored by SPN. Based on the accountants' report dated July 16, 2003, PT Bridor Indonesia from the commencement of its operations until the middle of 2002 has suffered losses which resulted in capital deficiency, and affected its ability to continue as a going concern. Since 2003, this investment value has been reduced to be nil.

Up to reporting date, there is no material transaction and Company's management plan related to investment in this associate.

**11. Others Long Term Investment**

This account represents securities available for sale, consisting of:

|   | <u>2007</u><br>Rp       | <u>2006</u><br>Rp       |
|---|-------------------------|-------------------------|
| Commercial Paper Issued by:   |                         |                         |
| PT Perkebunan Nusantara XI  | 49,150,000,000          | 46,450,000,000          |
| Less : Allowance for Permanent Decline in Value of Commercial Paper     | <u>(49,150,000,000)</u> | <u>(46,450,000,000)</u> |
| Net   | <u>--</u>               | <u>--</u>               |
| Investment Portfolio in:  |                         |                         |
| Merril Lynch International Bank Limited, Singapura                      | 38,120,551              | 38,120,551              |
| Less : Allowance for Permanent Decline in Value of Investment Portfolio | <u>(38,120,551)</u>     | <u>(38,120,551)</u>     |
| Net   | <u>--</u>               | <u>--</u>               |
| <b>Total</b>  | <u><u>--</u></u>        | <u><u>--</u></u>        |

The Company received Commercial Papers issued by PT Perkebunan Nusantara XI through the Eraska Group as issuing agent, as settlement of the Company's receivables from PT Sietek Nusantara Finance (SNF) in 1998 based on the agreement dated February 16, 1998. According to the Company's management, the commercial papers were previously owned by SNF and were not paid by the issuer on maturity on December 26, 1997. In addition, the Company also owned commercial paper issued by Merrill Lynch International Bank Ltd, Singapore.

Up to reporting date, there is no management plan specifically intended to recover these investments. The Management provides the allowance for permanent decline on these investments.

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**12. Income Tax**

**a. Income Tax Benefit (Expenses)**

|              | <u>2007</u><br><u>Rp</u> | <u>2006</u><br><u>Rp</u> |
|--------------|--------------------------|--------------------------|
| Current      | --                       | --                       |
| Deferred     | (25,632,022,624)         | (20,292,518,342)         |
| <b>Total</b> | <b>(25,632,022,624)</b>  | <b>(20,292,518,342)</b>  |

A reconciliation of the income (loss) before income tax between the consolidated statements of income and the consolidated taxable income (tax loss) is as follows:

|  | <u>2007</u><br><u>Rp</u>     | <u>2006</u><br><u>Rp</u>     |
|--|------------------------------|------------------------------|
| Income before Income Taxes according to Consolidated Statement of Income   | 46,831,249,777               | 69,930,789,845               |
| Extraordinary Item   | --                           | (8,693,008,368)              |
| Income before Income Taxes of the Consolidated Statement of Income after Extraordinary Item                        | <u>46,831,249,777</u>        | <u>61,237,781,477</u>        |
| Timing Differences:  |                              |                              |
| Depreciation of Property, Plant and Equipment and Assets under Capital Lease and Amortization of Intangible Assets | (14,523,935,055)             | (15,746,542,579)             |
| Employee Benefits  | 2,760,988,701                | 1,737,672,565                |
| Bad Debt Expenses  | 805,127,380                  | 4,279,980,121                |
| Lease Payment  | (619,577,105)                | (644,402,033)                |
| Total  | <u>(11,577,396,079)</u>      | <u>(10,373,291,926)</u>      |
| Permanent Differences:   |                              |                              |
| Non Taxable Income   | (370,795,502)                | (312,054,927)                |
| Non Deductible Expenses  | <u>8,795,689,935</u>         | <u>7,544,917,466</u>         |
| Total  | <u>8,424,894,433</u>         | <u>7,232,862,539</u>         |
| <b>Consolidated Taxable Income</b>   | <b><u>43,678,748,131</u></b> | <b><u>58,097,352,089</u></b> |

A detail of consolidated tax loss is as follows:

|  | <u>2007</u><br><u>Rp</u>       | <u>2006</u><br><u>Rp</u>        |
|--|--------------------------------|---------------------------------|
| Loss of the Subsidiaries after Compensation of Tax Loss Carryforward | --                             | --                              |
| Consolidated Taxable Income  | 43,678,748,131                 | 58,097,352,089                  |
| Consolidated Tax Loss Carryforward                                   | (170,475,923,048)              | (278,817,421,376)               |
| Uncompensated Consolidated Tax Loss Carryforward                     | 30,183,931,202                 | 9,252,192,102                   |
| Tax Loss Carryforward Compensation of Disposed Subsidiaries          | --                             | 40,991,954,137                  |
| Loss Compensation Adjustment Based on Tax Assessment Letter          | (535,285,401)                  | --                              |
| <b>Accumulated Consolidated Tax Loss Expected to be Utilized</b>     | <b><u>(97,148,529,116)</u></b> | <b><u>(170,475,923,048)</u></b> |

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A reconciliation of the income (loss) before income tax between the consolidated statements of income and the Company taxable income (tax loss) is as follows:

|  | <u>2007</u><br><u>Rp</u>       | <u>2006</u><br><u>Rp</u>        |
|--|--------------------------------|---------------------------------|
| Consolidated Loss before Income Tax according to Consolidated Statements of Income | 46,831,249,777                 | 69,930,789,845                  |
| Less: Income (Losses) of the Subsidiaries  | 309,826,089                    | (1,019,149,855)                 |
| Extraordinary Item   | --                             | (8,693,008,368)                 |
| Commercial Income (Loss) of the Company after Extraordinary Item                   | <u>46,521,423,688</u>          | <u>62,256,931,332</u>           |
| Timing Differences:  |                                |                                 |
| Depreciation of Property, Plant and Equipment and Assets Under Capital Lease       | (14,585,526,173)               | (15,870,427,052)                |
| Provision for Employee Benefits  | 2,694,573,501                  | 1,708,151,317                   |
| Capital Lease Expense with Option Right  | (619,577,105)                  | (644,402,033)                   |
| Bad Debt Expenses/Receivables Written-off  | 805,127,380                    | 4,246,280,121                   |
|  | <u>(11,705,402,397)</u>        | <u>(10,560,397,647)</u>         |
| Permanent Differences:   |                                |                                 |
| Non Deductible Expenses  | (366,687,283)                  | 7,519,807,279                   |
| Non Taxable Income   | 8,450,440,618                  | (309,045,633)                   |
|  | <u>8,083,753,335</u>           | <u>7,210,761,646</u>            |
| The Company's Taxable Income   | <u>42,899,774,626</u>          | <u>58,907,295,330</u>           |
| Carryforward Loss of Previous Years  | (169,066,884,927)              | (236,667,188,625)               |
| Unutilized Carry Forward Loss  | 29,641,988,924                 | 8,693,008,368                   |
| <b>The Company's Accumulated Tax Loss Carryforward</b>                             | <u><b>(96,525,121,377)</b></u> | <u><b>(169,066,884,927)</b></u> |

Tax losses of the subsidiaries are as follows:

|   | <u>2007</u><br><u>Rp</u>    | <u>2006</u><br><u>Rp</u>      |
|---|-----------------------------|-------------------------------|
| Tax Income (Losses) of the Subsidiaries                     | 778,973,505                 | (809,943,241)                 |
| Tax Loss Carryforward of the Subsidiaries                   | (1,409,038,121)             | (42,150,232,751)              |
| Unutilized Carry Forward Loss of the Subsidiaries           | 541,942,278                 | 559,183,734                   |
| Adjustment Tax Loss Carryforward of Disposed Subsidiaries   | --                          | 40,991,954,137                |
| Loss Compensation Adjustment Based on Tax Assessment Letter | (535,285,401)               | --                            |
| <b>Carryforward Tax Loss of the Subsidiaries</b>            | <u><b>(623,407,739)</b></u> | <u><b>(1,409,038,121)</b></u> |

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A reconciliation between consolidated income (loss) tax expense and the calculation of the income before income tax multiplied with the prevailing tax rate is as follows:

|   | <b>2007</b>                    | <b>2006</b>                    |
|---|--------------------------------|--------------------------------|
|   | <b>Rp</b>                      | <b>Rp</b>                      |
| Consolidated Income (Loss) before Extraordinary Item                | 46,831,249,777                 | 69,930,789,845                 |
| Extraordinary Item  | --                             | (8,693,008,368)                |
| Taxable Income of the Subsidiaries                                  | --                             | --                             |
| Consolidated Income (Loss) after Taxable Income of the Subsidiaries | <u>46,831,249,777</u>          | <u>61,237,781,477</u>          |
| Income Tax Calculated at a Rate of 30%                              | (14,049,374,933)               | (18,371,334,443)               |
| Non Deductible Expense  | (2,638,706,980)                | (2,263,475,240)                |
| Non Taxable Income  | 111,238,650                    | 93,616,478                     |
| Unutilizable Compensation of Tax Loss Carryforward                  | (9,055,179,361)                | (2,775,657,631)                |
| Adjustment on Beginning balance of Deferred Tax Assets              | --                             | 3,024,332,493                  |
| <b>Total Tax Expenses</b>   | <b><u>(25,632,022,624)</u></b> | <b><u>(20,292,518,342)</u></b> |

