



Stock code : 1768

Joint Global Co-ordinators and Joint Sponsors
(in alphabetical order)



Morgan Stanley

Sateri Holdings Limited Global Offering

Joint Bookrunners and Joint Lead Managers



Morgan Stanley



IMPORTANT

If you are in any doubt about the contents of this prospectus, you should seek independent professional advice.

Sateri

Sateri Holdings Limited
賽得利控股有限公司

(Incorporated in Bermuda with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering : 505,330,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares : 50,533,000 Shares (subject to reallocation)
Number of International Offer Shares : 454,797,000 Shares (subject to reallocation and the Over-allotment Option)
Maximum Offer Price : HK\$9.20 per Offer Share plus brokerage of 1.0%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value : US\$0.05 per Share
Stock code : 1768

*Joint Global Coordinators and Joint Sponsors
(in alphabetical order)*


CREDIT SUISSE

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Joint Bookrunners and Joint Lead Managers


CREDIT SUISSE

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 BOC INTERNATIONAL

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix X to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any of the other documents referred to above.

The Offer Price is expected to be determined by agreement between the Joint Bookrunners (on behalf of the Underwriters) and our Company on or about Thursday, December 2, 2010 and, in any event, not later than Monday, December 6, 2010. The Offer Price will be not more than HK\$9.20 per Offer Share and is currently expected to be not less than HK\$6.60 per Offer Share, unless otherwise announced. Investors applying for the Hong Kong Offer Shares must pay, on application, the maximum Offer Price of HK\$9.20 per Offer Share, together with brokerage of 1.0%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price is less than HK\$9.20 per Offer Share.

The Joint Bookrunners (on behalf of the Underwriters), with the consent of our Company, may reduce the indicative Offer Price range stated in this prospectus and/or reduce the number of Offer Shares being offered pursuant to the Global Offering at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction of the indicative Offer Price range and/or the number of Offer Shares will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Such notice will also be available at the website of the Hong Kong Stock Exchange at www.hkexnews.hk and at our Company's website at www.sateri.com. Further details are set out in the sections headed "Structure of the Global Offering" and "How to Apply for the Hong Kong Offer Shares" in this prospectus. If, for any reason, the Offer Price is not agreed between our Company and the Joint Bookrunners (on behalf of the Underwriters) on or before Monday, December 6, 2010 (Hong Kong time), the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.

The Offer Shares have not been and will not be registered under the US Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States, except that Offer Shares may be offered, sold or delivered to QIBs in reliance on Rule 144A. The Offer Shares may be offered, sold or delivered outside the United States in offshore transactions in accordance with Regulation S.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk Factors" in this prospectus. The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Bookrunners (on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Such grounds are set out in the section headed "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination" in this prospectus.

November 26, 2010

EXPECTED TIMETABLE⁽¹⁾

Latest time for completing electronic applications under White Form eIPO service through the designated website www.eipo.com.hk ⁽²⁾	11:30 a.m. on Wednesday, December 1, 2010
Application lists open ⁽³⁾	11:45 a.m. on Wednesday, December 1, 2010
Latest time for lodging WHITE and YELLOW Application Forms	12:00 noon on Wednesday, December 1, 2010
Latest time for completing payment of White Form eIPO applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Wednesday, December 1, 2010
Latest time for giving electronic application instructions to HKSCC ⁽⁴⁾	12:00 noon on Wednesday, December 1, 2010
Application lists close ⁽³⁾	12:00 noon on Wednesday, December 1, 2010
Expected Price Determination Date ⁽⁵⁾	Thursday, December 2, 2010
(1) Announcement of the Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and basis of allocation of the Hong Kong Offer Shares under the Hong Kong Public Offering to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on or before	Tuesday, December 7, 2010
(2) Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels as described in the section headed "How to Apply for the Hong Kong Offer Shares — Publication of Results" in this prospectus.	Tuesday, December 7, 2010
(3) A full announcement of the Hong Kong Public Offering containing (1) and (2) above to be published on the website of the Stock Exchange at www.hkexnews.hk ⁽⁶⁾ and our Company's website at www.sateri.com ⁽⁷⁾ from	Tuesday, December 7, 2010
Results of allocations in the Hong Kong Public Offering will be available at www.iporeresults.com.hk with a "search by ID" function from	Tuesday, December 7, 2010
Dispatch of Share certificates in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before ⁽⁸⁾⁽⁹⁾	Tuesday, December 7, 2010
Dispatch of White Form e-Refund payment instructions/refund cheques in respect of wholly or partially successful applications (if applicable) or wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering on or before ⁽⁹⁾⁽¹⁰⁾	Tuesday, December 7, 2010
Dealings in the Shares on the Stock Exchange expected to commence on	Wednesday, December 8, 2010

