

Annual Report 2005

POLYSINDO EKA PERKASA 2005

PT POLYSINDO EKA PERKASA Tbk.

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Synthetics, Naturally

PT POLYSINDO EKA PERKASA Tbk.

Synthetics, Naturally

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Company Description

PT. Polysindo Eka Perkasa Tbk, established in 1984, is a leading polyester manufacturer in Indonesia. Its manufacturing operations span the entire polyester production chain from raw-materials to end products, ensuring quality and consistency. The upstream manufacturing facilities of fiber and filament yarn are located at two sites namely Karawang and Semarang. Its subsidiary Texmaco Jaya's downstream operations, consisting of weaving and finishing, are located at Karawang and Pemalang. Its current products include Purified Terephthalic Acid (PTA), Polyester chips, Polyester Staple Fiber, Polyester Filament Yarn and Fashion & Performance fabrics. The Company's products are marketed and sold both in domestic and international markets.

The following is the report on the business performance of PT. Polysindo Eka Perkasa Tbk in 2005. The term "Company" used throughout the report refers to PT. Polysindo Eka Perkasa Tbk and all its subsidiaries. The term "Polysindo" refers to PT. Polysindo Eka Perkasa Tbk as a stand-alone entity, while the term "Texmaco Jaya" refers exclusively to PT. Texmaco Jaya Tbk.

Financial Highlights

The following table sets forth the financial highlights of the Company for the years ended 31st December 2001 to 2005.

The Company's current auditors are Drs. Hendrawinata Gani & Rekan (Indonesian Member firm of Grant Thornton International).

(in million Rupiah)

	31 st December				
	2005	2004	2003 ⁽²⁾	2002	2001
Current Assets	987,166	909,390	1,094,019	1,852,064	2,156,570
Fixed Assets-Net	4,433,969	5,018,172	5,626,003	6,218,612	7,109,279
Total Assets	6,093,780	6,555,484	7,212,332	8,459,075	9,558,644
Liabilities	12,115,829	17,397,239	16,007,281	16,110,144	17,685,219
Equity	(6,022,047)	(10,841,755)	(8,794,950)	(7,651,069)	(8,126,575)
Net Sales	2,937,332	1,893,618	1,871,103	3,733,368	3,909,788
Gross Profit	(318,236)	(522,051)	(515,661)	(203,576)	(175,926)
Operating Profit	(578,353)	(819,264)	(914,102)	(721,794)	(744,391)
Net Income	(841,805)	(2,047,891)	(1,143,811)	477,401	311,707
Net Working Capital ⁽¹⁾	(10,474,620)	(15,992,349)	(14,415,784)	(13,689,670)	(14,922,843)
Profit per Share-Net Rp	(192)	(260)	(260)	109	71
Gross Profit Margin %	(11.0)	(27.6)	(27.6)	(5.45)	(4.50)
Net Profit Margin %	(28.7)	(108.1)	(61.1)	12.79	7.97
Return on Investment %	(13.8)	(31.2)	(15.9)	5.64	3.26
Return on Equity %	NA	NA	NA	NA	NA
Current Ratio X	0.1	0.1	0.1	0.1	0.1
Debt to Total Assets X	1.99	2.7	2.4	1.9	1.8
Debt to Equity X	(2.0)	(1.6)	(1.8)	(2.1)	(2.2)

Notes:

⁽¹⁾ Current Assets minus Current Liabilities

⁽²⁾ 2003 Figures have been restated by the Auditors in line with current Regulations

Message to Shareholders

Dear Shareholders,

The Indonesian economy was exposed to severe challenging circumstances throughout the year 2005. Although the year began with strong confidence in both the political and business sectors, the country is still grappling with high unemployment, high inflation rates and an anxious investment climate. One of the major challenges faced by the new administration is the upward movement of the International Crude Oil prices which started back in late 2003 and put a tremendous pressure on the 2005 state budget. The average price of OPEC Reference Basket Crude Oil for 2005 reached USD 50.64 per barrel, which represents a 40% increase from the 2004 figure. During the year the country became a net oil importer because of declining domestic supplies & sources.

In an attempt to relieve the escalating fiscal burden due to increases in oil prices, the Government of Indonesia raised the domestic fuel prices by 126% for retail consumption and approx. 50% for industrial consumption. As a consequence, the inflation rate increased from 6.4% in 2004 to 18.3% in 2005. Confronted with mounting inflationary pressure and the weakening Rupiah (from IDR 9290/ USD in end 2004 to IDR 9830/USD in end 2005 - depreciation of 5.8%), the Bank Indonesia (BI) increased the prime interest rates to 12.25% in December 2005 compared to 7.4% at the beginning of the year. Consequently these downward pressures have led to an economic slowdown to 5.5% in 2005 GDP growth.

Polyester Industry – Global and Domestic Scenario

The Polyester Staple Fiber and the Polyester Filament Yarn consumption world-wide have grown by 5.5% p.a. over the last 5 years and the total mill demand stood at 26.2 million MT in the year 2005. The polyester market share in 2005 escalated to 42% of total fiber demand. The year 2005 witnessed high volatility in the feedstock prices. With steep increases in crude oil price, the feedstock also followed suit by remaining firm on pricing. With an increased demand for feedstock from China market, PX and MEG supply remained tight. Moreover, with new PTA capacity additions in Asia starting Q4

2005, PX was expected to continue being in short supply during the year 2006 as well. MEG, on the contrary, was expected to ease off in the year 2006 on account of new expansions in MEG capacities during 2005/2006. The capacity additions and the major growth in the production of polyesters continue to happen in China and in India.

The Polyester margins were under pressure as the full impact of the raw-material prices could not be absorbed by the downstream textile chain in Indonesia. Coupled with the rising inflationary pressures and the cheap imports from China in this post quota regime, Indonesian downstream textile companies are grappling with lower capacity utilization and some even faced the threat of closure. Another major problem faced by the domestic textile manufacturers are the ageing machinery and a lack of modernization and upgrades. The Government of Indonesia is seriously considering funding the downstream textile manufacturing modernization program which is essential to revive the downstream textile sector and also to improve its competitiveness. However the total textile exports from Indonesia in year 2005 was USD 8.1 billion which was higher than USD 7.3 billion achieved in the year 2004.

Given the post quota regime and the consequent dominance of China in the global textile trade, various US industry groups have called on the U.S Administration to invoke special safeguard provisions (included in China's WTO accession package) that would enable the United States to restrict import of certain Chinese products deemed harmful to US industries. U.S producers of textile and apparel products have been particularly vocal over the competitive pressures from China, especially since U.S. textile and apparel quotas on Chinese goods were eliminated in January 2005. According to the U.S. Commerce department, China is the United States' largest foreign supplier of textiles and apparels, accounting for one-third of total imports in 2005 (or USD 16.8 billion). U.S textile and apparel imports from China were 43.7% higher than they were in 2004 (compared with an 8.3% growth in total U.S imports of these products from the world). The sharp rise in textile and apparel imports from China led the U.S Administration to seek an agreement with China to limit the levels of its textile and apparel exports to the U.S. On November 8, 2005, China agreed to restrict various textile and apparel exports to the United States (according to specified quota levels) from January 2006 through the

end of 2008, Similarly, the European Union has also got into an agreement with China restricting the imports of textile and apparel products from China. **This has given a new window of opportunity for countries like Indonesia to increase the trade share especially vis-à-vis the United States and the European Union.**

Company's Performance

In the year 2005, the Company continued to operate on pre-financing facilities and tolling arrangement provided by the customers. Even though the Company was complying with the Court's proceedings with regard to the Bankruptcy ruling in February 2005, the operations of the Company continued, at around 55% capacity utilization, with the support of loyal customers and suppliers. This was possible due to the excellent relationship the Company built with the customers and suppliers over the past many years. This enabled the Company to sustain its economic value of assets and maintain its labor force in tact. Despite this abnormal situation, the Company could achieve an increase of 55% growth in net sales. The Company also aggressively pursued the cost saving measures which resulted in a positive cash profit position in the year 2005.

The Company was declared bankrupt in February 2005 on the basis of the bankruptcy petition filed by one of the unsecured creditors of the Company PT. Bahana Pembinaan Usaha Indonesia. During the bankruptcy proceedings, the Company held several rounds of discussions with the unsecured creditors to formulate an acceptable financial restructuring plan for the Company with a view to restore the normal operations. In the process, the Company had been in constant dialogues with the informal committees representing the unsecured creditors and solicited the expert advice from independent financial advisors to arrive at a workable proposal beneficial to all the stakeholders. The Company had simultaneously taken efforts to maintain the credibility established with both its trade and financial creditors, customers and other business associates. The Company had submitted the final restructuring plan (Composition Plan –CP) which was approved with an overwhelming majority voting by the unsecured creditors. As a result, the Company came out of bankruptcy. The Investor group, who are also holding a substantial portion of the debts of the Company have started providing cash working

capital as per the terms of the Composition Plan. They have also started providing Letter of Credit facility to procure raw-materials in order for the Company to improve the capacity utilization, production and sales. The Company has also submitted Secured Debt Restructured Proposal to its secured creditors which is under discussion and review by the secured creditors. The secured creditors are not bound by the plan approved in Court and therefore need to give specific approval to the Company for its debt/equity conversion.

In the downstream operations of Texmaco Jaya, while the fashion fabric division remained closed due to non-availability of working capital, the performance fabrics division continued to operate at a lower capacity utilization rate.

The Independent Auditors have expressed disclaimer opinion on the financials of the Company for the year ended 31st December 2005. The shares of the Company remain suspended from trading in the Stock Exchange during the year. However, based on the progress on the restructuring plan, the Stock Exchange has lifted the suspension of the trading with effect from 4th July 2006 .

Outlook for the future

The Government of Indonesia has projected a very positive economic outlook for the year 2006 with an estimated GDP growth of 5.0-5.7%, driven mostly by the strong domestic consumption and easing out of inflation to 7-9%. With the growth of polyester demand at around 6%, and with increasing applications and share of polyester in the total fiber demand, the industry is expected to perform well in the coming years. However, the margins would continue to be under pressure with increases in raw-material prices and manufacturing costs. Margins, to a large extent, would depend upon how much of these cost increases could be passed onto the downstream operations of the textile industry and also on aggressive cost saving measures pursued by the Company.

The Company is taking necessary corporate action to implement the Composition Plan as approved by the creditors. Moving forward, the debt and the interest charges would be brought to a very sustainable level with the debt-equity conversion and a lower rate of interest as per the Composition Plan. With the availability of adequate working capital facilities and the required funding for the up gradation of plant and equipment the Company will be in a position to tie up strategic sourcing arrangements for its raw material needs and also to optimize its production capabilities. Upon successful completion of the restructuring process, the Company will be poised to re-emerge as one of the leading Polyester manufacturers and marketers in this region.

We would like to take this opportunity to place on record our sincere gratitude to our Shareholders, Customers, Suppliers, Bankers, Creditors and Employees who continue to support and stand by the Company during this current phase of implementation of the restructuring process.



V. Ravi Shankar
President Director



Slamet Nugroho
President Commissioner

MANAGEMENT

Commissioners and Directors

In accordance with its Articles of Association, Polysindo is managed by a Board of Directors under the supervision of a Board of Commissioners. The members of the Board of Commissioners and the Board of Directors are chosen and appointed by the shareholders of Polysindo at the Annual General Meeting. The Articles of Association permit the President Director to act alone, or where the President Director is unable to act, any two directors to represent and act on behalf of the Board of Directors.

The Current members of the Board of Commissioners of Polysindo are as follows:

Name	Age	Principal Occupation
Slamet Nugroho, MBA	64	President Commissioner of Polysindo since 2001. Director of PT Ungaran Sari Garments, PT Citra Abadi Sejati and PT Busana Perkasa Garment,
K.H Sivasubramanian	59	Commissioner of Polysindo since 2002. Mr. Siva, a Chartered Accountant, has been with Polysindo since 1978. Prior to joining Polysindo, Mr Siva worked with Ford Rhodes & Parks (India) and Dunlop (India) Ltd.
Timbul Thomas Lubis SH, LL.M	54	Commissioner of Polysindo since 1990, Partner of Lubis Ganie & Surowidjojo Lawyer Firm since 1982. Mr Lubis is a graduate of University of Indonesia and Washington University.

The Current members of the Board of Directors of Polysindo are as follows:

Name	Age	Principal Occupation
V. Ravi Shankar	43	<p>President Director of Polysindo since 2002. Mr. Ravi is a graduate of Production Engineering.</p> <p>He has also completed his Advanced Management Programme from University of Harvard in 2004.</p> <p>Prior to joining Polysindo, Mr. Ravi has managerial experience in Textile and Machinery manufacturing both in India and in Indonesia.</p>
Masjhud Ali, MBA	65	<p>Mr. Masjhud Ali is a graduate of Trisakti University.</p> <p>Director of Polysindo since 2002.</p> <p>Director of PT Bank Pembangunan Indonesia (Bapindo) from 1991 to 1994.</p> <p>Director of PT Bank Putera from 1995 to 2000.</p>
S. Jegatheesan	57	<p>Mr Jegatheesan, a graduate in Electrical Engineering, has been with Polysindo since 1989.</p> <p>Director of Polysindo since 2002. ,</p> <p>General Manager of PT Texmaco Taman Synthetics – 1978 to 1988.</p> <p>Project Manager for an Engineering Company in India – Prior to 1978..</p>

Management Report

An Overview of the Polyester Industry

The year 2005, overall, has witnessed a reasonable growth performance of the polyester industry despite the volatility in crude oil prices and feedstock supplies.. The raw-materials (PX and MEG) prices fluctuated and increased in the first semester but however, softened by the second semester of the year 2005. It is estimated that the polyester industry will grow by 6% per annum in the coming years due to an increase in the per capita consumption of fabrics and newer applications of polyester. In Indonesia, the value of textile exports in the year 2005 was USD 8.1 billion as against USD 7.3 billion in the year 2004. However, the downstream textile industry in Indonesia was severely affected by the increases in the fuel & electricity costs and this has led to a lowering demand of raw materials from this sector in Indonesia.

Polysindo continued to operate at around 55% capacity utilization rate in the year 2005 with the pre-financing support from its customers.

PTA (Purified Terephthalic Acid) & Polymer

The production of PTA in the year 2005 was higher than the production in the year 2004. The capacity utilization was around 72% as there was a good demand in the export market besides the increasing internal requirement for polyester production. The Polymer production was higher by 46% in the year 2005 over the year 2004.

Staple Fiber

The staple fiber production in the year 2005 was higher than in the year 2004 level by 29%. The fiber division continued to operate at a lower capacity level as it was operating with only pre-financing support from the customers.

Filament Yarn

The Company achieved an increase of 28% in production of filament yarn in the year 2005 as compared to the year 2004. The capacity utilization was around 50% during the year 2005 as it was operating only with pre-financing facility provided by the customers.

Fashion Fabrics/Performance Fabrics

The Fashion Fabrics Division suspended its operations with effect from September 2004 due to non-availability of working capital. The employees of the division were retrenched.

The Performance Fabrics division was operating at a low capacity due to shortage of working capital.

Product Range

The Company's product range includes :

Product	Type	Utilization
1. PTA (Purified Terephthalic Acid)		Manufacture of Polyester Chips
2. Polyester Chips	Semi-Dull Super Bright Cationic Dye able Optical Bright	Polyester Filament yarn/ staple fiber Filament yarn/ staple fiber Filament yarn Polyester staple Fiber Filament yarn
3. Polyester Staple Fiber	Normal Dope Dyed	Spun Yarn Non Woven Fiber Fill Spun yarn/ Dope dyed yarn
4. Polyester Filament Yarn	Normal Dope Dyed Cationic Micro filament Hi filament Differential Shrinkage	Tailored Clothing – Formal and Casual Automotive textiles Upholstery Home furnishings Technical fabrics Light luminous fabrics for sportswear Apparel fabrics with mélange effect. Super fine apparel fabrics with cotton tencel feel Fine apparel fabrics Fine apparel fabrics
5. Fabrics	Dress Material Suiting Material High performance Fabrics	High quality ladies wear Men's wear Outdoor wear, Winter clothing active wear, sportswear, children's wear

Marketing and Distribution

The Company's attention continued to be focused on its overseas markets and distribution chain, while at the same time extending its reach into the domestic market. The company was able to maintain its important market segments and customers by a mix of pre-financing and contract manufacturing arrangements entered into with its customers. The company was able to establish new markets in China in respect of its PTA. The company also continued to maintain its market share in South America.

Human Resources

Polysindo has retained its key human resources through these difficult times. The total number of Employees on roll is 2240 in Semarang Plant and 1050 in Karawang Plant . The Company has entered into a new collective labor agreement with its employees union during the year 2005 and maintaining cordial relationship with them.

Due to the suspension of operations at Texmaco Jaya at Pemalang and Karawang, the staff and workers were retrenched and the compensation payable to its workers was provided for in the accounts.

Environment

The Company is fully compliant to all applicable environmental standards of Indonesia with Badan Pengendali Lingkungan (Bapedal) as its regulating authority.

Location and Type of Assets worth More Than 5% of Total Assets

The Company has certain assets whose value exceeds 5% of the company's total assets. For Polysindo, these assets, which essentially consist of land, machinery and buildings, including the PTA Plant, its Polymer facilities, fiber line and yarn equipment, are located in two manufacturing facilities in Kaliwungu, in Central Java and Karawang, in West Java. For Texmaco Jaya, the assets are located in Karawang, in West Java and in Pemalang in Central Java. They include land, buildings and machinery, including weaving looms, preparatory, finishing and other textile machinery.

Hypothecated Fixed Assets

Polysindo has production facilities at Karawang and Kaliwungu. The land totaling 15.9 hectares, buildings, plant and equipment and located in Kaliwungu facilities are hypothecated to IBRA (Indonesian Bank Restructuring Agency). The production facilities at Karawang, are secured to the Company's Guaranteed Secured Notes and Floating Rate Notes.

Dividend Policy

Polysindo has historically paid annual dividend after the approval of the Company's shareholders at the Annual General Meeting of the shareholders.

The Company's policy is to recommend an annual dividend of 15% of net income, if the net income is less than Rp. 5 billion; an annual dividend of 20% of net income, if the net income is more than Rp. 5 billion but less than Rp. 25 billion; and annual dividend of 30% of net income, if the net income is more than Rp. 25 billion. The Directors may also declare an interim dividend if the financial position of the Company so permits, provided that such interim dividends shall be offset against any annual dividends subsequently declared by the Company for that period.

However in view of the current financial situation, Polysindo did not declare any dividend in the year 2005.

Stock Price Performance

		1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter
2004					
Highest	(Rp)	65	60	60	65
Lowest	(Rp)	25	60	60	40
Volume	(Shares)	1,061,000	-	-	1,399,500
2005					
Highest	(Rp)	45	45	45	45
Lowest	(Rp)	45	45	45	45
Volume	(Shares)	0	0	0	0

Financing Activities & Restructuring Status

The unsecured debts of the Company were restructured as the majority of the creditors voted in favor of the Composition Plan submitted by the Company. As a result of this, the Company came out of the bankruptcy and the Composition Plan was approved and ratified by the Jakarta Commercial Court on November 16th 2005. The Company has also submitted the Secured Debt Restructure Proposal (SDRP) to its secured creditors. The majority of the secured creditors have approved the restructuring proposal.

The Investor group, who are also holding a substantial portion of the debts of the Company have started providing cash working capital as per the terms of the Composition Plan. They have also provided Letter of Credit facility to procure raw-materials. This will considerably improve the operation of the Company going forward.

The Company has four subsidiaries: PT Texmaco Jaya Tbk (Texmaco Jaya); Polysindo International Finance Company B.V. (Polysindo Finance); Polysindo Mauritius Ltd and PT Eastindo Polyemertama.(Eastindo).

PT. Texmaco Jaya Tbk (Texmaco Jaya)

Texmaco Jaya's production facility consists of weaving, knitting, dyeing and finishing of Fashion Fabrics and Performance Fabrics. The Fashion Fabric division is not in operation due to lack of working capital. Polysindo owns 92% shares of Texmaco Jaya.

Polysindo International Finance Company B.V (Polysindo Finance) and Polysindo (Mauritius) Ltd.

Polysindo International Finance B.V. and Polysindo (Mauritius) Ltd. are wholly owned subsidiaries of PT. Polysindo Eka Perkasa Tbk and acts as financing vehicles for the Company. The double taxation treaty between Indonesia and Mauritius has currently expired. In view of this, the company is intending to wind up Polysindo (Mauritius) Ltd.

PT. Eastindo Polymertama (Eastindo)

Eastindo has not engaged in any manufacturing activity, hence the Company intending the wind up PT Eastindo Polymertama. .

Management Discussion and Analysis

Overview

The revenue of the Company is from the sale of filament yarn, staple fiber, polyester chips and performance fabrics in the domestic and export markets. The total sales in the year 2005 were more than in the year 2004 due to higher volume of production and sales of polyester chips, filament yarn and staple fiber. The Company continued its operations despite without formal working capital facility, with the pre financing support from the customers. The Rupiah depreciated in the year 2005 and closed at Rp. 9,830/ US \$ as compared to Rp 9.290/USD in 2004.

Results of Operation

Sales Revenue

In year 2005 the net sales were Rp. 2,937.3 billion as compared Rp. 1,893.6 billion in year 2004, registered an increased of 55,1%. This increase was due to a higher volume of production and sales of PTA, polyester chips, filament yarn, staple fiber and performance fabrics. However, the fabric division of the subsidiary was not in operation due to total lack of working capital.

The export sales were Rp 1,613.3 billion or 54.9% of the net sales and domestic sales were Rp 1,324.0 billion or 45.1% of the net sales.

The other operating revenue in year 2005 was Rp 67.2 billion realized through job work, sales of indirect material and waste material.

Gross Profit/(Loss)

The Company posted a gross loss of Rp. 318.2 billion in the year 2005 as compared to Rp. 522.1 billion in the year 2004. The slide in gross loss has been arrested by the improving utilization rates in 2005.

Operating Profit / (Loss)

The operating loss in year 2005 was Rp.578.4 billion compared to Rp. 819.3 billion in year 2004. The selling, general and administrative overhead in the year 2005 was Rp.260.1 billion as compared to Rp.297.2 billion in the year 2004. The operating loss was due to gross loss situation.

Net Loss

The Company posted a net loss of Rp.841.8 billion in the year 2005 compared to Rp.2.047.9 billion in the year 2004. The net loss in the year 2005 was due to exchange loss of Rp.331.3 billion in addition to the operating loss situation. The exchange loss was due to depreciation of Rupiah vis-à-vis US dollar by 5.8% in the year 2005.

Auditors Opinion

The independent accountants have expressed disclaimer opinion on the financials of the Company for the year ended 31st December 2005. The disclaimer opinion was mainly due to the net loss situation, negative working capital position and capital deficiency position.

Business Risks

Economic Scenario

In year 2005, the Rupiah depreciated vis-à-vis USD by 5,8%. However, the depreciation of Rupiah in the year 2005 was lower as compared to 9,7% in the year 2004. Since the end of 2005, the county has witnessed Rupiah strengthening vis-à-vis US Dollar and is around Rp 9,200 per US Dollar level as against the level of Rp 9.830 per US Dollar in end of 2005. It is expected that political stability will remain and continue. The inflation rate sky rocketed in the year 2005 as the Government has reduced substantially the subsidy in the fuel and electricity. Any increase in the above costs have to be absorbed by the market to remain profitable which is solely driven by the micro economic condition of demand and supply of polyester products and markets..

Debt Restructuring

The unsecured debts of the Company were restructured as the majority of the Creditors voted in favor of the Composition Plan submitted by the Company. As a result of this, the Company came out of bankruptcy and the Composition Plan was approved and ratified by the Jakarta Commercial Court on November 16th 2005. The Company has also submitted the Restructuring Proposal to the A Secured Creditors (SDRP). The majority of the Secured Creditors have approved the restructuring proposal.