**b. Deferred Tax Assets**

|  | 31 Dec 2005                   | Credited to<br>Statement of<br>Income | Adjustments *)                 | 31 Dec 2006                   | Credited to<br>Statement of<br>Income | 31 Dec 2007                  |
|--|-------------------------------|---------------------------------------|--------------------------------|-------------------------------|---------------------------------------|------------------------------|
|  | Rp                            | Rp                                    | Rp                             | Rp                            | Rp                                    | Rp                           |
| <b>The Company</b>                               |                               |                                       |                                |                               |                                       |                              |
| Tax Loss Carryforward                            | 71,000,155,773                | (20,280,091,109)                      | --                             | 50,720,064,664                | (21,762,529,065)                      | 28,957,535,599               |
| Allowance for Doubtful Accounts                  | 30,733,402,107                | 4,427,261,741                         | --                             | 35,160,663,848                | 241,538,214                           | 35,402,202,062               |
| Difference Between Book and<br>Tax Depreciations | 14,920,241,300                | (4,954,448,726)                       | --                             | 9,965,792,575                 | (4,561,530,983)                       | 5,404,261,591                |
| Estimated Liabilities on Employee's Benefits     | 3,668,458,557                 | 328,702,876                           | --                             | 3,997,161,433                 | 808,372,050                           | 4,805,533,483                |
|  | <u>120,322,257,737</u>        | <u>(20,478,575,217)</u>               | <u>--</u>                      | <u>99,843,682,520</u>         | <u>(25,274,149,784)</u>               | <u>74,569,532,736</u>        |
| <b>Subsidiaries</b>                              |                               |                                       |                                |                               |                                       |                              |
| PT Sierad Industri                               | 259,012,606                   | 297,881,522                           | --                             | 556,894,128                   | (172,182,013)                         | 384,712,115                  |
| PT Sierad Biotek                                 | (108,395,015)                 | --                                    | 108,395,015                    | --                            | --                                    | --                           |
| PT Sierad Pangan                                 | 4,810,507,354                 | --                                    | (4,810,507,354)                | --                            | --                                    | --                           |
| PT Wendy Citrarasa                               | 7,599,646,546                 | --                                    | (7,599,646,546)                | --                            | --                                    | --                           |
| PT Dwipamina Nusantara                           | 7,395,707                     | (111,824,647)                         | --                             | (104,428,940)                 | (185,690,827)                         | (290,119,767)                |
|  | <u>12,568,167,198</u>         | <u>186,056,875</u>                    | <u>(12,301,758,885)</u>        | <u>452,465,188</u>            | <u>(357,872,840)</u>                  | <u>94,592,349</u>            |
| <b>Consolidated Deferred Tax Assets - Net</b>    | <b><u>132,890,424,935</u></b> | <b><u>(20,292,518,342)</u></b>        | <b><u>(12,301,758,885)</u></b> | <b><u>100,296,147,708</u></b> | <b><u>(25,632,022,624)</u></b>        | <b><u>74,664,125,084</u></b> |

\*) *Belongs to subsidiaries which were sold in 2006*

**c. Taxes Payable**

|                            | <b>2007</b>          | <b>2006</b>          |
|----------------------------|----------------------|----------------------|
|                            | <b>Rp</b>            | <b>Rp</b>            |
| <b>Income Taxes</b>        |                      |                      |
| <b>The Company</b>         |                      |                      |
| Article 21                 | 1,893,268,650        | 1,032,893,794        |
| Article 22                 | 9,538,676            | --                   |
| Article 23                 | 69,140,067           | 108,657,116          |
| Article 26                 | 28,622,280           | 24,288,432           |
| <b>Subsidiaries</b>        |                      |                      |
| PT Sierad Corporation      | 2,162,226,376        | 2,162,226,376        |
| PT Transpasifik Niagareksa | 307,749,859          | 307,749,859          |
| PT Sierad Industries       | 5,138,295            | 3,688,575            |
| PT Dwipamina Nusantara     | 121,500              | 1,327,540            |
|                            | <u>4,475,805,703</u> | <u>3,640,831,692</u> |

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|                        | <u>2007</u><br>Rp           | <u>2006</u><br>Rp           |
|------------------------|-----------------------------|-----------------------------|
| <b>Value Added Tax</b> |                             |                             |
| The Company            | --                          | --                          |
| Subsidiaries           |                             |                             |
| PT Sierad Corporation  | <u>5,131,650,175</u>        | <u>5,131,650,175</u>        |
|                        | <u>5,131,650,175</u>        | <u>5,131,650,175</u>        |
| <b>Total</b>           | <u><b>9,607,455,878</b></u> | <u><b>8,772,481,867</b></u> |

On July 18, 2006, the Company received underpayment tax assessment notice (SKPKB), overpayment tax assessment notice (SKPLB), and tax collection notice (STP) from Listed Company Tax Office (KPP PMB) for income tax article 29, 21, 23, final tax, and VAT for 2004, with a sum underpayment totaling to Rp 7,224,384,399. On October 17, 2006, the Company appeal an objection on part of SKPKB, SKPLB and STP amounting to Rp 6,651,578,267.

On October 19, 2007, the Company re-appeal an objection on SKPKB VAT on July 18, 2006 amounting to Rp 1,758,241,416. Up to reporting date, this objection is still in process.

**13. Property, Plant and Equipment**

|                                   | <u>2007</u>                   |                       |                      |                          |                               |
|-----------------------------------|-------------------------------|-----------------------|----------------------|--------------------------|-------------------------------|
|                                   | <u>Beginning Balance</u>      | <u>Additions</u>      | <u>Deductions</u>    | <u>Reclassifications</u> | <u>Ending Balance</u>         |
|                                   | Rp                            | Rp                    | Rp                   | Rp                       | Rp                            |
| <b>Acquisition Cost</b>           |                               |                       |                      |                          |                               |
| <b>Direct Ownership</b>           |                               |                       |                      |                          |                               |
| Land                              | 138,640,151,586               | --                    | --                   | 9,228,025,000            | 147,868,176,586               |
| Building and Infrastructures      | 293,579,548,527               | 1,103,981,762         | --                   | (6,969,370,428)          | 287,714,159,861               |
| Machinery and Equipment           | 284,979,070,875               | 5,454,530,706         | 212,230,948          | 21,566,763,404           | 311,788,134,037               |
| Furniture and Fixtures            | 59,635,850,347                | 4,287,942,189         | 34,915,798           | (365,828,052)            | 63,523,048,686                |
| Vehicles                          | 26,288,492,452                | 802,539,147           | 1,891,393,381        | (1,330,503,094)          | 23,869,135,124                |
| <b>Assets Under Capital Lease</b> |                               |                       |                      |                          |                               |
| Vehicles                          | 1,244,206,560                 | 4,767,000,000         | --                   | 661,100,009              | 6,672,306,569                 |
| <b>Construction in Progress</b>   |                               |                       |                      |                          |                               |
| Building and Infrastructures      | 1,213,353,950                 | 4,501,933,038         | --                   | (1,166,825,607)          | 4,548,461,381                 |
| Machinery and Equipment           | --                            | 5,908,566,601         | --                   | (463,708,483)            | 5,444,858,118                 |
| Total                             | <u>805,580,674,297</u>        | <u>26,826,493,443</u> | <u>2,138,540,127</u> | <u>21,159,652,749</u>    | <u>351,428,280,362</u>        |
| <b>Accumulated Depreciation</b>   |                               |                       |                      |                          |                               |
| <b>Direct Ownership</b>           |                               |                       |                      |                          |                               |
| Building and Infrastructures      | 114,601,261,287               | 11,162,009,268        | --                   | (9,211,249,760)          | 116,552,020,795               |
| Machinery and Equipment           | 172,956,373,945               | 16,564,327,285        | 126,901,993          | (15,224,925,309)         | 174,168,873,928               |
| Furniture and Fixtures            | 46,809,108,453                | 5,039,255,727         | 16,447,968           | (440,597,606)            | 51,391,318,606                |
| Vehicles                          | 23,636,276,211                | 1,038,908,413         | 1,844,382,329        | (473,059,741)            | 22,357,742,554                |
| <b>Assets Under Capital Lease</b> |                               |                       |                      |                          |                               |
| Vehicles                          | <u>497,874,772</u>            | <u>706,399,645</u>    | --                   | <u>250,089,992</u>       | <u>1,454,364,409</u>          |
| Total                             | <u>358,500,894,668</u>        | <u>34,510,900,337</u> | <u>1,987,732,290</u> | <u>(25,099,742,424)</u>  | <u>365,924,320,292</u>        |
| <b>Total</b>                      | <u><b>447,079,779,629</b></u> |                       |                      |                          | <u><b>485,503,960,070</b></u> |

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|                                   | 2006                          |                       |                      |                          |                               |
|-----------------------------------|-------------------------------|-----------------------|----------------------|--------------------------|-------------------------------|
|                                   | Beginning Balance             | Additions             | Deductions           | Reclassifications        | Ending Balance                |
|                                   | Rp                            | Rp                    | Rp                   | Rp                       | Rp                            |
| <b>Acquisition Cost</b>           |                               |                       |                      |                          |                               |
| <b>Direct Ownership</b>           |                               |                       |                      |                          |                               |
| Land                              | 148,529,719,139               | --                    | --                   | (9,889,567,553)          | 138,640,151,586               |
| Building and Infrastructures      | 313,796,587,059               | 745,676,445           | --                   | (20,962,714,977)         | 293,579,548,527               |
| Machinery and Equipment           | 335,505,858,649               | 4,654,959,871         | 737,231,395          | (54,444,516,250)         | 284,979,070,875               |
| Furniture and Fixtures            | 72,858,356,419                | 2,490,696,498         | --                   | (15,713,202,570)         | 59,635,850,347                |
| Vehicles                          | 25,950,265,615                | 1,122,346,056         | 826,267,150          | 42,147,931               | 26,288,492,452                |
| <b>Assets Under Capital Lease</b> |                               |                       |                      |                          |                               |
| Vehicles                          | 2,311,940,860                 | 98,716,000            | --                   | (1,166,450,300)          | 1,244,206,560                 |
| <b>Construction in Progress</b>   |                               |                       |                      |                          |                               |
| Building and Infrastructures      | 1,743,723,962                 | 1,277,424,954         | --                   | (1,807,794,966)          | 1,213,353,950                 |
| Machinery and Equipment           | --                            | 2,494,444,506         | --                   | (2,494,444,506)          | --                            |
| <b>Total</b>                      | <u>900,696,451,703</u>        | <u>12,884,264,330</u> | <u>1,563,498,545</u> | <u>(106,436,543,191)</u> | <u>305,580,674,297</u>        |
| <b>Accumulated Depreciation</b>   |                               |                       |                      |                          |                               |
| <b>Direct Ownership</b>           |                               |                       |                      |                          |                               |
| Building and Infrastructures      | 107,056,750,414               | 11,014,317,358        | --                   | (3,469,806,485)          | 114,601,261,287               |
| Machinery and Equipment           | 164,748,793,070               | 17,166,962,602        | 385,245,586          | (8,574,136,141)          | 172,956,373,945               |
| Furniture and Fixtures            | 55,698,245,385                | 5,384,462,594         | --                   | (14,273,599,526)         | 46,809,108,453                |
| Vehicles                          | 23,528,323,726                | 1,375,637,314         | 802,316,091          | (465,368,738)            | 23,636,276,211                |
| <b>Assets Under Capital Lease</b> |                               |                       |                      |                          |                               |
| Vehicles                          | 706,607,166                   | 321,362,771           | --                   | (530,095,165)            | 497,874,772                   |
| <b>Total</b>                      | <u>351,738,719,761</u>        | <u>35,262,742,639</u> | <u>1,187,561,677</u> | <u>(27,313,006,055)</u>  | <u>358,500,894,668</u>        |
| <b>Total</b>                      | <u><u>548,957,731,942</u></u> |                       |                      |                          | <u><u>447,079,779,629</u></u> |

