

***PT. PAKUWON JATI Tbk.***  
***AND ITS SUBSIDIARIES***

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2008 AND 2007 (UNAUDITED)

**PT. PAKUWON JATI Tbk. AND ITS SUBSIDIARIES**  
**TABLE OF CONTENTS**

---

	<u>Page</u>
 <b>CONSOLIDATED FINANCIAL STATEMENTS</b> - As of June 30, 2008 and 2007 and for the six-month periods then ended	
Consolidated Balance Sheets	2
Consolidated Statements of Income	4
Consolidated Statements of Changes in Equity	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7

**PT. PAKUWON JATI Tbk. AND ITS SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**JUNE 30, 2008 AND 2007**

	Notes	2008 Rp'000	2007 Rp'000
<b><u>ASSETS</u></b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	2f,3	210,610,494	55,990,963
Fund for replacement of hotel's furniture, fixtures and equipment	2g,3	2,223,420	4,155,135
Trade accounts receivable from third parties-net of allowance for doubtful accounts of Rp 3,435,555 thousand in 2008 and Rp 3,975,520 thousand in 2007	2h,4	36,956,959	18,909,493
Other accounts receivable from third parties		1,041,066	4,587,475
Hotel's inventories and spareparts	2i	1,461,044	2,908,041
Prepaid taxes	2q,10	55,898,748	20,934,588
Prepaid expenses	2k	4,473,005	3,321,658
Total Current Assets		<u>312,664,736</u>	<u>110,807,353</u>
<b>NONCURRENT ASSETS</b>			
Restricted time deposits	5, 14	329,295,992	728,311,733
Other account receivable from related parties		3,800	27,741
Deferred tax assets - net	2q	6,011,095	7,298,058
Real estate assets	2j, 6		
Real estate inventories		626,297,164	418,953,044
Land not yet developed		218,075,546	216,824,246
Property and equipment - net of accumulated depreciation of Rp 394,815,572 thousand in 2008 and Rp 353,321,778 thousand in 2007	2l,7,14	1,720,136,381	1,452,185,940
Property and equipment under build, operate and transfer (BOT) scheme - net of accumulated amortization of Rp 48,266,379 thousand in 2008 and Rp 44,650,359 thousand in 2007	2m,8	10,396,279	14,012,299
Deferred charges - landrights	2r	846,040	858,051
Total Noncurrent Assets		<u>2,911,062,297</u>	<u>2,838,471,112</u>
<b>TOTAL ASSETS</b>		<u><b>3,223,727,033</b></u>	<u><b>2,949,278,465</b></u>

See accompanying notes to consolidated financial statements which are an integral part of the consolidated financial statements.

**PT. PAKUWON JATI Tbk. AND ITS SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**JUNE 30, 2008 AND 2007 (Continued)**

	Notes	2008 Rp	2007 (Restated) Rp
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Trade accounts payable	9		
Related parties		12,639,987	-
Third parties		29,777,606	7,637,338
Other accounts payable		11,143,120	12,799,884
Taxes payable	2q,10	5,553,520	6,655,008
Current portion of accrued expenses	11	25,948,466	22,891,747
Reserve for replacement of hotel's furniture, fixtures and equipment	2g,3	2,223,420	4,155,135
Current portion of unearned income	2n,12	109,008,228	97,541,388
Current maturities of long-term liabilities			
Other accounts payable	2p,13	3,856,124	3,982,240
Bonds payable	2p,2s,4,7,14	50,411,966	48,533,080
Total Current Liabilities		250,562,437	204,195,820
<b>NONCURRENT LIABILITIES</b>			
Long-term accrued expenses - net of current portion	11	90,027,800	92,073,498
Long-term unearned income - net of current portion	2n,12	189,509,913	41,770,964
Tenants' deposits		45,340,989	40,946,778
Post-employment benefits obligation	2t	27,889,631	22,413,514
Long-term liabilities - net of current maturities			
Other accounts payable	2p,13	26,945,415	38,628,506
Bonds payable	2p,2s,4,7,14	1,042,532,501	1,064,794,619
Mandatory convertible notes payable	15	414,005,241	394,030,335
Total Noncurrent Liabilities		1,836,251,490	1,694,658,214
<b>MINORITY INTEREST IN NET ASSETS OF SUBSIDIARIES</b>			
	2b, 17	82,478,851	81,412,091
<b>EQUITY</b>			
Capital stock - Rp 100 par value per share in 2008 and Rp 500 per share in 2007			
Authorized - 12,500,000,000 shares in 2008 and 2,500,000,000 shares in 2007			
Subscribed and paid-up - 7,717,885,000 shares in 2008 and 1,543,577,000 shares in 2007	17	771,788,500	771,788,500
Additional paid-in capital	18	166,933,000	166,933,000
Revaluation increment in property and equipment	2l,7	-	542,682,951
Retained earnings (Deficit)		115,712,755	(512,392,111)
Total Equity		1,054,434,255	969,012,340
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>3,223,727,033</b>	<b>2,949,278,465</b>

See accompanying notes to consolidated financial statements  
which are an integral part of the consolidated financial statements.

**PT. PAKUWON JATI Tbk. AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2008 AND 2007**

	Notes	2008 Rp'000	2007 Rp'000
<b>SALES / REVENUES</b>	2o,19	217,186,447	186,235,121
<b>DIRECT COSTS AND COST OF SALES</b>	2o,20	109,133,135	89,216,937
<b>GROSS PROFIT</b>		108,053,312	97,018,184
<b>OPERATING EXPENSES</b>	2o,21		
General and administrative		17,563,591	15,052,451
Marketing		13,480,932	4,793,174
Total Operating Expenses		31,044,523	19,845,625
<b>INCOME FROM OPERATIONS</b>		77,008,789	77,172,559
<b>OTHER INCOME (CHARGES)</b>			
Interest income	22	12,330,456	27,770,779
Gain (loss) on sale of equipment		(369,452)	244,513
Provision for doubtful accounts - net		(134,750)	(1,137,095)
Gain (loss) on foreign exchange - net	2c,24	10,150,093	1,857,776
Interest expense and financial charges	23	(47,166,973)	(68,666,132)
Others - net		1,218,521	13,827,036
Other Charges - Net		(23,972,105)	(26,103,123)
<b>INCOME BEFORE TAX</b>		53,036,684	51,069,436
<b>TAX EXPENSE</b>	2q		
Current tax		(11,243,249)	(10,864,827)
Deferred tax		(973,741)	467,593
Total Tax Expense		(12,216,990)	(10,397,234)
<b>INCOME BEFORE MINORITY INTEREST IN NET INCOME OF SUBSIDIARIES</b>		40,819,694	40,672,202
<b>MINORITY INTEREST IN NET (INCOME) LOSS OF SUBSIDIARIES</b>	2b	220,183	(1,384,639)
<b>NET INCOME</b>		41,039,877	39,287,563
<b>BASIC EARNINGS PER SHARE</b>	2u,25	5	5

See accompanying notes to consolidated financial statements  
which are an integral part of the consolidated financial statements.

**PT. PAKUWON JATI Tbk. AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2008 AND 2007**

	Note	Paid-up capital stock Rp'000	Additional paid-in capital Rp'000	Revaluation increment in property and equipment Rp'000	Retained earnings (Deficit) Rp'000	Total equity Rp'000
Balance as of January 1, 2007		771,788,500	166,933,000	542,682,951	(551,679,674)	929,724,777
Net income for the period		-	-	-	39,287,563	39,287,563
Balance as of June 30, 2007		<u>771,788,500</u>	<u>166,933,000</u>	<u>542,682,951</u>	<u>(512,392,111)</u>	<u>969,012,340</u>
Balance as of January 1, 2008		771,788,500	166,933,000	542,682,951	(468,010,073)	1,013,394,378
Redclassification of revaluation increment in property and equipment caused by implementation of PSAK 16 (Revised 2007) Property, Plant and Equipment	2f, 7	-	-	(542,682,951)	542,682,951	-
Net income for the period		-	-	-	41,039,877	41,039,877
Balance as of June 30, 2008		<u>771,788,500</u>	<u>166,933,000</u>	<u>-</u>	<u>115,712,755</u>	<u>1,054,434,255</u>

See accompanying notes to consolidated financial statements which are an integral part of the consolidated financial statements.

PT. PAKUWON JATI Tbk. AND ITS SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2008 AND 2007

	2008 Rp'000	2007 Rp'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	360,595,264	210,433,349
Cash paid to contractor of the subsidiary's project	(93,730,159)	(6,208,777)
Cash paid to suppliers, employees and others	(165,278,836)	(137,079,796)
Cash generated from operations	101,586,269	67,144,776
Interest received	10,392,129	27,749,018
Interest and bank charges paid	(67,237,973)	(69,936,896)
Income tax paid	(18,975,416)	(13,818,666)
Net Cash Provided by Operating Activities	25,765,009	11,138,232
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Withdrawal of time deposits	226,942,674	246,239,346
Acquisitions of property and equipment	(161,693,427)	(76,960,349)
Proceeds from sale of property and equipment	-	(178,000)
Cash of acquired subsidiary	-	4,667,039
Net Cash Provided by Investing Activities	65,249,247	173,768,036
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments of bonds payable	(24,953,791)	(291,826,002)
Payment of other loan	-	(52,513,200)
Net Cash Used in Financing Activities	(24,953,791)	(344,339,202)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	66,060,465	(159,432,934)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	146,830,225	220,801,477
Effect of foreign exchange rate changes	(56,776)	(1,222,445)
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	212,833,914	60,146,098

See accompanying notes to consolidated financial statements which are an integral part of the consolidated financial statements.