The debt restructuring involves conversion of substantial portion of the principal amount into the equity shares, waived of part interest, repayment of principal amount over 9 years, reduced of interest going forward. With this the Company is confident of reducing the debts to very sustainable levels of reasonable servicing rates of interest.

The Investor group who are also holding a substantial portion of the debts of the Company have started providing cash working capital as per the terms of the Composition Plan. They have also started providing Letters of Credit facilities for the procurement of raw-materials in order that the Company can increase the capacity utilization, production and sales. This will considerably improve the operations of the Company.

Corporate Information

Date of Incorporation

February 15th, 1984

Listing on the Jakarta and Surabaya Stock Exchange

1. Public Offering in February 1991
Partial Listing of 24,000,000,000 shares on 12 March 1991 on the Jakarta and Surabaya Stock Exchanges.
2. Company Listing in January 1992.
Company listed 68,000,000 shares on 3 January 1992 on the Jakarta and Surabaya Stock Exchanges. The Company's total number of listed shares was 92,000,000.
3. Rights Issue Offering in October 1993
Between November 1, 1993 and January 3, 1994, the Company launched the first Rights Issue Offering of 184,000,000 shares. After the rights issued, the number of issued shared shares of the company totaled to 276,000,000.
4. Stock Splits in March 1995.
With the stock splits on 27 March 1995 respectively, a total of 552,000,000.
5. Bonus issue and dividend shares in April 1995.
On 12 April 1995 and 17 April 1995 respectively, a total of 552,000,000 bonus and dividend share were listed on Jakarta and Surabaya Stock Exchanges. The total number of listed on both Jakarta and Surabaya Stock Exchanges amounted to 1,104,000.
6. Rights Issue Offering II in June 1996
With the second Right Issue Offering on 10 June 1996, 1,104,000,000 shares were listed on Jakarta and Surabaya Stock Exchanges, which gives a total of 2,208,000,000 shares listed on the Stock Exchange Houses.
7. Rights Issue Offering III in December 1997
The third Rights Issue Offering on 24 December 1997 launched a sum of 2,185,920,000 shares on Jakarta and Surabaya Stock Exchanges. Thus, after the completion of rights Issue III, the Company's total number of listed shares is 4,393,920,000.

Total Structure as of 31 December 2005

4,393,920,000

Capital Structure as 31 December 2005 :

Authorized Capital	Rp. 8,500,000,000,000
Nominal Vale per share	Rp. 500
Paid-up Capital	Rp. 2,196,960,000,000

Shareholders

PT. Multikarsa Investama*	59.81%
Public	40.19%

* Shares transferred by PT. Multikarsa Investama to PT. Bina Prima Perdana under IBRA restructuring. Registration with Jakarta Stock Exchange yet to be completed.

Board of Commissioners

President Commissioner	Slamet Nugroho
Commissioner	K.H Sivasubramanian
Independent Commissioner	Timbul T. Lubis, SH, LLM

Board of Directors

President Director	Vasudevan Ravi Shankar
Director	Drs. Masjhud Ali, MBA
Director	Seeniappa Jegatheesan

Company's Activities

Engaged in the production of PTA, Polymer, Polyester Fibre & Filament Yarn and Synthetic fabrics.

Production Capacity as of 31 December 2005

Purified Terephthalic Acid (PTA)	340.000 ton/year
Polyester Chips	330.400 ton/year
Polyester Staple Fiber	140.000 ton/year
Polyester Filament Yarn	140.000 ton/year
Fabric	78.000.000 yard/year

Representative Office

Sentra Mulia Suite 1001, 10th Floor
Jl. H.R. Rasuna Said Kav. X-6 No. 8
Jakarta 12940
Tel : (62-21) 522-9390
Fax : (62-21) 522-9220/ 522-9411

Registered Office

Desa Nolakerto
Kecamatan Kaliwungu, Kendal
Tel : (024) 8660272
Fax : (024) 8660275

Manufacturing Facilities**Plant 1 :**

Kiara Payung Vilage,
Klari District, Karawang
West Java - Indonesia
Tel : (0267) 431971
Fax: (0267) 431975

Plant 2 :

Jl. Raya Kaliwungu Km. 19
Kendal, Semarang
Central Java - Indonesia
Tel : (024) 8660272
Fax : (024) 8660275

Share Registrar

PT. Datindo Entrycom
Wisma Dinners Club Anex
Jl. Jend. Sudirman 34-35
Jakarta 10220

Registered Public Accountant

Drs. Hendrawinata Gani & Rekan
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Wisma Dharmala Sakti 18th Floor
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Jakarta 10220, Indonesia
Tel : (62-21) 5707997
Fax : (62-21) 5707996

The Annual Report is signed by the Boards Of Commissioners and Directors of
PT. Polysindo Eka Perkasa Tbk.



Slamet Nugroho
President Commissioner



Vasudevan Ravi Shankar
President Director



K.H Sivasubramanian
Commissioner



Drs. Masjhud Ali MBA
Director



Timbul Thomas Lubis, SH LLM
Independent Commissioner



Seeniappa Jegatheesan
Director

**INDEPENDENT AUDITOR
REPORT**

Consolidated Financial Statements and
Independent Auditor's Report
PT Polysindo Eka Perkasa Tbk and
Subsidiaries
December 31, 2005 and 2004

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No : PEP/02/JR/05

Independent Auditor's Report

**Directors, Commissioners and Stockholders
PT POLYSINDO EKA PERKASA Tbk**

We have audited the accompanying consolidated balance sheets of PT Polysindo Eka Perkasa Tbk and Subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, consolidated statements of changes in equity (deficiency) and consolidated statements of cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

The accompanying consolidated financial statements have been prepared assuming that the Company and Subsidiaries will continue to operate as a going concern. As discussed in Note 2 to the consolidated financial statements, in February 2005 the Company was declared bankrupt, but the Supervisory Judge has allowed the Company to continued its operations by getting pre-finance from the customers and suppliers. Currently, the Company is taking requisite corporate actions towards the implementation of the Composition Plan (Peace Plan) as approved by the unsecured creditors of the Company and ratified by the Commercial Court on November 16, 2005. Accordingly, the total unsecured loans to the unsecured creditors are US\$ 18,670,630 and the remaining balance of US\$ 611,978,596 represents shares which will be issued by the Company to the unsecured creditors. New notes and shares have not been issued yet by the Company. Also the Company is engaged in discussion on debt restructuring with the secured creditors. Besides, the operation of Subsidiary (TJ) is only fleece division, while, the operations of fabric division were suspended due to the paucity of working capital. Consequently, the Company and its Subsidiaries have experienced recurring net loss of Rp 841 billion for the year ended December 31, 2005, and have a negative working capital of Rp 10,499 billion and a capital deficiency of Rp 6,022 billion as of December 31, 2005. Those conditions raise substantial doubts about the Company's ability to continue as going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Most of the confirmation replies on trade receivables; due from related parties; trade payables; due to related parties; short term loans; notes payables; guaranteed secured and unsecured notes, and leasing transaction are not obtained. In addition, the allowance for doubtful accounts on trade receivables from related parties and due from related parties of Rp 141 billion and Rp 55 billion as of December 31, 2005 and Rp 135 billion and Rp 55 billion as of December 31, 2004 were understated or inadequate to cover possible losses on uncollectible receivables.

Because of the significance of uncertainties as described in the preceding paragraphs, we are unable to express, and we do not express, an opinion on the 2005 and 2004 consolidated financial statements.



Renie Feriana, BAP
Registered Accountant No. D – 22.500
License No. 03.1.086

March 24, 2006

RF/gk

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

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2005 and 2004

A S S E T S

	Notes	2 0 0 5	2 0 0 4
		Rp	Rp
CURRENT ASSETS			
Cash and cash equivalents	3c,4,42	14,942,841,432	10,436,726,012
Trade receivables, net after allowance for doubtful accounts of Rp 197.894.392.956 in 2005 and Rp 188,608,445,689 in 2004	3d,5,41,42	89.779.291.244	82,624,479,776
Third parties		445.501.255.933	431,941,749,920
Related parties			
Other receivables, net after allowance for doubtful accounts of Rp 878,647,275 in 2005 and 2004	6,42	4,226,663,868	10,676,294,559
Inventories, net after provision for inventory obsolescence of Rp Nil in 2005 and 2004	3e,7	256,661,927,877	271,542,784,766
Purchase advances		17,505,705,203	15,142,566,098
Prepaid taxes	3m,19a	146,359,769,354	86,226,510,587
Prepaid expenses		12,188,555,607	798,821,984
Total current assets		987,166,010,518	909,389,933,702
NON-CURRENT ASSETS			
Due from related parties	8,41,42	613,165,329,298	576,906,741,292
Deferred tax assets	3m,19d	32,795,556,045	25,143,076,084
Restricted cash in banks	9,42	18,198,820,024	17,604,827,946
Fixed assets, net after accumulated depreciation of Rp 6.293.412.651.957 in 2005 and Rp 5,706,476,290,559 in 2004	3f,g,10,41	4,433,968,860,082	5,018,171,694,345
Advances for investment in a joint venture	11	5,914,525,920	5,914,525,920
Other assets	12	2,571,091,254	2,353,552,646
Total non-current assets		5,106,614,182,623	5,646,094,418,233
TOTAL ASSETS		6,093,780,193,141	6,555,484,351,935

The accompanying notes to consolidated financial statements are an integral part of the consolidated financial statements

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Continued)
December 31 2005 and 2004

LIABILITIES AND EQUITY (DEFICIENCY)

	Notes	2005	2004
		Rp	Rp
CURRENT LIABILITIES			
Secured Debts	3,41,42	9,693,579,929,112	–
Short term loans	14,41	337,530,043,298	3,214,629,322,765
Notes payable	15	195,693,155,048	4,240,120,028,701
Guaranted Secured and Unsecured Notes	16	–	6,344,037,935,122
Trade payables	17,41,42		
Third parties		211,873,294,852	218,721,085,806
Related parties		68,447,032,488	59,456,254,206
Liabilities for purchase of fixed assets	18,41,42	299,581,538	283,124,363
Taxes payable	3m,19b	84,997,139,933	129,028,195,881
Accrued expenses	20,41	684,405,486,661	2,571,962,474,889
Current maturity of obligation under capital lease	3g,24,42	42,328,270,370	63,242,132,807
Other current liabilities		142,631,694,613	60,258,172,751
Total current liabilities		11,461,785,627,913	16,901,738,727,291
NON-CURRENT LIABILITIES			
Unsecured Debts and Notes Payable	21	183,532,292,495	–
Working capital loan	22	24,575,000,000	–
Due to related parties	23,41	16,738,165,885	18,502,658,261
Deferred tax liabilities	3m,19d	380,979,192,408	409,143,305,162
Obligation under capital lease	3g,24,41	736,683,202	9,242,115,811
Provision for employee entitlement	3j,29	47,480,243,118	58,612,414,940
Total non-current liabilities		654,041,577,108	495,500,494,174

The accompanying notes to consolidated financial statements are an integral part of the consolidated financial statements

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Continued)
December 31 2005 and 2004

LIABILITIES AND EQUITY (DEFICIENCY)

	Notes	2 0 0 5	2 0 0 4
		Rp	Rp
EQUITY (DEFICIENCY)			
Capital stock			
Authorized 17,000,000,000 shares at Rp 500 each			
Issued and paid-up 4,393,920,000 shares	25	2,196,960,000,000	2,196,960,000,000
Additional paid-in capital	3h,26	11,992,613,553	11,992,613,553
Advance for future stock subscription	27	5.660.802.013.000	–
Difference in the equity transactions of Subsidiaries	3h	(4,950,019,100)	(4,950,019,100)
Equity adjustment from translation	3l	13,425,213,178	12,713,963,518
Difference on restructuring among under Common control companies	1c	(221,924,188)	(221,924,188)
Retained earnings (accumulated deficit)			
Appropriated	30	8,280,000,000	8,280,000,000
Unappropriated		(13.908.334.908.323)	(13,066,529,503,313)
Total equity (deficiency)		(6,022,047,011,880)	(10,841,754,869,530)
TOTAL LIABILITIES AND EQUITY (DEFICIENCY)		6,093,780,193,141	6,555,484,351,935

**The accompanying notes to consolidated financial statements are an integral part
of the consolidated financial statements**

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
For the years ended December 31, 2005 and 2004

	Notes	2005	2004
		Rp	Rp
OPERATING REVENUES			
Net sales	3k,33,41	2,937,331,666,538	1,893,618,322,096
Other operating revenues	3k,34,41	67,213,050,520	76,714,764,921
Total operating revenues		3,004,544,717,058	1,970,333,087,017
COST OF GOODS SOLD			
	3k,35,41	(3,322,780,968,389)	(2,492,384,567,136)
GROSS LOSS			
		(318,236,251,331)	(522,051,480,119)
OPERATING EXPENSES			
Selling expenses	3k,36	(141,912,079,074)	(73,501,578,535)
General and administrative expenses	3k,37	(118,204,508,018)	(223,711,118,926)
Total operating expenses		(260,116,587,092)	(297,212,697,461)
LOSS FROM OPERATIONS			
		(578,352,838,423)	(819,264,177,580)
OTHER INCOME (CHARGES)			
Interest income	39	49,231,149	105,782,515
Loss on sale of fixed assets		-	(9,469,139)
Interest expense and bank charges	38	(16,640,842,742)	(12,289,635,846)
Employee entitlement expense	2b,3j,29	(6,811,035,990)	(36,134,604,946)
Loss on foreign exchange, net	31	(331,309,200,125)	(1,237,971,645,137)
Insurance claim settlement	31	128,915,625	-
Miscellaneous income, net		53,889,975,781	16,975,215,761
Total other charges, net		(300,692,956,302)	(1,269,324,356,792)
LOSS BEFORE INCOME TAX			
		(879,045,794,725)	(2,088,588,534,372)
TAX INCOME (EXPENSE)			
Current period	3m 19e	-	-
Deferred	19e	35,816,592,715	40,697,257,949
Total tax income		35,816,592,715	40,697,257,949
LOSS FROM NORMAL ACTIVITIES			
EXTRAORDINARY ITEM	3p,40	(843,229,202,010)	(2,047,891,276,423)
		1,423,797,000	-
NET LOSS			
		(841,805,405,010)	(2,047,891,276,423)
BASIC NET LOSS PER SHARE			
	3n,32	(192)	(466)

The accompanying notes to consolidated financial statements are an integral part
of the consolidated financial statements

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2005 and 2004

	Notes	Capital stock	Additional paid-in capital	Advance for future stock subscription	Difference in the equity transaction of subsidiaries	Equity adjustment from translation	Difference on restructuring among under common control companies	Retained earnings (accumulated deficit)		Total equity (deficiency)
								Appropriated	Unappropriated	
								Rp	Rp	
Balance as of December 31, 2003		2,196,960,000,000	11,992,613,553	-	(4,950,019,100)	11,627,332,093	(221,924,188)	8,280,000,000	(11,018,638,226,890)	(8,794,950,224,532)
Equity adjustment from translation	31	-	-	-	-	1,086,631,425	-	-	-	1,086,631,425
Net loss for the period		-	-	-	-	-	-	-	(2,047,891,276,423)	(2,047,891,276,423)
Balance as of December 31, 2004		2,196,960,000,000	11,992,613,553	-	(4,950,019,100)	12,713,963,518	(221,924,188)	8,280,000,000	(13,066,529,503,313)	(10,841,754,869,530)
Equity adjustment from translation	31	-	-	-	-	711,249,660	-	-	-	711,249,660
Advance for future stock subscription		-	-	5,660,802,013,000	-	-	-	-	-	5,660,802,013,000
Net loss for the period		-	-	-	-	-	-	-	(841,805,405,010)	(841,805,405,010)
Balance as of December 31, 2005		2,196,960,000,000	11,992,613,553	5,660,802,013,000	(4,950,019,100)	13,425,213,178	(221,924,188)	8,280,000,000	(13,908,334,908,323)	(6,022,047,011,880)

The accompanying notes to consolidated financial statements are an integral part of the consolidated financial statements

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2005 and 2004

	Notes	2005	2004
		Rp	Rp
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		1,645,283,598,757	1,325,507,247,919
Cash paid to suppliers		(1,387,310,901,678)	(990,428,972,457)
Cash paid to directors and employees		(90,696,002,395)	(120,229,904,521)
Other operating cash receipts and payments, net		(231,281,290,337)	(196,647,255,407)
Cash generated from (used in) operations		(64,004,595,653)	18,201,115,534
Interest received		49,231,149	103,649,041
Interest expense and bank charges paid		(3,612,615,613)	(12,774,468,352)
Cash receipts from insurance claim settlement		186,819,095	–
Payments of income tax		(32,122,203,375)	(23,456,527,765)
Net cash used in operating activities		(99,503,364,397)	(17,926,231,542)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of fixed assets	10	–	155,358,000
Payment to acquire fixed assets		(1,898,284,680)	(29,500,000)
Increase in other assets		–	(36,313,726)
Net cash provided by (used in) investing activities		(1,898,284,680)	89,544,274

**The accompanying notes to consolidated financial statements are an integral part
of the consolidated financial statements**

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
For the years ended December 31, 2005 and 2004

	Notes	2005	2004
		Rp	Rp
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of short term bank loans		–	(13,388,822)
Payment of obligation under capital lease		(1,302,401,267)	(4,536,550,769)
Receipt (payment) of due to related parties		2,071,746,330	267,136,705,556
Payment (receipt) of due from related parties		12,866,868,120	(253,040,060,195)
Receipt of working capital loan		24,700,000,000	–
Proceeds from pre-financing agreement		65,601,407,692	2,750,000,000
Net cash provided by financing activities		103,937,620,875	12,296,705,770
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
		2,535,971,798	(5,539,981,498)
EFFECT OF FOREIGN EXCHANGE RATE			
		1,970,143,622	3,249,306,048
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD			
	4	10,436,726,012	12,727,401,462
CASH AND CASH EQUIVALENTS AT END OF PERIOD			
	4	14,942,841,432	10,436,726,012
ADDITIONAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES :			
Acquired fixed assets direct acquisition through related parties payable and other current liabilities	10	495,098,463	1,951,274,453
Reclassification from assets under capital lease to fixed assets direct acquisition	10	453,900,000	–
Reclassification from lease deposit to fixed assets direct acquisition	10,12	302,600,000	–
Extraordinary item from restructured loans	40	1,423,797,000	–

The accompanying notes to consolidated financial statements are an integral part of the consolidated financial statements

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005 and 2004

1. GENERAL

a. Establishment and General Information

PT Polysindo Eka Perkasa Tbk (the Company) was established within the framework of the Domestic Capital Investment Law No. 6 year 1968 as amended by Law No. 12 year 1970 based on notarial deed No. 22 dated February 15, 1984 of Januar Tirtaamidjaja, SH, notary public in Jakarta. The deed of establishment was approved by the Minister of Justice of the Republic of Indonesia with decision letter No. C2-6107.HT.01.01.Th.84 dated October 26, 1984 and was published in Supplement No. 3247 of State Gazette No. 72 dated September 7, 1990.

The articles of incorporation have been amended several times. The most recent changes in the Company's articles of incorporation was affected by deed No. 100 dated December 27, 2002 of Aulia Taufani, SH, replacement of Sutjipto, SH, notary public in Jakarta, concerning issuance of the Company's new shares without pre-emptive rights in the framework of debt restructuring and concerning changes in the Company's authorized, issued and paid-in capital. The approval of Ministry of Justice and Human Rights for these changes is still in process.

In accordance with article 3 of the Company's articles of incorporation, the scope of the Company's activities are mainly to engage in the manufacturing of chemical and synthetic fiber, weaving and knitting, and other activities related to the textile industry. The Company is domiciled in Kendal, Central Java with its plants located in Kendal, Central Java and Karawang, West Java. The Company's head office is located in Sentra Mulia Building Suite 1001, 10th Floor, Jl. H.R. Rasuna Said Kav. X – 6 No. 8, Jakarta. The Company started its commercial operations in 1986. The Company's products are marketed both domestically and internationally, including Europe, United States of America, Asia and the Middle East.

The Company is one of the group of companies owned by Texmaco Group.

b. Public Offering of Shares and Notes Payable of the Company and its Subsidiaries

- On December 14, 1990, the Company offered 12,000,000 shares to the public through the Jakarta and Surabaya Stock Exchanges.
- On October 8, 1993, the Company obtained the notice of effectivity from the Chairman of the Capital Market Supervisory Agency (BAPEPAM) in his letter No. S-1738/PM/1993 for its limited offering of 184,000,000 shares through rights issue to stockholders. These shares were listed in the Jakarta and Surabaya Stock Exchanges on November 1, 1993.
- On December 15, 1994, the Company obtained the notice of effectivity from the Chairman of BAPEPAM in his decision letter No. S-2027/PM/1994 for the change of par value from Rp 1,000 to Rp 500 per share.
- On May 20, 1996, the Company obtained the notice of effectivity from the Chairman of BAPEPAM in his decision letter No. S-778/PM/1996 for its offering of 1,104,000,000 shares through rights issue II to stockholders. These shares were listed in the Jakarta and Surabaya Stock Exchanges on June 10, 1996.

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

1. **GENERAL** (Continued)

b. Public Offering of Shares and Notes Payable of the Company and its Subsidiaries (Continued)

- On December 11, 1997, the Company obtained the notice of effectivity from the Chairman of BAPEPAM in his decision letter No. S-2844/PM/1997 for its offering of 2,185,920,000 shares through rights issue III to stockholders. These shares were listed in the Jakarta and Surabaya Stock Exchanges on January 5, 1998.
- In 1994, the Company issued US\$ 125,000,000 Unsecured Senior Notes which are listed in Luxembourg. In 1996, the Company offered to the holders of the said unsecured notes to exchange their notes with US\$ 125,000,000 Guaranteed Senior Notes issued by PIFC with the Company as the guarantor. These notes were also listed in the Luxembourg Stock Exchange.
- In 1996, PIFC with the Company as the guarantor also issued US\$ 50,000,000 Secured Floating Rate Notes and US\$ 260,000,000 Guaranteed Secured Notes which were listed in the Luxembourg Stock Exchange.
- In 1997, PIFC with the Company as the guarantor issued US\$ 250,000,000 Guaranteed Secured Notes which were listed in the Luxembourg Stock Exchange.
- Prior to January 2000, the above notes were delisted from Luxembourg Stock Exchange.
- As of December 31, 2005 and 2004, all of the Company's outstanding shares totaling 4,393,920,000 shares respectively have been listed in the Jakarta and Surabaya Stock Exchanges. Beginning December 2004, the shares were suspended and it continued to be suspended due to the pendency of bankruptcy proceedings against the Company and the delay in submitting the required financial statements. The shares remained suspended eventhough the Company is out of bankruptcy. However, the Company is taking efforts to remove its suspension by submitting Company's future plan of actions

c. Consolidated Subsidiaries

The Company has ownership interest of more than 50%, directly or indirectly, in the following subsidiaries :

<u>Subsidiary</u>	<u>Domicile</u>	<u>Nature of Business</u>	<u>Commercial Operation</u>	<u>Percentage of Ownership</u>	<u>Total Assets</u>	
					2005 Rp (in million)	2004 Rp (in million)
PT Texmaco Jaya Tbk (TJ)	Karawang	Trading, weaving, knitting and processing	1972	92.00	553,333	602,251
PT Texmaco Graha Busana (TGB)-99% owned by TJ	Jakarta	Trading of textile, and producing ready to wear garments and accessories	1994	91.08	2,389	6,611
Polysindo International Finance Company B.V. (PIFC)	Netherlands	Financial services	1994	100.00	7,463,114	7,053,136

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

1. **GENERAL** (Continued)

c. Consolidated Subsidiaries (Continued)

<u>Subsidiary</u>	<u>Domicile</u>	<u>Nature of Business</u>	<u>Commercial Operation</u>	<u>Percentage of Ownership</u> %	<u>Total Assets</u>	
					2005 Rp (in million)	2004 Rp (in million)
Polysindo (Mauritius) Ltd. (PML)	Republic of Mauritius	Financial services	Pre-operating	100.00	-	-

In 2001, the Company had acquired 10,000 shares which represent 100% ownership at the amount of US\$ 10,000 in Polysindo (Mauritius) Ltd. The difference between acquisition cost and the net assets of PML amounted to Rp 221,924,188 was recorded as difference on restructuring among under common control companies account in the equity.