Depreciation is charged to:

|  | 2007<br>Rp                   | 2006<br>Rp                   |
|--|------------------------------|------------------------------|
| Indirect Production Cost/Cost of Good Sold   | 29,063,658,303               | 30,215,415,292               |
| Selling, General and Administrative Expenses | 5,447,242,034                | 5,047,327,347                |
| <b>Total</b>                                 | <u><u>34,510,900,337</u></u> | <u><u>35,262,742,639</u></u> |

Disposal of property, plant, and equipment represents sale of property, plant, and equipment as follows:

|                     | 2007<br>Rp                | 2006<br>Rp                |
|---------------------|---------------------------|---------------------------|
| Selling Price       | 606,499,594               | 1,100,600,000             |
| Book Value          | 97,662,288                | 375,936,868               |
| <b>Gain on Sale</b> | <u><u>508,837,306</u></u> | <u><u>724,663,132</u></u> |

In 2007, the Company has written-off its fixed asset own by Myanmar Sierad Ltd., a subsidiary, amounting to its book value of Rp 53,145,549 in relation with the Company's investment written-off in this subsidiary (see Note 1.c). Land and other unutilized assets for operations are presented as "unutilized assets" in non-current assets (see Note14).

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Property, plant and equipment of the Company and its subsidiaries, except for land, are insured collectively with the Company's inventories (see Note 6) against all risk in 2007 and 2006, respectively with the sum insured of Rp 518,033,000,000 and Rp 526,746,800,000 for building, Rp 52,423,008,000 and Rp 52,423,008,000 and USD 52,287,700 and USD 51,208,000 for machinery, Rp 13,218,000,000 and Rp 9,731,000,000 for furniture and fixtures, and Rp 15,808,275,000 and Rp 17,967,800 for vehicles.

Management believes that the insurance coverages are sufficient to cover any possible losses.

**14. Unutilized Assets**

|                       | <u>2007</u><br>Rp            | <u>2006</u><br>Rp            |
|-----------------------|------------------------------|------------------------------|
| <b>The Company</b>    |                              |                              |
| Book Value            |                              |                              |
| Land and Building     | 16,625,875,660               | 29,094,729,448               |
| Machine and Equipment | 15,907,383,290               | 52,730,131,537               |
| Vehicle               | 114,460,001                  | 11,386,674                   |
| Furniture and Fixture | 18,365,019                   | 194,752,722                  |
| Sub Total             | <u>32,666,083,970</u>        | <u>82,031,000,381</u>        |
| <b>Subsidiary</b>     |                              |                              |
| PT Sierad Corporation | <u>4,780,847,749</u>         | <u>4,780,847,749</u>         |
| <b>Total</b>          | <u><u>37,446,931,719</u></u> | <u><u>86,811,848,130</u></u> |

Unutilized assets of the Company and subsidiary, excluding land, are insured collectively with the Company's fixed asset against all risk (see Note 13).

In 2007, the Company has recognized sales of land and building of unutilized asset which was previous year recorded as sales advance, include in other current liability account (see Note 31.d) with details as follows:

|               | <u>2007</u><br>Rp           |
|---------------|-----------------------------|
| Selling Price | 1,380,000,000               |
| Book Value    | <u>2,353,787,028</u>        |
| Gain on Sale  | <u><u>(973,787,028)</u></u> |

Unutilized asset own by the Company of Rp 32,666,083,970 as of December 31, 2007 mainly consist of machinery, factory equipment, warehouse building and land located in Jabon Bogor, Lampung and Mojokerto. The deduction of the Company's unutilized asset in 2007 due to re-used of the asset by Lampung division in 2007 (see Note 1.a).

The remaining unutilized asset of subsidiary as of December 31, 2007 consist of land located in Pontianak own by PT Sierad Corporation.

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**15. Accounts Payable**

This account represents payables due to the purchase of raw materials and supporting materials, with the detail as follows:

|               | <u>2007</u><br>Rp      | <u>2006</u><br>Rp     |
|---------------|------------------------|-----------------------|
| Third Parties | 150,708,261,985        | 81,250,372,923        |
| <b>Total</b>  | <b>150,708,261,985</b> | <b>81,250,372,923</b> |

A detail payables categorized by its currencies is as follows:

|  | <u>2007</u><br>Rp      | <u>2006</u><br>Rp     |
|--|------------------------|-----------------------|
| US Dollar (2007: USD 11,613,297.21 ; 2006: USD 3,489,685.93) | 109,385,646,372        | 31,476,967,089        |
| Sing Dollar (2007: SGD 3,000.11 ; 2006: Nil)                 | 19,507,855             | --                    |
| Euro (2007: Eur 21,118.08 ; 2006: Nil)                       | 290,579,712            | --                    |
| Rupiah   | 41,012,528,046         | 49,773,405,834        |
| <b>Total</b>   | <b>150,708,261,985</b> | <b>81,250,372,923</b> |

**16. Accrued Expenses**

|   | <u>2007</u><br>Rp     | <u>2006</u><br>Rp     |
|---|-----------------------|-----------------------|
| Freight and Delivery  | 2,666,524,009         | 569,282,763           |
| Estimated Liability under Stock Financing Agreement<br>(see Note 31.b)                                      | 2,187,416,800         | 4,137,074,368         |
| Professional Fee (included 2007: USD 148,753.30 and SGD 28,157.89<br>2006: USD 72,060.74 and SGD 55,000.00) | 2,007,178,305         | 1,950,825,033         |
| Advertisement and Promotion   | 1,829,923,684         | 1,483,550,624         |
| Electricity, Water and Telephone  | 1,616,325,958         | 945,740,601           |
| Progressive Discount  | 612,919,589           | 437,050,561           |
| Insurance and Jamsostek (included 2007: Nil; 2006: SGD 38,216.67)   | 589,624,320           | 2,011,914,254         |
| Salaries and Benefits   | 460,596,541           | 785,236,489           |
| Others (each below Rp 200 millions included<br>2007: USD 7,957.58; 2006: Nil)                               | 2,929,794,940         | 824,447,770           |
| <b>Total</b>  | <b>14,900,304,146</b> | <b>13,145,122,463</b> |

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**17. Bank Loan**

|  | <b>2007</b>              | <b>2006</b>               |
|--|--------------------------|---------------------------|
|  | <b>Rp</b>                | <b>Rp</b>                 |
| Bank Loan                              |                          |                           |
| PT Bank Negara Indonesia (Persero) Tbk | 83,604,812,379           | --                        |
| PT Bank Permata Tbk                    | <u>212,377,906</u>       | <u>428,475,670</u>        |
| Total                                  | <u>83,817,190,285</u>    | <u>428,475,670</u>        |
| Less: Current Maturity                 | <u>(83,781,591,393)</u>  | <u>(216,097,764)</u>      |
| <b>Total Long Term Bank Loan</b>       | <b><u>35,598,892</u></b> | <b><u>212,377,906</u></b> |

- a. In 2007, the Company obtained working capital loan from PT Bank Negara Indonesia (Persero) Tbk with maximum limit of Rp 225,000,000,000 which are consist of Rp 200,000,000,000 used to increase feeds production capacity and of Rp 25,000,000,000 used to develop population capacity of partnership production. This loan bears a floating interest rate based on interest rate applied in bank. This loan is secured by several lots of the Company's land, building and feedmill machineries.

This loan also bear a provision cost of 0,5% per annum which was calculated from the maximum limit of loan facility, proportionately based on the loan period and rounded in a full month. In addition, the Company also being charged a consultant fee who support the Company to obtained the loan of 0,5% from the maximum limit of loan facility provided by bank.

The maturity period of this loan is one year from September 25, 2007 up to September 24, 2008 and could be renewable based on a written agreement.

As of December 31, 2007, the outstanding loan balance was Rp 83,604,812,379 and interest expense, provision cost, and consultant fee charged to current year which consist of amounted to Rp 2,439,682,178 (Interest Expense-Other Expense), Rp 1,125,000,000 (Bank Administration Charges-General and Administrative Expense) and consultant fee who had supported the Company to obtain the loan of Rp 1,125,000,000 (Profesional Fee- General and Administrative Expense).

- b. Loan obtained by the Company from PT Bank Permata Tbk is represent a vehicles' ownership credit facility for credit period of 36-60 months. This loan is secured by the acquired vehicles and the last payment will due on October 2009.