**PT. PAKUWON JATI Tbk. AND ITS SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007 AND FOR THE SIX-MONTH PERIODS THEN ENDED**

**1. GENERAL**

**a. Establishment and General Information**

PT. Pakuwon Jati Tbk. (the "Company") was established based on Notarial Deed No. 281 dated September 20, 1982 of Kartini Muljadi, SH notary in Jakarta. The Deed of Establishment was approved by the Minister of Justice in his Decision Letter No. C2-308.HT.01.TH.83, dated January 17, 1983, and was published in the State Gazette No. 28, dated April 8, 1983 Supplement No. 420. The Company's Articles of Association have been amended several times, most recently by Notarial Deed No. 28 dated August 7, 2007, of Noor Irawati, SH., notary in Surabaya, concerning the stock split and the amendment in Article 4 of the Company's Articles of Association. The amendment was received and registered by Department of Law and Human Rights of Republic of Indonesia through the Letter No. W10-HT-01.10-829 dated September 5, 2007.

The Company is domiciled in Surabaya with its office located at Menara Mandiri 15<sup>th</sup> Floor, Jl. Basuki Rachmad No. 8 – 12, Surabaya, Indonesia.

According to Article 3 of the Company's Articles of Association, the scope of its activities is to engage in the operations of (1) shopping center named as Tunjungan Plaza, (2) business center named as Menara Mandiri, (3) five-star hotel named as Sheraton Surabaya Hotel and Towers (the Hotel), and (4) real estate business Pakuwon City (formerly Laguna Indah Housing) and industrial estate (which is not yet operating and will change to residential estate), which are all situated in Surabaya. The Company started commercial operations in May 1986. The Company had average total number of employees of 1,308 and 1,401 as of June 2008 and 2007, respectively.

The Company's management and audit committee at June 30, 2008 and 2007 consisted of the following:

President Commissioner	Alexander Tedja
Commissioner	Acub Zainal
Independent Commissioners	I Nyoman Budhiarta, S.E.
	Drs. Agus Soesanto
President Director	Ir. Richard Adisastra
Directors	A.S. Ridwan Suhendra
	Omar Ishananto, S.H.
	Drs. Minarto

Audit committee :

Chairman	Drs. Agus Soesanto
Members	Theresia Tuti Harjati, SE., Ak.
	Edwin Derma Radar Hukum

**b. Consolidated Subsidiaries**

The Company has a direct ownership interest of more than 50% in the following subsidiaries:

Subsidiaries	Domicile	Nature of Business and Status of Operations	Percentage of Ownership		Total Assets as of June 30, 2008 (before elimination) Rp'000
			2008	2007	
PT Artisan Wahyu (AW)	Jakarta, Indonesia	Property Development	83.33%	83.33%	1,199,726
PT. Pakuwon Sentra Wisata (PSW)	Surabaya, Indonesia	Dormant	99.99%	99.99%	2,997
PT. Regency Laguna Jasamedika (RLJM)	Surabaya, Indonesia	Dormant	99.99%	99.99%	15,602
Pakuwon Jati Finance, B.V. (PJBV)	Netherlands	Financial services	100.00%	100.00%	1,042,119

Based on Notarial Deed No. 4 dated March 2, 2007 of Esther Mercia Sulaiman, SH., notary in Jakarta, the Company has acquired 83.33% equity ownership of AW through the purchase of 80,000 new shares with an acquisition cost of US\$ 80,000,000 (equivalent to Rp 728,400,000,000) which was accounted using the purchase method.



**c. Public Offering of Shares and Bonds of the Company**

Shares

On August 22, 1989, the Company obtained the Notice of Effectivity from the Chairman of the Capital Market Supervisory Agency (Bapepam) in his Letter No. SI-044/SHM/MK.10/1989 for its public offering of 3,000,000 shares. These shares were listed in the Jakarta Stock Exchange on October 9, 1989.

On July 24, 1991, the Company obtained the Notice of Effectivity from the Chairman of Bapepam in his Letter No. S-1115/PM/1991 for its limited public offering of 50,000,000 shares through rights issue I to stockholders. The shares were listed in the Jakarta Stock Exchange and Surabaya Stock Exchange on October 1, 1991.

On June 29, 1994, the Company obtained the Notice of Effectivity from the Chairman of Bapepam in his Letter No. S-1163/PM/1994 for its limited public offering of 105,000,000 shares through rights issue II to stockholders. The shares were listed in the Surabaya Stock Exchange and Jakarta Stock Exchange on June 29, 1994 and July 15, 1994, respectively.

Based on Extraordinary General Meeting of Stockholders dated October 17, 2005, the stockholders agreed to increase the subscribed and paid-up capital stock by 247,000,000 shares without preemptive right to existing stockholders according to Bapepam's Regulation No. IX.D.4 (Note 17)

On July 26, 2006, Series A, B, D and E Bonds amounting to US\$ 49,278,000 were converted to 876,577,000 shares in the Company. The transaction has been approved in the Extraordinary General Meeting of Stockholders dated July 24, 2006 (Note 17 and 18).

In 2007, the Company completed a stock split (Note 17) and as of December 31, 2007, all of the Company's shares totaling 7,717,885,000 shares have been listed in the Indonesia Stock Exchange (formerly Jakarta Stock Exchange and Surabaya Stock Exchange).

Bonds

On June 11, 1996, the Company obtained the Notice of Effectivity from the Chairman of Bapepam in his Letter No. S-946/PM/1996 for its public offering of Bonds I in 1996 with a nominal value of Rp 150,000,000,000 and a fixed coupon rate of 19.125% per annum. The bonds were listed in the Surabaya Stock Exchange on July 2, 1996.

On November 29, 1996, the Company obtained the Notice of Effectivity from the Chairman of Bapepam in his Letter No. S-1951/PM/1996 for its public offering of Bonds II in 1996 with a nominal value of Rp 200,000,000,000 and a fixed coupon rate of 18.50% per annum. The bonds were listed in the Surabaya Stock Exchange on December 31, 1996. On January 27, 2006, the Company settled the Bonds II.

In 2006, PJBV (a subsidiary) issued bonds amounting to US\$ 110,000,000 which are listed at the Singapore Stock Exchange with Bank of New York London Branch as Trustee.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a. Consolidated Financial Statement Presentation**

The consolidated financial statements have been prepared using accounting principles and reporting practices generally accepted in Indonesia. Such financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and reporting practices generally accepted in other countries and jurisdictions.

The consolidated financial statements, except for the statements of cash flows, are prepared under the accrual basis of accounting. The reporting currency used in the preparation of the consolidated financial statements is the Indonesian Rupiah, while the measurement basis used is the historical cost, except for certain accounts which are measured on the bases described in the related accounting policies.

The consolidated statements of cash flows are prepared using the direct method with classifications of cash flows into operating, investing and financing activities.

**b. Principles of Consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (and its subsidiaries) made up to December 31 each year. Control is achieved where the Company has the power to govern the financial and operating policies of the investee entity so as to obtain benefits from its activities. Control is also presumed to exist when the Company owns directly or indirectly through subsidiaries, more than 50% of the voting rights.

On acquisition, the assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. When the cost of acquisition is less than the interest in the fair values of the identifiable assets and liabilities acquired as at the date of acquisition (i.e. discount on acquisition), the fair values of the acquired nonmonetary assets are reduced proportionately until all the excess is eliminated.

The interest of the minority stockholders is stated at the minority's proportion of the historical cost of the net assets. The minority interest is subsequently adjusted for the minority's share of movements in equity. Any losses applicable to minority interest in excess of the minority interest are allocated against the interest of the parent.

Where necessary, adjustments are made to the financial statements of the subsidiaries to bring the accounting policies used in line with those used by the Company.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

**c. Foreign Currency Transactions and Translation**

The books of accounts of the Company and its subsidiaries, except PJBV, are maintained in Indonesian Rupiah. Transactions during the year involving foreign currencies are recorded at the rates of exchange prevailing at the time the transactions are made. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are adjusted to reflect the rates of exchange prevailing at that date. The resulting gains or losses are credited or charged to current operations.

The books of accounts of PJBV are maintained in United States (U.S.) Dollar. For consolidation purposes, the assets and liabilities of PJBV at balance sheet date are translated into Indonesian Rupiah using the exchange rates at balance sheet date, while revenues and expenses are translated into Indonesian Rupiah at the average rate for the period. The resulting translation adjustment is charged to current operations in the consolidated financial statements because all the transactions of PJBV were made with the Company.

**d. Transactions With Related Parties**

Related parties consist of the following:

- 1) companies that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the Company (including holding companies, subsidiaries and fellow subsidiaries);
- 2) associates;
- 3) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company, and close members of the family of any such individuals (close members of the family are those who can influence or can be influenced by such individuals in their transactions with the Company);
- 4) key management personnel who have the authority and responsibility for planning, directing and controlling the Company's activities, including commissioners, directors and managers of the Company and close members of their families; and
- 5) companies in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (3) or (4) or over which such a person is able to exercise significant influence. This includes companies owned by commissioners, directors or major stockholders of the Company and companies which have a common key member of management as the Company.

All transactions with related parties, whether or not made at similar terms and conditions as those done with third parties, are disclosed in the consolidated financial statements.

**e. Use of Estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in Indonesia requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could be different from these estimates.

**f. Cash and Cash Equivalents**

Cash and cash equivalents consist of cash on hand and in banks and all unrestricted investments with maturities of three months or less from the date of placement.

**g. Fund / Reserve for Replacement of Hotel's Furniture, Fixtures and Equipment**

Reserve for replacement of and addition to the Hotel's furniture, fixtures and equipment is provided at 3.5% of the Hotel's preceding year's total revenues.

A fund is specifically set aside to cover the reserve and is maintained in a bank account. Interest earned on such bank account represents a component of the reserve and the fund.