EXPECTED TIMETABLE⁽¹⁾

Notes:

- (1) All dates and times refer to Hong Kong dates and times, unless otherwise stated.
- (2) You will not be permitted to submit your application to the White Form eIPO Service Provider through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, December 1, 2010, the application lists will not open and close on that day. Please refer to the section headed “How to Apply for the Hong Kong Offer Shares — When May Applications Be Made — Effect of Bad Weather on the Opening of the Application Lists” in this prospectus. If the application lists do not open and close on Wednesday, December 1, 2010, the dates mentioned above may be affected. We will make a press announcement in such event.
- (4) Applicants who apply for the Hong Kong Offer Shares by giving electronic application instructions to HKSCC should refer to the section headed “How to Apply for the Hong Kong Offer Shares — How to Apply for the Hong Kong Offer Shares — Applying By Giving Electronic Application Instructions to HKSCC” in this prospectus.
- (5) The Price Determination Date, being the date on which the Offer Price is to be determined, is expected to be on or about Thursday, December 2, 2010 and, in any event, not later than Monday, December 6, 2010. If, for any reason, the Offer Price is not agreed between the Joint Bookrunners (on behalf of the Underwriters) and our Company on or before Monday, December 6, 2010, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.
- (6) The announcement will be available for viewing on the “Main Board — Results of Allotment” page on the Stock Exchange’s website at www.hkexnews.hk.
- (7) Neither our Company’s website nor any of the information contained on our Company’s website forms part of this prospectus.
- (8) Share certificates for the Hong Kong Offer Shares are expected to be issued on Tuesday, December 7, 2010 but will only become valid if the Global Offering has become unconditional in all respects (including the Underwriting Agreements not having been terminated in accordance with their terms) at any time prior to 8:00 a.m. on the Listing Date, which is expected to be Wednesday, December 8, 2010. Investors who trade Shares on the basis of publicly available allocation details or prior to the receipt of the Share certificates do so entirely at their own risk. If the Global Offering does not become unconditional or the Underwriting Agreements are terminated in accordance with their terms, the Global Offering will not proceed. In such a case, we will make an announcement as soon as possible thereafter.
- (9) Applicants who apply on **WHITE** Application Forms for 1,000,000 or more Hong Kong Offer Shares under the Hong Kong Public Offering and have indicated in their **WHITE** Application Forms that they wish to collect any refund cheques and Share certificates (where applicable) in person from the Hong Kong Share Registrar, may do so from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Tuesday, December 7, 2010. Applicants being individuals who opt for personal collection must not authorize any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorized representatives bearing letters of authorization from their corporation stamped with the corporation’s chop. Both individuals and representatives of corporations must produce, at the time of collection, identification and (where applicable) documents acceptable to the Hong Kong Share Registrar.
Applicants who apply on **YELLOW** Application Forms for 1,000,000 or more Hong Kong Offer Shares under the Hong Kong Public Offering and have indicated in their Application Forms that they wish to collect refund cheques in person may collect their refund cheques (if any) in person but may not elect to collect their Share certificates, which will be deposited into CCASS for the credit of their designated CCASS Participant stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.
Applicants who apply for Hong Kong Offer Shares by giving electronic application instructions to HKSCC should refer to the section headed “How to Apply for the Hong Kong Offer Shares — How to Apply for the Hong Kong Offer Shares — Applying By Giving Electronic Application Instructions to HKSCC” in this prospectus.
Applicants who apply for 1,000,000 Hong Kong Offer Shares or more through the **White Form eIPO** service by submitting an electronic application to the designated White Form eIPO Service Provider through the designated website at www.eipo.com.hk and whose applications are wholly or partially successful, may collect their Share certificates in person from Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Tuesday, December 7, 2010.
For applicants who apply for less than 1,000,000 Hong Kong Offer Shares, Share certificates will be sent to the address specified in their application instructions to the designated White Form eIPO Service Provider through the designated website at www.eipo.com.hk on Tuesday, December 7, 2010 by ordinary post and at their own risk.
Applicants who paid the application monies from a single bank account may have e-Refund payment instructions (if any) dispatched to the application payment account on Tuesday, December 7, 2010. Applicants who used multi-bank accounts to pay the application monies may have refund cheques (if any) dispatched to them on Tuesday, December 7, 2010.
Uncollected Share certificates (if applicable) and refund cheques (if applicable) will be dispatched by ordinary post (at the applicants’ own risk) to the addresses specified in the relevant Application Forms promptly thereafter. Further information is set out in the section headed “How to Apply for the Hong Kong Offer Shares — Dispatch/Collection of Share Certificates/e-Refund Payment Instructions/Refund Cheques” in this prospectus.
- (10) e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of wholly or partially successful applications in the event the final Offer Price is less than the price payable per Offer Share on application.