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**18. Obligations under Capital Lease**

| Leasee's<br>companies     | Type of<br>Assets | 2007<br>Rp                  | 2006<br>Rp                |
|---------------------------|-------------------|-----------------------------|---------------------------|
| PT Orix Indonesia Finance | Vehicle           | 1,962,273,234               | --                        |
| PT BCA Finance            | Vehicle           | 1,421,355,756               | --                        |
| PT Dipostar Finance       | Vehicle           | 121,049,229                 | 321,823,108               |
| PT Astra Credit Company   | Vehicle           | 53,835,186                  | 125,277,768               |
| PT Adira Finance          | Vehicle           | 45,476,822                  | 74,922,976                |
| PT Srikandi Diamond Motor | Vehicle           | --                          | 3,336,406                 |
|                           |                   | <u>3,603,990,227</u>        | <u>525,360,258</u>        |
| Less : Current Maturity   |                   | <u>(1,165,476,934)</u>      | <u>(304,249,687)</u>      |
| <b>Long Term Portion</b>  |                   | <b><u>2,438,513,293</u></b> | <b><u>221,110,571</u></b> |

Obligation under capital lease is secured by its assets. Lease agreement restricted the Company to sale and transfer lease assets during lease period.

Future minimum lease payment in lease agreement as of December 31, 2007 and 2006 is as follows:

| <u>Years</u>             | <u>2007<br/>Rp</u>          | <u>2006<br/>Rp</u>        |
|--------------------------|-----------------------------|---------------------------|
| 2007                     | --                          | 304,249,687               |
| 2008                     | 1,165,477,253               | 205,080,050               |
| 2009                     | 958,637,649                 | 16,030,521                |
| 2010                     | 845,403,129                 | --                        |
| 2011                     | 541,344,202                 | --                        |
| 2012                     | 93,127,994                  | --                        |
| Total                    | <u>3,603,990,227</u>        | <u>525,360,258</u>        |
| Less : Current Maturity  | <u>(1,165,476,934)</u>      | <u>(304,249,687)</u>      |
| <b>Long Term Portion</b> | <b><u>2,438,513,293</u></b> | <b><u>221,110,571</u></b> |

**19. Estimated Liabilities on Employee Benefits**

The Company has determined the estimated liabilities of employee benefits according to the Labor Law No.13/2003. There are no separate funding is provided for these benefits.

The balances of employee benefits liabilities in 2007 and 2006 are based on actuary calculation as required by SFAS 24 (Revised 2004) regarding "Employee Benefit".

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Employee benefits expenses in current year are as follows:

|  | <u>2007</u><br>Rp           | <u>2006</u><br>Rp           |
|--|-----------------------------|-----------------------------|
| Current Service Cost                           | 1,768,576,985               | 1,862,877,951               |
| Interest Cost                                  | 1,605,087,972               | 1,599,555,712               |
| Amortization of Past Service Cost - Non Vested | 96,771,497                  | 96,771,492                  |
| Effect of Curtailment                          | (1,056,109,112)             | (3,304,407,335)             |
| Amortization of Actuarial Gain (Loss)          | 346,661,359                 | 594,223,647                 |
| Adjustment/Correction                          | --                          | 1,238,827,463               |
| <b>Total Employee Benefits Expenses</b>        | <b><u>2,760,988,701</u></b> | <b><u>2,087,848,930</u></b> |

Changes of liabilities recognized in balance sheet:

|   | <u>2007</u><br>Rp            | <u>2006</u><br>Rp            |
|---|------------------------------|------------------------------|
| Liabilities - Beginning of Year                       | 13,514,729,586               | 14,026,695,350               |
| Employee Benefits Payment in Current Year             | (557,425,041)                | (350,176,365)                |
| Recognized Employee Benefits Expenses in Current Year | 2,760,988,701                | 2,087,848,930                |
| Liabilities of Disposed Subsidiaries (see Note 30)    | --                           | (2,249,638,329)              |
| <b>Liabilities at the end of the Year</b>             | <b><u>15,718,293,246</u></b> | <b><u>13,514,729,586</u></b> |

The main assumptions used in determination of employee benefit by PT Padma Radya Aktuaria, an independent actuary in 2007 and 2006 are as follows:

|                                | <u>2007</u>   | <u>2006</u>   |
|--------------------------------|---|---|
| Normal Retirement Age          | : 60 year old   | : 60 year old   |
| Discounted Rate                | : 10% per year  | : 10,5% per year  |
| Projected Salary Increase Rate | : 7% per year   | : 7% per year   |
| Disability Rate                | : 5% Indonesian Mortality Rate  | : 5% Indonesian Mortality Rate  |
| Resignation Rate               | : 6% for 30 years old and decline straight line till 0% at age 52 years | : 6% for 30 years old and decline straight line till 0% at age 52 years |
| Mortality Rate                 | : 100% Indonesian Mortality Table 1999                                  | : 100% Indonesian Mortality Table 1999                                  |
| Method                         | : Projected Unit Credit   | : Projected Unit Credit   |

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**20. Capital Stock**

The most recently increases in Company's capital is based on Deeds of Extraordinary General Meeting of Shareholder decision No. 14 dated May 4, 2005 by Dr. Irawan Soerodjo, SH, Msi, a notary, by issuing series C shares as a result of conversion exercise of convertible bonds of 7,346,666,667 shares or amounting to Rp 734,666,666,700 and conversion exercise of obligation under capital lease of 1,320,655,317 shares or amounting to Rp 132,065,531,700, therefore, the Company's paid in capital as of December 31, 2007 and 2006 is amounting to Rp 3,184,291,525,400.

The Company's stockholders as of December 31, 2007 and 2006 are as follows:

| Stockholders   | Number of<br>Shares  | Total<br>(Rp)            | Percentage<br>of Ownership<br>(%) |
|--|----------------------|--------------------------|-----------------------------------|
| PT Sietek Nusantara Finance - Series A                       | 20,018,500           | 100,092,500,000          | 3.14                              |
| Public (ex Creditor) - Series B                              | 650,686,609          | 1,952,059,827,000        | 61.30                             |
| Public (ex Convertible Bonds Holder) - Series C              | 7,346,666,667        | 734,666,666,700          | 23.07                             |
| Public (ex Obligation Under Capital Lease Holder) - Series C | 1,320,655,317        | 132,065,531,700          | 4.15                              |
| Public (with less than 5% ownership each) - Series A         | 53,081,400           | 265,407,000,000          | 8.34                              |
| <b>Total</b>   | <b>9,391,108,493</b> | <b>3,184,291,525,400</b> | <b>100.00</b>                     |

**21. Additional Paid in Capital - Net**

Details of additional paid in capital as of December 31, 2007 and 2006 is as follows:

|   | Jumlah<br>Rp           |
|---|------------------------|
| Public Offering in 1996   | 100,241,500,000        |
| Conversion of Bonds in to Shares in 1997 and 1998                 | 756,366,000            |
| Conversion of Bonds in to Shares in 2005                          | 124,893,333,339        |
| Conversion of Obligation Under Capital Lease in to Shares in 2005 | 22,451,140,323         |
| Stock Issuance Cost   | (10,867,860,067)       |
| <b>Total</b>  | <b>237,474,479,595</b> |

**22. Difference Resulting from Revaluation of Property, Plant, and Equipment**

The difference resulting from property, plant, and equipment revaluation balance as of December 31, 2007 and 2006 amounted to Rp 347,703,892,066 is originated from revaluation of several Company's property, plant, and equipment which was done in 2003 amounting to Rp 237,313,430,866 and in 2002 amounting to Rp 110,390,461,200.

Revaluation of several property, plant, and equipment was conducted by PT Sabhisma Aghna and PT Penilai as independent appraiser using market value or fair value in each report dated on November 30, 2003 and June 30, 2002, respectively. The said revaluation process was executed according to the Government Regulation.

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The revaluation has been approved by the Directorate General of Taxes based on the Decision Letter No. Kep. 98/WPJ.07/BD.04/2004 dated February 26, 2004 and No. 09/WPJ.07/KP.0805/2002 dated October 31, 2002.

**23. Net Sales**

|                              | <u>2007</u><br><u>Rp</u>        | <u>2006</u><br><u>Rp</u>        |
|------------------------------|---------------------------------|---------------------------------|
| Poultry                      | 1,613,350,888,452               | 1,093,092,085,171               |
| Poultry Equipment and Others | 19,102,725,207                  | 18,149,945,366                  |
| <b>Total</b>                 | <b><u>1,632,453,613,659</u></b> | <b><u>1,111,242,030,537</u></b> |

**24. Cost of Goods Sold**

|  | <u>2007</u><br><u>Rp</u>        | <u>2006</u><br><u>Rp</u>      |
|--|---------------------------------|-------------------------------|
| Raw Materials Used                             | 1,304,572,724,162               | 775,789,293,340               |
| Direct Labor                                   | 12,532,676,137                  | 15,380,598,797                |
| Factory Overhead                               | 103,090,407,075                 | 82,788,275,715                |
| Depletion Cost                                 | 54,425,885,799                  | 63,370,408,375                |
| <b>Cost of Good Manufactured</b>               | <b><u>1,474,621,693,173</u></b> | <b><u>937,328,576,227</u></b> |
| <b>Finished Goods Inventories at</b>           |                                 |                               |
| Beginning of Year                              | 19,179,510,026                  | 22,340,447,435                |
| Adjustment Relating to Diposal of Subsidiaries | --                              | (1,847,177,174)               |
| End of Year                                    | <u>(19,937,401,692)</u>         | <u>(19,179,510,026)</u>       |
| <b>Total Cost of Goods Sold</b>                | <b><u>1,473,863,801,507</u></b> | <b><u>938,642,336,462</u></b> |

Toepfer International Asia Pte, is the Company's raw material feed supplier with total purchases of Rp 319,980,922,545 and Rp 338,868,458,029 or 31.74% and 46.31% from total purchase of raw material in 2007 and 2006, respectively (see Note 31.b).