The cost of replacements of and additions to the Hotel's furniture, fixtures and equipment represents reduction in the balance of the reserve and the fund.

**h. Allowance for Doubtful Accounts**

Allowance for doubtful accounts is provided based on a review of the status of the individual receivable accounts at the end of the period.

**i. Hotel's Inventories and Spareparts**

Hotel inventories representing food and beverages, fuel, office supplies and building maintenance materials, are stated at cost or net realizable value, whichever is lower. Cost of food and beverage inventories is determined using the weighted average method. Cost of inventories other than food and beverage is determined using the first-in first-out method.

**j. Real Estate Assets**

Real Estate Inventories

Real estate inventories consist of land and buildings (houses and condominium units) which are ready for sale, buildings (houses) under construction, and land under development that are stated at cost or net realizable value, whichever is lower.

The cost of land under development consists of the cost of land for development, direct and indirect costs related to the development of real estate assets and borrowing costs. The cost of land under development is transferred to the buildings (houses) under construction account when the development is completed or is transferred to the land account when it is ready for sale, based on the area of saleable lots.

The cost of buildings under construction consists of the cost of developed land, construction costs and borrowing costs, and is transferred to the land and buildings ready for sale account when the development of the land and construction of buildings are completed. Cost is determined using the specific identification method.

Land Not Yet Developed

Land not yet developed consists of land that has not been developed yet and is stated at cost or net realizable value, whichever is lower.

The cost of land not yet developed consists of pre-development costs and cost of the land. The cost of land not yet developed is transferred to the land under development account when the development of the land has started or is transferred to the buildings (houses) under construction account when the land is ready for development.

**k. Prepaid Expenses**

Prepaid expenses are amortized over their beneficial periods using the straight-line method.

**l. Property and Equipment**

Property and equipment are stated at cost, except for certain revalued assets, less accumulated depreciation. Certain assets were revalued based on an independent appraisal made in accordance with government regulations. Revaluation increment in property and equipment is credited to a separate account under equity. In order to the adopt of PSAK 16(Revised 2007), Property, Plant and Equipment with effective from 2008, revaluation increment in property and equipment reclassified to retained earnings.

**PT. PAKUWON JATI Tbk. AND ITS SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007 AND FOR THE SIX-MONTH PERIODS THEN ENDED (Continued)**

---

Depreciation is computed using the straight-line method based on the estimated useful lives of the assets as follows:

	Years
Buildings and facilities	20 - 30
Machinery and equipment	10 - 20
Motor vehicles	4 - 5
Office equipment	4 - 5
Interior design	5

Land is stated at cost and is not depreciated.

When the carrying amount of an asset exceeds its estimated recoverable amount, the asset is written down to its estimated recoverable amount, which is determined as the higher of net selling price or value in use.

The cost of maintenance and repairs is charged to operations as incurred; expenditures which extend the useful life of the asset or result in increased future economic benefits such as increase in capacity and improvement in the quality of output or standard of performance 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 current operations.

Construction in progress is stated at cost. Construction in progress is transferred to the respective property and equipment account when completed and ready for use.

**m. Property and Equipment under Build, Operate and Transfer (BOT) Scheme**

Property and equipment constructed under BOT scheme, including fixtures and facilities on them are presented at cost less accumulated depreciation. Depreciation is computed based on the estimated useful lives of the related property and equipment under build, operate and transfer scheme following the term of the agreement using the straight-line method over 20 years.

**n. Unearned Income**

Unearned income represents receipt of advance payment of rent and service charges which are recognized proportionally over the period of the lease contract. It also includes advance payment from sale of land, houses and condominium units which are recognized when the revenue recognition criteria are met.

**o. Revenue and Expense Recognition**

Revenues from space rental and service charges are recognized as income over the period of the lease contract. Rental received in advance are presented as unearned income. Revenues from parking and hotel operations are recognized when the services are rendered.

Revenues from the sale of residential houses together with the underlying land lots and completed retail centers, condominiums and office buildings are recognized using the full accrual method, when all of the following criteria are met:

- The deed of sale has been signed;
- The balance of sales proceeds is deemed collectible;
- Receivables from sale are free from subordination; and
- All rights, risks and benefits have been transferred substantially to the buyer (a memorandum of transfer agreement has been released).

Proceeds from the sale of land, wherein the seller is not involved in the construction of the building, are recognized in full when all of the following criteria are met:

- The deed of sale has been signed;
- The buyer has paid a down payment of at least 20% of the agreed sales price, and the period of cancellation / refund has expired;
- The balance is deemed collectible;
- The receivables are free from subordination; and
- All improvements and related facilities on this project are completed and the seller has no further obligation to the buyer.

If any of the above criteria are not met, the payments received from the buyers are recognized as unearned income and recorded using the deposit method until all the criteria are met.

Revenues from sale of apartments and office building are recognized using the percentage of completion method, when all of the following criteria are met:

- The construction has progressed beyond the preliminary stage, or at least the foundation of the building has been completed;
- Cumulative payments equal or exceed 20% of the agreed sales price and the refund period has expired; and
- All of the revenues and costs can be reasonably estimated..

If any of the above criteria are not met, all payments received from the buyers are recorded as unearned income using the deposit method, until all the criteria are met.

Expenses are recognized when incurred (accrual basis).

**p. Debt Restructuring**

The excess of the carrying amount of the loan and related accounts over the total future cash payments specified by the new terms of the loan in a debt restructuring involving only modification of terms is recognized immediately as restructuring gain. After the restructuring, all cash payments under the terms of the loan are deducted from the carrying amount of the loan, and no interest expense is recognized on such loan until maturity.

If the carrying amount of the loan is less than the total future cash payments specified by the new terms of the loan in a debt restructuring involving only modification of terms, no gain or loss is recognized. The effect of such restructuring is accounted for prospectively from the time of restructuring. After the restructuring, interest expense is computed by applying a constant effective interest rate to the carrying amount of the loan and related accounts at the beginning of each period until maturity.

When settlement of the loan is made through transfer of asset, the excess of the carrying amount of the restructured debt over the fair value of the asset is recognized immediately as debt restructuring gain. Gain arising from the restructuring of loans through transfer of assets which terms and conditions are not fully met is recognized as deferred gain or loss on the restructured loans presented under other accounts payable account and will be recognized as gain in the consolidated statement of income when related terms and conditions are fully met.

**q. Income Tax**

Final Income Tax

Final income tax expense is recognized proportionally with the accounting income recognized during the year. The difference between the final income tax paid and the final tax expense in the consolidated statement of income is recognized as prepaid tax or tax payable. If the income is subject to final income tax, the differences between the financial statement carrying amounts of existing assets and liabilities and their tax bases are not recognized as deferred tax assets or liabilities.

Non-Final Income Tax

Current tax expense is determined based on the taxable income for the year computed using prevailing tax rates.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, except those differences that are subject to final tax. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for deductible temporary differences to the extent that it is probable that taxable income will be available in future periods against which the deductible temporary differences can be utilized.

Deferred tax is calculated at the tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the consolidated statement of income, except when it relates to items charged or credited directly to equity, in which case, the deferred tax is also charged or credited directly to equity.

Deferred tax assets and liabilities are offset in the consolidated balance sheet, except if they are for different legal entities, in the same manner the current tax assets and liabilities are presented.

**r. Deferred Charges – Landrights**

Expenses related to the legal processing of landrights are deferred and amortized using the straight-line method over the legal term of the landright since the legal term of the right is shorter than its economic life.

**s. Bond Issuance Costs**

Bond issuance costs are deducted directly from the related proceeds of the related bonds to determine the net proceeds of the bonds. Differences between the net proceeds and nominal values represent discount or premium which are amortized using the straight-line method over the term of the bonds.

**t. Post-Employment Benefits**

The Company provides defined post-employment benefits to its employees in accordance with Labor Law No. 13/2003. No funding has been made to this defined benefit plan.

The cost of providing post-employment benefits is determined using the Projected Unit Credit Method. The accumulated unrecognized actuarial gains or losses that exceed 10% of the present value of defined benefit obligations are recognized on a straight-line basis over the expected average remaining working lives of the participating employees. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested.

The benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation, as adjusted for unrecognized actuarial gains or losses and unrecognized past service cost.

Aside from providing post-employment benefits in accordance with Labor Law No. 13/2003, the Hotel has established a defined contribution plan covering all its local permanent employees. The Hotel's contribution to the plan is charged to current operations..

**u. Earnings per Share**

Basic earnings per share is computed by dividing net income by the weighted average number of shares outstanding during the year.

If the number of shares outstanding increases as a result of stock split, the calculation of basic earnings per share for all periods presented should be adjusted retrospectively.