For details of the structure of the Global Offering, including the conditions of the Global Offering, and the procedures for application for the Hong Kong Offer Shares, you should read the sections headed “Structure of the Global Offering” and “How to Apply for the Hong Kong Offer Shares” in this prospectus.

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IMPORTANT NOTICE TO INVESTORS

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by our Company, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors, any of the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering.

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SUMMARY

This summary is intended to give you an overview of the information contained in this prospectus. Since it is a summary, it does not contain all the information that may be important to you. You should read the prospectus in its entirety before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk Factors" in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are one of the largest specialty cellulose producers in the world, producing dissolving wood pulp at our mill in Brazil and viscose staple fibers at our mill in China. We also operate our own wood plantations in Brazil which provide us with a secure and stable supply of eucalyptus wood, the principal raw material used in our production of dissolving wood pulp.

Our Products

Our products currently include both rayon grades and specialty grades of dissolving wood pulp, as well as regular viscose staple fibers.

Dissolving wood pulp is used for a wide range of applications, such as textiles, non-woven products, tires, thickeners, lacquers, cigarette filters, pharmaceuticals, food products, sausage casings and cosmetics. Depending on its level of purity and type of application, dissolving wood pulp is generally categorized into rayon grades of pulp and specialty grades of pulp. Rayon grades of pulp are the principal raw material used in the production of viscose staple fibers. In recent years, the demand for rayon grades of pulp has increased as the production of viscose staple fibers increased, especially in China.

Viscose staple fibers are fibers composed of, or derived from, cellulose and are a type of cellulosic fiber. Viscose staple fibers provide the same absorbency and breathability as cotton and are used in a wide variety of textile and non-woven products, such as baby wipes, personal hygiene products, medical pads and household wipes. Depending on their tenacity, brightness and titer, viscose staple fibers are generally categorized into regular viscose staple fibers and specialty viscose staple fibers. Worldwide demand for viscose staple fibers has increased in recent years with rising personal incomes and the resulting growth in demand for both comfortable clothing and absorbent non-woven products.

According to PCI Fibres, in 2009, we were the largest supplier of dissolving wood pulp by volume to China, the largest dissolving wood pulp market by demand in the world. Our specialty cellulose product line was also one of the broadest among the major producers in the industry in 2009. According to PCI Fibres, our selected major peers in the specialty cellulose industry had five products on average while we had ten products in our product line. Our rayon grades of pulp have one of the highest alpha-cellulose contents among major merchant producers of rayon grades of pulp due to our adoption of the more advanced pre-hydrolyzed kraft process technology. Our rayon grades of pulp have an alpha-cellulose content of up to 96% as compared to the typical range for this grade of pulp of between 91% and 95%, according to PCI Fibres. This allows our customers to achieve higher efficiency and less waste during their production processes.