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**25. Selling Expenses**

|  | <u>2007</u><br><u>Rp</u>     | <u>2006</u><br><u>Rp</u>     |
|--|------------------------------|------------------------------|
| Travel, Freight and Delivery           | 9,209,158,875                | 7,301,164,136                |
| Advertising and Promotions             | 5,368,190,148                | 5,559,103,093                |
| Salaries and Benefits                  | 2,711,810,288                | 2,268,227,438                |
| Repairs and Maintenance                | 1,569,577,787                | 1,501,352,244                |
| Office Expenses                        | 1,324,955,763                | 987,780,532                  |
| Rent and Insurance                     | 713,613,154                  | 420,553,469                  |
| Depreciation of Property and Equipment | 351,756,627                  | 515,720,231                  |
| Donations and Entertainment            | 93,455,338                   | 62,918,786                   |
| Others                                 | 30,252,935                   | 25,770,114                   |
| <b>Total</b>                           | <b><u>21,372,770,915</u></b> | <b><u>18,642,590,043</u></b> |

**26. General and Administrative Expenses**

|  | <u>2007</u><br><u>Rp</u>     | <u>2006</u><br><u>Rp</u>     |
|--|------------------------------|------------------------------|
| Salaries and Benefits                  | 43,571,923,011               | 48,780,008,464               |
| Office Expenses                        | 10,002,174,751               | 8,707,712,183                |
| Repairs and Maintenance                | 6,290,377,642                | 6,297,997,826                |
| Rent and Insurance                     | 6,008,498,806                | 6,324,586,634                |
| Depreciation of Property and Equipment | 5,095,485,407                | 4,531,607,116                |
| Professional Fees                      | 3,108,371,939                | 1,679,420,770                |
| Transportation and Accommodation       | 3,081,116,086                | 2,823,833,390                |
| Provision for Employee Benefits        | 2,760,988,701                | 2,087,848,930                |
| Tax Penalties                          | 2,075,366,304                | 75,714,628                   |
| Permits and Licenses                   | 1,871,451,393                | 1,539,381,826                |
| Donations and Entertainment            | 1,838,775,258                | 1,927,464,048                |
| Administration Bank Expenses           | 1,510,818,210                | 389,713,614                  |
| Advertising and Promotions             | 630,922,704                  | 28,199,000                   |
| Meeting Expenses                       | 241,885,798                  | 336,631,197                  |
| Research and Development Expense       | 108,383,770                  | 91,226,307                   |
| Others                                 | 103,633,633                  | 78,080,018                   |
| <b>Total</b>                           | <b><u>88,300,173,413</u></b> | <b><u>85,699,425,950</u></b> |

**27. Sales of Others**

This account represents proceeds from sale of used and other materials such as sacks, sweeping and others amounting to Rp 3,219,941,254 and Rp 3,279,776,900 in 2007 and 2006, respectively.

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**28. Extraordinary Item**

This account represents the result of the sales of shares ownership of the Company in subsidiaries on 2006, as a continuing process of the restructuring on the Company's non core business and organization, consist of PT Biotek Indonesia, PT Sierad Pangan and PT Wendy Citrarasa, the subsidiaries.

A detail loss on the Company's shares disposal is as follows:

|   | Investment Value<br>on Sale<br>Rp | Transferred<br>Due (to) from<br>Rp | Selling<br>Price<br>Rp | Gain (Loss) on<br>Disposal<br>Rp |
|---|-----------------------------------|------------------------------------|------------------------|----------------------------------|
| The Company                             |                                   |                                    |                        |                                  |
| PT Sierad Pangan dan PT Wendy Citrarasa | (133,237,597,105)                 | 164,839,959,235                    | 24,990,000,000         | (6,612,362,130)                  |
| PT Sierad Biotek                        | 10,307,246,524                    | --                                 | 8,820,000,000          | (1,487,246,524)                  |
| SC, TPN dan SIPANUS, Subsidiaries       |                                   |                                    |                        |                                  |
| PT Sierad Pangan dan PT Wendy Citrarasa | (897,105,581)                     | 2,500,505,295                      | 1,010,000,000          | (593,399,714)                    |
| <b>Total</b>                            | <b>(123,827,456,162)</b>          | <b>167,340,464,530</b>             | <b>34,820,000,000</b>  | <b>(8,693,008,368)</b>           |

**29. Earning per Share**

Calculation of earnings per share is as follows:

|   | 2007<br>Rp     | 2006<br>Rp     |
|---|----------------|----------------|
| Net Income                                    | 21,196,442,562 | 40,953,736,070 |
| Number of Weighted Average Shares Outstanding | 9,391,108,493  | 9,391,108,493  |
| Basic Earnings per Share                      | 2.26           | 4.36           |

**30. Nature of Related Parties**

|                                    | Total                 |                       | Percentage to Total<br>Assets |             |
|------------------------------------|-----------------------|-----------------------|-------------------------------|-------------|
|                                    | 2007<br>Rp            | 2006<br>Rp            | 2007<br>%                     | 2006<br>%   |
| <b>Due from Related Parties:</b>   |                       |                       |                               |             |
| PT Sietek Nusantara Finance        | 31,012,728,315        | 31,012,728,315        | 2.40                          | 2.78        |
| PT Sierad Land                     | 10,418,619,283        | 10,418,619,283        | 0.80                          | 0.94        |
| PT Bridor Indonesia                | 376,763,296           | 376,763,296           | 0.03                          | 0.03        |
| PT Sierad Food - Singapore         | 209,528,358           | 209,528,358           | 0.02                          | 0.02        |
| Others (below Rp 200 million each) | 405,828,958           | 78,361,493            | 0.03                          | 0.01        |
| <b>Total</b>                       | <b>42,423,468,210</b> | <b>42,096,000,745</b> | <b>3.28</b>                   | <b>3.78</b> |

This account mainly consists of non interest intercompany and no collateral and period of repayment, arise from such operational cost which was paid earlier by the Company and subsidiaries.

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Nature of relationship is as follows:

| No. | Related Parties             | Nature of Relationship           |
|-----|-----------------------------|----------------------------------|
| 1   | PT Sietek Nusantara Finance | The Company's Stockholder        |
| 2   | PT Sierad Land              | Same management as the Company's |
| 3   | PT Bridor Indonesia         | Associate Company                |

### **31. Commitments and Agreements**

#### **a. Distribution Agreement**

On November 2, 1998, the Company entered into distributionship agreement with PT Askar Murda Sukses (AMS) in relation to distribute the packed food products throughout Indonesia. The distribution fee that shall be paid is computed based on a certain percentage of selling price. This agreement is valid for 2 years and can be extended based on approval of both parties. As this agreement has been expired on November 17, 2000, the Company has entered into new distributorship agreement No. 183/P.Dist.AMS-SP/XI/00 which was valid until November 30, 2002. According to this agreement, AMS shall pay all their purchases in the period of 25 to 30 days after the receiving of goods.

On April 16, 2001, the Company has amended the distributionship agreement dated November 17, 2000. According to this agreement, the Company has appointed AMS to produce and distribute a product with trade brand of "Delfarm". AMS started its production on June 1, 2001. The Company entitled for royalty fee which is computed based on certain percentage of selling price under committed minimum monthly sales volume of 150 tons per month in 2001 and 200 tons per month in 2002 of the products under trade brand of Delfarm, producing at AMS factory. Subsequently, this agreement has been amended on January 19, 2002, wherein the royalty fee shall be computed based on total net sales (fixed price).

Started February 27, 2002, AMS has change its name to PT Belfood Indonesia.

This agreement has been amended several times, most recently based on IV amendment dated December 17, 2007, which was extended to a contract period up to December 31, 2009.

#### **b. Stock Financing Agreement**

On January 1, 2001, the Company entered into stock financing agreement with Toepfer International - Asia Pte Ltd. Singapore (Toepfer). This agreement has been amended several times, most recently based on second amendment dated January 10, 2002. The agreement may be terminated upon either party giving sixty (60) day's notice in writing.

According to this agreement, Toepfer agreed to provide and sell raw materials of yellow corn, soyabean meal, soyabean and corn gluten meal to the Company with a competitive price. Toepfer provided credit facility up to 85% (eighty five percent) of purchases price. Other related details concerning type of goods, quantity, advance payment, or the specification of raw material will be determined in each sales contract made for each delivery of goods.

The right of merchandise under stock financing shall remain with Toepfer until the Company has fully paid of the purchases price, carrying cost and Collateral Management Agreement (CMA) fee. Other than the carrying cost and CMA fee, the Company shall bear all acquisition cost of import goods included of shrinkage during shipment.

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Toepfer, subsequently appointed Sucofindo or other parties as a custodian of the Merchandise to manage the goods in according to CMA. In the even of the Company fail to fulfill its obligation as governed in the agreement ("even of default"), Toepfer should not be obliged to provide goods to the Company, and as holder of the title thereto, Toepfer is entitled to remove such Merchandise from warehouse and the Company should bear the cost of removal and lost of difference in quantities, if any.

Total outstanding facility is amounted to Rp 21,882,244,481 and Rp 60,225,263,657 as of December 31, 2007 and 2006, respectively, with the inventories value of Rp 21,719,924,016 and Rp 72,168,668,587, respectively. Net estimated liabilities including carrying cost are amounted to Rp 2,187,416,800 and Rp 4,137,074,368 in 2007 and 2006, respectively. Net estimated liabilities are presented as accrued expense in balance sheet and related expenses are presented as other income (charges) in current statements of income.

**c. Partnership Contract**

The Company had entered into a co-operative partnership agreement with a community of the owners and lender of chicken cops (partners), which is considered as dependent and mutually beneficial agreement, with an agrobusiness approach, to maintain of all agrobusiness segment from supplying husbandary infrastructure include but not limited to provide broiler day old chicken (DOC Broiler) and the feed including medicines and vaccines also to produce and distribute the product result.