There were no transactions between the Company and Polysindo (Mauritius) Ltd during the year 2005 and 2004, and the Company has intention to close the operations of Polysindo (Mauritius) Ltd.

There was no transactions between the Company and Polysindo International Company BV during year 2005 and 2004 and the Company has intention to close the operations along with the restructure of the Company.

d. Employees, Directors and Commissioners

- The members of the Company's board of commissioners and board of directors as of December 31, 2005 and 2004 are as follows :

	2 0 0 5	2 0 0 4
Board of commissioners :		
President Commissioner	Mr. Slamet Nugroho	Mr. Slamet Nugroho
Commissioners	Mr. Kalpathi Hari Haran Sivasubramanian	Mr. Kalpathi Hari Haran Sivasubramanian
	Mr. Timbul Thomas Lubis SH (Independent Commissioner)	Mr. Timbul Thomas Lubis SH (Independent Commissioner)
Board of directors :		
President Director	Mr. Vasudevan Ravishankar	Mr. Vasudevan Ravishankar
Directors	Mr. Masjhud Ali Mr. Seeniappa Jegatheesan Mr. Bambang Luksiono Margoadi Soediby	Mr. Masjhud Ali Mr. Seeniappa Jegatheesan Mr. Bambang Luksiono Margoadi Soediby

Based on the Annual General Shareholders' Meeting of the Company on March 22, 2006, the shareholders approved the resignation of Mr. Bambang Luksiono Margoadi Soediby.

- The Company's total number of permanent employees as of December 31, 2005 and 2004 were 3,480 and 3,583 peoples respectively. The Subsidiaries' total number of permanent employees as of December 31, 2005 and 2004 were 613 and 940 peoples respectively.

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

2. GOING CONCERN, DEBT RESTRUCTURING AND ECONOMIC CONDITIONS

a. Going Concern

On October 27, 2004, PT Bahana Pembinaan Usaha Indonesia (PT BPUI) claimed the Company for bankruptcy to Commercial Court Jakarta Pusat. This claim was rejected by the Commercial Court based on its decision No.43/Pailit/2004/PN.Niaga/Jkt.Pst dated December 20, 2004. However, this claim was further accepted by the Supreme Court (Mahkamah Agung) through its decision No. 01K/N/2005 dated February 15, 2005 deciding the Company is under bankruptcy and canceling the Commercial Court Jakarta Pusat decision.

Although, the Company was declared bankrupt in February 2005, the Company has requested that the operations of the Company be continued for the following reasons :

1. By keeping the operations of the Company going, the machines can be reasonably maintained. Being a chemical company, the non operations will lead to corrosion of machinery which will ultimately affect the realizable value of the assets.
2. The existing labour force can be maintained. Any stoppage of the operations will lead to unemployment of huge work force resulting in social problem.
3. The customers and suppliers have reposed confidence in the Company which supplies basic raw materials for the textile industry. The stoppage of operations will create shortage of these materials in the market.

After a due consideration of all the above factors, the Supervisory Judge has allowed the Company to continue the operations vide letter No. 43/PAILIT/2004/PN.NIAGA.JKT. PST.JO.01 K/N/2005 dated March 17, 2005. The Company continued to get the pre finance facility from its customers or suppliers as before. This enabled the Company to keep the operations going even though at a lower capacity utilization levels.

On March 3, 2005 accompanied by memoir dated March 14, 2005, the Company issued a letter to the Supreme Court requesting Reconsideration (“Peninjauan Kembali”) for its bankruptcy decision. This reconsideration request is rejected by the Supreme Court based on its decision No. 04 PK/N/2005 dated May 18, 2005.

Further, The Company has submitted the final Restructure Proposal to its creditors vide No. 167-A/Pailit-Dir/X/2005. This was taken up for voting by the unsecured creditors on October 20, 2005. The majority unsecured creditors valuing around 85.7% voted in favour of the restructure proposal submitted by the company for the unsecured creditors. The ratification of the voting and the results will be given by the Commercial Court in November 16, 2005. With this the Company is out of bankruptcy. The investors have also shown interest in providing funds into the Company for the working capital in order that the Company can improve the capacity utilization and hence the profitability.

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

2. GOING CONCERN, DEBT RESTRUCTURING AND ECONOMIC CONDITIONS

a. Going Concern

In addition, the company's financial condition in 2005 showing the following :

- Net loss amounting to Rp 841,805,405,010
- Negative working capital amounting to Rp 10,499,194,617,395
- Capital deficiency amounting to Rp 6,022,047,011,880

As a result of matters described, there is significant uncertainty whether the Company and its Subsidiaries will be able to continue as a going concern and therefore whether they will realize their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the consolidated financial statements. The accompanying consolidated financial statements have been prepared on a going concern basis, and do not include any adjustment that might result from the outcome of this uncertainties. Related effects will be reported in the consolidated financial statements as they become known and can be estimated.

b. Debt Restructuring

Debt Restructuring – the Company

The following are the Salient features of the “Unsecured Restructure Proposal” of the Company :

- (i) Principal amount to be restructured to 2.961%.
- (ii) Interest and penalty will be waived.
- (iii) The restructured principle amount will be repaid over a period of 9 years.
- (iv) The unsecured creditors will get on equity of 19.2% of diluted equity shares of the Company.
- (v) The rate of interest will be 2% p.a. and going up to 4% p.a.

The Company has incorporated the restructure agreement with the unsecured creditors as approval by the Creditors and ratified by the Court. Accordingly, the total unsecured loans after the restructure stands of US\$ 18,670,630 and the balance of Rp 5,660,802,013,000 has been added to equity as advance for future stock subscription (additional capital pending allotment) as on December 31, 2005. The Company has also submitted restructure proposal to the secured creditors (SDRP). As on date, the Company was given to understand that majority of the secured creditors have approved the proposal.

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

2. **GOING CONCERN, DEBT RESTRUCTURING AND ECONOMIC CONDITIONS**
(Continued)

b. Debt Restructuring (Continued)

Debt Restructuring – the Company (Continued)

The Company is taking all requisite corporate actions towards the implementation of the Composition Plan (“Peace Plan”) as approved by the unsecured creditors of the Company and ratified by the Commercial Court. The steps involve the issuance of the new debts in exchange of the old unsecured debts and issuance of the shares for the reduction of the principal amount as per the terms of the Composition Plan. The Company has reduced its unsecured debts as per the Composition Plan and increased its share capital as additional capital pending allotment to the creditors. In the mean time the Company is in-active discussion with Bappepam regarding the issuance of further shares and taking necessary steps in this regard. The investors have also started providing cash working capital as per their commitments in the Composition Plan.

Debt Restructuring – the Subsidiary (TJ)

On November 30, 2001, PT Polysindo Eka Perkasa Tbk (Polysindo) and Polysindo International Finance Company B.V. (PIFC) entered into Definitive Memorandum of Agreement (MOA) with the Bondholders and IBRA regarding the restructuring plan of Polysindo and its subsidiary, including into the debt restructuring of the MOA is the debt of the subsidiary which has agreed by Polysindo to include as part of the restructuring plan. Pursuant to the MOA, the old debt shall be exchanged with the New Debt Securities and New Common Shares of Polysindo and it is contemplated occur no later than June 30, 2002 (Closing).

Based on the extraordinary stockholders’ meeting held on July 25, 2001 which was covered by notarial deed No. 108 of Soetjipto, SH, also dated July 25, 2001, the independent stockholders approved to transfer the debt restructuring of the Company to Polysindo, however the transfer of the debt will be done with the consent of the creditors of the Company.

Following are the debt instruments of the “New Debt Securities” relevant to the subsidiary’s debt which has agreed by Polysindo to include as part of the restructuring plan :

- IBRA Secured Debt will receive the New Senior 1st Lien Secured Notes issued by Polysindo.

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

2. GOING CONCERN, DEBT RESTRUCTURING AND ECONOMIC CONDITIONS
(Continued)

b. Debt Restructuring (Continued)

Debt Restructuring – the Subsidiary (TJ) (Continued)

- IBRA Unsecured Debt and Trade Claim Debt will receive the New Senior 2nd Lien Secured Notes – Series A, Rupiah debt issued to IBRA and Trade Claim Debt issued by Polysindo, while for USD debt issued to IBRA shall be issued by Polysindo Mauritius II and guaranteed by Polysindo, Portion of USD Trade Claim Debt will be issued by Polysindo Mauritius.
- Promissory Notes Debt and Unsecured Bond Debt will receive the New Senior 2nd Lien Secured Notes – Series B, Rupiah debt of PNs will be issued by Polysindo, USD debt of PNs and Unsecured Bond will be issued by Polysindo Mauritius and guaranteed by Polysindo.

Conditions of each instruments of ‘New Debt Securities’ relevant to the Company debt which have been agreed by Polysindo to include as part of the restructuring plan are as follows :

- New Senior 1st Lien Secured Notes
 - Principal is the entire principal of IBRA secured debt ex. PT Bank Negara Indonesia (Persero) Tbk, PT Bank Dharmala and PT Bank Duta with total amount equivalent to US\$ 27,894,293.33.
 - Accrued and unpaid interest will be restructured into 66.65% new common shares of the fully diluted equity of Polysindo,
 - Interest for 2001 amounted to US\$ 730,527.79 will be paid to IBRA on Closing.
 - Issuance date : January 1, 2001.
 - The New Senior Secured Bonds have repayment dates on the first business day of January of each year starting from January 1, 2005 up to January 1, 2011.
- New Senior 2nd Lien Secured Notes – Series A:
 - The principal is 24% of BPPN Unsecured Debt ex. PT Bank Putera Multikarsa, Bank Arya and Bank Bira with total amount of US\$ 2,077,053.04 and 24% unsecured Trade Claim Debt ex, PT Bank Sumitomo Mitsui Indonesia or amounted to US\$ 457,556.16, The remaining principal amount will be restructured into New Common Shares approx 3.45% of fully diluted equity of Polysindo.
 - Unpaid and accrued interest for 1998 up to 2002 shall be deemed forgiven.
 - Interest for 2001 of US\$ 67,975.10 will be paid on Closing.
 - Issuance date : January 1, 2001.
 - The new Senior 2nd Lien Secured Notes – Series A have repayment dates on the first business day of January of each year starting from January 1, 2005 up to January 1, 2009.

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

2. GOING CONCERN, DEBT RESTRUCTURING AND ECONOMIC CONDITIONS
(Continued)

b. Debt Restructuring (Continued)

Debt Restructuring – the Subsidiary (TJ) (Continued)

- New Senior 2nd Lien Secured Notes – Series B:
 - The Principal is 24% of PN's Debt or in the amount of US\$ 3,153,860.47. The remaining principal amount will be restructured approx 11.90% into New Common Shares.
 - Denomination in US Dollar.
 - Unpaid and accrued interest for 1998 up to 2002 shall be deemed forgiven.
 - Interest for 2001 of US\$ 47,548.72 will be paid on Closing.
 - Issuance date : January 1, 2001.
 - The New Senior 2nd Lien Secured Notes – Series B have repayment dates on the first business day of January of each year starting from January 1, 2005 up to January 1, 2009.

On November 22, 2002 the Subsidiary and Polysindo have proposed Revised Term Sheet to creditors for changes in debt restructuring terms such as but not limited to issuance date of "New Debt Securities", changes in the rate of interests and installment composition for principal repayment. However, the draft of Revised Term Sheet had not yet been approved by the creditors.

c. Economic Condition

The year 2005 has witnessed a reasonable growth performance of Polyester Industry despite the very high oil price. The raw materials fluctuated and softened by the second semester. It is estimated that Polyester Industry to grow by 6% per annum due to increase in the per capita consumption of fabric of growing population.

It is estimated by PCI that the world demand for all fibres is expected to rise in volume term from 53 million tones in 2000 to 74 million tones in 2010 and to 95 million tones in 2020. Of the total fibres, the man made fibres such as polyester growth is expected to be much better due to the inherent limitation of cotton fibres.

The Indonesian Government is sketching out an upbeat picture for 2006 and onwards. The Indonesian economic growth is expected to be around 6.4% year over year as compared to 6.2% in 2005. The inflation is expected to ease out in 2006 and it would eventually drop to 6% in 2006. Since the end of 2005, the country has witnessed rupiah strengthening vis-à-vis US Dollar and is currently at Rp 9,200 per dollar as against Rp 9,800 as at the end December 2005.

While the above factors are healthy and indicative of a conducive economic growth going forward, the performance of the Company is much dependant on the other factors such as cost escalation on account of power, fuel and manpower. Any increase in the costs have to be absorbed by the market to remain profitable which is solely driven by the micro economic condition of demand and supply of polyester products.

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

2. GOING CONCERN, DEBT RESTRUCTURING AND ECONOMIC CONDITIONS
(Continued)

c. Economic Condition (Continued)

As per the terms of the Composition Plan, the investor have started injecting working capital facility to the Company. The Company has also entered into Working Capital Loan Agreement with Damiano Investments BV for USD 15 million towards the working capital facility. The investors have also assured Letter of Credit facility to the Company in order that the Company can increase the capacity utilization, production and sales. This will considerably improve the operations of the Company. Accordingly the Company has entered into Loan Agreement with Damiano Investments BV towards providing LC facility of USD 25 million.

For economic conditions to improve, fiscal and monetary action needs to be undertaken by the Government and others, such action is beyond of the control of the Company. It is not possible to determine the future effect that the ongoing adverse the Company's conditions and current economic conditions may have on the Company liquidity and earnings as well as the Company's customers and suppliers.

3. ACCOUNTING POLICY

A summary of significant accounting policies adopted by the Company, which affect the determination of its financial position and result of its operations is presented below :

a. Presentation of Consolidated Financial Statement

The Company's consolidated financial statements which have been presented according Generally Accepted Accounting Principles in Indonesia, such as Financial Accounting Standard. Established by the Indonesian Institute of Accountants, Capital Market Supervisory Board (BAPEPAM) regulation and BAPEPAM's guidelines in the Presentation of public financial statement for public companies.

The Company's consolidated financial statements have been prepared on the historical cost basis of accounting, except for certain accounts which are measured on the basis described in the related accounting policies.

The consolidated statements of cash flows are prepared using direct method which classified into operating, investing and financing activities.

The reporting currency used in the consolidated financial statements is Rupiah.

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

3. **ACCOUNTING POLICY** (Continued)

b. Principles of Consolidation

The consolidated financial statements include the accounts of the parent company and all subsidiaries that are controlled by the parent company, other than those excluded because control is assumed to be temporary or due to long term restrictions significantly impairing a subsidiary's ability to transfer funds to the parent company.

When a subsidiary either began or ceased to be controlled during the year, the results of the subsidiary's operations are included only from the date of control commenced or up to the date of control ceased.

Control is presumed to exist where more than 50% of a subsidiary's voting power is directly or indirectly controlled by the parent company; or the parent company able to govern the financial and operating policies of a subsidiary; or control the removal or appointment of a majority of a subsidiary's board of directors.

All inter-company balances and transactions have been eliminated.

The minority interest in the net assets of consolidated subsidiaries are presented as "Minority Interest" in the consolidated balance sheets. When cumulative losses applicable to minority interest exceed the minority stockholders' interest in the Subsidiary's equity, the excess is charged against the majority stockholders' interest and should not be reflected as an assets except in rare cases when minority stockholders have a binding obligation to make good on such losses. Subsequent profits earned by a Subsidiary under such circumstances that are applicable to the minority interests should be allocated to the majority interest to the extent minority losses have been previously absorbed. In 2005 and 2004, the minority interest in the accumulated losses of the Subsidiary has exceeded its equity interest in the Subsidiary and, accordingly, such excess losses have been absorbed by the Company being as the majority stockholder.

c. Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, and amounts repayable on demand with banks which are readily convertible into known amounts or cash without notice. Restricted cash in banks are not classified as cash and cash equivalents.

d. 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.

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

3. **ACCOUNTING POLICY (Continued)**

e. Inventories

Inventories are stated at cost or net realizable value which ever is lower. Cost of the Company's inventories are carried on the weighted average method. Cost includes expenditures incurred in acquiring the inventories and bringing them to their present location and condition. The Company provides an allowance for inventory obsolescence based on a review of the status of the individual inventory items at end of the period.

f. Fixed Assets

Fixed assets are stated at cost, net after accumulated depreciation.

In 2003, the estimated economic useful life of certain machinery and equipment used in the operations that are acquired during 1997 up to 2001 have been changed from 10 years to 20 years. The changes were effected considering the estimated useful life of the similar assets by competitors, consistent quality that those machines are producing, technology, as well as proper preventive maintenance of those particular machines.

Depreciation of fixed assets is computed using the straight-line method, based upon the estimated economic useful lives of the related fixed assets, as follows :

	<u>Years</u>
Buildings and land improvements	20
Machinery and equipment	10 – 20
Transportation	5
Office equipment	5
Store equipment	5

Land is stated at cost and is not depreciated.

Expenditures for repair or maintenance of fixed assets to keep the future economic benefits are charged to the statement of income at the time of the transactions. Improvements which increase the value (utility) and the estimated of useful life of the assets, and significant renewals are capitalized. When assets are retired or otherwise disposed of, the carrying value and related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the consolidated statement of income in the current period.

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

3. **ACCOUNTING POLICY** (Continued)

g. Leases

Lease transactions are accounted for under the capital lease method if the following criteria are met :

- a. The lessee has an option to purchase the leased assets at the end of the lease period at a price mutually agreed upon at the commencement of the lease agreement.
- b. Total periodic payments plus residual value fully cover the acquisition cost of leased capital goods plus interest thereon which is the lessor's profit.
- c. Lease period covers a minimum of 2 years.

Leases that do not meet any of the aforementioned criteria are accounted for under operating lease. Assets under capital lease are presented based on 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. Each lease payment is allocated between the principal repayment and lease interest expense.

Based on the capital lease method, assets under capital lease is presented under "Fixed assets" account, and lease obligation is presented under "Obligation under capital lease" account. Assets under capital lease are depreciated using the same method and estimated useful lives used for the directly acquired of fixed assets.

h. Deferred Charges

Expenses related to the issuance of the Company's shares to the public were deferred and are amortized over a ten year period using the straight-line method. In 1997, the Company opted to amortize the remaining balance of this account over five years. Further, based on BAPEPAM's decision letter KEP-No.06/PM/2000 dated March 13, 2000 the share issuance costs were retroactively recorded into "Additional Paid-in Capital". The share issuance cost of the subsidiaries is presented in the equity and the consolidated statements of changes in equity as "difference in the equity transactions of subsidiaries".

Expenses incurred in connection with the issuance of bonds and long-term notes to the public are charged to the respective debt and are amortized over the term of the debts using the straight-line method.

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

3. **ACCOUNTING POLICY** (Continued)

i. Retirement Benefits

The Company and its Subsidiaries established defined benefit pension plans covering all their local permanent employees.

Current service cost is charged to operations in the current period. Past service cost, actuarial adjustment and the effect of changes in assumptions for active participants are amortized using the fixed annuity method over the estimated average residual employment period that has been determined by the actuary.

The method used by the actuary for actuarial calculation is the Projected Benefits Entry Age Normal method.

j. Provision for Employee Entitlement

Employee entitlements to service and compensation payments relating to an employee's voluntary resignation, and employee retirement benefits for those who do not join the pension plans are recognized on accrual basis. A provision is made for the estimated liability as a result of past services rendered by employees up to the balance sheet date and is calculated based on the Ministry of Manpower regulation No. 150/Men/2000 dated June 20, 2000. Further, in April 2003, the Government of the Republic Indonesia issued Labour Law No. 13/2003 replacing the Manpower Decree No. Kep. 150/Men/2000.

k. Revenue and Expense Recognition

Local sales are recognized when the goods are delivered to the customers, while export sales are recognized when the goods are shipped. Expenses are recognized when incurred.

l. Foreign Currency Transaction and Balances

The Company's books and records are maintained in Indonesian Rupiah. Transactions involving foreign currencies are recorded at the rates of exchange prevailing at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at balance sheet date are translated in Rupiah at the middle rate of Bank Indonesia are as follows :

<u>Foreign currencies</u>	<u>December 31, 2005</u>	<u>December 31, 2004</u>
	Rp	Rp
US\$ 1	9,830	9,290
YEN 1	83	90
CHF 1	7,491	8,195
SGD 1	5,907	5,685
NOK 1	1,010	1,403
GBP 1	16,947	17,888
EUR 1	11,660	12,652

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

3. **ACCOUNTING POLICY** (Continued)

l. Foreign Currency Transaction and Balances (Continued)

Gains or losses arising from foreign exchange transactions are credited or charged to the consolidated statement of income in the current period.

The Subsidiaries domiciled outside of Indonesia i.e. PIFC and PML maintain their accounting records in Netherland Guilders and US Dollar respectively. For consolidation purposes, the financial statements of foreign domiciled subsidiaries are translated into Rupiah as follows:

- Balance sheet items, except for equity accounts, are translated at the exchange rate as of the balance sheet date.
- Profit and loss items are translated at the average rates of exchange for the year. The difference resulting from this translation is presented in the consolidated balance sheets as part of stockholders' equity.

Foreign exchange presented as part of equity in "Equity adjustment from translation".

m. Income Tax

Income tax is computed on the basis of taxable income for the period. Deferred income tax is provided for the timing differences in the recognition of income and expenses for financial reporting and income tax purposes. The accounting treatment is in conformity with the Financial Accounting Standard No. 46 concerning accounting for income taxes.

Deferred tax is accounted for using the current tax tariff or substantially applicable at the balance sheet date. Deferred tax are charged or credited to the consolidated statement of income in the current period.

n. Basic Earnings (loss) per Share

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of shares outstanding during the year. The weighted average number of shares as of December 31, 2005 and 2004 was 4,393,920,000 shares respectively.

Diluted earnings (loss) per share is not presented because the Company has issued no dilutive potential ordinary shares.

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

3. ACCOUNTING POLICY (Continued)

o. Segment Information

In 2000, The Indonesian Institute of Accountants issued the revision of Financial Accounting Standard (PSAK) No. 5 about "Segment Reporting". According to PSAK, effective January 1, 2002 the Company and its Subsidiaries classified segment reporting as follows :

- 1) A business segment (primary), which the Company and its Subsidiary business activity are divided into weaving and knitting, also trading and producing ready to wear garments.
- 2) A geografis segment (secondary), consist of domestic and abroad business activities.

p. Debt Restructuring

Net gains on debt restructuring after calculated income tax are recognized in the statement of income in the period of restructuring and classified as "extraordinary item".

q. Impairment of Assets

The Company and its Subsidiaries recognize impairment losses on assets if the recoverable amount of an asset is lower than its carrying amount. At each balance sheet date, the Company and its Subsidiaries assess whether there is an indication of impairment or reversal of an impairment loss. Any impairment loss or the reversal of impairment loss is recognized in the consolidated statement of income in the current period.