**PT. PAKUWON JATI Tbk. AND ITS SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007 AND FOR THE SIX-MONTH PERIODS THEN ENDED (Continued)**

**3. CASH AND CASH EQUIVALENTS**

	2008 Rp'000	2007 Rp'000
Cash on hand	918,397	973,914
Bank		
Rupiah		
Bank Lippo	1,363,076	3,247,009
Bank Mandiri	4,652,946	4,219,000
Bank Central Asia	7,319,242	1,545,769
Bank Danamon Indonesia	3,894,832	4,781
Bank Internasional Indonesia	2,211,068	116,696
Others	43,687	152,663
Dollar Amerika Serikat		
ING Asia Private Bank Limited	2,778,583	681,428
Bank of New York	847,720	818,737
Bank Mandiri	497,686	101,120
Bank Lippo	70,568	399,060
Bank Danamon Indonesia	14,645,560	1,832,952
Bank Panin	23,376	19,667
Others	49,062	48,499
Euro		
ING Asia Private Bank Limited	183,350	221,952
Time deposit		
Rupiah		
Bank Mega	33,758,443	15,125,161
Bank Danamon Indonesia	2,602,006	2,317,557
Bank Internasional Indonesia	110,716,697	4,750,000
Bank Mandiri	6,473,597	4,170,280
Bank BRI	1,039,291	-
Bank Niaga	400,000	400,000
		1,112,940
Dollar Amerika Serikat		
Bank Danamon Indonesia	-	8,760,373
Bank DBS Indonesia	5,696,450	5,399,994
UBS AG, Singapura	-	1,282,546
Bank Mandiri	186,300	180,500
Bank Mega	12,461,977	2,263,500
Total cash and cash equivalents	212,833,914	60,146,098
Fund for replacement of hotel's furniture, fixtures and equipment	(2,223,420)	(4,155,135)
Net	210,610,494	55,990,963
Interest rates per annum on time deposits		
Rupiah	8,50 % - 8,75 %	7,65 % - 8,5 %
U.S. Dollar	4% - 4,25 %	4,75 % - 5,29 %

**PT. PAKUWON JATI Tbk. AND ITS SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007 AND FOR THE SIX-MONTH PERIODS THEN ENDED (Continued)**

**4. TRADE ACCOUNTS RECEIVABLE FROM THIRD PARTIES**

	2008	2007
	Rp '000	Rp '000
<b>a. By Business Segment:</b>		
Hotel	6,000,310	7,909,377
Space rental and others	11,550,878	14,743,360
Sale of land and buildings	22,841,326	232,276
Total	40,392,514	22,885,013
Allowance for doubtful accounts	(3,435,555)	(3,975,520)
Net	36,956,959	18,909,493
<b>b. By Age Category:</b>		
Not yet due	23,189,017	4,760,627
1 - 30 days	2,177,699	8,967,116
31 - 60 days	2,729,431	2,554,918
61 - 90 days	1,047,704	1,741,447
More than 90 days	11,248,663	4,860,905
Total	40,392,514	22,885,013
Allowance for doubtful accounts	(3,435,555)	(3,975,520)
Net	36,956,959	18,909,493
Changes in the allowance for doubtful accounts:		
Beginning balance	3,314,438	2,857,180
Provision	252,062	1,291,143
Reversal of allowance	(117,312)	(172,803)
Write off	(13,633)	
Ending balance	3,435,555	3,975,520

All trade accounts receivable in 2008 and 2007 are in Rupiah currency

Management believes that the allowance for doubtful accounts is adequate to cover possible losses on uncollectible accounts. Management also believes that there are no significant risk associated to the above receivables

Trade accounts receivable from hotel operations amounting to Rp 6,000,310 thousand and Rp 7,909,377 thousand in 2008 and 2007 respectively are used as collateral for Series A and C Bonds (Note 14).

**5. RESTRICTED TIME DEPOSITS**

	2008	2007
	Rp'000	Rp'000
The Subsidiary (AW)		
ING Asia Private Bank Limited, Singapore (US\$ 20,682,880 in 2008 and US\$ 30,717,575 in 2007)	190,799,566	278,116,928
UBS AG, Singapore (US\$ 1,813,162.66 in 2008 and US\$ 36,523,305 in 2007)	16,726,426	330,682,005
Total	207,525,992	608,798,933
The Company		
UBS AG, Singapore (US\$ 13,200,000 in 2008 and in 2007)	121,770,000	119,512,800
Total	329,295,992	728,311,733
Interest rate per annum	2,7% - 5,27%	3,90%-5,42%

Time deposits owned by AW represent proceeds from the issuance of the subsidiary's capital stock and will be used



**PT. PAKUWON JATI Tbk. AND ITS SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007 AND FOR THE SIX-MONTH PERIODS THEN ENDED (Continued)**

for the construction of Superblock Gandaria City.

In 2008 and 2007, time deposits owned by the Company represent restricted time deposit that will be used for the payment of interest of the Senior Secured Notes (Note 14)

**6. REAL ESTATE ASSETS**

Real Estate Inventories

	2008 Rp'000	2007 Rp'000
Land already developed		
Virginia Regency	14,605,860	21,006,436
Laguna Indah	17,532,230	17,532,230
Laguna Regency	2,258,415	3,285,170
Riviera Villa	1,047,606	1,128,583
Taman Mutiara	1,237,233	1,371,219
Royal Villa	1,748,320	1,383,149
Westwood Villa	951,308	951,190
Taman Permata	125,377	125,377
Land and buildings ready for sale		
Pakuwon Town Square	6,357,756	-
Virginia Regency	1,120,759	2,106,482
Show house	2,424,341	2,391,142
Royal Villa	-	829,708
Riviera Villa	-	242,796
Taman Permata	130,219	130,219
Total	49,539,424	52,483,701
Condominium unit:		
Regency Condominium	6,201,774	6,201,774
Land under development:		
Superblock Gandaria City	478,708,926	279,865,631
Palm Beach	60,696,859	68,682,059
Pakuwon Town Square	31,150,181	11,719,879
Total	570,555,966	360,267,569
Total	626,297,164	418,953,044

Land Not Yet Developed

	2008 Rp'000	2007 Rp'000
Location:		
East Surabaya	120,728,361	106,795,272
North Surabaya	74,178,157	73,465,242
West Surabaya	18,045,877	31,440,580
Embong Malang, Central Surabaya	5,123,151	5,123,152
Total	218,075,546	216,824,246

The total land not yet developed measures 2,666,270 square meters in 2008 and 2,582,206 square meters in 2007.

On June 30, 2008, interest expense capitalized to land under development (Superblock Gandaria City) amounted to Rp13,121,429 thousand.

**PT. PAKUWON JATI Tbk. AND ITS SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007 AND FOR THE SIX-MONTH PERIODS THEN ENDED (Continued)**

The additions to real estate inventory in 2007 included real estate assets of AW at the date of acquisition amounting to Rp249,426,127 thousand.

**7. PROPERTY AND EQUIPMENT**

	January 1, 2008	Additions	Deductions	Reclassification	June 30, 2008
	Rp'000	Rp'000	Rp'000	Rp'000	Rp'000
Cost or revalued amounts:					
Land	682,166,765	8,261,781			690,428,546
Buildings and facilities	866,932,283	641,063			867,573,346
Machinery and equipment	163,259,505	1,176,958	1,036,048		163,400,415
Motor vehicles	11,978,449	-	151,600		11,826,849
Office equipment	29,609,704	1,364,600			30,974,304
Interior design	11,273,256	-		691,058	11,964,314
Construction in progress					-
Buildings and facilities	184,776,587	154,698,650		(691,058)	338,784,179
Total	1,949,996,549	166,143,052	1,187,648	-	2,114,951,953
Accumulated depreciation:					
Buildings and facilities	255,197,907	14,793,495	280,596		269,710,806
Machinery and equipment	75,946,575	4,300,997	90,960		80,156,612
Motor vehicles	7,373,095	1,015,341			8,388,436
Office equipment	25,448,779	814,974			26,263,753
Interior design	10,161,116	134,849			10,295,965
Total	374,127,472	21,059,656	371,556	-	394,815,572
Net Book Value	1,575,869,077				1,720,136,381

	January 1 2007	Additions	Deductions	Reclassification	June 30, 2007
	Rp'000	Rp'000	Rp'000	Rp'000	Rp'000
Cost or revalued amounts:					
Land	386,999,521	263,550,363			650,549,884
Buildings and facilities	865,860,662	533,712			866,394,374
Machinery and equipment	161,784,180	348,353			162,132,533
Motor vehicles	8,888,957	3,110,117	356,600		11,642,474
Office equipment	27,501,389	1,134,732			28,636,121
Interior design	10,434,219	434,133			10,868,352
Construction in progress					
Buildings and facilities	6,507,124	68,776,856			75,283,980
Total	1,467,976,052	337,888,266	356,600		1,805,507,718
Accumulated depreciation:					
Buildings and facilities	225,758,486	14,673,937			240,432,423
Machinery and equipment	67,576,921	4,142,735			71,719,656
Motor vehicles	5,719,658	864,863	263,113		6,321,408
Office equipment	24,066,148	759,004			24,825,152
Interior design	9,940,964	82,175			10,023,139
Total	333,062,177	20,522,714	263,113		353,321,778
Net Book Value	1,134,913,875				1,452,185,940

Addition to property and equipment in 2007 included property and equipment of AW at the date of acquisition amounting to Rp287,916,170 thousand.

Depreciation amounting to Rp 21,059,656 thousand and Rp 20,522,714 thousand in 2008 and 2007 respectively was recorded under direct costs-building expenses (Note 20).

**PT. PAKUWON JATI Tbk. AND ITS SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007 AND FOR THE SIX-MONTH PERIODS THEN ENDED (Continued)**

Addition to construction in progress includes building under construction in Jakarta called Superblock Gandaria City owned by AW. The building is estimated to be completed in 2009.

As of June 30, 2008, borrowing costs capitalized to construction in progress amounted to Rp 10,540,889 thousand consisting of interest expense of Rp 14,316,036 thousand and gain on foreign exchange of Rp 3,775,146 thousand

In 2006 and 1999, the Company revalued part of its property and equipment. The revaluation was based on government rules. In 2006, the Company revalued land where the Sheraton Surabaya Hotel & Tower is located and two (2) parcels of land situated beside the Hotel, with net revaluation increment amounting to Rp 50,999,400.000. For the revaluation of property, plant and equipment, the Company obtained approval from the Tax Office for Listed Companies on December 26, 2006 through its Decision Letter No. 2027/WPJ.07/BD.04/2006. In 1999, the Company revalued part of its property and equipment as of December 31, 1998 with net revaluation increment in property and equipment amounting to Rp 491.683.550.793. The Company obtained approval from the Tax Office for Listed Companies in its Decision Letter No. 021/WPJ.06/KP.0404/1999 dated May 20, 1999. On December 31, 2007 and 2006, the balance of the net revaluation increment in property and equipment were recorded as part of equity amounting to Rp 542.682.950.793. On June 30, 2008, in order to implement PSAK 16 (Revised 2007), Property, Plant and Equipment, revaluation increment in property and equipment was reclassified to retained earnings.