This partnership is intended primarily to keep the continuity of raw material supply for the Company's slaughter house and to maintain market price stability of DOC and feed produced by the Company. According to the partnership contract, the Company shall provide all the necessary things related to the poultry such as DOC, feeds, vaccines, and medicines with the certain prices and will be compensated with the products sold. The Company also will give the technical support for production, market access, and as a mediator towards financing sources, production management and quality control towards partners.

This partnership contract is divided into two operation area such as west side covering West Java area and east side covering East Java and Central Java, with the number of partner amounted to 2,086 and 860 partners as of December 31, 2007 and 2006, respectively and total sales of feed package from the Company to the partners amounted to Rp 522,160,053,714 and Rp 494,602,557,929 and sales of live bird from this co-operative partnership in 2007 of Rp 486,709,561,729.

Partnership members will sell the chicken produced with the assistance from the Company. Bonuses will be paid by the Company if the agreed price lesser than market price. The Company will pay according to the agreed price if market price is lesser than the agreed price.

Farmers will take their own risk on chicken farming failure, maintenance and growing the chicken until the harvesting period.

To secure the payment from this cooperative partnership in west and east area, the Company has received certain assets with its power of attorney which value is equal to the agreed contract as the collateral. The collateral consists of land, buildings, deposit and vehicles amounting to Rp 141,379,803,253 in 2007 and Rp 122,766,101,783 in 2006.

The collateral assets received by the Company are not recorded in the Company's financial statements. The collaterals are returnable when the contract growing is terminated.

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This contract is valid for one year since date of signing of the agreement, and can be extended based on the approval from the Company and farm owners.

**d. Land Sale and Purchase Agreement**

Land and building right comprise of 4 (four) land and building right title covering land of 87,145 sqm and building of 8,276 sqm under the name of PT Anwar Sierad (now Sierad Produce), which are located in Desa Kayu Ara, Pontianak, West Kalimantan and 1 (one) land covering an area of 185 sqm and office house building 3 floors covering 251 sqm under the name of PT Sierad Corporation which are located in Benua Melayu Darat, Pontianak, West Kalimantan, on February 2, 2004, have been bounded under non notarialized sale and purchase agreement with selling price of Rp 1,380,000,000. In 2007, the Company has recognized that sales of land and building, and has recorded loss on sales amounting to Rp 973,787,028 as loss of disposal of unutilized assets in current year statements of income (see Note 14). The disposal of land and building were approved by Credit Supervisory Committee.

## **32. Contingencies**

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- a. Under the decree issued by the State Court of Bogor No. 02/Del/Sita.Eks./Pdt/1993/ PN.Bgr dated August 7, 1993, the Company's land consisting of 10.84 hectares in Cibinong, West Java under building right title (HGB) No. 2/Cibinong, became the subject of civil case among the heirs of PT Oerip Wijaja Poultry, as the seller of the said land. The land was acquired at a cost of Rp 2,200,000,000 and is used as a day old chick breeding farm. Mr. Budiardjo Tek (President Director of the Company at that time) in his statement dated October 11, 1993 has undertaken to bear all the cost and losses in case the Company suffer and any loss as a result the above case. Up to completion date of consolidated financial statements, the case is still in appealing process to the Supreme Court of Republic of Indonesian and still has no permanent legal standing, therefore the confiscation can not be executed yet.
- b. According to the arbitration of the Grains & Feed Trade Association, London No. 3769 dated September 7, 1998 concerning the case between the Company (ex. PT Sierad Feedmill) as the plaintiff and Bakrie Nusantara International Pte Ltd (BNIP), Singapore as defendant, it was decided that BNIP has to pay US \$ 380,000 to the Company plus compensation for the cost of arbitration and trade representative. The total amount payable by BNIP is US \$ 540,297.98 for its failure to deliver 10,000 metric tons of Indian soybean meal based on contract No.BNI-S-95/0060 dated November 6, 1995. Until now, BNIP has not complied with the arbitration decision.
- c. In 2004, plaintiff (Mudji Laksono, whose represented by law firm, Sigit, Adi & Partners), stated that layer feed quality of PT Sierad Produce Tbk feedmill division (first defendant) are different with the one described in the printed label sold by first defendant. Due to the low quality of the feeds, the productivity of egg layer chicken has decreased and as a resulted, the plaintiff suffered a loss. Plaintiff filled compensation claim to cover a loss to first and second defendant, both in form of material and non material amounting to Rp 20,000,100,000 (twenty billion and one hundred thousand Rupiah). Through Decision No. 83/Pdt.G/2004/PN. Up to November 29, 2004, Judge Council decided to refuse all the claim. As the result, on December 7, 2004, plaintiff filed an appeal.

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On February 11, 2005, PT Sierad Produce Tbk - Feedmill Division received Minutes of Announcement and Appeal Memorandum No. 83/Pdt.G/2004/PN, which mentioned and delivered of the appeal memorandum which has been submitted by Mudji Laksono (previous by as Plaintiff, now as Appellee) against PT Sierad Produce Tbk Feedmill Division (previous by as defendant, now as appellant) and PT Sierad Produce Tbk (previous as second defendant, now as second appellant).

According to the Appeal Memorandum, Appellant submit petition to Judge Council of Surabaya High Court to decide to:

- a. Accept appeal request;
- b. Cancel the decision of district court of Sidoardjo No. 83/Pdt.G/2004/PN.sda dated November 29, 2004;
- c. Accept all claim of plaintiff/appellant; and
- d. Charge the lawsuit fee to defendants in second degree of court.

As per the Appeal Memorandum, on March 7, 2005, based on Letter of Attorney No. 285/SKM-PO-SKU/02/05 dated February 15, 2005, Soesilo Ariwibowo & Partner- Law Firm represented of PT Sierad Produce Feedmill Division through Sidoardjo court of justice has filed the Appeal Contra Memorandum.

On March 22, 2007, South Jakarta High Court published Decision Announcement Letter No. 83/Pdt.G/2004/PN.Sda. in accordance with the lawsuit between the Company and Mudji Laksono, which among others, decided to accept the Company's appeal and supported the decision of Sidoardjo district Court, dated on November 29, 2004, No. 83/Pdt.G/2004/PN.Sda which have been submitted. Up to the Completion date of the consolidated financial statements, there is no filed of appeal from the plaintiff.

### **33. Segment Informations**

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#### **Primary Segment**

The Company and its subsidiaries engage in following activities:

- Feedmill;
- Day old chicks;
- Dressed chicken; and
- Others (fast food, medicine and other).

The activities above are also used by management as the basis for the presentation of primary segment information. The reported segment has already passed the 10% test and 75% test as required by the Indonesian Financial Accounting Standard.

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Primary segment information of the Company and its subsidiaries presented on its business segment is as follows:

|   | 2007                   |                        |                       |                          |                          |                          |                          |
|---|------------------------|------------------------|-----------------------|--------------------------|--------------------------|--------------------------|--------------------------|
|   | Feedmill               | Day Old Chicken        | Dressed Chicken       | Others                   | Total                    | Elimination              | Consolidation            |
|   | Rp                     | Rp                     | Rp                    | Rp                       | Rp                       | Rp                       | Rp                       |
| <b>Revenues</b>                             |                        |                        |                       |                          |                          |                          |                          |
| External Parties                            | 500,515,742,063        | 103,270,621,940        | 25,803,684,257        | 1,002,863,565,399        | 1,632,453,613,659        | --                       | 1,632,453,613,659        |
| Inter Segments                              | 498,140,188,872        | 103,346,870,457        | --                    | 13,489,817,730           | 614,976,877,059          | (614,976,877,059)        | --                       |
| <b>Total Revenues</b>                       | <b>998,655,930,935</b> | <b>206,617,492,397</b> | <b>25,803,684,257</b> | <b>1,016,353,383,129</b> | <b>2,247,430,490,718</b> | <b>(614,976,877,059)</b> | <b>1,632,453,613,659</b> |
| <b>Result</b>                               |                        |                        |                       |                          |                          |                          |                          |
| Segments Result                             | 127,091,788,994        | 17,682,681,844         | (1,697,222,130)       | 15,512,563,444           | 158,589,812,152          | --                       | 158,589,812,152          |
| Operating Expenses                          | 51,819,035,915         | 31,908,349,935         | 3,826,445,309         | 20,897,323,448           | 108,451,154,607          | --                       | 108,451,154,607          |
| Unallocated Operating Expenses              | --                     | --                     | --                    | 1,221,789,721            | 1,221,789,721            | --                       | 1,221,789,721            |
| Income (Loss) from Operations               | 75,272,753,079         | (14,225,668,091)       | (5,523,667,439)       | (6,606,549,725)          | 48,916,867,824           | --                       | 48,916,867,824           |
| Financial Charges                           | (1,983,504,073)        | (2,622,944,386)        | (13,540,800)          | (81,453,899)             | (4,701,443,158)          | --                       | (4,701,443,158)          |
| Other Income (Charges)                      | (993,898,292)          | 3,508,856,359          | 315,031,424           | (214,164,380)            | 2,615,825,111            | --                       | 2,615,825,111            |
| Portion of Associate's Net Income (Charges) | --                     | --                     | --                    | --                       | --                       | --                       | --                       |
| Income Before Tax                           | 72,295,350,714         | (13,339,756,118)       | (5,222,176,815)       | (6,902,168,004)          | 46,831,249,777           | --                       | 46,831,249,777           |
| Tax Expense                                 | --                     | --                     | --                    | (25,632,022,624)         | (25,632,022,624)         | --                       | (25,632,022,624)         |
| Portion of Minority Interest                | --                     | --                     | --                    | --                       | (2,784,591)              | --                       | (2,784,591)              |
| Income after Tax                            | 72,295,350,714         | (13,339,756,118)       | (5,222,176,815)       | (32,534,190,628)         | 21,196,442,562           | --                       | 21,196,442,562           |
| Segment Assets                              | 1,018,654,745,197      | 334,829,443,357        | 798,803,962,286       | --                       | 2,152,288,150,840        | (1,093,743,792,348)      | 1,058,544,358,492        |
| Investment in Associates                    | --                     | (84,725,975)           | (14,102,474,171)      | 4,442,048                | (14,182,758,098)         | 14,182,758,098           | --                       |
| Unallocated Assets                          | --                     | --                     | --                    | 236,228,399,910          | 236,228,399,910          | --                       | 236,228,399,910          |
| Total Assets                                | 1,018,654,745,197      | 334,744,717,382        | 784,701,488,115       | 236,232,841,958          | 2,374,333,792,652        | (1,079,561,034,250)      | 1,294,772,758,402        |
| Segment Liabilities                         | 796,152,992,523        | 250,430,224,305        | 34,238,596,602        | --                       | 1,080,821,813,430        | (1,093,743,792,348)      | (12,921,978,918)         |
| Unallocated Liabilities                     | --                     | --                     | --                    | 301,658,879,689          | 301,658,879,689          | --                       | 301,658,879,689          |
| Total Liabilities                           | 796,152,992,523        | 250,430,224,305        | 34,238,596,602        | 301,658,879,689          | 1,382,480,693,119        | (1,093,743,792,348)      | 288,736,900,771          |
| Capital Expenditures                        |                        |                        |                       |                          |                          |                          | 22,059,493,443           |
| Depreciation                                |                        |                        |                       |                          |                          |                          | 34,510,900,337           |