4. CASH AND CASH EQUIVALENTS

	2 0 0 5	2 0 0 4
	Rp	Rp
Cash on hand :		
Rupiah	488,195,252	419,973,437
US Dollar	42,900,269	225,031,949
Singapore Dollar	23,507,144	14,135,620
Norwegia Kron	1,119,080	1,701,556
Japanesse Yen	8,342	-
	<u>555,730,087</u>	<u>660,842,562</u>

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

4. CASH AND CASH EQUIVALENTS (Continued)

	2 0 0 5 Rp	2 0 0 4 Rp
Cash in banks :		
<u>Third parties :</u>		
PT Bank Sumitomo Mitsui Indonesia		
Rupiah account	13,121,930	13,194,391
US Dollar account	12,463,850	11,838,804
PT Bank Negara Indonesia (Persero) Tbk		
Rupiah account	264,935,151	347,188,006
US Dollar account	209,436,249	251,099,632
Credit Industriel Et Commercial		
US Dollar account	1,376,200	1,300,600
Deutsche Bank		
US Dollar account	10,844,063	477,042
ING Bank		
US Dollar account	28,532,656	26,965,247
PT Bank Tabungan Negara		
Rupiah account	7,718,061	7,830,051
PT Bank Central Asia Tbk		
Rupiah account	645,116,991	2,083,361,019
US Dollar account	6,955,456,747	1,438,583,373
PT Bank Niaga Tbk		
Rupiah account	743,411,968	1,746,525,573
US Dollar account	5,479,701,356	1,512,657,538
PT Bank Mandiri Tbk		
Rupiah account	8,936,442	100,140,629
PT Bank Rakyat Indonesia		
Rupiah account	5,924,620	-
PT Bank Pembangunan Daerah		
Rupiah account	70,281	70,281
Bank Chinatrust Indonesia		
US Dollar account	64,780	2,137,053,856
PT Bank Danamon Tbk		
Rupiah account	-	567,790
Carried forward	14,387,111,345	9,678,853,832

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

4. CASH AND CASH EQUIVALENTS (Continued)

	2 0 0 5 Rp	2 0 0 4 Rp
Brought forward	<u>14,387,111,345</u>	<u>9,678,853,832</u>
<u>Third parties (Continued) :</u>		
PT Bank CIC International Tbk		
Rupiah account	-	42,844,202
US Dollar account	-	31,636,073
Union De Banques Arabes Et Francaises		
US Dollar account	-	1,538,052
Bangkok Bank		
Rupiah account	-	1,127,068
PT Bank Internasional Indonesia Tbk		
US Dollar account	-	19,884,223
	<u>14,387,111,345</u>	<u>9,775,883,450</u>
Total	<u><u>14,942,841,432</u></u>	<u><u>10,436,726,012</u></u>

5. TRADE RECEIVABLES

This account consists of :

Third parties :

	2 0 0 5 Rp	2 0 0 4 Rp
Local debtors	122,667,563,825	114,009,131,026
Foreign debtors	<u>23,681,062,409</u>	<u>21,837,394,227</u>
Total	146,348,626,234	135,846,525,253
Less : Allowance for doubtful accounts	(56,569,334,990)	(53,222,045,477)
Net	<u><u>89,779,291,244</u></u>	<u><u>82,624,479,776</u></u>

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

5. TRADE RECEIVABLES

A summary of the aging of trade receivables from third parties which were computed since the date of invoice is as follows :

	2 0 0 5 Rp	2 0 0 4 Rp
Up to 1 month	65,482,888,507	50,450,226,420
> 1 month – 3 months	13,276,798,798	10,534,845,015
> 3 months – 6 months	9,470,084,904	10,507,331,185
> 6 months – 1 year	599,248,908	10,781,289,536
> 1 year	57,519,605,117	53,572,833,097
Total	<u><u>146,348,626,234</u></u>	<u><u>135,846,525,253</u></u>

Changes in the allowance for doubtful accounts from third parties are as follows :

	2 0 0 5 Rp	2 0 0 4 Rp
Beginning balance	53,222,045,477	22,349,296,281
Movement during the period :		
Additions	6,274,487,274	97,657,125,607
Deductions	(2,927,197,761)	(66,784,376,411)
Ending balance	<u><u>56,569,334,990</u></u>	<u><u>53,222,045,477</u></u>

Based on the review of the status of the individual receivable accounts at the end of each period, the management has the opinion that the allowance for doubtful accounts is adequate to cover possible losses on uncollectible receivables.

Additions in allowance for doubtful accounts in 2005 of Rp 6,274,487,274 were due to the addition of uncollectible receivables from third parties.

Additions in allowance for doubtful accounts in 2004 of Rp 97,657,125,607 were due to the addition of uncollectible receivables from third parties of Rp 69,400,078,474 and the reclassification of related parties trade receivables of Rp 28,257,047,133 to third parties trade receivable.

Deduction in allowance for doubtful accounts in 2005 of Rp 2,927,197,761 was due to the collectible of trade receivables from third parties.

Deduction in allowance for doubtful accounts in 2004 of Rp 66,784,376,411 was due to the collectible of trade receivables from third parties of Rp 4,979,192,715 and the write-off of uncollectible receivables of Rp 61,805,183,696.

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

5. **TRADE RECEIVABLES** (Continued)

The details of trade receivables from third parties based on currencies are as follows :

	2 0 0 5	2 0 0 4
	Rp	Rp
Rupiah	69,735,820,927	72,588,606,225
United States Dollar		
US\$ 7,793,774.56 in 2005 and		
US\$ 6,809,248.55 in 2004	76,612,805,307	63,257,919,028
Total	<u>146,348,626,234</u>	<u>135,846,525,253</u>
<u>Related parties :</u>		
	2 0 0 5	2 0 0 4
	Rp	Rp
PT Multikarsa Investama	286,839,774,744	271,460,837,259
PT Wastra Indah	137,060,116,066	136,735,716,066
PT Raja Busana Mahameru	29,566,633,189	29,563,983,189
PT Mutiara Persada Inti	29,050,809,556	28,918,667,903
PT Sumatex Subur	25,655,601,950	25,655,601,950
Polysindo (UK) Ltd, England	24,221,724,840	22,891,135,980
Drapper Texmaco Inc, Co, United States of America	20,299,961,114	19,184,805,569
Coastal Group Ltd, South Africa	8,527,817,344	8,059,351,285
Norfil Ltd, England	7,158,117,431	6,764,894,297
Commonwealth Holdings Pte, Ltd., Singapore	4,884,198,481	4,615,890,528
PT Texmaco Perkasa Engineering	3,960,030,422	3,302,896,383
Polysindo (USA) Inc, United States of America	2,685,787,103	2,538,246,388
PT Ungaran Sari Garments	1,874,625,027	1,504,646,496
PT Elok Prima Mitra Busana	1,825,862,400	1,825,862,400
PT Texmaco Taman Synthetics	1,662,428,519	1,970,542,967
PT Citra Abadi Sejati	1,261,897,094	1,261,897,094
PT Perkasa Heavyndo Engineering	141,187,416	141,187,416
PT Wahana Perkasa Auto Jaya	89,068,435	89,068,435
PT Perkasa Indobaja	60,672,768	60,672,768
PT Supermityory Utama Tbk	-	661,402,410
PT Busana Perkasa Garments	-	118,729,149
PT Texmaco Micro Indoutama	-	2,114,200
Total	586,826,313,899	567,328,150,132
Less : Allowance for doubtful accounts	(141,325,057,966)	(135,386,400,212)
Net	<u>445,501,255,933</u>	<u>431,941,749,920</u>

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

5. TRADE RECEIVABLES (Continued)

A summary of the aging of trade receivables from related parties which were computed since the date of invoice is as follows :

	2 0 0 5 Rp	2 0 0 4 Rp
Up to 1 month	775,506,720	31,434,986,473
> 1 month – 3 months	1,099,118,307	502,694,655
> 3 months – 6 months	–	1,061,901,763
> 6 months – 1 year	355,729,301	1,841,180,070
> 1 year	584,595,959,571	532,487,387,171
Total	<u>586,826,313,899</u>	<u>567,328,150,132</u>

Changes in the allowance for doubtful accounts from related parties are as follows :

	2 0 0 5 Rp	2 0 0 4 Rp
Beginning balance	135,386,400,212	128,928,665,036
Movement during the period :		
Additions	5,938,657,754	34,714,782,309
Deductions	–	(28,257,047,133)
Ending balance	<u>141,325,057,966</u>	<u>135,386,400,212</u>

Additions in allowance for doubtful accounts in 2005 of Rp 5,938,657,754 due to the addition of uncollectible receivables from related parties of Rp 2,215,375,488 and foreign exchange of Rp 3,723,282,266.

Additions in allowance for doubtful accounts in 2004 of Rp 34,714,782,309 due to the addition of uncollectible receivables from related parties of Rp 26,742,461,004 and foreign exchange of Rp 7,972,321,305.

Deductions in allowance for doubtful accounts in 2004 of Rp 28,257,047,133 due to the reclassification of related parties trade receivables to third parties trade receivable.

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

5. TRADE RECEIVABLES (Continued)

The details of trade receivables from related parties based on currencies are as follows :

	2 0 0 5 Rp	2 0 0 4 Rp
Rupiah	519,048,707,586	475,016,771,964
United States Dollar US\$ 6,894,975 in 2005 and US\$ 9,936,639 in 2004	67,777,606,313	92,311,378,168
Total	<u>586,826,313,899</u>	<u>567,328,150,132</u>

Trade receivables are used as collateral for the Company's short-term loans and guaranteed secured notes (Notes 14 and 16).

6. OTHER RECEIVABLES

	2 0 0 5 Rp	2 0 0 4 Rp
Yayasan Pengembangan Science & Technology	1,945,187,382	1,736,187,382
Receivables from employees	1,420,161,363	6,816,854,214
PT Cipta Busana Jaya	878,647,275	878,647,275
Receivables from import clearance	22,725,216	70,205,885
Receivables from purchase discount	-	1,441,427,482
Others	838,589,907	611,619,596
Total	<u>5.105.311.143</u>	<u>11,554,941,834</u>
Less : Allowance for doubtful accounts	(878.647.275)	(878,647,275)
Net	<u>4,226,663,868</u>	<u>10,676,294,559</u>

Other receivables from employees represent loans gave to employees both individually and advances.

Other receivables from Yayasan Pengembangan Science & Technology represent loans for operational expenses, these loans are not subject to interest and have no term of repayment.

Based on the review of the status of the individual other receivables accounts at the end of each period, the management has the opinion that the allowance for doubtful accounts is adequate to cover possible losses on uncollectible receivables.

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

6. OTHER RECEIVABLES (Continued)

The details of other receivables based on currencies are as follows :

	2 0 0 5 Rp	2 0 0 4 Rp
Rupiah	5,105,311,143	10,113,514,352
United States Dollar (US\$ 155,159)	-	1,441,427,482
Total	<u>5,105,311,143</u>	<u>11,554,941,834</u>

7. INVENTORIES

	2 0 0 5 Rp	2 0 0 4 Rp
Finished goods	71,918,313,414	71,147,338,138
Work in process	35,802,334,019	36,378,824,847
Raw materials	49,102,620,862	73,861,876,473
Indirect materials	99,838,659,582	90,154,745,308
Total	<u>256,661,927,877</u>	<u>271,542,784,766</u>
Less : Provision for inventory obsolescence	-	-
Net	<u>256,661,927,877</u>	<u>271,542,784,766</u>

Based on the review of the physical condition of the inventories at the end of each period, the management has the opinion that no provision for inventory obsolescence is deemed necessary.

As at December 31, 2005 and 2004, the Company's inventories are covered by insurance, with PT. Asuransi Rama Satria Wibawa against fire loss and other risks totaling of US\$ 19,400,000 and US\$ 10,000,000, which in the opinion of management were adequate to cover losses arising from such risks except for the subsidiaries' inventories are not covered by insurance due to the Subsidiaries facing financial difficulties or cash flows problem.

Inventories are used as collateral for the Company's short-term loans (Note 14).

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

8. DUE FROM RELATED PARTIES

	2 0 0 5	2 0 0 4
	Rp	Rp
PT Multikarsa Investama	483,685,372,156	480,609,875,378
PT Texmaco Perkasa Engineering Tbk	68,083,493,229	56,780,444,001
PT Wahana Perkasa Auto Jaya	55,392,007,333	52,378,812,340
PT Texmaco Taman Synthetics	23,648,330,450	19,844,513,183
PT Wastra Indah	14,885,011,715	5,304,522,535
PT Sumatex Subur	5,019,381,570	3,050,719,938
PT Saritex Jaya Swasthi	4,713,354,162	2,955,972,612
PT Wismakarya Prasetya	3,901,707,320	2,112,533,782
PT Perkasa Heavindo Engineering	1,608,346,440	1,608,346,440
PT Perkasa Indosteel	1,268,808,912	1,268,808,912
PT Supermitory Utama Tbk	1,235,049,652	1,235,049,652
PT Kreasi Kekar	1,230,111,000	1,263,456,000
PT Raja Busana Mahameru	1,210,000,000	1,210,000,000
PT Perkasa Indobaja	852,266,129	852,266,129
PT Ungaran Sari Garments	769,944,967	769,944,967
PT Merauke Rayon Jaya	448,500,000	448,500,000
PT Mahkota Indah Sentosa	377,832,876	377,832,876
PT Devrindo Widya	315,282,365	315,282,365
PT Wahana Jaya Perkasa	99,820,513	99,820,513
PT Sarana Daycrown Industri	99,820,511	99,820,511
PT Kreasi Indah Textile	13,750,000	13,750,000
PT Citra Indah Textile	8,855,000	8,855,000
PT Bina Peranan Busana	668,840	-
Total	<u>668,867,715,140</u>	<u>632,609,127,134</u>
Less : Allowance for doubtful accounts	(55,702,385,842)	(55,702,385,842)
Net	<u>613,165,329,298</u>	<u>576,906,741,292</u>

Changes in the allowance for doubtful accounts are as follows :

	2 0 0 5	2 0 0 4
	Rp	Rp
Beginnning balance	55,702,385,842	55,346,541,248
Movement during the period :		
Additions	-	355,844,594
Deductions	-	-
Ending balance	<u>55,702,385,842</u>	<u>55,702,385,842</u>

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

8. DUE FROM RELATED PARTIES (Continued)

Receivables from related parties represent advances and are not subject to interest and have no term of repayment.

Receivables from PT Multikarsa Investama derived from the cash receipts from AR International Limited, Hong Kong of Rp 51,421,394,625 due to refund on advances for purchase of fixed assets (machinery and equipment) and the remaining balance represent advance payments for expenses of Rp 432,263,977,531 as of December 31, 2005 and Rp 429,188,480,753 as of December 31, 2004 represent advance payments for salary and other expenses.

Additions in allowance for doubtful accounts in 2004 of Rp 355,844,594 due to the addition of uncollectible receivables from related parties.

The detail of due from related parties based on currencies are as follows :

	2 0 0 5 Rp	2 0 0 4 Rp
Rupiah	613,475,707,807	581,440,314,794
United States Dollar (US\$ 5,634,996 in 2005 and US\$ 5,449,743 in 2004)	55,392,007,333	51,168,812,340
Total	<u>668,867,715,140</u>	<u>632,609,127,134</u>

9. RESTRICTED CASH IN BANKS

	2 0 0 5 Rp	2 0 0 4 Rp
IBRA :		
PT Bank Dharmala Rupiah account	64,056,133	64,056,133
PT Bank Putera Multikarsa Rupiah account	5,569,629,066	5,569,629,066
US Dollar account	12,508,276,474	11,915,325,203
PT Bank Papan Sejahtera Rupiah account	37,356,312	37,356,312
PT Bank Umum Nasional US Dollar account	18,946,539	17,905,732
PT Bank Asia Pacific Rupiah account	555,500	555,500
Total	<u>18,198,820,024</u>	<u>17,604,827,946</u>

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

9. RESTRICTED CASH IN BANKS (Continued)

As the Company is under restructuring process with the Indonesian Bank Restructuring Agency (IBRA), the aggregate balance of cash in the banks was restricted by IBRA. Restricted cash in PT Bank Sociate Generale Indonesia due to the fact that some companies of Texmaco Group are under restructuring process with PT Bank Sociate Generale Indonesia. As a result, the cash in banks are restricted and presented under non-current assets in the consolidated balance sheets. Further, in January 2003, the balance of cash in PT Bank Sociate Generale Indonesia has been closed and transferred to the Company's bank account.

The Indonesian government through IBRA suspended the bank operating licences of PT Bank Putera Multikarsa, a related party, on January 28, 2000; PT Bank Dharmala, PT Bank Asia Pacific and PT Bank Papan Sejahtera on March 13, 1999; and PT Bank Umum Nasional on August 21, 1998. In addition, the operations of PT Bank Duta and PT Bank Nusa International were taken over by the Government on March 13, 1999. As a result, the balance of cash amounting to Rp 18,198,820,024 and Rp 17,604,827,946 in the said banks is shown as restricted cash in banks under non-current assets in the 2005 and 2004 consolidated balance sheets respectively.

Management believes that an allowance for probable losses on such restricted cash is not deemed necessary, as the cash in banks can be off-set with the loans of the Company and its Subsidiaries.

10. FIXED ASSETS

	2 0 0 5 Rp	2 0 0 4 Rp
Carrying cost :		
Direct acquisition	10,673,357,142,330	10,670,169,715,195
Assets under capital lease	54,024,369,709	54,478,269,709
Total carrying cost	<u>10,727,381,512,039</u>	<u>10,724,647,984,904</u>
Accumulated depreciation :		
Direct acquisition	6,242,965,993,786	5,659,588,795,025
Assets under capital lease	50,446,658,171	46,887,495,534
Total accumulated depreciation	<u>6,293,412,651,957</u>	<u>5,706,476,290,559</u>
Book value	<u>4,433,968,860,082</u>	<u>5,018,171,694,345</u>

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

10. FIXED ASSETS (Continued)

The details of fixed assets are as follows :

Direct acquisition :

<u>2005</u>	<u>Beginning</u> Rp	<u>Addition</u> Rp	<u>Deduction</u> Rp	<u>Reclassification</u> Rp	<u>Ending</u> Rp
Carrying cost :					
Land	113,121,034,510	-	-	-	113,121,034,510
Buildings and land improvements	224,140,351,189	57,605,250	-	-	224,197,956,439
Machinery and equipment	10,284,488,390,072	1,898,284,679	-	-	10,286,386,674,751
Transportation equipment	14,157,536,361	-	-	756,500,000	14,914,036,361
Office equipment	29,483,709,939	475,037,207	-	-	29,958,747,146
Store equipemtn	4,778,693,122	-	-	-	4,778,693,122
	<u>10,670,169,715,195</u>	<u>2,430,927,136</u>	<u>-</u>	<u>756,500,000</u>	<u>10,673,357,142,330</u>
Accumulated depreciation :					
Buildings and land improvements	103,799,621,223	10,780,680,131	-	-	114,580,301,354
Machinery and equipment	5,512,873,052,591	568,855,573,129	-	-	6,081,728,625,720
Transportation equipment	12,753,601,992	381,878,155	-	378,250,000	13,513,730,147
Office equipment	26,876,678,624	1,487,964,819	-	-	28,364,643,443
Store equipment	3,285,840,595	1,492,852,527	-	-	4,778,693,122
	<u>5,659,588,795,025</u>	<u>582,998,948,761</u>	<u>-</u>	<u>378,250,000</u>	<u>6,242,965,993,786</u>
Book value	<u>5,010,580,920,170</u>				<u>4,430,391,148,545</u>
		<u>Changes during the current period</u>			
<u>2004</u>	<u>Beginning</u> Rp	<u>Addition</u> Rp	<u>Deduction</u> Rp	<u>Reclassification</u> Rp	<u>Ending</u> Rp
Carrying cost :					
Land	113,030,049,157	90,985,353	-	-	113,121,034,510
Buildings and land improvements	224,140,351,189	-	-	-	224,140,351,189
Machinery and equipment	10,283,531,629,272	956,760,800	-	-	10,284,488,390,072
Transportation equipment	13,317,536,361	840,000,000	-	-	14,157,536,361
Office equipment	29,583,417,979	93,028,300	192,736,339	-	29,483,709,940
Store equipment	4,778,693,123	-	-	-	4,778,693,123
	<u>10,668,381,677,081</u>	<u>1,980,774,453</u>	<u>192,736,339</u>	<u>-</u>	<u>10,670,169,715,195</u>
Accumulated depreciation :					
Buildings and land improvements	92,936,456,159	10,863,165,064	-	-	103,799,621,223
Machinery and equipment	4,921,716,504,176	591,156,548,415	-	-	5,512,873,052,591
Transportation equipment	12,355,543,086	398,058,906	-	-	12,753,601,992
Office equipment	25,226,115,884	1,739,105,273	79,042,533	-	26,886,178,624
Store equipment	2,561,895,586	715,311,676	866,667	-	3,276,340,595
	<u>5,054,796,514,891</u>	<u>604,872,189,334</u>	<u>79,909,200</u>	<u>-</u>	<u>5,659,588,795,025</u>
Book value	<u>5,613,585,162,190</u>				<u>5,010,580,920,170</u>

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

10. FIXED ASSETS (Continued)

Assets under capital lease :

<u>2005</u>	<u>Beginning</u> Rp	<u>Changes during the current period</u>		<u>Ending</u> Rp
		<u>Addition</u> Rp	<u>Deduction</u> Rp	
Carrying cost :				
Machinery and equipment	46,159,844,782	–	–	46,159,844,782
Transportation equipment	8,318,424,927	–	453,900,000	7,864,524,927
	<u>54,478,269,709</u>	<u>–</u>	<u>453,900,000</u>	<u>54,024,369,709</u>
Accumulated depreciation :				
Machinery and equipment	38,948,067,607	3,733,435,637	–	42,681,503,244
Transportation equipment	7,939,427,927	203,977,000	378,250,000	7,765,154,927
	<u>46,887,495,534</u>	<u>3,937,412,637</u>	<u>378,250,000</u>	<u>50,446,658,171</u>
Book value	<u>7,590,774,175</u>			<u>3,577,711,538</u>
<u>2004</u>	<u>Beginning</u> Rp	<u>Changes during the current period</u>		<u>Ending</u> Rp
		<u>Addition</u> Rp	<u>Deduction</u> Rp	
Carrying cost :				
Machinery and equipment	46,159,844,782	–	–	46,159,844,782
Transportation equipment	8,318,424,927	–	–	8,318,424,927
	<u>54,478,269,709</u>	<u>–</u>	<u>–</u>	<u>54,478,269,709</u>
Accumulated depreciation :				
Machinery and equipment	34,332,083,111	4,615,984,496	–	38,948,067,607
Transportation equipment	7,727,887,927	211,540,000	–	7,939,427,927
	<u>42,059,971,038</u>	<u>4,827,524,496</u>	<u>–</u>	<u>46,887,495,534</u>
Book value	<u>12,418,298,671</u>			<u>7,590,774,175</u>

Deduction on fixed assets represents sales of fixed asset with details as follows :

	2005 Rp	2004 Rp
Book value	–	164,827,139
Selling price	–	155,358,000
Loss on sales of fixed assets	<u>–</u>	<u>(9,469,139)</u>

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

10. **FIXED ASSETS** (Continued)

	2 0 0 5	2 0 0 4
	Rp	Rp
Depreciation expenses are allocated to :		
Direct acquisitions :		
Manufacturing expense	579,636,253,261	602,019,713,479
Operating expenses	3,362,695,500	2,852,475,855
	582,998,948,761	604,872,189,334
Assets under capital lease :		
Manufacturing expense	3,733,435,637	4,615,984,496
Operating expenses	203,977,000	211,540,000
	3,937,412,637	4,827,524,496
Total	586,936,361,398	609,699,713,830

The addition of machinery and equipment in 2004 of Rp 956,760,800 represents the purchase of machineries from related parties PT Texmaco Perkasa Engineering Tbk and PT Raja Busana Mahameru of Rp 555,635,000 and Rp 401,125,800 respectively (Note 41).

The Company and its Subsidiaries own several pieces of land located in Karawang, Kendal and Pemalang amounted to 1,297,579 square meters with certificate Building Use Right (Hak Guna Bangunan or HGB) for a period of 20 – 30 years which will be expired between 2006 and 2029. The certificate of ownership for remaining of 100,548 square meters is still in process. Management believes that there will be no difficulty in the extension of the certificate of landrights since all the landrights were acquired legally and supported by sufficient evidence of ownership. In 2002 and 2001, the addition of land of Rp 258,585,580 and Rp 1,753,645,426 consist of land located in Semarang of 24,120 square meters and in Karawang 1,962.60 square meters. The ownership certificate of the land is still in process.

As of December 31, 2005, all of the Company's fixed assets, except land and vehicles are insured with PT Asuransi Rama Satria Wibawa from loss and other risks including earthquake valuing in total US\$ 600,000,000. The insurance is valid up to December 9, 2006. In the opinion of Company's management, the sum insured as stated above is adequate to cover possible losses arising from such risks.