The Company and AW owns several parcels of land located in Kelurahan Kaliasin and Kedungdoro, Surabaya with legal rights in the form of Building Use Rights (HGBs) for a period of 10 to 30 years from 2009 to 2032. Management believes that there will be no difficulty in the extension of the landrights since all parcels of land were acquired legally and supported by sufficient evidence of ownership.

In 2008 and 2007, the security rights in the land and buildings comprising Tunjungan Plaza I and Tunjungan Plaza III are used as collateral for Senior Secured Notes (Note 15). Land with HGB Nos. 265, 275 and 294 together with Sheraton Surabaya Hotel & Towers thereon are used as collateral for Series A, B and C Bonds (Note 14). Land with HGB Nos. 183, 282, 290, 292, 300 and 458 together with the Tunjungan Plaza IV buildings thereon are used as collateral for Bonds Payable I (Note 14).

On June 30, 2008 and 2007, property and equipment and property and equipment under build, operate and transfer (BOT) scheme except land, were insured as follows:

- Properties of Tunjungan Plaza I and II / Menara Mandiri, Tunjungan Plaza III, Tunjungan Plaza IV, Central Plant and Laguna Square (Pakuwon City) were covered by property-all-risk insurance with PT. Zurich Insurance Indonesia for US\$ 83,900,000 and Rp 15,000,000 thousand as of June 30, 2008, and US\$ 80,600,000 and Rp15,000,000 thousand as of June 30, 2007. Property and equipment of Sheraton Surabaya Hotel & Towers was covered by property-all-risk insurance with PT. Asuransi AIU Indonesia as of June 30, 2008 and with PT. Asuransi Allianz Utama Indonesia as of June 30, 2007 for US\$ 35,000,000. Its properties were also insured against terrorism and sabotage with PT. Asuransi Bintang Tbk for US\$ 118,900,000 and US\$ 117,600,000 as of June 30, 2008 and 2007, respectively.
- Tunjungan Plaza I, II / Menara Mandiri, III and IV, Central Plant and Laguna Square (Pakuwon City) were covered by Public Liability Insurance with PT. Asuransi Allianz Indonesia for US\$1,250,000, as of June 30, 2008 and 2007. Sheraton Surabaya Hotel & Towers was covered by Public Liability Insurance with PT. ACE INA Insurance in 2008 and 2007 for US\$ 10,000,000.
- Some of the vehicles were insured with PT. Asuransi Allianz Utama Indonesia and PT. Asuransi AIU Indonesia in 2008 and 2007 for Rp 2,226,000 thousand and Rp 3,130,000 thousand, respectively.

Management believes that the insurance coverage is adequate to cover possible losses on the assets insured.

**8. PROPERTY AND EQUIPMENT UNDER BUILD, OPERATE AND TRANSFER (BOT) SCHEME**

	January 1, 2008	Additions	Deductions	June 30, 2008
	Rp'000	Rp'000	Rp'000	Rp'000
Cost:				
Buildings	46,927,905	-	-	46,927,905
Mechinery and equipment	11,734,753	-	-	11,734,753
Total	58,662,658	-	-	58,662,658
Accumulated Depreciation:				
Buildings	36,927,622	1,514,641	-	38,442,263
Mechinery and equipment	9,530,747	293,369	-	9,824,116
Total	46,458,369	1,808,010	-	48,266,379
Net Book Value	12,204,289			10,396,279

**PT. PAKUWON JATI Tbk. AND ITS SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007 AND FOR THE SIX-MONTH PERIODS THEN ENDED (Continued)**

	Januari 1, 2007	Additions	Deductions	June 30, 2007
	Rp'000	Rp'000	Rp'000	Rp'000
Cost:				
Buildings	46,927,905	-	-	46,927,905
Machinery and equipment	11,734,753	-	-	11,734,753
Total	58,662,658	-	-	58,662,658
Accumulated amortization				
Buildings	33,898,339	1,514,641	-	35,412,980
Machinery and equipment	8,944,010	293,369	-	9,237,379
Total	42,842,349	1,808,010	-	44,650,359
Net Book Value	15,820,309			14,012,299

Amortization expense amounting to Rp 1,808,010 thousand in 2008 and 2007 respectively was presented under direct costs-building expenses (Note 20).

At June 30, 2008 and 2007, the property and equipment under BOT scheme were insured along with property and equipment (Note 7).

**9. TRADE ACCOUNTS PAYABLE**

	2008	2007
	Rp'000	Rp'000
Related Party		
PT. Pakuwon Dharma	12,639,987	-
Third Parties	29,777,606	7,637,338
Total Trade Accounts Payable	42,417,593	7,637,338

Accounts payable to PT. Pakuwon Dharma represents payable arising from the purchase of land measuring 101,769 square meters located in Kelurahan Kalisari, Surabaya, amounting to Rp 21,269,721 thousand (including 10% VAT). Such purchase of land was approved by the stockholders through the Company's Extraordinary Stockholders Meeting on June 27, 2007.

**10. TAXES PAYABLE AND PREPAID TAXES**

Taxes Payable

	2008	2007
	Rp'000	Rp'000
The Company		
Final income tax	1,028,434	2,251,324
Reconstruction tax	335,779	
Other income taxes:		
- Article 21	12,901	88,993
- Article 23/26	189,851	289,027
Value added tax	3,046,048	3,906,558
Taxes on promotional activities	13,262	-
The subsidiaries		
Current tax	566,244	119,106
Other income taxes:		
- Article 21	80,954	-
- Article 23/26	280,047	-
Total	5,553,520	6,655,008

**PT. PAKUWON JATI Tbk. AND ITS SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007 AND FOR THE SIX-MONTH PERIODS THEN ENDED (Continued)**

Details of final income tax payable are as follows:

	2008	2007
	Rp'000	Rp'000
Final income tax on unearned income and service charges	12,676,054	10,745,721
Less:		
Amount withheld by third parties	(8,378,544)	(4,906,456)
Payment by the Company	(3,269,076)	(3,587,941)
Final income tax payable	<u>1,028,434</u>	<u>2,251,324</u>

**Prepaid Taxes**

	2008	2007
	Rp'000	Rp'000
The Company		
Final income tax of unearned rental income	11,843,800	9,483,417
Other income tax article 22	22,868	-
The Subsidiaries		
Value Added Tax	43,314,995	11,450,815
Final Income Tax	717,085	-
Total	<u>55,898,748</u>	<u>20,934,232</u>

**11. ACCRUED EXPENSES**

	2008	2007
	Rp'000	Rp'000
Interest and penalty payable on bonds (Note 14)	107,427,496	109,058,598
Electricity, water and gas	1,720,081	963,819
Others	6,828,689	4,942,828
Total	115,976,266	114,965,245
Current portion	(25,948,466)	(22,891,747)
Long-term portion	<u>90,027,800</u>	<u>92,073,498</u>

**12. UNEARNED INCOME**

	2008	2007
	Rp'000	Rp'000
Space rental	280,981,949	127,437,279
Land and buildings	15,587,223	10,563,755
Others	1,948,969	1,311,318
Total	298,518,141	139,312,352
Current portion	(109,008,228)	(97,541,388)
Long-term portion	<u>189,509,913</u>	<u>41,770,964</u>

**PT. PAKUWON JATI Tbk. AND ITS SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007 AND FOR THE SIX-MONTH PERIODS THEN ENDED (Continued)**

**13. OTHER ACCOUNTS PAYABLE**

	2008 Rp'000	2007 Rp'000
Deferred gain on restructured bonds, from:		
Settlement with real estate inventory	17,366,096	25,360,009
Reduction of interest and write-off of penalty on Bonds I	6,111,326	7,857,419
Interest payable on Series C Bonds	4,163,548	6,212,748
Others	3,160,569	3,160,569
Total	30,801,539	42,590,745
Current maturities from:		
Reduction of interest and write-off of penalty on Bonds I	1,746,093	1,746,093
Interest payable on Series C Bonds	2,110,031	2,236,146
Total	3,856,124	3,982,239
Long-term portion	26,945,415	38,608,506

Deferred gain on restructured bonds from settlement with real estate inventory resulted from the settlement of Bonds I amounting to Rp 40,050,000 thousand and Bonds II amounting to Rp 49,850,000 thousand using real estate inventory amounting to Rp 57,417,469 thousand and cash amounting to Rp 6,292,122 thousand or totaling Rp 63,709,591 thousand. From these transactions, in 2003, the Company recorded the difference between the total nominal value and total settlement amounting to Rp 26,190,408 thousand as deferred gain on restructuring since the Deed of Sale has not yet been signed. In 2007, the Company realized Rp 7,993,912 thousand from the deferred gain which was presented as part of other income.

Deferred gain on restructured bonds from reduction of interest and write-off of penalty represents the difference between the carrying amount of restructured Bonds I (principal and accrued interest) in 2003 and the agreed total settlement amount and outstanding loan balance. The difference was deferred since the carrying amount was less than the future cash payments

Interest payable on Series C Bonds represents the difference between the nominal value of Series C Bonds and the future cash payments of the related restructured loan (Note 14) and will be realized on due date of each interest payable.