Our Business Model

Our business model allows us to maintain a cost competitive operating structure and benefit from economies of scale. Our integrated upstream dissolving wood pulp business and downstream viscose staple fibers business allow us to take advantage of market opportunities at multiple points of the value chain, price our products competitively and maximize our profit on a consolidated basis. We participate in every stage of the production process, from research and development and planting of seedlings of eucalyptus trees to the production of dissolving wood pulp and viscose staple fibers. Our plantations have a relatively short harvest cycle and as a result are more productive, which means that the cost of our wood is lower than that produced by many other plantations elsewhere where the harvest cycle is longer. In addition, our mills are strategically

SUMMARY

located to keep our transportation costs low: our dissolving wood pulp mill at Bahia Specialty Cellulose is only approximately 155 kilometers from our wood sources on average and approximately 50 kilometers from Port of Salvador, a deep water port; and our viscose staple fibers mill at Sateri Jiangxi is located near Poyang Lake, with convenient access to water transportation on the Yangtze River and in close proximity to customers in the textile production centers in China. Moreover, all of our production facilities are located in countries where we are able to access cost competitive labor.

The short harvest cycle of our plantations and low transportation and labor costs, together with the advanced production processes we utilize at our mills using modern equipment, allow us to enhance our cost competitiveness. As a percentage of cost of sales, the cost of wood used as a raw material (which includes tree plantation and maintenance costs, harvesting, transportation, road maintenance as well as depletion charges) was 11.0%, 6.6%, 16.7%, 15.7% and 16.6% for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2009 and 2010, respectively.

While our integrated business model provides us with the advantages discussed above, we may face risks arising out of the inter-relationship between our upstream dissolving wood pulp and downstream viscose staple fibers businesses. The location of our assets and production facilities in multiple jurisdictions, principally Brazil and China, means that we are subject to the environmental, tax and regulatory regimes and licensing requirements in each of those jurisdictions. Any requirements or restrictions that affect our ownership or operation of our plantations or production facilities, our ability to obtain the raw materials (including wood and dissolving wood pulp) and utilities (including thermal and electrical energy and water) necessary for our production processes or the efficient transportation of our dissolving wood pulp or viscose staple fibers could have a material adverse effect on our business, financial condition and results of operations. In addition, in the future, our ability to implement our production capacity expansion plans in Brazil and China will require us to (i) obtain the relevant regulatory and environmental approvals, (ii) obtain access to additional land, raw materials and utilities in a cost effective manner and (iii) incur increased labor and transportation costs, and will depend on our ability to obtain the necessary financing. For further details regarding the risks arising from our integrated business model, please see the section headed "Risk Factors" in this prospectus.

Our Wood Plantations and Production Facilities

We have approximately 150,000 hectares of plantation land, of which approximately 92,000 hectares are covered by our licenses for operating wood plantation activities with the remaining plantation land being either legal reserve or permanent preservation areas under Brazilian law, land used for infrastructure, or land which is not suitable for eucalyptus planting, for example, due to streams or other bodies of water. Of the 92,000 hectares covered by our licenses, approximately 84,000 hectares are productive and/or plantable. Eucalyptus wood is the principal raw material used in our production of dissolving wood pulp.

Our Bahia Specialty Cellulose mill has a design annual production capacity of 465,000 metric tons of dissolving wood pulp across two production lines and produces both rayon grades and specialty grades of pulp. The second production line at this mill, which was completed in 2008, has a design annual production capacity of 350,000 metric tons and is capable of switching production between rayon grades and specialty grades of pulp. For the year ended December 31, 2009 and the six months ended June 30, 2010, the utilization rate at our Bahia Specialty Cellulose mill was approximately 79% and 95%, respectively, based on the design annual production capacity during those periods. Our Bahia Specialty Cellulose mill is capable of supplying all of the dissolving wood pulp currently required for our viscose staple fibers production. In addition, we expect to expand the design annual production capacity of this mill to 550,000 metric tons by the end of 2013.