As of December 31, 2005 and 2004, the Company's vehicles were insured with PT. Tunas Financindo Sarana, PT. Asuransi Rama Satria Wibawa, and PT. Asuransi Raksa Pratikara from fire loss and other risks totaling for Rp 5,889,365,040 and Rp 8,298,365,040 which in the opinion of the Company's management was adequate to cover possible losses arising from such risks. While for the Company's other fixed assets and the Subsidiaries' fixed assets are not covered by insurance due to the cash flows problem or financial difficulties.

Land, machinery and equipment are used as collateral for the Company's short term loans and guaranted secured notes (Notes 14 and 16).

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

11. ADVANCES FOR INVESTMENT IN A JOINT VENTURE

This account consist of advances for investment in land to be used for a joint venture project between the Company and Eastman Kodak Company, USA to manufacture special types of polyester chips and fiber in Karawang, West Java which represents 17% of the joint venture's subscribed capital (Note 44). However the necessity for continuing with the joint venture is being assessed by both joint venture partners.

12. OTHER ASSETS

	2 0 0 5 Rp	2 0 0 4 Rp
Guarantee deposits	2,517,709,366	2,193,721,307
Bank guarantee	28,855,500	47,954,879
Guarrantee deposit for house rental	24,526,388	28,855,500
Long term rent	-	83,020,960
	<u>2,571,091,254</u>	<u>2,353,552,646</u>

13. SECURED DEBTS

	2 0 0 5 Rp	2 0 0 4 Rp
<u>Bonds :</u>		
A. 13% Guaranteed Secured Notes US\$ 122,526,000	1,204,430,580,000	-
B. US\$ 50,000,000 Secured Floating Rate Notes	491,500,000,000	-
C. 9,375% Guaranteed Secured Notes US\$ 250,000,000	2,457,500,000,000	-
D. 11,375% Guaranted Secured Notes US\$ 260,000,000	<u>2,555,800,000,000</u>	<u>-</u>
Total	6,709,230,580,000	-
Less : Net book value of debt issuance cost	(4,006,025,696)	-
Net	<u>6,705,224,554,304</u>	<u>-</u>

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

13. **SECURED LOAN** (Continued)

	2 0 0 5 Rp	2 0 0 4 Rp
<u>PT Bina Prima Perdana :</u>		
PT Bank Negara Indonesia (Persero) Tbk.		
Rupiah	1,302,583,907,331	-
US\$ 29,055,834	285,618,848,220	-
EUR 849,873	9,909,501,460	-
YEN 3,001,711,400	250,409,668,924	-
	<u>1,848,521,925,935</u>	<u>-</u>
<u>Banks :</u>		
PT Bank Finconesia		
EUR 7,471,552	87,118,145,023	-
Union Europeene de CIC Singapore		
EUR 5,941,405	69,276,664,055	-
Credit Agricole Indosuez, Singapore		
US\$ 12,117,088	119,110,978,380	-
Bangkok Bank, Singapore		
US\$ 3,303,097	32,469,447,245	-
	<u>307,975,234,703</u>	<u>-</u>
<u>Tim Pemberesan (TP) :</u>		
PT Bank Negara Indonesia (Persero) Tbk.		
US\$ 78,628,322	772,916,409,392	-
Rupiah	41,968,807,083	-
EUR 1,426,175	16,629,171,977	-
CHF 45,902	343,825,718	-
	<u>831,858,214,170</u>	<u>-</u>
Total	<u>9,693,579,929,112</u>	<u>-</u>

The Company has submitted "Secured Debt Restructure Proposal" to all its Secured Creditors, and the Company is actively engaged in discussion with the creditors for the restructure of its secured debts.

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

13. SECURED LOAN (Continued)

The amortization of debt issuance cost for the year ended December 31, 2005 is amounting to Rp 3,993,539,182.

14. SHORT TERM LOANS

	2 0 0 5 Rp	2 0 0 4 Rp
<u>Working Capital Loan Facility :</u>		
PT Bina Prima Perdana :		
PT Bank Negara Indonesia (Persero) Tbk		
Rupiah	53,211,451,624	1,331,301,272,184
Dollar Amerika Serikat (US\$ 18,587,500 in 2005 and US\$ 18,594,750 in 2004)	182,715,125,000	172,745,227,500
European Euro (EUR 820,708)	-	10,383,723,379
 PT Bank Dharmala	 8,000,000,000	 20,000,000,000
 PT Bank Putera Multikarsa	 1,197,490,480	 3,597,490,480
 Total working capital facility	 245,124,067,104	 1,538,027,713,543
<u>Fasilitas Letter of Credit :</u>		
PT Bina Prima Perdana :		
PT Bank Putera Multikarsa		
Rupiah	-	1,451,307,000
Dollar Amerika Serikat (US\$ 1,670,669.38 in 2005 and US\$ 7,465,159.60 in 2004)	16,422,680,006	69,351,332,731
European Euro (EUR 4,514,902)	-	57,122,540,104
 PT Bank Duta		
Rupiah	28,175,026,153	28,175,026,153
 PT Bank International Indonesia Tbk		
Rupiah	-	24,494,086,771
(US\$ 2,758,184)	-	25,623,529,360
 PT Bank Papan Sejahtera		
(US\$ 681,236)	-	6,328,680,489
(EUR 29,165)	-	368,996,515
	44,597,706,159	212,915,499,123

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

14. **SHORT TERM LOAN** (Continued)

	2 0 0 5 Rp	2 0 0 4 Rp
Others :		
PT Bank Negara Indonesia (Persero) Tbk Rupiah	27,115,346,119	69,084,153,202
US Dollar (US\$ 198,595 in 2005 and US\$ 78,826,917 in 2004)	1,952,188,850	732,302,062,831
European Euro (EUR 1,426,175)	–	18,044,051,670
Swiss Franc (CHF 49,902)	–	408,935,912
PT Bank Sumitomo Mitsui Indonesia (US\$ 1,906,484 in 2005 and US\$ 5,743,794 in 2004)	18,740,735,066	53,359,840,779
ING Bank (US\$ 13,924,531)	–	129,358,895,405
Credit Agricole Indosuez, Singapore (US\$ 12,117,088)	–	112,567,750,677
Credit Agricole Indosuez (US\$ 10,665,424)	–	99,081,785,524
Union Europeene de CIC Singapore (EUR 5,941,405)	–	75,171,547,903
PT Bank Finconesia (EUR 7,471,552)	–	94,531,194,611
PT Bank Lippo Tbk (US\$ 5,198,454)	–	48,293,634,037
Bangkok Bank, Singapore (US\$ 3,303,097)	–	30,685,774,660
PT Bank Tabungan Negara (US\$ 85,736)	–	796,482,888
	<u>47,808,270,035</u>	<u>1,463,686,110,099</u>
Total letter of credit facility	<u>92,405,976,194</u>	<u>1,676,601,609,222</u>
Total	<u>337,530,043,298</u>	<u>3,214,629,322,765</u>

These loans are collateralized by all of the Company and its Subsidiary's trade receivables, inventories, land, fixed assets, and future assets to be acquired by the Company, personal guarantee of the Company and its Subsidiary's Directors, and pledge of 5,000,000 shares of PT Texmaco Jaya Tbk (TJ) being held by the Company (Notes 5, 7 and 10). Certain loan agreements governing the above facilities contain covenants which among others restrict the right of the Company to amend its Articles of Association, change the composition of its Board of Directors or Commissioners, incur additional indebtedness, make certain investments and give guarantees. The agreements also provide various events of default, including any breach of any condition or covenant and certain events of insolvency.

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

14. SHORT TERM LOANS (Continued)

Loans to PT Bina Prima Perdana (BPP) represents loans : PT Bank Papan Sejahtera, PT Bank Negara Indonesia (Persero) Tbk (not included letter of credit facilities) and PT Bank International Indonesia Tbk had been defaulted and transferred to IBRA. Further, pursuant to debt restructuring scheme in Master Restructuring Agreement (MRA) dated May 23, 2001, in 2002 the Company's debts to IBRA have been transferred to BPP. For this transfer, BPP issued Exchangeable Bond (EB) to IBRA.

On February 26, 2004, IBRA issued a letter of default notice to PT Bina Prima Perdana. The letter stated that PT Bina Prima Perdana as the textile holding company had failed to pay the Exchangeable Bond (EB) coupons due on August 18, 2003.

On February 27, 2004, IBRA was dissolved by the Government. The outstanding or unfinished affairs under the handling of IBRA were transferred to a company called PT. Perusahaan Pengelola Assets (Assets Management Company) for further management and restructuring process under the supervision of the Ministry of Finance.

15. NOTES PAYABLE

	2 0 0 5 Rp	2 0 0 4 Rp
PT Bina Prima Perdana (BPP) :		
Rupiah		
Nominal value	37,026,286,647	64,099,898,118
US Dollar		
Nominal value US\$ 5,000,000 in 2005 and US\$ 39,290,400 in 2004	49,150,000,000	365,007,816,000
Japanese Yen		
Nominal value Yen 3,001,711,400	-	270,154,026,000
Total BPP	86,176,286,647	699,261,740,118

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

15. **NOTES PAYABLE** (Continued)

	2 0 0 5	2 0 0 4
	Rp	Rp
Others :		
Rupiah		
Nominal value	–	106,926,388,529
US Dollar		
Nominal value US\$ 11,141,085.29 in 2005 and US\$ 369,641,451 in 2004	109,516,868,401	3,433,931,900,054
Total others	<u>109,516,868,401</u>	<u>3,540,858,288,583</u>
Total	<u>195,693,155,048</u>	<u>4,240,120,028,701</u>

Due to operations suspension of some of the banks as noteholders in 1999, they have been transferred to IBRA for the administration. Pursuant to debt restructuring scheme in Master Restructuring Agreement (MRA) dated May 23, 2001, in 2002 the Company's debts to IBRA have been transferred to BPP. For this transfer, BPP issued Exchangeable Bond (EB) to IBRA.

The above mentioned notes payable are unsecured and PT Asia Kapitalindo Securities is the arranger.

On November 30, 2001, the Company entered into Definitive Memorandum of Agreement (MOA) with the noteholders and IBRA regarding the restructuring plan of the Company and its Subsidiaries. However, it has not yet been executed by the Company and its Subsidiaries, and the MOA could be automatically terminated (Note 2b).

On February 26, 2004, IBRA issued a letter of default notice to PT Bina Prima Perdana. The letter stated that PT Bina Prima Perdana as the textile holding company had failed to pay the Exchangeable Bond (EB) coupons due on August 18, 2003.

On February 27, 2004, IBRA was dissolved by the Government. The outstanding or unfinished affairs under the handling of IBRA were transferred to a company called PT. Perusahaan Pengelola Assets (Assets Management Company) for further management and restructuring process under the supervision of the Ministry of Finance.

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

16. GUARANTEED SECURED AND UNSECURED NOTES

The details of this account are as follows :

	2 0 0 5	2 0 0 4
	Rp	Rp
A. 1) 13% Unsecured Senior Notes US\$ 1,224,000	–	11,370,960,000
2) 13% Guarantees Secured Notes US\$ 122,526,000	–	1,138,266,540,000
B. US\$ 50,000,000 Secured Floating Rate Notes	–	464,500,000,000
C. 11,375% Guaranteed Secured Notes US\$ 260,000,000	–	2,415,400,000,000
D. 9,375% Guaranteed Secured Notes US\$ 250,000,000	–	2,322,500,000,000
	<hr/>	<hr/>
Total	–	6,352,037,500,000
Less : Net book value of debt issuance cost	–	(7,999,564,878)
	<hr/>	<hr/>
Net	–	6,344,037,935,122
	<hr/>	<hr/>

On November 30, 2001, the Company entered into Definitive Memorandum of Agreement (MOA) with the noteholders regarding the restructuring plan of the Company and its Subsidiaries. However, it has not yet been executed by the Company and its Subsidiaries, and the MOA could be automatically terminated.

Pursuant to MOA, the noteholders of unsecured notes will receive the New Senior 2nd Lien Secured Notes–Series B and the noteholders of secured notes will receive the New Senior Secured Bonds. Guaranteed Secured and Unsecured Notes are consist of :

- A. 13% Unsecured Senior Notes, US\$ 1,224,000 and 13% Guaranteed Secured Notes, US\$ 122,526,000.

The Company issued US\$ 125,000,000 Unsecured Senior Notes in June 1994 carrying an interest rate of 13% per annum. The notes are due for repayment in 2001. In May 1996, the Company offered to the holders of the said unsecured notes to exchange their notes with 13% Guaranteed Senior Notes due in 2001 which were listed in Luxembourg Stock Exchanges and issued by PIFC with the Company as the guarantor.

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

16. GUARANTEED SECURED AND UNSECURED NOTES (Continued)

- A. 13% Unsecured Senior Notes, US\$ 1,224,000 and 13% Guaranteed Secured Notes, US\$ 122,526,000 (Continued)

All holders of the unsecured notes exchanged their notes with the new secured notes except for the holders of unsecured notes amounting to US\$ 2,474,000. In August 1997, the Company paid part of the 13% Unsecured Senior Notes amounting to US\$ 1,250,000.

- B. Secured Floating Rates Notes, US\$ 50,000,000.

In February 1996, PIFC, with the Company as the guarantor, issued the US\$ 50,000,000 Secured Floating Rate Notes which were listed in Luxembourg Stock Exchanges with carrying an interest rate of 3% above LIBOR and were due in 1999.

- C. 11.375% Guaranteed Secured Notes, US\$ 260,000,000.

In June 1996, PIFC issued the US\$ 260,000,000 Guaranteed Secured Notes due in 2006 which were listed in Luxembourg Stock Exchange, with the Company as the guarantor. The notes carry an interest rate of 11.375% per annum. The proceeds from issuance of these notes were used to pay off other debts and loans.

- D. 9.375% Guaranteed Secured Notes, US\$ 250,000,000.

In July 1997, PIFC issued the US\$ 250,000,000 Guaranteed Secured Notes due in 2007 which were listed in Luxembourg Stock Exchange with the Company as the guarantor. The notes carry an interest rate of 9.375% per annum. The proceeds from issuance of these notes were used to finance a portion of phase I of the Company's expansion program.

In addition to the above notes payable, the Company issued series of negotiable discounted promissory notes originally to a local Indonesian bank amounted to US\$ 260,000,000 at discounted rates averaging 11.5% per annum at issuance date (September 13, 1996). The promissory notes have varying maturity dates up to ten years. As of December 31, 2005 and 2004 the sole holder of the notes is PIFC. Accordingly, the balance of the notes was eliminated in the consolidated accounts.

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

16. GUARANTEED SECURED AND UNSECURED NOTES (Continued)

Currently these notes have been delisted from Luxembourg Stock Exchanges and are secured by liens of the collateral, which consist of real property, movable assets (other than inventories) and proceeds of collateral on a pari-passu basis with the other notes payable and obligations of the Company and its Subsidiaries.

The amortization expenses of debt issuance cost for the year ended December 31, 2004 amounted to Rp 3,993,539,180.

17. TRADE PAYABLES

This account consist of :

Third parties :

	2 0 0 5 Rp	2 0 0 4 Rp
Local suppliers	61,463,415,542	60,007,412,219
Foreign suppliers	150,409,879,310	158,713,673,587
Total	<u><u>211,873,294,852</u></u>	<u><u>218,721,085,806</u></u>

In 2005 and 2004, trade payables to foreign suppliers include payable to customers for pre-financing.

A summary of the aging of trade payables to third parties which were computed since the date of invoice is as follows :

	2 0 0 5 Rp	2 0 0 4 Rp
Up to 1 month	100,042,989,458	80,914,105,512
> 1 month – 3 months	39,086,659,277	80,674,435,132
> 3 months – 6 months	26,654,715,635	7,784,615,218
> 6 months – 1 year	5,107,901,227	22,360,264,531
> 1 year	40,981,029,255	26,987,665,413
Total	<u><u>211,873,294,852</u></u>	<u><u>218,721,085,806</u></u>

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

17. **TRADE PAYABLES** (Continued)

The details of trade payables to third parties based on currencies are as follows :

	2 0 0 5 Rp	2 0 0 4 Rp
Rupiah	59,254,617,614	56,026,860,984
Unites States Dollar (US\$ 15,118,725 in 2005 and 17,273,799 in 2004)	148,617,073,335	160,473,595,771
European Euro (EUR 120,295 in 2005 and EUR 117,510 in 2004)	1,402,630,117	1,486,746,657
Singapore Dollar (SGD 114,343 in 2005and SGD 89,403 in 2004)	675,376,463	508,297,984
Japan Yen (Yen 747,396 in 2005 and Yen 44,000 in 2004)	62,349,537	3,978,480
Swiss Franc (CHF 209,934 in 2005 and CHF 8,939 in 2004)	1,572,521,729	73,255,007
Great Brithish Poundsterling (GBP 17,037 in 2005 and GBP 8,293 in 2004)	288,726,057	148,350,923
Total	211,873,294,852	218,721,085,806

Trade payables to third parties local suppliers represent payables for purchase of raw materials and trade payables to third parties foreign suppliers represent payables for purchase of indirect materials.

Related parties :

	2 0 0 5 Rp	2 0 0 4 Rp
PT Citra Indah Textiles	46,482,882,927	46,783,669,472
PT Wismakarya Prasetya	18,549,859,205	3,940,056,932
PT Texmaco Taman Synthentics	3,046,550,262	7,965,763,562
PT Busana Perkasa Garment	160,673,385	-
PT Polysindo Japan Ltd., Japan	126,608,941	83,021,918
PT Texmaco Micro Indoutama	80,457,768	80,457,768
PT Perkasa Heavyndo Engineering	-	603,284,554
Total	68,447,032,488	59,456,254,206

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

17. TRADE PAYABLES (Continued)

A summary of the aging of the trade payables to related parties which were computed since the date of invoice is as follows :

	2 0 0 5 Rp	2 0 0 4 Rp
Up to 1 month	9,127,726,562	1,276,677,332
> 1 month – 3 months	628,318,713	1,235,545,372
> 3 months – 6 months	3,458,661,549	4,398,455,388
> 6 months – 1 year	1,682,377,775	11,312,697,310
> 1 year	53,549,947,889	41,232,878,804
Total	<u>68,447,032,488</u>	<u>59,456,254,206</u>

The details of trade payables to related parties based on currencies are as follows :

	2 0 0 5 Rp	2 0 0 4 Rp
Rupiah	<u>68,447,032,488</u>	<u>59,456,254,206</u>

Trade payables to related parties represent payables for purchase of raw materials, indirect materials and maklon fee.

18. LIABILITIES FOR PURCHASE OF FIXED ASSETS

This account represents liabilities for purchase of machinery in relation to the Company's subsidiary project expansion :

	2 0 0 5 Rp	2 0 0 4 Rp
<u>Third parties :</u>		
Juki Singapore Pte. Ltd., Singapore		
US\$ 30,476.25	<u>299,581,538</u>	<u>283,124,363</u>

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

19. TAXATIONS

a. Prepaid Taxes

	2 0 0 5	2 0 0 4
	Rp	Rp
Overpayment of corporate income tax		
2003	-	11,633,104,265
2004	118,015,241	22,512,948,973
2005	60,017,224,972	-
Income tax article 26	20,508,301	-
Value added tax	86,204,020,840	52,080,457,349
Total	<u>146,359,769,354</u>	<u>86,226,510,587</u>

b. Taxes Payable

	2 0 0 5	2 0 0 4
	Rp	Rp
Income tax article 21	7,045,256,136	5,971,938,799
Income tax article 23	1,302,733,425	939,831,834
Income tax article 26	33,304,950,336	82,679,968,634
Income tax article 4 (final)	56,492,648	60,274,741
Value added tax	23,594,332,715	20,349,407,846
Tax penalty for 2002	19,693,374,673	19,026,774,027
Total	<u>84,997,139,933</u>	<u>129,028,195,881</u>

c. Corporate Income Tax

A reconciliation between loss before income tax, as shown in the consolidated statements of income and estimated taxable loss which were calculated by the Company for the years ended December 31, 2005 and 2004 are as follows :

	2 0 0 5	2 0 0 4
	Rp	Rp
Loss before income tax as per consolidated statements of income	(879,045,794,725)	(2,088,588,534,372)
Extraordinary item	1,423,797,000	-
Loss before income tax of the Subsidiaries	149,968,103,401	342,110,704,097
Loss before income tax of the Company	<u>(727,653,894,324)</u>	<u>(1,746,477,830,275)</u>
Fiscal adjustments consisted of :		
Permanent difference :		
Non deductible expenses/ (non taxable income) :		
Tax expense	9,057,443,483	25,407,076,301
Allowance for doubtful accounts	1,260,109,105	43,005,109,124
Carried forward	<u>10,317,552,588</u>	<u>68,412,185,425</u>

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

19. **TAXATIONS**

c. **Corporate Income Tax**

	2 0 0 5 Rp	2 0 0 4 Rp
Brought forward	<u>10,317,552,588</u>	<u>68,412,185,425</u>
Entertainment and representation	569,250,343	348,357,966
Donation	152,643,560	9,000,000
Interest income	(37,265,593)	(78,314,228)
	<u>11,002,180,898</u>	<u>68,691,229,163</u>
Timing differences :		
Depreciation expense of fixed assets	84,781,922,159	64,926,967,768
Amortization of deferred charges	2,366,241,630	2,032,269,972
Provision for employee entitlement	3,774,152,567	51,395,224
Lease expense	2,958,059,490	(3,029,849,961)
	<u>93,880,375,846</u>	<u>63,980,783,003</u>
Estimated taxable loss of the Company for the period before loss carry forward	(622,771,337,580)	(1,613,805,818,109)
Fiscal loss carry forward	(5,933,349,253,540)	(5,858,017,957,901)
Total estimated taxable loss	<u>(6,556,120,591,120)</u>	<u>(7,471,823,776,010)</u>
Estimated corporate income tax	<u>—</u>	<u>—</u>
Prepaid taxes :		
Income tax article 22	(52,870,751,210)	(19,963,135,644)
Income tax article 23	(7,120,292,335)	(2,431,798,088)
Total prepaid taxes	<u>(59,991,043,545)</u>	<u>(22,394,933,732)</u>
Estimated overpayment of corporate income tax	<u>(59,991,043,545)</u>	<u>(22,394,933,732)</u>
Estimated overpayment of corporate income tax of subsidiaries	<u>(26,181,427)</u>	<u>(118,015,242)</u>

- Taxable loss for the year ended December 31, 2004 as reported in the 2004 corporate income tax return amounted to Rp 22,334,583,735. For this discrepancy, the Company did not make any correction to the corporate income tax return.