**14. BONDS PAYABLE**

	2008 Rp'000	2007 Rp'000
Senior Secured Notes - net of unamortized bond issuance costs	985,480,076	957,997,506
Bonds payable (in Rupiah)		
Bonds I	71,467,500	71,467,500
Bonds resulting from restructured loans:		
Series A Bonds (US\$ 1,157,102 in 2008 and US\$ 5,785,502 in 2007)	10,674,266	52,381,935
Series C Bonds (US\$ 2,745,000 in 2008 and US\$ 3,477,000 tahun 2007)	25,322,625	31,480,758
Total	1,092,944,467	1,113,327,699
Current maturities	(50,411,966)	(48,533,080)
Long-term portion	1,042,532,501	1,064,794,619

**PT. PAKUWON JATI Tbk. AND ITS SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007 AND FOR THE SIX-MONTH PERIODS THEN ENDED (Continued)**

---

Senior Secured Notes

On November 16, 2006, PJBV (a subsidiary), as Issuer, issued bonds amounting to US\$ 110,000,000 with fixed interest of 12% per annum payable every six (6) months. The bonds have a term of five (5) years and are due on November 14, 2011. All the bonds were offered at 100% of the nominal value and are listed at the Singapore Stock Exchange with the Bank of New York London Branch as Trustee.

The bonds are unconditionally and irrevocably guaranteed by the Company and AW.

The funds generated from the issuance of bonds were used for the repayments of certain existing debts and the acquisition of 83.33% of AW, through the purchase of new shares.

Based on "account management agreement" dated 16 Desember 2006, the Company would deposit the net proceeds from the issue of the Notes into an offshore account in Singapore. The acquisition portion in Pakuwon Offshore Account will be paid to AW on the date the acquisition is completed and AW will deposit these proceeds into an offshore account in Singapore.

The Company shall deposit into the Pakuwon Jati Offshore Interest Reserve Account (i) US\$ 13,126,667 representing the sum of the aggregate interest to be payable on the Notes on the first two interest payment dates and (ii) within 5 business days immediately following each interest payment date, funds in an amount sufficient to restore the balance on deposit in the Offshore Interest Reserve Account to maintain an aggregate amount equal to two successive interest payments on the Notes. It shall be the Company's obligation and responsibility to ensure that there are funds on deposit in the Offshore Interest Reserve Account sufficient to pay the aggregate amount of interest due.

The Company shall cause AW to deposit US\$ 80,000,000 into the Artisan Offshore Reserve Account. Funds on deposit in the Artisan Reserve Account may be withdrawn or transferred to either the Artisan Offshore Operating Account or the Artisan Onshore Operating Account to pay for (i) qualified construction costs, provided that as condition to such withdrawal AW will deliver to the Trustee a disbursement certificate, a written certification by an independent quantity surveyor and copies of invoices setting forth the charges from contractors and vendor included in such qualified construction (ii) qualified other construction and development related cost provided that as a condition to such withdrawal AW will deliver to the Trustee a disbursement certificate and copies of invoices setting forth the charges from contractors and vendors.

Based on the ratings issued by Moody's Investors Service, Inc. and Fitch, the bonds are rated B2 and B, respectively.

The Senior Secured Notes payable consists of the following:

	2008	2007
	Rp'000	Rp'000
Nominal value (US\$ 110.000.000)	1,014,750,000	995,940,000
Unamortized bond issuance costs	(29,269,924)	(37,942,494)
Net	<u>985,480,076</u>	<u>957,997,506</u>

The Senior Secured Notes are secured by:

- First priority security rights over Tunjungan Plaza I and III (Note 7).
- Fiduciary security of all movable assets located in Tunjungan Plaza I and III.
- Fiduciary security of all claims under insurance and reinsurance policies maintained on the land and buildings comprising Tunjungan Plaza I and III.
- A pledge of the Company's shares in AW.
- Several offshore accounts and an onshore account to be managed by Account Managers in accordance with the Account Management Agreement.

The Issuer (PJBV) and the Company have agreed in the notes and indenture governing the notes to observe certain covenants, including, among other requirements:

- A limitation on the incurrence of liabilities;
- A limitation on dividends and other restricted payments;
- A limitation on certain asset sales;
- A limitation on the issuance and sale of capital stock of restricted subsidiaries;
- A limitation on transaction with affiliates;
- A limitation on the incurrence of liens;
- A limitation on sale / leaseback transactions;

**PT. PAKUWON JATI Tbk. AND ITS SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007 AND FOR THE SIX-MONTH PERIODS THEN ENDED (Continued)**

- A limitation on permitted business activities;
- A limitation on the ability to consolidate, merge, or sell all or substantially all assets;
- Covenants as to the delivery of certain financial statements

Bonds Payable I

In 1996, the Company issued Bonds I totaling Rp 150,000,000 thousand, with interest at 19.125% per annum. The maturity date of these bonds has been extended up to June 28, 2011 based on Bondholders' General Meeting (RUPO) in 2003. The bonds were intended for the project development for Tunjungan Plaza IV. Bonds I are secured by HGB Certificate Nos. 183, 282, 290, 292, 300 and 458, covering a total area of 0.885 hectares located in Kelurahan Kedungdoro, Surabaya, together with the buildings thereon (Note 7).

In 2003, the Company and the holders of Bonds I agreed to restructure the bonds payable, as follows:

- a. Based on RUPO of Bonds I with principal totaling Rp 109,950,000 thousand as stated in the Minutes of RUPO I No. 65 dated June 23, 2003 and Deed No. 9 dated September 8, 2003 concerning Addendum V of the Custodianship Agreement of Bonds I both from Notary Mrs. Machrani Moertolo S. SH., the holders of Bonds I agreed on the following among others:
  - i. Schedule of payment of bond principal as follows :
    - 2005 amounting to Rp 16,492,500 thousand
    - 2007 amounting to Rp 21,990,000 thousand
    - 2009 amounting to Rp 32,985,000 thousand
    - 2011 amounting to Rp 38,482,500 thousand
  - ii. Floating rate of 1% over Bank Indonesia Certificate (SBI) capped at 12% per annum.
  - iii. Interest-free cash payment of interest in arrears amounting to Rp 102,303,802 thousand through installment of 2% per annum depending on the cash flow position of the Company and the remaining will be paid in the ninth year through refinancing. The past due interest was presented under accrued expenses (Note 11).
  - iv. Write-off of penalty for the late payment of coupon nos. 8, 9, and 10 amounting to Rp 519,456 thousand.
  - v. Release as collateral of the land measuring 825,525 square meters located in Kelurahan Dukuh Sutorejo, Surabaya and Kelurahan Kalisari, Surabaya, upon the completion of Tunjungan Plaza IV project, in accordance with the valuation from independent appraiser appointed by the the Company the value of which is over 120% of the outstanding bonds principal.

In 2007 and 2006, the Company paid installments amounting to Rp 21,990,000 thousand and Rp 75.000 thousand respectively. Thus, Bonds I payable amounted to 71.467.500 thousand dan Rp 93.457.500 thousand in 2008 dan 2007 respectively.

Bonds Resulting from Restructured Loans

On October 25, 2005, the Company and all its lenders entered into agreements to restructure all loans and related interest payable. This restructuring has been approved in the Extraordinary Stockholders' General Meeting as documented in Notarial Deed No. 72 dated October 17, 2005 of Noor Irawati SH., notary in Surabaya.

The details of Series A to F Bonds, are as follows:

Series A Bonds

In 2006 holders of Series A Bonds have changed and details of Series A Bonds as of June 30, 2008 and 2007 are as follows:

Name of Bondholder	2008		2007	
	US\$	Equivalent Rp'000	US\$	Equivalent Rp'000
Sino Connect Invesment Ltd	922,601	8,510,994	4,612,921	41,765,387
Oakhill Capital Ltd	108,155	997,730	540,915	4,897,444
Burgami Investment Ltd	81,133	748,452	405,693	3,673,144
BSL Investment Inc.	45,213	417,090	225,973	2,045,960
Total	1,157,102	10,674,266	5,785,502	52,381,935



**PT. PAKUWON JATI Tbk. AND ITS SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007 AND FOR THE SIX-MONTH PERIODS THEN ENDED (Continued)**

---

In July 26, 2006, Series A Bonds amounting to US\$ 754,198 were converted to 13,414,500 new shares with a fixed rate of Rp 9,250/US\$1 (Note 17).

Series A Bonds are transferable and redeemable at the option of the Company, non-interest bearing and have a term of seven (7) years from the date of issue. Based on Extraordinary General Meeting of Stockholders dated July 24, 2006 as stated in Notarial Deed No. 113 of Noor Irawati, SH., the remaining Series A Bonds which are yet to be converted to shares are payable in quarterly installments of US\$ 1,157,100 within a term of two (2) years until July 25, 2008.

Series A, B and C Bonds are secured by:

- The Company's HGBs with certificate Nos. 265, 275 and 294 covering a total area of 17,979 square meters together with the building thereon, located in Kelurahan Kedungdoro, Surabaya (Note 7).
- Receivables, claims and rights over proceeds from the hotel operations (Note 4) and proceeds from insurance claim.

Series C Bonds

The balance of Series C Bonds issued to Bank Panin as of June 30 2008 dan 2007 amounted to US\$ 2,745,000 or equivalent Rp 10,674,266 thousand and US\$ 3,477,000 or equivalent Rp 52,381,935 thousand respectively.

Series C Bonds are transferable and redeemable at the option of the Company and have a term of seven (7) years from the date of issue. The bonds including the interest are payable in quarterly installments ranging from US\$ 186,741 to US\$ 248,473 until November 25, 2012.