Our Sateri Jiangxi mill had a design annual production capacity of 120,000 metric tons of viscose staple fibers as of the Latest Practicable Date and currently produces regular viscose staple fibers. For the year ended December 31, 2009 and the six months ended June 30, 2010, the utilization rate at this mill was approximately 111% and 118%, respectively, based on the design annual production capacity during those periods. We completed the construction of, and commenced trial production on, one new production line in June 2010 and a second new production line in October 2010. The process of ramp-up and commissioning of the two new lines is expected to be completed by February 2011. Thereafter, we are targeting to further

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expand the effective annual production capacity of our Sateri Jiangxi mill to 160,000 metric tons by December 2011 through certain process improvements. We intend to commence the production of specialty viscose staple fibers by December 2010. In addition, we are developing a greenfield viscose staple fibers mill with a design annual production capacity of 200,000 metric tons in Putian, Fujian province, China. The project comprises two phases which are expected to commence production in March 2012 and December 2012, respectively. We are currently in the process of obtaining the relevant regulatory approvals and we are not aware of any legal impediment to us obtaining the necessary approvals and licenses for the construction of the Fujian mill.

We estimate that our expansion plans at our Bahia Specialty Cellulose and Fujian mills will require approximately US\$705 million in capital expenditure, of which approximately US\$7 million had been committed or incurred as of June 30, 2010. We intend to finance these capital expenditure with cash generated from our operations, bank borrowings and a portion of the net proceeds from the Global Offering. We expect our expanded production capacity to be a key driver of growth for our revenue and profitability in the future.

The following table sets out our current production expansion plans in Brazil and China.

Production capacity expansion project	Actual/expected dates of commencement and completion of construction	Estimated capital expenditure	Estimated amount of capital committed or incurred as of June 30, 2010	Expected timeframe for capital expenditure	Estimated amount to be financed by net proceeds from the Global Offering
Bahia Specialty Cellulose - 20,000 metric tons debottlenecking	Targeted to be completed by March 2011	US\$20 million	Nil	Ongoing to June 2011	Nil
Bahia Specialty Cellulose - 65,000 metric tons expansion of existing production lines	Targeted to commence in the second half of 2011 and to be completed by December 2013	US\$250 million	Nil	Between first half of 2011 and June 2014	US\$130 million
Sateri Fujian - 200,000 metric tons greenfield project	Ongoing, targeted to be completed by December 2012	US\$435 million	US\$7 million	Ongoing to June 2013	US\$173 million

By implementing these expansion plans and process improvements, we expect to significantly increase our annual production capacity of our products. We expect to increase the design annual production capacity of dissolving wood pulp at our Bahia Specialty Cellulose mill from 465,000 metric tons to 485,000 metric tons, or an increase of 4.3%, by March 2011 and a further increase from 485,000 metric tons to 550,000 metric tons, or an increase of 13.4%, by December 2013. We also expect to increase the effective annual production capacity of viscose staple fibers at our Sateri Jiangxi mill from 130,000 metric tons to 160,000 metric tons, or an increase of 23.1%, by the end of 2011 and a further increase from 160,000 metric tons to 360,000 metric tons, or an increase of 125.0%, by December 2012.

SUMMARY

We believe we are well placed to implement our expansion plans as we are able to leverage our existing production infrastructure, supplier networks for raw materials and services and sales and marketing offices. Our existing production facilities and the site of our greenfield project are located near well established cities, namely Salvador, Brazil and Jiujiang and Putian, China, where we expect to recruit the additional work force required to support the expansion in our production capacity. We can utilize our current production facilities to train the staff for our new production lines and new mill. We intend to leverage our internal sources and our relationships with our existing suppliers to help meet our increased need for raw materials and also to seek additional suppliers of raw materials as required for our expanded production capacity. We believe we will be able to take advantage of our experience at Sateri Jiangxi to sell and market our Sateri Fujian mill's products through our existing customer networks.

A key component in achieving our expansion plans is ensuring that we have an economical source of raw materials, including primarily wood suitable for dissolving wood pulp production, dissolving wood pulp used for viscose staple fibers production and water used in the production of both. If we fail to do so, this may have a material adverse effect on our expansion plans and our results of operations. Please refer to the section headed "Risk Factors — We may be unable to acquire enough raw materials and utilities, including wood, dissolving wood pulp and water, to support our future capacity expansions" in this prospectus for further details.