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

19. **TAXATIONS (Continued)**

d. **Deferred Tax**

The calculation of deferred tax assets and deferred tax liabilities is as follows :

	As of <u>December 31, 2004</u> Rp	<u>2 0 0 5</u> Credited (charged) to statement of <u>income for the year</u> Rp	As of <u>December 31, 2005</u> Rp
<u>The Company</u>			
Deferred tax assets (liabilities) :			
Fiscal loss carry forward	3,034,815,044,570	186,831,401,274	3,221,646,445,844
Valuation allowance	(3,034,815,044,570)	(186,831,401,274)	(3,221,646,445,844)
Depreciation expense of fixed assets	(409,415,360,893)	25,434,576,648	(383,980,784,245)
Amortization of deferred charges	827,307,139	709,872,489	1,537,179,628
Provision for employee entitlement	2,735,876,839	1,132,245,770	3,868,122,609
Lease expense	(3,291,128,247)	887,417,847	(2,403,710,400)
Total – the Company	<u>(409,143,305,162)</u>	<u>28,164,112,754</u>	<u>(380,979,192,408)</u>
<u>Subsidiaries</u>			
TJ	24,788,592,296	7,391,182,878	32,179,775,174
TGB	354,483,788	261,297,083	615,780,871
Total – Subsidiaries	<u>25,143,076,084</u>	<u>7,652,479,961</u>	<u>32,795,556,045</u>
Total deferred tax liabilities, net	<u>(384,000,229,078)</u>	<u>35,816,592,715</u>	<u>(348,183,636,363)</u>

	As of <u>December 31, 2003</u> Rp	<u>2 0 0 4</u> Credited (charged) to statement of <u>income for the year</u> Rp	As of <u>December 31, 2004</u> Rp
<u>The Company</u>			
Deferred tax assets (liabilities) :			
Fiscal loss carry forward	2,550,673,299,237	484,141,745,333	3,034,815,044,570
Valuation allowance	(2,550,673,299,237)	(484,141,745,333)	(3,034,815,044,570)
Depreciation expense of fixed assets	(428,893,451,223)	19,478,090,330	(409,415,360,893)
Amortization of deferred charges	217,626,147	609,680,992	827,307,139
Provision for employee entitlement	2,720,458,272	15,418,567	2,735,876,839
Lease expense	(2,382,173,259)	(908,954,988)	(3,291,128,247)
Total – the Company	<u>(428,337,540,063)</u>	<u>19,194,234,901</u>	<u>(409,143,305,162)</u>

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

19. **TAXATIONS** (Continued)

d. **Deferred Tax** (Continued)

	As of December 31, 2003 Rp	2 0 0 4 Credited (charged) to statement of income for the year Rp	As of December 31, 2004 Rp
<u>Subsidiaries</u>			
TJ	3,309,987,336	21,478,604,960	24,788,592,296
TGB	330,065,700	24,418,088	354,483,788
Total – Subsidiaries	<u>3,640,053,036</u>	<u>21,503,023,048</u>	<u>25,143,076,084</u>
Total deferred tax liabilities, net	<u>(424,697,487,027)</u>	<u>40,697,257,949</u>	<u>(384,000,229,078)</u>

The recognition of the Company' deferred tax assets is based on management's estimates of the results of future operations including an estimate of output levels and commodity prices for the Company's products, the timing and extent of the reversal certain of the Company's deferred tax liabilities, and certain tax planning strategies. Based on these estimates, management believes that the Company will not realize its deferred tax asset arising from fiscal loss carry forward. Accordingly, the management had made a valuation allowance of Rp 3,221,646,445,884 and Rp 3,034,815,044,570 at December 31, 2005 and 2004, respectively.

A reconciliation between the total tax income (expense) and the amounts computed by applying the effective tax rate to profit (loss) before income tax is as follows :

	2 0 0 5 Rp	2 0 0 4 Rp
Loss before income tax as per consolidated statements of income	(879.045.794.725)	(2,088,588,534,372)
Extraordinary items	1.423.797.000	–
Loss before income tax of the Subsidiaries	149.968.103.401	342,110,704,097
Loss before income tax of the Company	<u>(727.653.894.324)</u>	<u>(1,746,477,830,275)</u>
Tax benefit at effective tax rate of 30%	<u>(218,296,168,298)</u>	<u>(523,943,349,083)</u>
Valuation allowance	<u>186,831,401,274</u>	<u>484,141,745,433</u>
Tax effect of non-deductible expense (non-taxable income)	<u>3,300,654,269</u>	<u>20,607,368,749</u>
Tax income of the Company	(28,164,112,754)	(19,194,234,901)
Tax income of the Subsidiaries	(7.652.479.961)	(21,503,023,048)
Total tax income	<u>(35.816.592.715)</u>	<u>(40,697,257,949)</u>

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

19. **TAXATIONS (Continued)**

e. **Tax Income (Expense)**

	2 0 0 5 Rp	2 0 0 4 Rp
Current income tax expense:		
The Company	-	-
Subsidiaries	-	-
	-	-
Deferred tax income (expense) :		
The Company	(28.164.112.754)	(19,194,234,901)
Subsidiaries	(7.652.479.961)	(21,503,023,048)
	(35.816.592.715)	(40,697,257,949)
Tax income	(35.816.592.715)	(40,697,257,949)

f. **Tax Assessment Letter**

a. The Company :

- On March 29, 2005, the Indonesian Tax Authorities (Direktorat Jenderal Pajak Kantor Pelayanan Pajak Wajib Pajak Besar Dua) issued an Income Tax Article 21 assessment letter for the fiscal year 2003 No. 00006/501/03/092/05 stated that the Company had no additional tax liability.
- On March 29, 2005, the Indonesian Tax Authorities (Direktorat Jenderal Pajak Kantor Pelayanan Pajak Wajib Pajak Besar Dua) issued an Income Tax Article 23 assessment letter for the fiscal year 2003 No. 00019/203/03/092/05 stated that the Company had no additional tax liability.
- On March 29, 2005, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Wajib Pajak Besar Dua) issued a Value Added Tax assessment letter for fiscal year 2003 No. 00013/207/03/092/05 stated that the Company had additional tax liability of Rp 8,087,279.239. The tax liability had been compensated on March 2005 with the overpayment of 2003 corporate income tax.
- On March 29, 2005, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Wajib Pajak Besar Dua) issued an Income Tax Article 23 assessment letter for fiscal year 2003 No. 00014/203/03/092/05 stated that the Company had additional tax liability of Rp 2,996,117. The tax liability had been compensated on March 2005 with the overpayment of 2003 corporate income tax.

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

19. **TAXATIONS** (Continued)

f. **Tax Assessment Letter** (Continued)

a. The Company (Continued)

- On March 29, 2005, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Wajib Pajak Besar Dua) issued a Corporate Income Tax Assessment Letter for the fiscal year 2003 No. 00019/406/03/092/05 stated that the Company had an overpayment of income tax amounted to Rp 11,224,356,753. The overpayment had been compensated with other tax liabilities.
- On March 29, 2005, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Wajib Pajak Besar Dua) issued a Corporate Income Tax Assessment Letter for the fiscal year 2003 No. 00010/204/03/092/05 stated that the Company had an overpayment of income tax amounted to Rp 44,679,970,029. The overpayment had not been paid yet.
- On April 15, 2005, the Indonesian Tax Authorities (Direktorat Jenderal Pajak Kantor Pelayanan Pajak Semarang Barat) issued an Income Tax Article 23 assessment letter for the fiscal year 2003 No. 00060/203/03/503/05 stated that the Company had additional tax liability of Rp 33,263,567. The tax liability had not been paid.
- On September 12, 2005, the Indonesian Tax Authorities (Direktorat Jenderal Pajak Kantor Pelayanan Pajak Wajib Pajak Besar Dua) issued a Value Added Tax assessment letter for the fiscal year 2003 No. 00032/107/03/092/05 stated that the Company had additional tax liability of Rp 554,519,233. The tax liability had been paid in December 2005.
- On April 4, 2005, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Karawang) issued an Income Tax article 23 Assessment Letter for fiscal year 2003 No. 00088/203/03/408/05 stated that the Company had additional tax liability of Rp 24,471,183. The tax liability had been paid on June 9, 2005.
- On April 4, 2005, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Karawang) issued an Income Tax article 21 Assessment Letter for fiscal year 2003 No. 00078/201/03/408/05 stated that the Company had additional tax liability of Rp 61,708,010. The tax liability had been paid on June 9, 2005.
- On April 4, 2005, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Karawang) issued an Income Tax article 4 (2) Assessment Letter for fiscal year 2003 No. 00039/540/03/408/05 stated that the Company had additional tax liability of Rp Nil.

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

19. **TAXATIONS** (Continued)

f. **Tax Assessment Letter** (Continued)

a. The Company (Continued)

- On June 28, 2004, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Wajib Pajak Besar Dua) issued a Corporate Income Tax Assessment Letter for the fiscal year 2002 No. 00037/406/02/092/04 stated that the Company had an overpayment of income tax amounted to Rp 10,229,383,762 based on the taxable loss of Rp 870,743,203,377.
- On March 29, 2004, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Wajib Pajak Besar Dua) issued decision letter No. Kep. 118/WPJ.19/BD.05/2004 to deduction or write off administration penalty amounting to Rp 5,212,825,768 on Underpaid Value Added Tax Assessment Letter for fiscal period February 2003 No. 00003/207/03/092/03 amounting to Rp 5,838,738,539. Based on deduction or write off administration penalty the Company had tax liability of Rp 625,912,771. The tax liability had been compensated on July 27, 2004 with the overpayment of 2002 corporate income tax.
- On April 01, 2004, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Wajib Pajak Besar Dua) issued decision letter No. Kep. 126/WPJ.19/BD.05/2004 to deduction or write off administration penalty amounting to Rp 3,495,456,970 on Underpaid Value Added Tax Assessment Letter for fiscal period March 2003 No. 00004/207/03/092/03 amounting to Rp 3,915,162,376. Based on deduction or write off administration penalty the Company had tax liability of Rp 419,705,406. The tax liability had been compensated on July 27, 2004 with the overpayment of 2002 corporate income tax.
- On April 01, 2004, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Wajib Pajak Besar Dua) issued decision letter No. Kep. 127/WPJ.19/BD.05/2004 to deduction or write off administration penalty amounting to Rp 4,979,012,709 on Underpaid Value Added Tax Assessment Letter for fiscal period January 2003 No. 00002/207/03/092/03 amounting to Rp 5,576,851,151. Based on deduction or write off administration penalty the Company had tax liability of Rp 597,838,442. The tax liability had been compensated on July 27, 2004 with the overpayment of 2002 corporate income tax.

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

19. **TAXATIONS** (Continued)

f. **Tax Assessment Letter** (Continued)

a. The Company (Continued) :

- On June 28, 2004, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Wajib Pajak Besar Dua) issued a Value Added Tax Assessment Letter for fiscal period January up to December 2002 No. 00015/277/02/092/04 stated that the Company had additional tax liability of Rp 383,117,096. The tax liability had been compensated on July 27, 2004 with the overpayment of 2002 corporate income tax.
- On June 28, 2004, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Wajib Pajak Besar Dua) issued an Income Tax article 26 Assessment Letter for fiscal period January up to December 2002 No. 00015/204/02/092/04 stated that the Company had additional tax liability of Rp 43,794,145,373. The tax liability had not been paid yet.
- On June 28, 2004, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Wajib Pajak Besar Dua) issued an Income Tax article 23 Assessment Letter for fiscal period January up to December 2002 No. 00032/203/02/092/04 stated that the Company had additional tax liability of Rp 1,020,409. The tax liability had been compensated on July 27, 2004 with the overpayment of 2002 corporate income tax.
- On June 28, 2004, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Wajib Pajak Besar Dua) issued a Value Added Tax Assessment Letter for fiscal period October up to December 2002 No. 00044/207/02/092/04 stated that the Company had additional tax liability of Rp 24,707,482,170. The tax liability of Rp 5,352,748,814 had been compensated on July 27, 2004 with the overpayment of 2002 corporate income tax and the tax liability of Rp 3,114,012,512 had been compensated on March 29, 2005 with overpayment of 2003 corporate income tax.
- On June 28, 2004, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Semarang Barat) issued an Income Tax article 21 Assessment Letter for fiscal period January up to December 2002 No. 00012/501/02/092/04 stated that the Company had no additional tax liability.
- On June 28, 2004, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Semarang Barat) issued an Income Tax article 4(2) Assessment Letter for fiscal period January up to December 2002 No. 00016/540/02/092/04 stated that the Company had no additional tax liability.

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

19. **TAXATIONS** (Continued)

f. Tax Assessment Letter (Continued)

a. The Company (Continued) :

- On July 14, 2004, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Wajib Pajak Besar Dua) issued decision letter No. Kep 306/WPJ.19/BD.05/2004 to reject deduction or write off administration penalty amounting to Rp. 2,070,096,546 on underpaid Value Added Tax Assessment Letter for fiscal period April 2003 No. 00005/207/03/092/03 amounting to Rp 2,070,096,546. Based on reject deduction or write off administration penalty the company had tax liability of Rp 2,070,096,546. The tax liability had been compensated on July 27, 2004 with the overpayment of 2002 corporate income tax.
- On July 16, 2004, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Wajib Pajak Besar Dua) issued an Income Tax article 23 Assessment Letter for fiscal period January up to December 2002 No. 00058/203/02/503/04 stated that the Company had additional tax liability of Rp 35,136,034. The tax liability had not been paid yet.
- On July 16, 2004, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Wajib Pajak Besar Dua) issued an Income Tax article 4(2) Assessment Letter for fiscal period January up to December 2002 No. 00027/240/02/503/04 stated that the Company had additional tax liability of Rp 110,660,857. The tax liability had not been paid yet.
- On July 16, 2004, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Semarang Barat) issued an Income Tax article 21 Assessment Letter for fiscal year 2002 No. 00105/501/02/503/04 stated that the Company had no additional tax liability.
- On July 15, 2004, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Karawang) issued an Income Tax article 23 Assessment Letter for fiscal year 2002 No. 00107/203/02/408/04 stated that the Company had additional tax liability of Rp 48,541,864. The tax liability had been paid on September 10, 2004.

b. Subsidiaries (TJ and TGB) :

- On June 15, 2005, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Masuk Bursa) issued a Corporate Income Tax Assessment Letter for 2003, No. 00156/406/03/054/05 stated that the Subsidiary (TJ) has overpayment of Rp 294,562,328 based on taxable loss of Rp 213,392,604,641. The overpayment had been compensated with other tax liabilities.

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

19. **TAXATIONS (Continued)**

f. **Tax Assessment Letters (Continued)**

b. Subsidiaries (TJ and TGB) (Continued)

- On June 15, 2005, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Masuk Bursa) issued an Income Tax article 23 Assessment Letter for 2003, No. 00135/203/03/054/05 stated that the Subsidiary (TJ) had additional tax liability of Rp 1,119,855,133. The tax liability had not been paid yet.
- On June 15, 2005, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Masuk Bursa) issued an Income Tax article 21 Assessment Letter for 2003, No. 00078/201/03/054/05 stated that the Subsidiary (TJ) had additional tax liability of Rp 2,234,189,156. The tax liability had not been paid yet.
- On June 15, 2005, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Masuk Bursa) issued a Value Added Tax Assessment Letter for 2003, No. 00018/277/03/054/05 stated that the Subsidiary (TJ) had additional tax liability of Rp 35,026,210. The tax liability had been compensated on June 15, 2005 with the overpayment of 2003 corporate income tax.
- On June 15, 2005, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Masuk Bursa) issued a Income Tax article 4 (2) Assessment Letter for 2003, No. 00074/240/03/054/05 stated that the Subsidiary (TJ) had additional tax liability of Rp 163,112,803. The tax liability had been compensated on June 15, 2005 with the overpayment of 2003 corporate income tax.
- On June 15, 2005, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Masuk Bursa) issued an Income Tax article 26 Assessment Letters for 2003, No. 00051/504/03/054/05 stated that the Subsidiary (TJ) had no additional tax liabilities.
- On June 15, 2005, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Masuk Bursa) issued an Income Tax article 26 Assessment Letters for 2003, No. 00002/541/03/054/05 stated that the Subsidiary (TJ) had no additional tax liabilities.

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

19. **TAXATIONS** (Continued)

f. **Tax Assessment Letters** (Continued)

b. Subsidiaries (TJ and TGB) (Continued)

- On June 16, 2005, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Masuk Bursa) issued an Income Tax article 21 Collection Letter for 2003 No. 00016/101/03/054/05 stated that the Subsidiary (TJ) had additional tax liability of Rp 37,778,893. The tax liability had been compensated on June 16, 2005 with the overpayment of 2003 corporate income tax
- On June 16, 2005, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Masuk Bursa) issued an Value Added Tax Collection Letter for January 2003 up to December 2003 No. 00040/107/03/054/05 stated that the Subsidiary (TJ) had additional tax liability of Rp 60,279,382. The tax liability had been compensated at amount of Rp 58,644,422 on June 16, 2005 with the overpayment of 2003 corporate income tax
- On June 27, 2005, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Karawang) issued an Income Tax article 21 Assessment Letter for 2000, No. 00130/201/00/408/05 stated that the Subsidiary (TJ) had additional tax liability of Rp 17,208,885. The tax liability had not been paid yet.
- On June 27, 2005, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Karawang) issued an Income Tax article 21 Assessment Letter for 2001, No. 00194/201/01/408/05 stated that the Subsidiary (TJ) had additional tax liability of Rp 10,709,583. The tax liability had not been paid yet.
- On December 21, 2005, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Karawang) issued an Income Tax article 23 Collection Letter for January 2003 up to December 2003 No. 00051/103/03/408/05 stated that the Subsidiary (TJ) had additional tax liability of Rp 869,969. The tax liability had not been paid yet.
- On December 21, 2005, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Karawang) issued an Income Tax article 21 Assessment Letter for 2003, No. 00148/201/03/408/05 stated that the Subsidiary (TJ) had additional tax liability of Rp 998,346,428. The tax liability had not been paid yet.

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

19. **TAXATIONS (Continued)**

f. **Tax Assessment Letters (Continued)**

b. Subsidiaries (TJ and TGB) (Continued)

- On December 21, 2005, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Karawang) issued an Income Tax article 23 Assessment Letters for 2003, No. 00031/503/03/408/05 stated that the Subsidiary (TJ) had no additional tax liabilities.
- On December 21, 2005, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Karawang) issued an Income Tax article 21 Collection Letter for January 2003 up to December 2003 No. 00508/101/03/408/05 stated that the Subsidiary (TJ) had additional tax liability of Rp 62,874,023. The tax liability had not been paid yet.
- On July 16, 2004, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Masuk Bursa) issued a Corporate Income Tax Assessment Letter for the fiscal year 2002, No. 00142/406/02/054/04 stated that the Subsidiary (TJ) has overpayment of Rp 405,238,050 based on taxable loss of Rp 100,161,355,514. The tax receivables had been refunded by the State Treasury on July 16, 2004.
- On July 16, 2004, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Masuk Bursa) issued an Income Tax article 23 Assessment Letter for 2002, No. 00148/203/02/054/04 stated that the Subsidiary (TJ) had additional tax liability of Rp 928,839,338. The tax liability had been compensated on July 16, 2004 with the overpayment of 2002 corporate income tax balance of Rp 370,030,899 and the overpayment of March 2002 income tax article 21 of Rp 19,804,990.
- On July 16, 2004, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Masuk Bursa) issued Income Tax article 26, Income Tax Article 4 (2) and Income Tax article 21 Assessment Letters for 2002, No. 00059/540/02/054/04, No. 00073/504/02/054/04 and No. 00056/501/02/054/04 stated that the Subsidiary (TJ) had no additional tax liabilities.
- On July 16, 2004, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Masuk Bursa) issued a Value Added Tax Assessment Letter for 2002, No. 00014/277/02/054/04 stated that the Subsidiary (TJ) had additional tax liability of Rp 33,411,839. The tax liability had been compensated on July 16, 2004 with the overpayment of 2002 corporate income tax balance.

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

19. **TAXATIONS** (Continued)

f. **Tax Assessment Letters** (Continued)

b. Subsidiaries (TJ and TGB) (Continued):

- On July 23, 2004, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Pekalongan) issued Income Tax article 21 and income tax article 23 Assessment Letters for 2002, No. 00031/501/02/502/04 and No. 00005/503/02/502/04 stated that the Subsidiary (TJ) had no additional tax liabilities.
- On July 23, 2004, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Pekalongan) issued a Value Added Tax Assessment Letter for 2002, No. 00052/507/02/502/04 stated that the Subsidiary (TJ) had no additional tax liability.
- On August 8, 2004, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Karawang) issued Income Tax article 21 ,Income Tax article 23, Income Tax article 26 and Income Tax article 4 (2) Assessment Letters for 2002, No. 00051/501/02/408/04; No. 00021/503/02/408/04; No. 00034/504/02/408/04 and No. 00048/540/02/408/04 stated that the Subsidiary (TJ) had no additional tax liabilities.
- On August 3, 2004, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Karawang) issued a Value Added Tax Assessment Letter for 2002, No. 00024/277/02/408/04 stated that the Subsidiary (TJ) had additional tax liability of Rp 188,333,061. The tax liability had not been paid yet.
- On January 21, 2004, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Jakarta Kebayoran Baru Satu) issued an Income Tax article 23 Collection Letter for January up to July 2003, No. 00087/103/03/012/04 stated that the Subsidiary (TGB) had additional tax liability of Rp 1,052,735. The tax liability had been paid on February 20, 2004.
- On October 26, 2004, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Jakarta Kebayoran Baru Satu) issued an Income Tax article 21 Collection Letter for January and February 2004, No. 00024/101/04/012/04 stated that the Subsidiary (TGB) had additional tax liability of Rp 591,571. The tax liability had been paid on November 10, 2004.

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

19. **TAXATIONS** (Continued)

f. **Tax Assessment Letters** (Continued)

b. Subsidiaries (TJ and TGB) (Continued) :

- On September 14, 2004, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Jakarta Kebayoran Baru Satu) issued an Income Tax article 21 Collection Letter for 2003, No. 00851/101/03/012/04 stated that the Subsidiary (TGB) had additional tax liability of Rp 141,265. The tax liability had been paid on November 10, 2004.
- On September 14, 2004, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Jakarta Kebayoran Baru Satu) issued an Income Tax article 21 Collection Letter for 2003, No. 00115/203/02/012/04 stated that the Subsidiary (TGB) had additional tax liability of Rp 3,851,696. The tax liability had been paid on November 10, 2004.
- On July 23, 2004, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Jakarta Kebayoran Baru Satu) issued an Income Tax article 23 Collection Letter for 2003, No. 00159/103/03/012/04 stated that the Subsidiary (TGB) had additional tax liability of Rp 13,603,431. The tax liability had been paid on September 30, 2004.
- On October 25, 2004, the Indonesian Tax Authorities (Direktorat Jenderal Pajak Kantor Pelayanan Pajak Jakarta Kebayoran Baru Satu) issued a Corporate Income Tax Assessment Letter for the year 2003, No. 00023/406/03/012/04 stated based on taxable loss of Rp 1,234,012,418 the Subsidiary (TGB) had an overpayment of corporate income tax amounted of Rp 288,110,600. The tax receivable had been settled on November 8, 2004 by compensating with tax liabilities of 2002 Income Tax article 4 (2) of Rp 31,371,699; Income Tax article art 21 of Rp 43,024; Income Tax article 23 of Rp 9,506,277; Value Added Tax of Rp 38,274,203; tax liabilities of 2003 Income Tax article 4 (2) of Rp 3,676,516; Income Tax article 21 of Rp 12,530,280; Income Tax article 23 of Rp 52,199,591; Income Tax article 26 of Rp 36,516,152; Value Added Tax of Rp 81,262,726; Value Added Tax of Rp 22,730,123 and tax liability of 2000 Value Added Tax of Rp 9.
- On October 4, 2004, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Jakarta Kebayoran Baru Satu) issued an Income Tax article 4 (2) final Tax Assessment Letter for 2002, No. 00062/240/02/012/04 stated that the Subsidiary (TGB) had additional tax liability of Rp 31,371,699. The tax liability had been compensated with overpayment of 2003 Corporate Income Tax.

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

19. **TAXATIONS** (Continued)

f. **Tax Assessment Letters** (Continued)

b. Subsidiaries (TJ and TGB) (Continued) :

- On October 4, 2004, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Jakarta Kebayoran Baru Satu) issued an Income Tax article 21 Tax Assessment Letter for 2002, No. 00104/201/02/012/04 stated that the Subsidiary (TGB) had additional tax liability of Rp 43,024. The tax liability had been compensated with overpayment of 2003 Corporate Income Tax.
- On October 4, 2004, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Jakarta Kebayoran Baru Satu) issued an Income Tax article 23 Tax Assessment Letter for 2002, No. 00115/203/02/012/04 stated that the Subsidiary (TGB) had additional tax liability of Rp 9,506,277. The tax liability had been compensated with overpayment of 2003 Corporate Income Tax.
- On October 4, 2004, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Jakarta Kebayoran Baru Satu) issued an Income Tax article 4 (2) final Tax Assessment Letter for 2003, No. 00018/240/03/012/04 stated that the Subsidiary (TGB) had additional tax liability of Rp 3,676,516. The tax liability had been compensated with overpayment of 2003 Corporate Income Tax.
- On October 25, 2004, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Jakarta Kebayoran Baru Satu) issued an Income Tax article 21 Tax Assessment Letter for 2003, No. 00027/201/03/012/04 stated that the Subsidiary (TGB) had additional tax liability of Rp 12,530,200. The tax liability had been compensated with overpayment of 2003 Corporate Income Tax.
- On October 25, 2004, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Jakarta Kebayoran Baru Satu) issued an Income Tax article 23 Tax Assessment Letter for 2003, No. 00031/203/03/012/04 stated that the Subsidiary (TGB) had additional tax liability of Rp 52,199,591. The tax liability had been compensated with overpayment of 2003 Corporate Income Tax.