|   | 2007              |                   |                  |                   |                         |
|---|-------------------|-------------------|------------------|-------------------|-------------------------|
|   | Feedmill          | Day Old Chicken   | Dressed Chicken  | Others            | Total                   |
|   | Rp                | Rp                | Rp               | Rp                | Rp                      |
| <b>Cash Flows from Operating</b>                      |                   |                   |                  |                   |                         |
| Cash Received from Customers                          | 913,516,701,919   | 206,794,770,393   | 17,784,385,244   | 475,630,007,751   | 1,613,725,865,307       |
| Cash Paid to Suppliers                                | (931,048,243,311) | (175,894,737,871) | (15,139,414,817) | (487,531,326,915) | (1,609,613,722,914)     |
| Others  | (23,243,389,385)  | (16,876,463,120)  | (2,431,402,085)  | (31,566,531,070)  | (74,117,785,660)        |
|   |                   |                   |                  |                   | <b>(70,005,643,267)</b> |
| <b>Cash Flows from Investing</b>                      |                   |                   |                  |                   |                         |
| Sale of Property and Equipment                        | 408,934,552       | 173,574,951       | --               | 23,990,091        | 506,499,594             |
| Purchase of Property and Equipment                    | (9,916,696,075)   | (5,408,919,938)   | (362,588,767)    | (6,371,288,663)   | (22,059,493,443)        |
| Proceed from Disposal of Investment                   | --                | --                | 1,245,890,840    | --                | 1,245,890,840           |
|   |                   |                   |                  |                   | <b>(20,207,103,009)</b> |
| <b>Cash Flows from Financing</b>                      |                   |                   |                  |                   |                         |
| Cash Paid for Bank Loan and Obligation                |                   |                   |                  |                   |                         |
| Under Capital Lease                                   | (57,176,435)      | (4,112,600)       | (82,981,200)     | (102,441,327,387) | (102,585,597,622)       |
| Cash Received from Bank Loan                          | --                | --                | --               | 185,314,569,222   | 185,314,569,222         |
| Cash Received from (Paid to) Due from Related Parties | 35,726,962,445    | 4,494,554,481     | 1,748,074,099    | (41,969,591,025)  | --                      |
|   |                   |                   |                  |                   | <b>82,728,971,600</b>   |

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|   | 2006                   |                        |                        |                        |                          |                            |                          |
|---|------------------------|------------------------|------------------------|------------------------|--------------------------|----------------------------|--------------------------|
|   | Feedmill               | Day Old Chicken        | Dressed Chicken        | Others                 | Total                    | Elimination                | Consolidation            |
|   | Rp                     | Rp                     | Rp                     | Rp                     | Rp                       | Rp                         | Rp                       |
| <b>Revenues</b>                             |                        |                        |                        |                        |                          |                            |                          |
| External Parties                            | 441,513,477,802        | 141,129,675,249        | 30,509,602,684         | 498,089,274,801        | 1,111,242,030,537        | --                         | 1,111,242,030,537        |
| Inter Segments                              | 411,571,010,089        | 116,408,344,866        | 57,000,000             | 580,275,378            | 528,616,630,333          | (528,616,630,333)          | --                       |
| <b>Total Revenues</b>                       | <b>853,084,487,891</b> | <b>257,538,020,115</b> | <b>30,566,602,684</b>  | <b>498,669,550,179</b> | <b>1,639,858,660,870</b> | <b>(528,616,630,333)</b>   | <b>1,111,242,030,537</b> |
| <b>Result</b>                               |                        |                        |                        |                        |                          |                            |                          |
| Segments Result                             | 89,499,578,685         | 63,712,448,575         | (10,312,358,404)       | 29,700,025,220         | 172,599,694,075          | --                         | 172,599,694,075          |
| Operating Expenses                          | 43,152,278,038         | 28,470,553,068         | 9,969,677,030          | 21,605,273,083         | 103,197,781,219          | --                         | 103,197,781,219          |
| Unallocated Operating Expenses              | --                     | --                     | --                     | 1,144,234,774          | 1,144,234,774            | --                         | 1,144,234,774            |
| Income (Loss) from Operations               | 46,347,300,644         | 35,241,895,506         | (20,282,035,434)       | 6,950,517,367          | 68,257,678,082           | --                         | 38,257,678,082           |
| Financial Charges                           | (1,720,644,429)        | (29,986,931)           | (15,691,800)           | (89,178,843)           | (1,855,502,003)          | --                         | (1,855,502,003)          |
| Other Income (Charges)                      | 2,913,183,084          | 4,000,137,464          | (263,680,009)          | (3,124,793,817)        | 3,524,846,722            | 3,767,044                  | 3,528,613,766            |
| Portion of Associate's Net Income (Charges) | --                     | --                     | (1,418,019,746)        | --                     | (1,418,019,746)          | 1,418,019,746              | --                       |
| Income Before Tax                           | 45,154,761,989         | 39,212,046,039         | 21,979,426,989         | 3,736,544,701          | 68,509,003,055           | 1,421,786,790              | 39,930,789,845           |
| Tax Expense                                 | --                     | --                     | --                     | --                     | 20,292,518,342           | --                         | 20,292,518,342           |
| Portion of Minority Interest                | --                     | --                     | --                     | --                     | 8,472,936                | --                         | 3,472,936                |
| Income after Tax                            | 45,154,761,989         | 39,212,046,039         | 21,979,426,989         | 3,736,544,701          | 88,809,994,333           | 1,421,786,790              | 49,646,744,439           |
| <b>Segment Assets</b>                       | 834,660,565,641        | 330,830,438,222        | 815,066,339,363        | --                     | 1,980,557,343,225        | (1,064,969,587,071)        | 915,587,756,153          |
| Investment in Associates                    | --                     | (84,725,975)           | (14,136,893,210)       | 4,442,048              | (14,217,177,137)         | 14,217,177,137             | --                       |
| Unallocated Assets                          | --                     | --                     | --                     | 198,208,358,422        | 198,208,358,422          | --                         | 198,208,358,422          |
| <b>Total Assets</b>                         | <b>834,660,565,641</b> | <b>330,745,712,246</b> | <b>800,929,446,153</b> | <b>198,212,800,470</b> | <b>2,164,548,524,509</b> | <b>(1,050,752,409,934)</b> | <b>1,113,796,114,575</b> |
| <b>Segment Liabilities</b>                  | 679,586,906,978        | 233,091,463,052        | 24,800,221,648         | --                     | 937,478,591,678          | (1,064,943,771,139)        | (127,465,179,461)        |
| Unallocated Liabilities                     | --                     | --                     | --                     | 256,455,330,401        | 256,455,330,401          | --                         | 256,455,330,401          |
| <b>Total Liabilities</b>                    | <b>679,586,906,978</b> | <b>233,091,463,052</b> | <b>24,800,221,648</b>  | <b>256,455,330,401</b> | <b>1,193,933,922,079</b> | <b>(1,064,943,771,139)</b> | <b>128,990,150,941</b>   |
| Capital Expenditures                        |                        |                        |                        |                        |                          |                            | 12,884,264,330           |
| Depreciation                                |                        |                        |                        |                        |                          |                            | 35,262,742,639           |

|   | 2006                |                 |                  |                   |                        |
|---|---------------------|-----------------|------------------|-------------------|------------------------|
|   | Feedmill            | Day Old Chicken | Dressed Chicken  | Others            | Total                  |
|   | Rp                  | Rp              | Rp               | Rp                | Rp                     |
| <b>Cash Flows from Operating</b>                      |                     |                 |                  |                   |                        |
| Cash Received from Customers                          | 1,380,651,325,247   | 15,268,682,991  | 6,773,979,402    | 281,839,755,925   | 1,684,533,743,565      |
| Cash Paid to Suppliers                                | (1,293,120,621,907) | 7,607,955,689   | (13,918,958,001) | (304,427,955,915) | (1,603,859,580,134)    |
| Others  | (28,591,835,599)    | (1,109,746,737) | (1,724,883,356)  | (50,433,719,896)  | (81,860,185,588)       |
|   |                     |                 |                  |                   | <b>(1,186,022,157)</b> |
| <b>Cash Flows from Investing</b>                      |                     |                 |                  |                   |                        |
| Sale of Property and Equipment                        | 962,500,000         | 119,000,000     | --               | 19,100,000        | 1,100,600,000          |
| Purchase of Property and Equipment                    | (4,834,680,349)     | (5,382,875,553) | (888,092,100)    | (1,679,900,328)   | (12,785,548,330)       |
| Proceed from Disposal of Investment                   | --                  | --              | 24,005,109,160   | --                | 24,005,109,160         |
|   |                     |                 |                  |                   | <b>12,320,160,830</b>  |
| <b>Cash Flows from Financing</b>                      |                     |                 |                  |                   |                        |
| Cash Paid for Obligation Under Capital Lease          | (352,522,985)       | (25,199,500)    | (14,436,100)     | (165,500,899)     | (557,659,484)          |
| Cash Received from (Paid to) Due from Related Parties | (38,397,796,383)    | (762,434,015)   | (1,517,063,605)  | 40,677,294,003    | --                     |
|   |                     |                 |                  |                   | <b>(557,659,484)</b>   |

**Secondary Segment**

Secondary segment reporting of the Company is presented in geographical area based on the location of the assets or the Company's operations. The reporting segment has already passed the 10% test and 75% test as required by the Indonesian Financial Accounting Standard.