Series C Bonds bear interest at the following rates per annum:

- 1<sup>st</sup> year : 5%
- 2<sup>nd</sup> year : 6%
- 3<sup>rd</sup> year : 7%
- 4<sup>th</sup> to 7<sup>th</sup> year : 8%

Series A, B, and C Bonds Indentures contain certain negative covenants which among others, restrict the Company, without the prior written notice to the bondholders, to:

- Obtain any credit facilities from parties other than in the ordinary course of business and subordinated loans from shareholders of the Company.
- Make or purport to make any prepayment of its indebtedness to any party, including the shareholder loan.
- Undertake or permit any re-organization, amalgamation, reconciliation, take over, consolidation, merger or acquisition with other company or acquisition of shares in that company.
- Declare, distribute or pay any dividend or other distribution of profits.
- Amend or alter any of the provisions of its Articles of Association, which include, among others, its capital structure, except for the purpose of increasing its authorized capital stock other than for the purpose of implementation of the MCBs.

The negative covenants also restrict the Company, without the prior written consent of bondholders, to:

- Make or cause to make loans or advances to the shareholders, affiliated party or any third party, directly or indirectly, other than in the ordinary course of business.
- Take voluntarily liquidation or dissolution of the Company or instruct another party to file the bankruptcy proposal and suspension of payment to the authorized government institutions.
- Grant a corporate guarantee for the indebtedness of other parties.
- Expand or narrow the line of the Company's business.
- Assign and transfer in whole or in part the Company's obligation under any finance document to other party.
- Purchase, acquire or subscribe for any shares in any subsidiary or affiliated company.
- Encumber, sell or transfer or dispose any securities to other parties and any action taken by the Company which is not authorized to do without obtaining the power of attorney from the creditors.
- Pledge or encumber the Company's assets which have been granted as security in favor of the creditors.

The bond agreements also provided that if the Company fails to fulfill its obligations, the bondholders can declare the outstanding principal as immediately due and payable.

**PT. PAKUWON JATI Tbk. AND ITS SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007 AND FOR THE SIX-MONTH PERIODS THEN ENDED (Continued)**

**15. MANDATORY CONVERTIBLE NOTES (MCNs) PAYABLE**

	2008	2007
	Rp'000	Rp'000
Nominal value (US\$ 58,000,000)	535,050,000	525,132,000
Unamortized discount (US\$ 13,121,383) in 2008 and (US\$ 14,479,972) in 2007	<u>(121,044,759)</u>	<u>(131,101,665)</u>
Total	<u><u>414,005,241</u></u>	<u><u>394,030,335</u></u>

On August 1, 2006, AW, a subsidiary, issued MCNs to UOB Kay Hian Finance Limited amounting to US\$ 58,000,000. These MCNs are convertible to one (1) share per US\$ 1,000 MCN until July 31, 2016. These MCNs are non-interest bearing and are not secured by any collateral.

**16. MINORITY INTEREST IN SUBSIDIARIES**

	2008	2007
	Rp'000	Rp'000
a. Minority interest in net assets of subsidiaries		
AW	82,478,850	81,412,090
Others	<u>1</u>	<u>1</u>
Total	<u><u>82,478,851</u></u>	<u><u>81,412,091</u></u>
b. Minority interest in net (income) loss of subsidiaries		
AW	<u>220,183</u>	<u>(1,384,639)</u>
Total	<u><u>220,183</u></u>	<u><u>(1,384,639)</u></u>

**17. CAPITAL STOCK**

Name of Stockholder	2008		
	Number of Shares	Percentage of Ownership	Total Paid-up Capital Stock
		%	Rp'000
BSL Investment Inc.	1,709,152,500	22.15	170,915,250
Burgami Investments Ltd	1,612,755,000	20.90	161,275,500
PT. Pakuwon Arthaniaga	1,169,255,740	15.15	116,925,574
Concord Media Investment Ltd (CMIL)	570,000,000	7.39	57,000,000
Raylight Investments Limited	551,475,000	7.15	55,147,500
Sino Connect Investments Limited	508,942,500	6.59	50,894,250
Oakhill Capital Limited	394,810,000	5.12	39,481,000
PT. Pakuwon Trijaya	126,660,000	1.64	12,666,000
Alexander Tedja (President Commissioner)	1,440,000	0.02	144,000
A S Ridwan Suhendra (Director)	45,000	0.00	4,500
Richard Adisastra (President Director)	21,000	0.00	2,100
Public (less than 5% each)	<u>1,073,328,260</u>	<u>13.91</u>	<u>107,332,826</u>
Total	<u><u>7,717,885,000</u></u>	<u><u>100.00</u></u>	<u><u>771,788,500</u></u>

**PT. PAKUWON JATI Tbk. AND ITS SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007 AND FOR THE SIX-MONTH PERIODS THEN ENDED (Continued)**

Name of Stockholder	2007		
	Number of	Percentage	Total Paid-up
	Shares	of Ownership	Capital Stock
		%	Rp'000
BSL Investment Inc.	341,830,500	22.15	170,915,250
Burgami Investments Ltd	322,551,000	20.90	161,275,500
PT. Pakuwon Arthaniaga	233,851,148	15.15	116,925,574
Concord Media Investment Ltd (CMIL)	114,000,000	7.39	57,000,000
Standard Merchant Bank (Asia) Ltd.	110,295,000	7.15	55,147,500
Sino Connect Investments Limited	101,788,500	6.59	50,894,250
Oakhill Capital Limited	78,957,000	5.12	39,478,500
PT. Pakuwon Trijaya	25,332,000	1.64	12,666,000
Alexander Tedja (President Commissioner)	288,000	0.02	144,000
Suhardi Poniman (Commissioner)	144,000	0.01	72,000
Richard Adisastra (President Director)	4,200	0.00	2,100
Public (less than 5% each)	214,535,652	13.90	107,267,826
Total	1,543,577,000	100.00	771,788,500

The changes in the shares outstanding for 2008 and 2007 are as follows:

	Number of shares
Balance as of January 1, 2006	420,000,000
Conversion of MCBs into shares	247,000,000
Conversion of Series A, B, D and E bonds into shares	876,577,000
Balance as of June 30, 2007	1,543,577,000
Increase from stock split of par value	6,174,308,000
Balance as of June 30, 2008	7,717,885,000

Based on the stockholders' meeting as stated in Notarial Deed No. 28 dated August 7, 2007 from Noor Irawati, SH notary in Surabaya, which was registered in the Department of Law and Human Rights through Letter No. W10-HT.01.10-829 dated September 5, 2007, the stockholders approved the stock split through reduction of par value from Rp 500 per share to Rp 100 per share. Accordingly, as a result of the stock split, the number of outstanding shares increased from 1,543,577,000 shares to 7,717,885,000 shares. In accordance with the Letter No. Peng-827/BEJ-PSJ/P/09-2007 dated September 18, 2007 from the Indonesia Stock Exchange, all of the Company' outstanding shares totaling 7,717,885,000 shares at par value of Rp 100 per share were listed at the Indonesia Stock Exchange.

Based on the Extraordinary Meeting of Stockholders as stated in notarial deed No. 72 dated October 17, 2005 of Noor Irawati, SH., notary in Surabaya, the stockholders agreed on the following, among others:

- Convert the long-term loan into MCBs amounting to US\$ 13,000,000 at 19 shares per US\$ 1 by issuing shares of the Company totaling 247,000,000 shares with par value of Rp 500 per share or amounting to Rp123,500,000 thousand.
- Approve the issuance of shares totaling 247,000,000 shares with nominal value of Rp 500 per share without preemptive rights for the stockholders.

On March 16, 2006 and March 22, 2006, the Company has issued new shares as a result of the conversion of the MCBs to 22,705,000 and 224,295,000 shares, respectively, or totaling 247,000,000 shares with Rp 500 nominal value per share. The Company has reported these transactions to the Capital Market Supervisory Agency (Bapepam), Surabaya Stock Exchange, Jakarta Stock Exchange and PT. Kustodian Sentral Efek Indonesia (KSEI).

Based on the Extraordinary Meeting of Stockholders as stated in Notarial Deed No. 113 dated July 24, 2006 of Noor Irawati, SH., notary in Surabaya, the stockholders agreed to convert a portion of the Series A and B Bonds, and the full remaining balance of Series D and E Bonds (Note 14) totaling Rp 455,821,500 thousand by issuing shares of the Company totaling 876,577,000 shares with par value of Rp 500 per share or amounting to Rp 438,288,500 thousand. The conversion resulted in an increase of paid-up capital stock amounting to Rp 438,288,500 thousand. The remaining Rp 17,533,000 thousand was recognized as additional paid-in capital (Note 18).

The Company has stated these changes in the paid-up capital stock in Deed No. 86 dated August 15, 2006 of Noor Irawati, SH., notary in Surabaya. The amendments have been reported to and were received by the Minister of Law and Human Rights based on its Letter No. W10-HT.01.04-180 dated October 10, 2006.

**PT. PAKUWON JATI Tbk. AND ITS SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007 AND FOR THE SIX-MONTH PERIODS THEN ENDED (Continued)**

**18. ADDITIONAL PAID-IN CAPITAL**

	Additional paid-in capital Rp
Sale of the Company's shares through public offering in 1989	18,900,000,000
Rights offering I to stockholders in 1991	50,000,000,000
Rights offering II to stockholders in 1994	115,500,000,000
Distribution of 35,000,000 bonus shares in 1992	<u>(35,000,000,000)</u>
Total	<u>149,400,000,000</u>
Conversion of bonds into shares in 2006	
Total proceeds from the issuance of 876.577.000 shares	455,821,500,000
Total par value	<u>(438,288,500,000)</u>
Excess proceeds	<u>17,533,000,000</u>
Balance as of June 30, 2008 and 2007	<u><u>166,933,000,000</u></u>

**19. SALES / REVENUES**

	2008 Rp'000	2007 Rp'000
Rental and service charges:		
Space rental	82,776,339	85,222,701
Service charges	<u>30,691,971</u>	<u>30,609,094</u>
Subtotal	<u>113,468,310</u>	<u>115,831,795</u>
Hotel revenues	<u>40,754,314</u>	<u>39,644,233</u>
Sale of land and buildings	<u>34,418,387</u>	<u>3,349,433</u>
Sale of condominiums	<u>-</u>	<u>1,700,000</u>
Other operating revenues:		
Electricity and water billing	17,171,960	16,876,891
Parking fee	4,883,496	3,280,722
Others	<u>6,489,980</u>	<u>5,552,047</u>
Subtotal	<u>28,545,436</u>	<u>25,709,660</u>
Total	<u><u>217,186,447</u></u>	<u><u>186,235,121</u></u>

The Company has insurance for business interruption with PT. Zurich Insurance Indonesia for US\$ 40,800,000 in 2008 and 2007, respectively.