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

19. **TAXATIONS** (Continued)

f. Tax Assessment Letters (Continued)

b. Subsidiaries (TJ and TGB) (Continued) :

- On October 25, 2004, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Jakarta Kebayoran Baru Satu) issued an Income Tax article 26 Tax Assessment Letter for 2003, No. 00004/204/03/012/04 stated that the Subsidiary (TGB) had additional tax liability of Rp 36,516,152. The tax liability had been compensated with overpayment of 2003 Corporate Income Tax.
- On October 25, 2004, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Jakarta Kebayoran Baru Satu) issued a Value Added Tax Assessment Letter for 2003, No. 00057/207/03/012/04 stated that the Subsidiary (TGB) had additional tax liability of Rp 244,178,933. The tax liability had been compensated with overpayment of 2003 Corporate Income Tax of Rp 81,262,726.
- On October 25, 2004, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Jakarta Kebayoran Baru Satu) issued a Value Added Tax Collection Letter for 2003, No. 001893/107/03/012/04 stated that the Subsidiary (TGB) had additional tax liability of Rp 22,730,123. The tax liability had been compensated with overpayment of 2003 Corporate Income Tax.
- On October 4, 2004, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Jakarta Kebayoran Baru Satu) issued a Value Added Tax Assessment Letter for 2002, No. 00104/207/03/012/04 stated that the Subsidiary (TGB) had additional tax liability of Rp 97,405,132. The tax liability had been compensated with overpayment of 2003 and 2002 Corporate Income Tax of Rp 38,274,203 and Rp 59,130,929 respectively.
- On October 4, 2004, the Indonesian Tax Authorities (Direktorat Jenderal Pajak Kantor Pelayanan Pajak Jakarta Kebayoran Baru Satu) issued a Corporate Income Tax Assessment Letter for the year 2002, No. 00066/406/03/012/04 stated based on taxable profit of Rp 1,267,227,973 the Subsidiary (TGB) had an overpayment of corporate income tax amounted to Rp 134,474,436 . The tax receivable had been settled on October 20, 2004 by compensating with the tax liabilities of 2003 Corporate Income Tax of Rp 573,754 and Rp 1,282,646, and; Value Added Tax of Rp 23,421,222; Rp 59,130,929; Rp 17,953,775 and Rp 32,112,110.

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

19. **TAXATIONS** (Continued)

f. Tax Assessment Letters (Continued)

b. Subsidiaries (TJ and TGB) (Continued) :

- On October 25, 2004, the Indonesian Tax Authorities (Direktorat Jendral Pajak Kantor Pelayanan Pajak Jakarta Kebayoran Baru Satu) issued a Value Added Tax Collection Letter for 2003, No. 00003/277/03/012/04 stated that the Subsidiary (TGB) had additional tax liability of Rp 17,953,775. The tax liability had been compensated with overpayment of 2002 Corporate Income Tax.

20. **ACCRUED EXPENSES**

	2 0 0 5 Rp	2 0 0 4 Rp
Interest	585,684,067,327	2,452,245,192,166
Electricity	63,587,564,722	96,895,204,295
Insurance	10,623,014,263	5,932,691,917
Salary	8,947,489,175	5,125,463,739
Transportation	3,010,180,205	2,892,991,844
Rent	2,877,265,445	3,344,436,637
Others	9,675,905,524	5,526,494,291
Total	684,405,486,661	2,571,962,474,889

21. **UNSECURED DEBTS AND NOTES PAYABLE**

	2 0 0 5 Rp	2 0 0 4 Rp
<u>Banks</u> :		
Credit Agricole Indosuez (US\$ 317,445)	3,120,484,350	-
PT Bank Tabungan Negara (US\$ 2,538)	24,948,540	-
ING Bank (US\$ 412,241)	4,052,329,030	-
PT Bank Lippo Tbk. (US\$ 153,902)	1,512,856,660	-
PT Bank Sumitomo Mitsui Indonesia (US\$ 113,605)	1,116,737,150	-
	9,827,355,730	-

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
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21. UNSECURED DEBTS AND NOTES PAYABLE (Continued)

	2 0 0 5 Rp	2 0 0 4 Rp
<u>PT Bina Prima Perdana :</u> (US\$ 737,522)	7,249,850,685	-
 <u>Lease payable :</u>		
PT Exim SB Leasing (US\$ 45,413)	446,409,790	-
PT Koexim Mandiri Finance (US\$ 24,357)	239,429,310	-
PT Jaya Fuji Leasing Pratama (US\$ 14,552)	143,046,160	-
PT Hanil Bakrie Finance Corporation (US\$ 12,595)	123,808,850	-
	952,694,110	-
 <u>Notes payable :</u>		
Others (US\$ 16,836,459)	165,502,391,970	-
 Total	183,532,292,495	-

The Company's taking steps to implement the Restructure Proposal (Rencana Perdamaian) as approved by the unsecured creditors of the Company and ratified by the Commercial Court. Accordingly, the new unsecured creditors comprising of Banks, PT Bina Prima Perdana, Leasing, and notes stand at Rp 183,532,292,495 (US\$ 18,670,630) and the remaining of unsecured amount of Rp 5,660,802,013,000 (US\$ 611,978,596) has been transferred to the "Share Capital Account" as "Advance Subscriptions Amount for shares to be allotted". As per the Restructure Proposed (Rencana Perdamaian), the Company will be issuing shares to the above unsecured creditors and the new working capital lender to the extent of around of 26,363,520,000 shares. The Company is taking the requisite corporate action in relation the issuance of new shares to the creditors.

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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21. UNSECURED LOAN AND NOTES PAYABLE (Continued)

The restructured unsecured debt of Rp 183,532,292,495 is repayable over a period of 9 years beginning 4th years from the date of restructure as below :

<u>Year</u>	
2009	5,0%
2010	17,5%
2011	17,5%
2012	17,5%
2013	20,0%
2014	22,5%

The interest rate for the restructured debt is as below :

<u>Year</u>	<u>Interest</u>
2006	2% p.a.
2007	2% p.a.
2008	2% p.a.
2009 and onwards	4% p.a.

22. WORKING CAPITAL LOAN

	2 0 0 5 Rp	2 0 0 4 Rp
<u>Third party :</u>		
Damiano Investment BV, Netherland (US\$ 2,500,000)	24,575,000.000	-

Damiano Investments BV has agreed to provide US\$ 15 million working capital loan to the Company as at Composition Plan approved by the unsecured creditors. Accordingly, they have started injecting the funds into the Company. The interest chargeable on this loan is 9% p.a. till the implementation of the Composition Plan. Upon implementation of the Composition Plan, the rate of interest and repayment of the principal amount are as per the terms of the “New Notes / Loan restructure” (Note 21).

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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23. DUE TO RELATED PARTIES

	2 0 0 5	2 0 0 4
	Rp	Rp
PT Bima Peranan Busana	13,649,470,385	13,649,470,385
PT Perkasa Heavyndo Engineering	1,695,957,586	1,907,159,003
Polysindo Japan Ltd., Japan	1,264,537,914	-
PT Waniaindah Busana Tbk	128,200,000	128,200,000
PT Sumatex Subur	-	2,800,823,319
PT Wismakarya Prasetya	-	17,005,554
Total	<u>16,738,165,885</u>	<u>18,502,658,261</u>

Payables to related parties represent advances to the Company in Rupiah currency and are non interest bearing with no terms of payment.

24. OBLIGATION UNDER CAPITAL LEASE

<u>Lessors</u>	<u>Type of asset</u>	<u>2 0 0 5</u>	<u>2 0 0 4</u>
		Rp	Rp
PT Exim SB Leasing	Machinery	11,453,786,542	25,074,934,888
PT Hanil Bakrie Finance Corporation	Machinery	10,324,066,316	14,949,667,831
PT Perjahl Leasing Indonesia	Machinery	12,127,448,030	11,461,240,305
PT Koexim Mandiri Finance	Vehicle, Machinery	5,920,992,172	13,238,721,093
PT GE Astra Finance	Machinery	3,238,660,512	3,060,748,337
PT Jaya Fuji Leasing Pratama	Machinery	-	4,566,250,528
PT Primus Financial Service	Vehicle	-	94,562,500
PT Central Sari Finance	Vehicle	-	38,123,136
Total		43,064,953,572	72,484,248,618
Less : Current maturity of obligation under capital lease		(42,328,270,370)	(63,242,132,807)
Long-term portion		<u>736,683,202</u>	<u>9,242,115,811</u>

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

24. OBLIGATION UNDER CAPITAL LEASE (Continued)

In 2003, the management of the Company and Subsidiary had completed negotiations with creditors for the restructuring of all the existing lease liabilities. Following are significant details of the lease agreements after restructuring.

<u>Lessor</u>	<u>Interest rate</u>	<u>Ended</u>
<u>The Company</u>		
PT Koexim Mandiri Finance	3 month SIBOR + 2,5%	2006
PT Jaya Fuji Leasing Pratama	3 month SIBOR + 2%	2004
PT Hanil Bakrie Finance Corp	3 month SIBOR + 2%	2003
PT Exim SB Leasing	6 month SIBOR + 2%	2006
PT Primus Financial Services	13,33%	2005
<u>Subsidiary (TJ)</u>		
PT Hanil Bakrie Finance Corp	SIBOR + 2%	2007
PT Koexim Mandiri Finance	SIBOR + 2.55%	2004
PT Perjahl Leasing Indonesia	SIBOR + 2.8125%	2003
PT Exim SB Leasing	SIBOR + 2%	2005
PT GE Astra Finance	SIBOR + 4.75% for 1999 SIBOR + 2.75% from 2000 until 2002	2002
PT Central Sari Finance	11.10%	2005

The future minimum lease payments under capital lease as of December 31, 2005 and 2004 are as follows :

	2 0 0 5 Rp	2 0 0 4 Rp
Year ending December 31,		
2005	-	73,501,090,309
2006	47,979,103,769	8,715,796,457
2007	<u>736,683,202</u>	<u>696,211,180</u>
Total minimum lease payments	48,715,786,971	82,913,097,946
Less : amount representing interest	<u>(5,650,833,399)</u>	<u>(10,428,849,328)</u>
Obligation under capital lease	43,064,953,572	72,484,248,618
Less : current maturity of obligation under capital lease	(42,328,270,370)	(63,242,132,807)
Long-term portion	<u><u>736,683,202</u></u>	<u><u>9,242,115,811</u></u>

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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25. CAPITAL STOCK

The composition of stockholders as of December 31, 2005 and 2004 based on the stockholder's list issued by the Stock Administrative Office of listed shares of the Company, PT Datindo Entrycom are as follows :

<u>Stockholders</u>	<u>Numbers of shares</u>	<u>Percentage of ownership</u> %	<u>Total Rp</u>
PT Multikarsa Investama	2,627,894,390	59.81	1,313,947,195,000
Public (below 5% each)	1,766,025,610	40.19	883,012,805,000
Total	<u>4,393,920,000</u>	<u>100.00</u>	<u>2,196,960,000,000</u>

Pursuant to General Shareholders Meeting with notarial deed of Aulia Taufani, SH, No. 100 dated December 27, 2002, the shareholders agreed to approve changes of the Company's Article of Association for authorized share capital from Rp 8,500,000,000,000 to become Rp 16,000,000,000,000 and, issued and paid-in capital from Rp 2,196,960,000,000 to become Rp 4,174,224,000,000. However, the approval from Ministry of Justice and Human Rights for these changes is still in process.

According to notarial deed of DR. H. Teddy Anwar, SH. Spn. No. 111 dated August 16, 2002; total shares of 2,454,081,290 owned by PT Multikarsa Investama were sold to PT Bina Prima Perdana. But based on the data are issued by PT Datindo Entrycom, the shares are still registered under the name of PT Multikarsa Investama.

Mr. Slamet Nugroho, Mr. Kalpathi Hari Haran Sivasubramanian and Mr. Seeniappa Jegatheesan represents Commissioner and Director of the Company for 2005 and 2004 with ownership of 47,760, 23,880 and 47,760 shares respectively of paid-in capital for 2005 and 2004.

26. ADDITIONAL PAID-IN CAPITAL

	2 0 0 5 Rp	2 0 0 4 Rp
Paid-in capital in excess of par value from public offering in 1990	25,800,000,000	25,800,000,000
Shares issuance cost	(13,807,386,447)	(13,807,386,447)
Total	<u>11,992,613,553</u>	<u>11,992,613,553</u>

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

27. ADVANCE FOR FUTURE STOCK SUBSCRIPTION

As per the Restructure Proposal (Rencana Perdamaian) the Company will be issuing 16,780,718,747 shares to unsecured creditors and 26,363,520,000 shares to Damiano Investments BV in regard to debt to equity conversion of Rp 5,660,802,013,000 (Note 21)

	2 0 0 5 Rp	2 0 0 4 Rp
<u>Banks :</u>		
Credit Agricole Indosuez (US\$ 10,405,076)	96,246,953,000	-
PT Bank Tabungan Negara (US\$ 83,197)	769,572,250	-
ING Bank (US\$ 13,512,290)	124,988,682,500	-
PT Bank Lippo Tbk. (US\$ 5,044,551)	46,662,096,750	-
PT Bank Sumitomo Mitsui Indonesia (US\$ 3,723,705)	34,444,271,250	-
	303,111,575,750	-
<u>PT Bina Prima Perdana :</u>		
(US\$ 24,174,189)	223,611,248,250	-
<u>Leasing :</u>		
PT Exim SB Leasing (US\$ 1,488,532)	13,768,921,000	-
PT Koexim Mandiri Finance (US\$ 798,355)	7,384,783,750	-
PT Jaya Fuji Leasing Pratama (US\$ 476,971)	4,411,981,750	-
PT Hanil Bakrie Finance Corporation (US\$ 412,828)	3,818,659,000	-
	29,384,345,500	-
<u>Notes Payables :</u>		
Others (US\$ 551,858,902)	5,104,694,843,500	-
Total	5,660,802,013,000	-

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

28. RETIREMENT BENEFITS

The Company and TJ, a consolidated subsidiary, established defined benefit pension plans covering all of their local permanent employees. These plans provide pension benefits based on years of service and salaries of the employees.

The pension plans are managed by Dana Pensiun Texmaco Group (DPTG), which deed of establishment was approved by the Minister of Finance of the Republic of Indonesia in his decision letter No. Kep.239/KM.17/1993, dated October 22, 1993. DPTG was established by the Texmaco Group as founder and the Company and TJ as cofounders.

The pension plans are funded by the contributions from both employers and employees. Employees' contributions in 2005 and 2004 amounted to 5% of their gross salaries and the remaining amounts were contributed by the employers.

Pension expense for 2005 dan 2004 are as follows :

	2 0 0 5 Rp	2 0 0 4 Rp
Current service cost – total	1,041,935,160	2,734,535,698
Current service cost – employees	(520,967,580)	(1,367,267,849)
Total current service cost – the Company and TJ	<u>520,967,580</u>	<u>1,367,267,849</u>

The actuarial liability and net assets based on the actuarial report of DPTG as of December 31, 2005 and 2004 are as follows :

	2 0 0 5 Rp	2 0 0 4 Rp
Net assets	72,751,962,455	100.958.242.684
Actuarial liability	(59,820,854,629)	(88.389.176.260)
Excess of net assets over actuarial liability	<u>12,931,107,826</u>	<u>12.569.066.424</u>

The assets of pension fund mainly consist of time deposits, marketable securities, long-term investments in shares, land and buildings.

The key actuarial assumptions used by PT Sienco Aktuarindo Utama, an independent actuary, are as follows :

Mortality	:	1949 annuity Mortality Table
Normal pension age	:	55 years old
Disability rate	:	1% of probability of death on each level of age
Salary increase	:	6% per annum
Technical interest rate	:	11% per annum
Pension management expense	:	10% of the receipts of pension fee
Pension benefits formula	:	2.5% x work period x salary
Actuarial calculation method	:	Projected Benefits Entry Age Normal

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

29. PROVISION FOR EMPLOYEES' ENTITLEMENT

On June 20, 2000, the Ministry of Manpower issued Decree No. KEP/150/Men/2000 regarding the settlements of work dismissal and determination of separation, appreciation and compensation payment by companies, which requires companies to pay their employees gratuity and compensation benefits in case of employees resignation based on the employee's number of years of service and salaries provided the conditions set forth in the decree are met.

Further, in April 2003, the Government of the Republic Indonesia issued Manpower Law No. 13/2003 replacing the Decree No. KEP-150/Men/2000. In relation to this, as of December 31, 2005 and 2003, the Company and Subsidiaries have recorded provision for employees entitlement as follows :

	2 0 0 5 Rp	2 0 0 4 Rp
Current service cost	3,461,387,794	1,345,037,466
Interest costs	1,133,757,602	1,081,309,829
Past service cost	244,857,705	233,476,406
Net actuarial losses (gains)	20,052,801	(2,584,951,265)
Losses (gains) o curtailments and settlements	1,950,980,088	36,059,732,510
Total	<u>6,811,035,990</u>	<u>36,134,604,946</u>

The amounts included in the balance sheets arising from the Company's obligation in respect of the employees' entitlement is as follows :

	2 0 0 5 Rp	2 0 0 4 Rp
Present value of obligations	51,375,986,353	63,059,135,938
Unrecognized past service cost	(2,830,421,951)	(2,901,557,345)
Unrecognized actuarial gains (losses)	(1,065,321,284)	(1,545,163,653)
Net liability	<u>47,480,243,118</u>	<u>58,612,414,940</u>

Movements in the net liability recognized in balance sheet are as follows :

	2 0 0 5 Rp	2 0 0 4 Rp
Saldo awal	58,612,414,940	23,474,997,832
Pembayaran manfaat	(17,943,207,812)	(997,187,838)
Beban tahun berjalan	6,811,035,990	36,134,604,946
	<u>47,480,243,118</u>	<u>58,612,414,940</u>

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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29. PROVISION FOR EMPLOYEES' ENTITLEMENT (Continued)

In 2004, TJ (a subsidiary) recognized loss on curtailment or settlement of defined benefit pension program amounted to Rp 36,059,732,510 based on the amount payable to the program member employees pursuant to the Labour Law No. 13/2003 as a compensation for the dismissal of working relationship, while the Company and TGB (another subsidiary) recognized the current period expenses based on actuarial assessment made by PT Sienco Aktuarindo Utama as at December 31, 2005 and 2004.

The above actuarial assessments were made by PT Sienco Aktuarindo Utama as at December 31, 2005 and 2004 with the following assumptions:

Discount rate	: 10% p.a. in 2005 and 12% p.a. in 2004
Mortality rate	: The 1958 Commissioners' Standard Ordinary Mortality Table.
Salary growth rate	: 8% p.a. in 2005 and 10% p.a. in 2004
Normal retirement age	: 55 years old
Probability of resigned	: 0% - 1%
Fund method	: Projected Unit Credit

Management had reviewed the assumptions used and is in the opinion that the assumptions are reasonable, and also believed that the provision for severance provided is adequate to cover the potential liability required by the Labour Law No. 13/2003.

In 2005, the Subsidiaries did not record employees entitlement and did not engage independent actuaries to calculate the provision for employee entitlement due to all severance liabilities had been calculated and settled in accordance with the Labor Law No. 13/2003.

30. APPROPRIATION FOR GENERAL RESERVE

Based on the annual general stockholders' meeting as stated in notarial deed No. 351 dated June 23, 1997 and No. 402 dated June 24, 1996 of Adam Kasdarmadji, SH, notary public in Jakarta, the stockholders agreed to appropriate a general reserve aggregating to Rp 8,280,000,000 from retained earnings in accordance with article 61 of the Corporate Law No. 1 year 1995 for limited liability companies. In 2005 and 2004 the Company was exempted from reserving additional amounts due to its operating losses.

31. INSURANCE CLAIM SETTLEMENT, NET

- In 2005, this account represent the settlement of insurance claim for inventory damage of Rp 128,915,625.

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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32. BASIC NET LOSS PER SHARE

	2 0 0 5 Rp	2 0 0 4 Rp
Weighted average number of shares outstanding	4,393,920,000	4,393,920,000
Net loss for computing the loss per share	(841,805,405,011)	(2,047,891,276,423)
Basic net loss per share	(192)	(466)

33. NET SALES

	2 0 0 5 Rp	2 0 0 4 Rp
<u>Lokal</u>		
Yarn	526,489,927,722	392,752,267,619
Chips	478,007,702,370	223,841,274,289
Fibre	267,602,224,638	132,411,540,483
Knitting	13,426,706,174	20,157,047,149
Coating	2,427,518,490	2,950,689,195
Grey	1,262,225,714	3,548,767,070
Garment	1,155,327,465	13,772,140,374
Suiting	251,129,644	11,005,079,283
Georgette	135,036,931	7,471,354,772
Maklon	-	359,652,076
Others	33,273,233,070	15,914,842,463
	<u>1,324,031,032,218</u>	<u>824,184,654,773</u>
<u>Export</u>		
Yarn	733,072,469,161	378,177,813,644
PTA	612,845,279,496	508,869,152,874
Chips	119,400,501,057	38,401,673,840
Fibre	102,855,587,528	51,833,580,511
Knitting	43,612,659,349	36,791,747,887
Garment	1,514,137,729	15,550,895,076
Suiting	-	19,949,509,003
Georgette	-	19,859,294,488
	<u>1,613,300,634,320</u>	<u>1,069,433,667,323</u>
Total	<u>2,937,331,666,538</u>	<u>1,893,618,322,096</u>

In 2005 and 2004, net sales were made to related parties amounted to Rp 481,704,493,850 and Rp 232,730,396,332 or 16.04% and 11.81% respectively of total operating revenues (Note 41).

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33. NET SALES (Continued)

In connection with pre-financing from customer, in 2005 and 2004 the Company has sales to Winsway International Petroleum Ltd., China amounted to Rp 589,621,962,496 and Rp 508,561,911,855 or 19.64% and 25.81% of total operating revenues.

In 2005 and 2004, no sales to third parties exceeded 10% of total operating revenues.

34. OTHER OPERATING REVENUES

	2 0 0 5 Rp	2 0 0 4 Rp
Makloon	42,346,747,049	52,584,644,118
Indirect materials	14,750,505,955	8,822,136,256
Waste	10,115,797,516	15,307,984,547
Total	<u>67,213,050,520</u>	<u>76,714,764,921</u>

In 2005 and 2004, other operating revenues were made to related parties amounted to Rp 11,957,058,837 and Rp 8,013,072,563 or 0.40% and 0.41% respectively of total operating revenues (Note 41).

In 2005 and 2004, no sales to third parties exceeded 10% of total operating revenues.

35. COST OF GOODS SOLD

	2 0 0 5 Rp	2 0 0 4 Rp
Raw materials used	1,600,127,950,936	994,790,816,423
Direct labour	64,569,624,991	86,755,102,111
Manufacturing expense	1,168,623,125,977	1,094,063,061,659
Total manufacturing cost	<u>2,833,320,701,904</u>	<u>2,175,608,980,193</u>
Work in process		
At beginning of year	36,378,824,847	42,280,807,665
At end of year	(35,802,334,019)	(36,378,824,847)
Cost of goods manufactured	<u>2,833,897,192,732</u>	<u>2,181,510,963,011</u>
Finished goods		
At beginning of year	71,147,338,138	99,082,382,674
Purchases	489,654,750,933	282,938,559,589
At end of year	(71,918,313,414)	(71,147,338,138)
Cost of goods sold	<u>(3,322,780,968,389)</u>	<u>2,492,384,567,136</u>

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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35. COST OF GOODS SOLD (Continued)

In 2005 and 2004, total purchase of raw materials, indirect materials, spare parts and finished goods were made from related parties amounted to Rp 478,245,811,900 and Rp 297,441,856,110 or 23.15% and 22.85% respectively of total purchases (Note 41).