Our Customers and Suppliers

We sell our dissolving wood pulp and viscose staple fibers to a broad range of customers across different geographical markets, including Asia, North America and Europe. We had a market share of approximately 40% of the dissolving wood pulp imports by volume into China in 2009, according to PCI Fibres. For the three years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, our five largest customers accounted for approximately 47.2%, 34.0%, 43.0% and 43.2%, respectively, of our total revenue and our largest customer for each period accounted for approximately 19.3%, 8.9%, 21.0% and 10.8%, respectively, of our total revenue. The majority of these customers were major global producers of viscose staple fibers, in particular in China. We currently sell our products primarily through spot sales, short-term sales contracts and monthly and quarterly purchase orders. Most of our products are marketed and distributed by our own sales teams with a small quantity also sold through non-exclusive sales agents.

We are able to source our principal raw materials from internal sources, including wood from our plantations and dissolving wood pulp from our Bahia Specialty Cellulose mill. We purchase other chemicals used in our production processes, particularly sodium hydroxide and sulfuric acid, from local third party suppliers in Brazil and China. For the three years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, our five largest suppliers accounted for approximately 28.8%, 50.5%, 50.9% and 40.8%, respectively, of our total purchases, including raw materials, fuels and logistics expenses, while the largest supplier for each period accounted for approximately 9.5%, 34.5%, 25.3% and 22.2%, respectively, of our total purchases. We have entered into long-term supply agreements with three of our five largest suppliers by total purchases as of June 30, 2010, being a supplier of gas, a pulp ocean transporter and Cetrel, a waste treatment specialist.

Our Results of Operations

Our revenue increased from US\$272.2 million for the year ended December 31, 2007 to US\$382.3 million for the year ended December 31, 2008 and to US\$552.0 million for the year ended December 31, 2009, representing a CAGR of 42.4%. Our revenue for the six months ended June 30, 2010 was US\$440.9 million compared to US\$181.0 million for the six months ended June 30, 2009.

SUMMARY

We are organized into two operating segments: (i) cellulose products and (ii) viscose staple fibers. The following table shows our revenue and percentage of total revenue for each segment, as well as the businesses comprising our cellulose products segment, for the periods indicated.

Segments/Businesses	Year ended December 31,						Six months ended June 30,			
	2007		2008		2009		2009		2010	
	Revenue	% of Total	Revenue	% of Total	Revenue	% of Total	Revenue	% of Total	Revenue	% of Total
(unaudited)										
(US\$ in thousands except the percentages)										
Cellulose products ⁽¹⁾										
<i>Bahia Specialty</i>										
Cellulose ⁽¹⁾⁽²⁾	93,593	34.4	117,915	30.8	314,124	56.9	94,300	52.1	276,750	62.8
DP Macao ⁽³⁾⁽⁴⁾	13,271	4.9	139,440	36.5	110,268	20.0	31,419	17.4	88,721	20.1
Total cellulose products . . .	106,864	39.3	257,355	67.3	424,392	76.9	125,719	69.5	365,471	82.9
Viscose staple fibers	165,303	60.7	124,904	32.7	127,606	23.1	55,263	30.5	75,391	17.1
Total revenue	272,167	100.0	382,259	100.0	551,998	100.0	180,982	100.0	440,862	100.0

Notes:

- (1) Excludes US\$41.1 million, US\$47.6 million, US\$41.6 million, US\$18.5 million and US\$30.8 million of intercompany sales between Bahia Specialty Cellulose and Sateri Jiangxi for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2009 and 2010, respectively.
- (2) Comprises sales of dissolving wood pulp produced by Bahia Specialty Cellulose to external customers. During the Track Record Period, sales of cellulose products by our Bahia Specialty Cellulose business consisted entirely of dissolving wood pulp. This dissolving wood pulp consisted primarily of rayon grades of pulp, with specialty grades of pulp amounting to less than 7% of our Bahia Specialty Cellulose business's total revenue.
- (3) Includes revenue derived from the sale of cellulose products (including dissolving wood pulp and other pulp products) primarily sourced from TPL. The results of our DP Macao business for the year ended December 31, 2007 reflect one month of operations from December 2007. Excludes nil, US\$1.8 million, US\$4.3 million, US\$1.9 million and US\$3.1 million of intercompany sales between DP Macao and Sateri Jiangxi for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2009 and 2010, respectively.
- (4) Excluding intercompany sales, our DP Macao business sold US\$13.3 million, US\$55.3 million, US\$42.5 million, nil and US\$74.2 million of dissolving wood pulp and nil, US\$84.2 million, US\$67.7 million, US\$31.4 million and US\$14.5 million of other pulp products for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2009 and 2010, respectively.

The following table shows our revenue by geographic markets for the periods indicated.

Geographic Markets	Year ended December 31,						Six months ended June 30,			
	2007		2008		2009		2009		2010	
	Revenue	% of Total	Revenue	% of Total	Revenue	% of Total	Revenue	% of Total	Revenue	% of Total
(unaudited)										
(US\$ in thousands except the percentages)										
China	196,114	72.0	316,382	82.8	475,094	86.1	159,514	88.1	337,742	76.6
Europe ⁽¹⁾	24,911	9.2	29,740	7.8	35,510	6.4	7,746	4.3	56,614	12.9
Americas ⁽²⁾	51,142	18.8	18,062	4.7	28,522	5.2	12,715	7.0	26,595	6.0
Asia (ex-China) ⁽³⁾	—	—	18,075	4.7	12,872	2.3	1,007	0.6	19,911	4.5
Total revenue	272,167	100.0	382,259	100.0	551,998	100.0	180,982	100.0	440,862	100.0

Notes:

- (1) Primarily consists of revenue derived from sales in Austria, Germany and the United Kingdom.
- (2) Primarily consists of revenue derived from sales in Brazil and the United States.
- (3) Primarily consists of revenue derived from sales in Taiwan.

SUMMARY

The following table shows the average selling prices for each segment and the businesses engaged in the sale of cellulose products, namely Bahia Specialty Cellulose and DP Macao, for the periods indicated. Unless stated otherwise, all amounts exclude intercompany sales. For further details, see the section headed “Financial Information — Selected Combined Financial Data” in this prospectus.

Segments/Business	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	Average selling price ⁽¹⁾			Average selling price ⁽¹⁾	
	(US\$ per metric ton)	(US\$ per metric ton)	(US\$ per metric ton)	(US\$ per metric ton)	(US\$ per metric ton)
Cellulose products ⁽²⁾					
Bahia Specialty Cellulose ⁽²⁾⁽³⁾	1,183	973	886	695	1,435
DP Macao ⁽⁴⁾⁽⁵⁾					
Dissolving wood pulp ⁽⁶⁾	1,468	1,061	969	—	1,394
Other pulp products ⁽⁷⁾	—	595	476	398	647
Total cellulose products	1,212	818	785	585	1,361
Viscose staple fibers	2,271	2,055	1,897	1,598	2,448

Notes:

- (1) Average selling price is calculated by dividing revenue by sales volume.
- (2) Excludes US\$41.1 million, US\$47.6 million, US\$41.6 million, US\$18.5 million and US\$30.8 million of intercompany sales between Bahia Specialty Cellulose and Sateri Jiangxi for 2007, 2008 and 2009, and the six months ended June 30, 2009 and 2010, respectively, which corresponds to approximately 36,600, 44,800, 54,100, 32,900 and 23,300 metric tons of sales volume for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2009 and 2010, respectively.
- (3) Comprises sales of dissolving wood pulp produced by Bahia Specialty Cellulose to external customers.
- (4) Includes revenue derived from the sale of cellulose products (including dissolving wood pulp and other pulp products) primarily sourced from TPL. The average selling price of the DP Macao business is affected by product mix because of the lower price of other pulp products compared to dissolving wood pulp. The results of the DP Macao business for 2007 reflect one month of operations from December 2007. Excludes nil, US\$1.8 million, US\$4.3 million, US\$1.9 million and US\$3.1 million of intercompany sales between DP Macao and Sateri Jiangxi for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2009 and 2010, respectively.
- (5) Excluding intercompany sales, our DP Macao business sold US\$13.3 million, US\$55.3 million, US\$42.5 million, nil and US\$74.2 million of dissolving wood pulp and nil, US\$84.2 million, US\$67.7 million, US\$31.4 million and US\$14.5 million of other pulp products for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2009 and 2010, respectively.
- (6) Comprises principal trading sales of dissolving wood pulp by DP Macao to external customers that was primarily sourced from TPL.
- (7) Comprises principal trading sales of other pulp products by DP Macao to external customers that were primarily sourced from TPL.