**PT. PAKUWON JATI Tbk. AND ITS SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007 AND FOR THE SIX-MONTH PERIODS THEN ENDED (Continued)**

**20. DIRECT COSTS AND COST OF SALES**

	2008	2007
	Rp'000	Rp'000
Direct Costs		
Building expenses:		
Electricity, water and gas	36,410,955	36,147,215
Depreciation of property and equipment (Note 7)	21,059,656	20,522,714
Repairs and maintenance	8,145,561	5,392,419
Cleaning	2,594,510	2,247,523
Amortization of property and equipment under BOT scheme (Note 8)	1,808,010	1,808,010
Land and building taxes	2,067,737	1,501,607
Insurance	1,104,204	1,073,768
Others	1,072,075	539,388
Total building expenses	74,262,708	69,232,644
Personnel expenses	13,227,459	9,433,953
Hotel operating expenses	8,622,266	8,097,320
Total Direct Costs	96,112,433	86,763,917
Cost of sales - Land and buildings	13,020,702	1,873,763
Cost of sales - Condominiums	-	579,257
Total Direct Costs and Cost of Sales	109,133,135	89,216,937

**21. OPERATING EXPENSES**

	2008	2007
	Rp'000	Rp'000
General and administrative:		
Office expenses	2,131,933	2,487,737
Personnel expenses	3,777,712	3,918,109
Hotel operator's fees	1,359,737	1,364,632
Professional fees	1,392,772	1,668,540
Transportation services	1,023,076	807,628
Shares administration and reporting	190,719	161,063
Bank charges	597,519	136,547
Security expenses	1,047,044	288,276
Entertainment	276,891	180,847
Office equipment	-	112,198
Others	5,766,188	3,926,874
Subtotal	17,563,591	15,052,451
Marketing:		
Personnel expenses	1,316,955	1,062,550
Events	1,559,555	548,956
Advertising and promotion	10,507,113	2,144,459
Others	97,309	1,037,209
Subtotal	13,480,932	4,793,174
Total	31,044,523	19,845,625

**PT. PAKUWON JATI Tbk. AND ITS SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007 AND FOR THE SIX-MONTH PERIODS THEN ENDED (Continued)**

---

**22. INTEREST INCOME**

	<u>2008</u>	<u>2007</u>
	Rp'000	Rp'000
Time deposits	12,129,563	27,648,832
Current accounts	<u>200,893</u>	<u>121,947</u>
Total	<u><u>12,330,456</u></u>	<u><u>27,770,779</u></u>

**23. INTEREST EXPENSE AND FINANCIAL CHARGES**

	<u>2008</u>	<u>2007</u>
	Rp'000	Rp'000
Bond I	2,359,065	3,808,710
Senior Secured Notes	38,438,688	60,824,418
MCNs	<u>6,369,220</u>	<u>4,033,004</u>
Total	<u><u>47,166,973</u></u>	<u><u>68,666,132</u></u>

**24. GAIN (LOSS) ON FOREIGN EXCHANGE - NET**

In 2008 and 2007, the Company and its subsidiaries were stated the net gain on foreign exchange amounting to Rp10,150,093 thousand and Rp 1,857,776 thousand respectively.

**25. EARNINGS PER SHARE**

The computation of basic earnings per share is based on the following data:

	<u>2008</u>	<u>2007</u>
	Rp'000	Rp'000
Earnings for computation of basic earnings per share	41,039,877	39,287,563
Weighted average number of ordinary shares for computation of basic earnings per share	7,717,885	7,717,885
Basic earnings per share	5	5

The weighted average number of shares for the computation of basic earnings per share has been adjusted to reflect the effect of the stock split in 2007. Thus, basic earnings per share in 2007 has been restated.

**26. ACQUISITION OF A SUBSIDIARY**

On February 23, 2007 in the Extraordinary General Meeting of Stockholders, the Company's stockholders agreed to invest in 80,000 new shares of AW amounting to US\$ 80,000,000.

Based on Notarial Deed No. 4 dated March 2, 2007 of Esther Mercia Sulaiman, SH. Notary in Jakarta, the Company acquired 83.33% equity ownership of 80,000 shares of AW at an acquisition cost amounting to US\$ 80,000,000. The deed was approved by the Minister of Justice and Human Rights through Letter No. W7-03156-HT.01.04 dated March 26, 2007.

At the acquisition date, the Company recorded the assets and liabilities of AW at its fair values.

**PT. PAKUWON JATI Tbk. AND ITS SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007 AND FOR THE SIX-MONTH PERIODS THEN ENDED (Continued)**

The assets and liabilities of AW at the acquisition date are as follows:

	Fair value	Book value prior to acquisition
	Rp'000	Rp'000
<b>Assets</b>		
Cash	4,667,039	4,667,039
Receivables	500	500
Prepayment and other current assets	5,175,180	5,175,180
Real estate assets	316,574,459	160,266,376
Property and equipment - net	365,026,280	185,529,144
Other noncurrent assets	15,317	15,317
<b>Total</b>	<b>691,458,775</b>	<b>355,653,556</b>
<b>Liabilities</b>		
Mandatory convertible bonds	367,220,844	531,280,000
Other liabilities	72,608,846	72,608,846
<b>Total</b>	<b>439,829,690</b>	<b>603,888,846</b>
<b>Total</b>	<b>251,629,085</b>	<b>(248,235,290)</b>
Shares issuance	728,400,000	728,400,000
<b>Net Assets</b>	<b>980,029,085</b>	<b>480,164,710</b>

	Rp'000
Fair value of net assets acquired (83.33%)	816,690,904
Total cost (US\$ 80,000,000)	(728,400,000)
Excess of the fair value of net assets acquired over acquisition cost	88,290,904
Reduction to fair value of nonmonetary assets acquired	(88,290,904)
Negative Goodwill	-

The excess of the fair values of the net assets acquired over the acquisition cost amounting to Rp 88,290,904 thousand was eliminated by reducing proportionately the fair values of the acquired real estate assets and property and equipment.

**27. RELATIONSHIP AND TRANSACTIONS WITH RELATED PARTIES**

**Nature of Relationship**

PT. Pakuwon Darma has partly the same management as the Company.

**Transaction with Related Parties**

In 2007, the Company purchased land from PT. Pakuwon Darma measuring 101,769 square meters in Kelurahan Kalisari, Surabaya amounting to Rp 21,269,721 thousand (including VAT 10%). As of June 30, 2008 payable arising from this transaction is presented as trade accounts payable (Note 9)

**28. COMMITMENTS**

- The Company entered into a build, operate and transfer (BOT) agreement with Bank Mandiri to construct a shopping center and an office building with its facilities in Tunjungan Plaza II/ Menara Mandiri..

The significant terms and conditions of the BOT agreement are as follows:

- The Company will construct a 35,130-square-meter-building (17-storey) to be called Tunjungan Plaza II/Menara Mandiri on 5,320 square meters of land owned by Bank Mandiri, located in Jalan Basuki Rachmad, Surabaya.
  - The agreement is valid for 20 years, starting from the handover of the land by Bank Mandiri, and will end on March 22, 2012.
  - Tunjungan Plaza II/Menara Mandiri will be owned by Bank Mandiri, but the bank will grant the Company the right to manage and operate Tunjungan Plaza II/Menara Mandiri for a period of 20 years.
- b. The agreements relating to the operations of Sheraton Surabaya Hotel & Towers are as follows:
- Management agreement with Indo Pacific Sheraton (IPS) Hongkong, to operate and manage the Hotel. As provided in the agreement, incentive fee in 2007 and 2006 shall be computed at 3% of Adjusted Gross Operating Profit ("AGOP"), as defined in the agreement, if Gross Operating Profit ("GOP"), as defined in the agreement, is less than 40%; or 4.25% of AGOP if GOP is equal to or higher than 40% of Total Revenues (TR), as defined in the agreement. The operating term of this contract commenced on June 30, 1996 and terminates on December 31, 2016.
  - Management support and service agreement with IPS Netherlands B.V. to manage and operate the Hotel. As provided in the agreement, management support and service fee shall be computed at 3% each of AGOP, if GOP is less than 40%; or 4.25% of AGOP if GOP is equal to or higher than 40% of TR. Since January 1, 2000, royalty fee shall be computed at 2% of TR. The operating term of this contract commenced on June 30, 1996 and terminates on December 31, 2016.

## **29. SUBSEQUENT EVENT**

On July 1, 2008 the Company reported the result of Extraordinary Stockholders General Meeting (RULBPS) to the Capital Market Supervisory Agency (Bapepam) and Indonesian Stock Exchange which was published by letter No Peng-02/BEI.PSJ/B/07-2008. It stated among others that the stockholders have agreed on the issuance 2,315,365,500 bonus shares arising from additional paid-in capital and a part of the revaluation increment in property and equipment as of December 31, 2007, at Rp 100 per share par value at 10:3 ratio. The issuance of bonus shares is effective on August 7, 2008.

\*\*\*\*\*