In connection with prefinancing from customer in 2005 and 2004, the company has purchases from Winsway International Petroleum Ltd, China amounted to Rp 490,587,655,224 and Rp 455,807,079,780 or 23.75% and 34.67% of total purchases.

In 2005 and 2004, no purchase to third parties exceeded 10% of total purchases.

36. SELLING EXPENSES

	2 0 0 5 Rp	2 0 0 4 Rp
Export charges	62,365,544,110	42,628,636,032
Marketing expenses	54,395,042,380	13,501,205,150
Freight	20,445,343,232	15,821,586,949
Advertising and promotion	329,522,600	398,218,971
Others	4,376,626,752	1,151,931,433
Total	<u>141,912,079,074</u>	<u>73,501,578,535</u>

37. GENERAL AND ADMINISTRATIVE EXPENSES

	2 0 0 5 Rp	2 0 0 4 Rp
Salaries, wages and benefits	27,672,485,072	31,104,911,960
Allowance for doubtful accounts	11,696,567,750	97,377,031,347
Rent	10,017,490,660	11,097,415,565
Business traveling expenses	8,503,964,046	8,349,696,524
Communication	5,369,919,818	6,131,374,224
Professional fees	5,264,632,555	2,491,807,866
Tax penalties	4,765,737,098	23,353,391,220
Insurance	4,373,147,619	3,126,951,114
Amortization	3,993,539,182	3,993,539,180
Depreciation expense of fixed assets	3,566,672,502	3,064,015,855
Repairs and maintenance	2,579,629,766	1,683,001,606
Stationery	1,653,309,384	1,095,574,064
Entertainment and representation	569,250,343	348,357,966
Electricity and water	272,755,547	152,196,870
Others	27,905,406,676	30,341,853,565
Total	<u>118,204,508,018</u>	<u>223,711,118,926</u>

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

38. INTEREST EXPENSE AND BANK CHARGES

	2 0 0 5 Rp	2 0 0 4 Rp
Interest expense on :		
Short term loans	12,882,635,415	8,472,679,254
Obligation under capital lease	683,362,576	1,345,451,345
Notes payable	212,694,444	-
Total interest expense	13,778,692,435	9,818,130,599
Bank charges	2,862,150,307	2,471,505,247
Total	16,640,842,742	12,289,635,846

39. INTEREST INCOME

	2 0 0 5 Rp	2 0 0 4 Rp
Current accounts and others	49,231,149	105,782,515

40. EXTRAORDINARY ITEM

On February 15, 2005, the Company implemented the Composition Plan as approved by the unsecured creditors and ratified by the Commercial Court. The detail of gain from this implementation is as follows:

	Before Restructuring US\$	After Restructuring US\$	Exchange Rate Rp/US\$	Gain Rp
	US\$	US\$	Rp/US\$	Rp
Lease payable	3,288,584	3,273,599	9,250	138,611,250
Letter of credit	11,811,780	11,746,841	9,250	600,685,750
Notes payable	1,224,000	1,150,000	9,250	684,500,000
Total	16,324,364	16,170,440		1,423,797,000

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

41. NATURE AND TRANSACTION WITH RELATED PARTIES

Nature of relationships and transaction with related parties :

<u>Name of the related parties</u>	<u>Nature of the related parties</u>	<u>Transaction</u>
PT Multikarsa Investama	Major stockholder	Loan
PT Perkasa Indobaja	Affiliated company	Loan
PT Texmaco Perkasa Engineering Tbk	Affiliated company	Sales, purchase of machinery
PT Texmaco Taman Synthetics	Affiliated company	Sales, purchase of raw materials
PT Wastra Indah	Affiliated company	Sales, purchase
PT Bima Peranan Busana	Affiliated company	Sales, purchase
PT Citra Indah Tekstil	Affiliated company	Sales, purchase of raw materials
Polysindo (UK) Ltd., England	Affiliated company	Sales
Polysindo (USA) Inc., USA	Affiliated company	Sales
Polysindo (Japan) Inc., Japan	Affiliated company	Purchase
Polysindo (Singapore) Ltd., Singapore	Affiliated company	Purchase
PT Saritex Jaya Swasthi	Affiliated company	Loan
PT Wismakarya Prasetya	Affiliated company	Sales
PT Busana Perkasa Garments	Affiliated company	Sales
PT Ungaran Sari Garments	Affiliated company	Sales
PT Citra Abadi Sejati	Affiliated company	Sales
Pacific Textiles s.a.	Affiliated company	Sales
PT Sumatex Subur	Affiliated company	Sales
PT Perkasa Heavyndo Engineering	Affiliated company	Sales
PT Bridgeport Perkasa Machine Tools	Affiliated company	Sales
Commonwealth Holdings Pte. Ltd., Singapore	Affiliated company	Sales
Norfil Ltd., England	Affiliated company	Sales
Drapper Texmaco Inc. Co.	Affiliated company	Sales
PT Raja Busana Mahameru	Affiliated company	Sales
Coastal Group Limited, South Africa	Affiliated company	Sales
PT Texmaco Mikro Indoutama	Affiliated company	Purchase of furniture and fixtures
Texmaco Mechatronics Pte. Ltd.	Affiliated company	Purchase
PT Devrindo Widya	Affiliated company	Service
PT Asuransi Prima Perkasa International	Affiliated company	Insurance
PT Wahana Perkasa Auto Jaya	Affiliated company	Loan
PT Waniaindah Busana Tbk	Affiliated company	Loan
PT Wahana Jaya Perkasa	Affiliated company	Loan
PT Super Mitory Utama	Affiliated company	Loan
PT Bina Prima Perdana	Affiliated company	Loan

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

41. **NATURE AND TRANSACTION WITH RELATED PARTIES (Continued)**

Nature of relationships and transaction with related parties (Continued) :

<u>Name of the related parties</u>	<u>Nature of the related parties</u>	<u>Transaction</u>
PT Sarana Daycrown Industri	Affiliated company	Loan
PT Perkasa Indosteel	Affiliated company	Loan
PT Mahkota Indah Sentosa	Affiliated company	Loan
PT Kreasi Indah Textile	Affiliated company	Loan

Related parties transaction

In the normal course of business, the Company and its subsidiaries entered into certain business and financial transactions with its related parties. These transactions are as follows :

	2 0 0 5	2 0 0 4	Percentage to total Assets/ Liabilities <u>Revenue/Expenses</u>	
	Rp	Rp	2005 %	2004 %
Trade receivables	<u>445,501,255,933</u>	<u>431,947,749,920</u>	<u>7.31</u>	<u>6.59</u>
Due from related parties	<u>613,165,329,298</u>	<u>576,906,741,292</u>	<u>10.06</u>	<u>8.80</u>
Trade payables	<u>68,447,032,488</u>	<u>59,456,254,206</u>	<u>0.56</u>	<u>0.34</u>
Due to related parties	<u>16,738,165,885</u>	<u>18,502,658,261</u>	<u>0.14</u>	<u>0.11</u>
Net sales	<u>481,704,493,850</u>	<u>232,730,396,332</u>	<u>16.03</u>	<u>11.81</u>
Other operating revenues	<u>11,957,058,837</u>	<u>8,013,072,563</u>	<u>0.40</u>	<u>0.41</u>
Manufacturing Expenses	<u>172,743,123,125</u>	<u>110,319,047,874</u>	<u>8.36</u>	<u>8.39</u>
Purchase of raw material, indirect materials, spare parts and finished goods	<u>478,245,811,900</u>	<u>297,441,856,110</u>	<u>23.15</u>	<u>22.85</u>
Purchase of fixed assets	<u>—</u>	<u>956,760,800</u>	<u>—</u>	<u>0.01</u>

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

41. **NATURE AND TRANSACTION WITH RELATED PARTIES (Continued)**

Related parties transaction (Continued)

- Sales of finished goods to related parties accounted for 16.03% and 11.81% from total operating revenue for the years ended December 31, 2005 and 2004 respectively.

The details of sales to related parties are as follows :

	2 0 0 5	2 0 0 4
	Rp	Rp
PT Multikarsa Investama	473,300,346,040	221,831,751,778
PT Ungaran Sari Garments	6,923,986,045	6,100,831,821
PT Texmaco Taman Synthetics	756,128,706	81,250,100
PT Busana Perkasa Garments	716,895,059	2,962,004,855
PT Texmaco Perkasa Engineering Tbk	7,138,000	-
Polysindo (USA) Inc., USA	-	1,745,515,231
PT Elokprima Mitra Busana	-	4,883,456
PT Raja Busana Mahameru	-	4,159,091
Total	<u>481,704,493,850</u>	<u>232,730,396,332</u>

- Other operating revenue to related parties accounted for 0.40% and 0.41% from total operating revenue for the years ended December 31, 2005 and 2004 respectively.

The details of other operating revenue to related parties are as follows :

	2 0 0 5	2 0 0 4
	Rp	Rp
PT Multikarsa Investama	11,711,737,575	6,167,802,488
PT Wismakarya Prasetya	237,957,626	1,247,458,349
PT Texmaco Taman Synthetics	6,000,000	483,265,041
PT Raja Busana Mahameru	1,363,636	-
PT Wastra Indah	-	112,249,685
PT Texmaco Micro Indoutama	-	1,922,000
PT Perkasa Heavyndo Engineering	-	375,000
Total	<u>11,957,058,837</u>	<u>8,013,072,563</u>

- Purchases of raw materials, indirect materials, spare parts and fixed assets from related parties accounted for 23.15% and 31.53% for the years ended December 31, 2005 and 2004, respectively of the total purchases.

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

41. NATURE AND TRANSACTION WITH RELATED PARTIES (Continued)

The details of purchases from related parties are as follows :

	2 0 0 5	2 0 0 4
	Rp	Rp
<u>Raw material, indirect material and spare parts</u>		
PT Texmaco Taman Synthetics	–	12,981,562,888
PT Wastra Indah	–	3,099,906,477
PT Multikarsa Investama	–	737,706,739
PT Texmaco Perkasa Engineering Tbk	–	141,669,895
Polysindo (Japan) Inc., Japan	–	134,626,122
PT Wisma Karya Prasetya	–	18,882,450
	<u>–</u>	<u>17,114,354,571</u>
<u>Finished goods</u>		
PT Multikarsa Investama	478,245,811,900	279,164,781,497
PT Texmaco Taman Synthetics	–	1,162,720,042
	<u>478,245,811,900</u>	<u>280,327,501,539</u>
<u>Machinery and equipment</u>		
PT Texmaco Perkasa Engineering Tbk	–	555,635,000
PT Raja Busana Mahameru	–	401,125,800
	<u>–</u>	<u>956,760,800</u>
<u>Others (Fabrication)</u>		
PT Wisma Karya Prasetya	170,434,281,207	108,834,219,997
PT Multikarsa Investama	1,593,430,180	7,657,158
PT Devrindo Widya	715,411,738	836,316,092
Polysindo (Japan) Inc., Japan	–	619,785,751
PT Texmaco Taman Synthetics	–	21,068,876
	<u>172,743,123,125</u>	<u>110,319,047,874</u>
Total	<u><u>650,988,935,025</u></u>	<u><u>408,717,664,784</u></u>

- Compensation representing salary, was given to commissioners and directors for the years ended December 31, 2005 and 2004 amounted to Rp 583,095,000 and Rp 547,932,000 respectively. No contribution to retirement benefits, entitlement benefits and or any other special benefits were given during the year 2005 and 2004.

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

42. ASSETS AND LIABILITIES IN FOREIGN CURRENCY

The Company and its Subsidiaries had monetary assets and liabilities in foreign currencies as of December 31, 2005 and 2004 as follows :

		<u>2 0 0 5</u>		<u>2 0 0 4</u>	
		<u>Foreign</u>	<u>Equivalent in</u>	<u>Foreign</u>	<u>Equivalent in</u>
		<u>Currency</u>	<u>Rupiah</u>	<u>Currency</u>	<u>Rupiah</u>
			Rp		Rp
<u>Assets</u>					
Cash and cash equivalents	US\$	1,296,893	12,748,459,625	609,049	5,658,066,389
	SGD	3,980	23,507,144	2,486	14,135,620
	NOK	1,108	1,119,080	1,108	1,701,556
	YEN	100	8,342	-	-
Trade receivables :					
Third parties	US\$	7,793,775	76,612,805,307	6,809,249	63,257,919,028
Related parties	US\$	6,894,976	67,777,606,313	9,936,639	92,311,378,168
Other receivables :					
Third parties	US\$	-	-	155,159	1,441,427,482
Due from related parties	US\$	-	-	5,449,743	51,168,812,340
Restricted cash in bank	US\$	1,274,387	12,527,223,012	1,284,524	11,933,230,935
Total assets			<u>169,690,728,823</u>		<u>225,786,671,518</u>
<u>Liabilities</u>					
Trade payables :					
Third parties	US\$	15,146,175	148,886,896,021	17,273,799	160,473,595,771
	YEN	747,417	62,349,537	44,000	3,978,480
	SGD	121,984	720,555,699	89,403	508,297,984
	CHF	168,004	1,257,517,516	8,939	73,255,007
	GBP	17,037	288,726,057	8,293	148,350,923
	EUR	120,294	1,402,630,117	117,510	1,486,746,657
Secured Debts	US\$	805,630,341	7,119,346,252,030	-	-
	EUR	15,689,005	182,933,798,309	-	-
	YEN	3,001,711,400	250,409,668,924	-	-
	CHF	45,902	343,825,718	-	-
Unsecured debts and notes payable	US\$	18,670,630	183,532,292,495	-	-
Working Capital Loan	US\$	2,500,000	24,575,000,000	-	-
Other current liabilities					
Third parties	US\$	4,000,000	39,320,000,000	1,190,060	11,055,655,422
Related parties	US\$	-	-	147,542	1,370,662,500
Accrued expenses	US\$	1,281,597	12,598,098,903	109,333,806	1,029,817,214,083
Notes payable; guarantee	US\$	16,141,085	158,666,868,400	1,092,681,851	10,142,977,651,176
Secured and unsecured notes	YEN	-	-	3,001,711,400	270,154,026,000

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

42. ASSETS AND LIABILITIES IN FOREIGN CURRENCY (Continued)

		<u>2 0 0 5</u>		<u>2 0 0 4</u>	
		Foreign Currency	Equivalent in Rupiah Rp	Foreign Currency	Equivalent in Rupiah Rp
Short term loans	US\$	22,363,248	219,830,728,922	166,670,640	1,548,370,256,879
	CHF	-	-	49,902	408,935,912
	EUR	-	-	14,839,132	187,746,794,184
Obligation under capital lease	US\$	-	-	7,788,112	72,351,562,982
Liabilities for purchase of fixed assets	US\$	30,476	299,581,538	30,476	283,124,363
Total liabilities			<u>(8,124,644,061,255)</u>		<u>(13,427,230,108,323)</u>
Net liabilities			<u>(7,954,953,332,432)</u>		<u>(13,201,443,436,805)</u>

43. BUSINESS SEGMENT INFORMATION

The Company and its Subsidiaries had classified its business into primary and secondary segments as follows :

<u>2005</u> (In Thousands Rupiah)	<u>Chemical industry and synthetic fibre</u> Rp 000	<u>Weaving and knitting</u> Rp 000	<u>Textile And Trading</u> Rp 000	<u>Finance Service</u> Rp 000	<u>Elimination</u> Rp 000	<u>Total</u> Rp 000
<u>BUSINESS SEGMENT INFORMATION (PRIMARY)</u>						
SEGMENT SALES :						
External sales	2,935,928,867	68,498,814	235,737	-	-	3,004,663,418
Inter segment sales	98,459	-	-		(217,161)	(118,702)
Total segment sales	<u>2,936,027,326</u>	<u>68,498,814</u>	<u>235,737</u>	<u>-</u>	<u>(217,161)</u>	<u>3,004,544,716</u>
RESULT						
Segment result	(243,549,541)	(73,563,470)	(1,116,240)	-	-	(318,236,251)
Unallocated operating expenses	(215,170,108)	(44,901,025)	-	(45,454)	-	(260,116,587)
Loss from operations						<u>(578,352,838)</u>
Other charges, net						<u>(300,692,956)</u>
Loss before income tax						(879,045,795)
Tax expense						<u>35,816,593</u>
Loss from ordinary activities						(843,229,202)
Extraordinary item						1,423,797
Net loss						<u>(841,805,405)</u>

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

43. BUSINESS SEGMENT INFORMATION (Continued)

The Company and its Subsidiaries had classified its business into primary and secondary segments as follows :

2005 (In Thousands Rupiah)	Chemical industry and synthetic fibre Rp 000	Weaving and knitting Rp 000	Textile And Trading Rp 000	Finance Service Rp 000	Elimination Rp 000	Total Rp 000
<u>BUSINESS SEGMENT INFORMATION (PRIMARY)</u>						
BALANCE SHEET :						
Segment assets	(5,858,510,308)	(533,332,534)	(2,389,435)	(7,463,114,179)	7,763,566,263	(6,093,780,193)
Segment liabilities	11,151,147,246	2,092,813,941	12,186,232	7,450,598,691	(8,590,918,905)	12,115,827,205
OTHER INFORMATION :						
Capital expenditures	(1,898,285)	(532,642)	-	-	-	(2,430,927)
Depreciation and amortization	514,060,809	74,910,014	2,079,840	-	-	591,050,663
<u>GEOGRAPHIC SEGMENT INFORMATION (SECONDARY)</u>						
SEGMENT SALES :						
Local	1,367,853,489	23,372,017	235,737	-	(217,161)	1,391,244,082
Export	1,568,173,837	45,126,797	-	-	-	1,613,300,634
Total	2,936,027,326	68,498,814	235,737	-	(217,161)	3,004,544,716
SEGMENT ASSETS :						
Local	(5,779,796,701)	(504,033,117)	(2,389,435)	-	7,763,566,263	1,477,347,010
Export	(78,713,607)	(29,299,417)	-	(7,463,114,179)	-	(7,571,127,203)
Total	(5,858,510,308)	(533,332,534)	(2,389,435)	-	(7,763,566,263)	(6,093,780,193)
CAPITAL EXPENDITURES :						
Local	(1,898,285)	(532,642)	-	-	-	(2,430,927)

2004 (Continued) (In Thousands Rupiah)	Chemical industry and synthetic fibre Rp 000	Weaving And knitting Rp 000	Trading of Textiles Rp 000	Finance service Rp 000	Elimination Rp 000	Total Rp 000
<u>BUSINESS SEGMENT INFORMATION (PRIMARY)</u>						
SEGMENT SALES :						
External sales	1,810,089,297	146,019,075	14,224,715	-	-	1,970,333,087
Inter segment sales	99,060	300,749	-	-	(399,809)	-
Total segment sales	1,810,188,357	146,319,824	14,224,715	-	(399,809)	1,970,333,087

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

43. BUSINESS SEGMENT INFORMATION (Continued)

2004 (Continued) (In Thousands Rupiah)	Chemical industry and synthetic fibre Rp 000	Weaving And knitting Rp 000	Trading of Textiles Rp 000	Finance Service Rp 000	Elimination Rp 000	Total Rp 000
<u>BUSINESS SEGMENT INFORMATION (PRIMARY)</u>						
RESULT						
Segment result	(377,295,073)	(148,745,255)	3,988,848	-	-	(522,051,480)
Unallocated operating expenses						(297,212,697)
Loss from operations						<u>(819,264,177)</u>
Other charges, net						<u>(1,269,324,357)</u>
Loss before income tax						(2,088,588,534)
Tax expense						(40,697,258)
Loss from ordinary activities						(2,047,891,276)
Extraordinary item						-
Net loss						<u>(2,047,891,276)</u>
BALANCE SHEET :						
Segment assets	<u>6,978,973,147</u>	<u>602,251,125</u>	<u>6,611,382</u>	<u>7,053,136,391</u>	<u>(8,085,487,693)</u>	<u>6,555,484,352</u>
Segment liabilities	<u>16,482,094,763</u>	<u>2,018,097,326</u>	<u>13,110,260</u>	<u>7,041,260,919</u>	<u>(8,157,324,047)</u>	<u>17,397,239,221</u>
OTHER INFORMATION :						
Capital expenditures	<u>994,514</u>	<u>1,038,261</u>	<u>1,269,352</u>	<u>-</u>	<u>-</u>	<u>3,302,127</u>
Depreciation and amortization	<u>534,204,386</u>	<u>78,513,500</u>	<u>975,367</u>	<u>-</u>	<u>-</u>	<u>613,693,253</u>
<u>GEOGRAPHIC SEGMENT INFORMATION (SECONDARY)</u>						
SEGMENT SALES :						
Local	832,237,640	55,183,758	13,209,335	-	(399,809)	900,230,924
Export	977,950,717	91,136,066	1,015,380	-	-	1,070,102,163
Total	<u>1,810,188,357</u>	<u>146,319,824</u>	<u>14,224,715</u>	<u>-</u>	<u>(399,809)</u>	<u>1,970,333,087</u>
SEGMENT ASSETS :						
Local	6,867,991,137	569,021,283	6,510,695	-	(8,085,487,693)	(641,964,578)
Export	110,982,010	33,229,842	100,687	7,053,136,391	-	7,197,448,930
Total	<u>6,978,973,147</u>	<u>602,251,125</u>	<u>6,611,382</u>	<u>7,053,136,391</u>	<u>(8,085,487,693)</u>	<u>6,555,484,352</u>
CAPITAL EXPENDITURES :						
Local	<u>994,514</u>	<u>1,038,261</u>	<u>1,269,352</u>	<u>-</u>	<u>-</u>	<u>3,302,127</u>

PT POLYSINDO EKA PERKASA Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004

44. COMMITMENTS AND CONTINGENCIES

The Company signed a Memorandum of Understanding, dated May 14, 1990, with Eastman Kodak Company, USA, to establish a joint venture company to manufacture certain special types of polyester chips and fiber in Indonesia with the name of PT Eastindo Polymertama. This joint venture company was established based on the notarial deed No. 68 of Esther Daniar Iskandar, SH, notary in Jakarta, dated October 17, 1991 as approved by the Minister of Justice of the Republic of Indonesia in his decision letter No. C2-1990.HT.01.01.TH.92 dated February 28, 1992. The Company along with Eastman Kodak Company, USA decided to postpone the commencement of the operations of PT Eastindo Polymertama to a later date. Such date, as well as the commercial terms would be mutually agreed upon by both parties. Until then, both the subscribers have decided to postpone paying on their unpaid subscriptions.

45. LITIGATION CASES AND CLAIMS

Litigation currently involving the Company is as follows :

- The Company has received a claims from Bea Cukai for Rp 34,317,565,790 towards the payment of VAT Import (PPN Impor) and Custom Duty (Bea Masuk). The Company has imported remmaterials using Bapeksta facility but could not achieve the requisite export quantity to set-off the imports. Hence Bea Cukai has raised a claim on the Company for the above mentioned amount. The Company will issue a promissory letter to pay the liability on 12 monthly installments basis and Custom Bond. The Company has paid the installments due beginning January 2006 till March 2006. The Company has also received a claim from Bea Cukai for Rp 12,999,911,544 toward the payment of VAT import (PPN import) due to shortage of export vis a vis import of raw materials. However, this amount was fully settled in December 2005.

46. RECLASSIFICATION OF ACCOUNTS

Certain account in the 2004 consolidated financial statements have been reclassified in line with the presentation of the 2005 consolidated financial statements. The detail of the account is as follows :

Previous report	As reclassified	Amount Rp	Description
Accrued expense	Tax payable	19,026,774,027	More appropriate presentation
Guaranteed secured and unsecured notes	Payable from related party	2,415,400,000	More appropriate presentation

47. PREPARATION AND COMPLETION OF THE FINANCIAL STATEMENTS

The Company's directors are responsible for the preparation of the financial statements and completed on March 24, 2006.