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Secondary segment information of the Company and subsidiaries based on its geographical segment is as follows:

|                                      | <b>2007</b>              | <b>2006</b>              |
|--------------------------------------|--------------------------|--------------------------|
|                                      | <b>Rp</b>                | <b>Rp</b>                |
| <b>Revenue from External Parties</b> |                          |                          |
| West Area                            | 1,190,875,900,102        | 973,172,599,614          |
| East Area                            | 1,056,554,590,616        | 666,686,061,256          |
| Total                                | 2,247,430,490,718        | 1,639,858,660,870        |
| Elimination                          | (614,976,877,059)        | (528,616,630,333)        |
| <b>Total</b>                         | <b>1,632,453,613,659</b> | <b>1,111,242,030,537</b> |
| <b>Segment Assets</b>                |                          |                          |
| West Area                            | 1,974,914,609,392        | 1,898,769,141,794        |
| East Area                            | 399,419,183,260          | 265,779,382,715          |
| Total                                | 2,374,333,792,652        | 2,164,548,524,509        |
| Elimination                          | (1,079,561,034,250)      | (1,050,752,409,934)      |
| <b>Total</b>                         | <b>1,294,772,758,402</b> | <b>1,113,796,114,575</b> |
| <b>Capital Expenditures</b>          |                          |                          |
| West Area                            | (19,115,848,717)         | 9,353,972,691            |
| East Area                            | (2,943,644,726)          | 3,530,291,639            |
| <b>Total</b>                         | <b>(22,059,493,443)</b>  | <b>12,884,264,330</b>    |

**34. Monetary Assets and Liabilities in Foreign Currencies**

Total monetary assets and liabilities are as follows:

|  | <b>2007</b>             |                                  |
|--|-------------------------|----------------------------------|
|  | <b>Foreign Currency</b> | <b>Equivalent<br/>Rupiah (*)</b> |
| <b>Assets</b>                          |                         |                                  |
| Cash and Cash Equivalents              |                         |                                  |
| • Third Parties                        | USD 19,802.62           | 186,520,876                      |
| Purchases Advances                     |                         |                                  |
| • Third Parties                        | USD 2,195,271.47        | 20,677,262,017                   |
| Total Assets                           |                         | 20,863,782,893                   |
| <b>Liabilities</b>                     |                         |                                  |
| Accounts Payable                       |                         |                                  |
| • Third Parties                        | USD 11,613,297.21       | 109,385,646,372                  |
|  | SGD 3,000.11            | 19,507,855                       |
|  | Eur 21,118.08           | 290,579,712                      |
| Accrued Expenses                       |                         |                                  |
| • Third Parties                        | USD 156,710.88          | 1,476,059,734                    |
|  | SGD 28,157.89           | 183,093,301                      |
| Total Liabilities                      |                         | 111,354,886,974                  |
| <b>Net Assets/Liabilities Position</b> |                         | <b>(90,491,104,081)</b>          |

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|  | 2006             |                                |
|--|------------------|--------------------------------|
|  | Foreign Currency | Equivalent Rupiah (*)          |
| <b>Assets</b>                          |                  |                                |
| Cash and Cash Equivalents              |                  |                                |
| • Third Parties                        | USD 57,067.57    | 514,749,481                    |
| Purchases Advances                     |                  |                                |
| • Third Parties                        | USD 1,464,432.94 | 13,209,185,119                 |
| Total Assets                           |                  | <u>13,723,934,600</u>          |
| <b>Liabilities</b>                     |                  |                                |
| Accounts Payable                       |                  |                                |
| • Third Parties                        | USD 3,489,685.93 | 31,476,967,089                 |
| Accrued Expenses                       |                  |                                |
| • Third Parties                        | USD 72,060.74    | 649,987,875                    |
|  | SGD 93,216.67    | 547,995,634                    |
| Total Liabilities                      |                  | <u>32,674,950,598</u>          |
| <b>Net Assets/Liabilities Position</b> |                  | <u><b>(18,951,015,998)</b></u> |

(\*) The Rupiah equivalent presented has been converted at the exchange rates as of balance sheet date (see Note 2.c).

The Company and its subsidiaries recorded gain (loss) on foreign exchange of (Rp 1,010,087,335) and Rp 3,386,738,475 in 2007 and 2006, respectively which has been reflected in the consolidated statement of income.

### 35. Economic Conditions in Indonesia

The economics and social condition in Indonesian still affected the operation of the Company and its subsidiaries in the future. Although the global economic condition in 2007 was highlighted by the sharp increase of international oil price which was followed by the instability of financial market condition and global stock exchange conditions prior to third quarter, Indonesia's economic condition on first quarter of 2008 was quite stable, shown by decrease in interest rate of Bank Indonesia Certificate which was followed by decrease in bank loan interest rate and inflation rate, and increase in Rupiah's exchange rate. In general, the poultry industry condition was not fully recovered yet and worsened by significant increase of the feed raw material price. Although the feed and other poultry product demand were increased, the Company's condition still affected by the availability of supply and stability of feed raw material price in the market and the poultry market condition as well.

In response to these economic conditions the Company has undertaken several steps as follows:

- a. Continuing the strategy on focusing to core business and forward integration;
- b. Developing line farming to support and maximize available feedmill factory and slaughter house capacity;
- c. Being market innovator by providing appropriate product solution and price to customer;
- d. Partnering with suppliers who will help the Company to increase productivity, product quality towards market competition;
- e. Tightening the implementation of internal and external bio security;
- f. Increasing productivity and cost efficiency;
- g. Increasing marketing , selling strategy and its billing;
- h. Strengthening management level to encourage Company's productivity and profitability; and
- i. Expanding business that has been achieved in full capacity.

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However, the economic conditions still affected to the Company and the accompanying consolidated financial statements do not reflect any adjustment resulting from the effect of these conditions.

**36. Reclassification of Accounts**

Certain accounts in the consolidated financial statements as of December 31, 2006 have been reclassified to conform with presentation of the consolidated financial statements as of December 31, 2007, as follows:

|  | December 31, 2006                |                                 |
|--|----------------------------------|---------------------------------|
|  | Before<br>Reclassification<br>Rp | After<br>Reclassification<br>Rp |
| <b>Cash Flows</b>  |                                  |                                 |
| <b>Cash Flows from Operating Activities</b>  |                                  |                                 |
| Cash Received from Customers   | 2,217,577,713,076                | 1,684,533,743,565               |
| Cash Paid to Suppliers and Other Third Parties   | (2,138,506,252,920)              | (1,603,859,580,134)             |
| <b>Cash Flows from Investing Activities</b>  |                                  |                                 |
| Acquisition of Property, Plant and Equipment   | (12,884,264,330)                 | (12,785,548,330)                |
| <b>Unrealized Gain (Loss) on Foreign Exchange on<br/>Cash and Cash Equivalent at End of Year</b> | 1,655,194,543                    | (46,224,732)                    |

**37. The New Updated of Financial Accounting Standard**

- a. In June 2007, the Board of Financial Accounting Standard - Indonesian Institute of Accountants (DSAK-IAI) approved SFAS No. 30 (Revised 2007), "Leases" prescribes for lessees and lessors, the appropriate accounting policies and disclosure to apply in relation to leases. This revised statement supersedes SFAS No. 30 (1990) "Accounting for Leases". This statement is effective for financial statements beginning on or after January 1, 2008.
- b. In May 2007, DSAK-IAI approved SFAS No. 16 (Revised 2007), "Fixed Assets" which prescribes the accounting treatment for property, plant and equipment to enable the user of financial statements understand the information concerning entity's investment in its property, plant and equipment and the changes in such investment. This revised statement supersedes SFAS No. 16 (1994) "Fixed Assets and Other Assets" and SFAS No. 17 (1994) "Accounting for Depreciation", and is effective for the preparation and presentation of financial statements beginning on or after January 1, 2008.
- c. In December 2006, DSAK-IAI approved two revised Statement of Financial Accounting Standards (SFAS) as follows:
  - (i). SFAS No. 50 (Revised 2006), "Financial Instruments: Presentation and Disclosures", prescribes requirements for the presentation and disclosures of financial instruments as liabilities or equity and offset against financial assets and financial liabilities. This statement requirements apply to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; the classification of related interest, dividends, losses and gains; and the circumstances in which financial assets and financial liabilities can be offset against each other. SFAS No. 50 (Revised 2006)

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replaced SFAS No. 50, "Accounting for Investments in Certain Securities", which was issued in 1998. This statement will be applied prospectively for periods beginning on or after January 1, 2009; and

- (ii). SFAS No. 55 (Revised 2006), "Financial Instruments: Recognition and Measurement", established principles for recognizing and measuring financial assets, financial liabilities and some purchase or selling contract of non-financial items. SFAS No. 55 (Revised 2006) replaced SFAS No. 55, "Accounting for Derivative Instruments and Hedging Activities", which was issued in 1999. This statement will be applied prospectively for periods beginning on or after January 1, 2009.

The Company and subsidiaries are evaluating the impact of these SFAS and have not yet determined the impact to financial statement.

**38. Management Responsibility on the Consolidated Financial Statements**

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The management of the Company is responsible for the preparation of the consolidated financial statements that were completed on March 18, 2008.