We recorded a net profit attributable to owners of our Company of US\$95.0 million for the year ended December 31, 2007, a net loss of US\$4.0 million for the year ended December 31, 2008, a net profit of US\$106.9 million for the year ended December 31, 2009 and a net profit of US\$165.1 million for the six months ended June 30, 2010. The net loss incurred for the year ended December 31, 2008 primarily resulted from the global economic downturn that affected demand for and supply of downstream products manufactured by our customers in 2008 through the first half of 2009 as well as costs incurred in connection with the expansion of our Bahia Specialty Cellulose mill. Our business has recovered strongly with improved average selling prices of our products and increased sales volume since the second half of 2009 as economic conditions improved. Our net profit attributable to owners of our Company was affected by changes in the average selling prices of our products during the Track Record Period. The average selling prices of cellulose products and viscose staple fibers declined from 2007 to 2009 and then increased significantly in the six months ended June 30, 2010.

SUMMARY

Disposal of DP Macao

Pursuant to the Reorganization, we disposed of our entire shareholding interest in DP Macao, whose principal business is in the trading of pulp, with effect from September 30, 2010 to a company controlled by our Ultimate Controlling Shareholder. Our strategy following the Listing is to focus on our core business of producing and selling our own dissolving wood pulp and viscose staple fibers and not to engage in the trading of other producers' paper pulp and dissolving wood pulp as principal so as to avoid trading risks which could potentially affect our overall profitability and the volatility of our earnings. DP Macao's principal business is not in line with this strategy. Following this disposal, we no longer have any liabilities in respect of DP Macao, save for any trade balances relating to the Agency Agreement and the Sales Framework Agreement. Revenue from the DP Macao business was US\$13.3 million, US\$139.4 million, US\$110.3 million and US\$88.7 million for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, respectively. The segment profit of the DP Macao business was US\$7.2 million, US\$22.9 million, US\$35.5 million and US\$43.9 million for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, respectively. Please see the sections headed "History and Reorganization — Our Corporate Reorganization" and "Financial Information" in this prospectus for further details.

OUR ATTRACTIVENESS

We believe that we are attractive for the following reasons:

- we are one of the global market leaders in the specialty cellulose industry and, among them, one of the fastest growing over the last three years, in terms of revenue;
- we were the largest supplier by volume of rayon grades of pulp into China in 2009, the largest and fastest growing market for the product;
- our production costs are among the lowest within the global dissolving wood pulp industry;
- we have one of the broadest and fastest growing product lines in the specialty cellulose industry, with exposure to a broad range of fast growing consumer end markets, especially in China;
- we produce rayon grades of pulp with one of the highest alpha-cellulose content;
- we have an internationally experienced management team; and
- we engage in active efforts in corporate social responsibility and environmental protection for sustainable long-term growth.

OUR STRATEGIES

We intend to pursue the following strategies to further strengthen our market leadership in the specialty cellulose industry:

- we seek to increase our production capacity by expanding our mills, developing greenfield projects and pursuing strategic acquisitions;
- we seek to broaden our product line and access additional end market customer segments;
- we seek to increase our sales and market share in Asia (ex-China), North America and Europe, while maintaining our market leadership in China;
- we seek continuous improvements in order to further reduce our production costs; and
- we seek to expand our efforts in corporate social responsibility and environmental protection.

SUMMARY

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Immediately following the completion of the Global Offering, Gold Silk will own approximately 85% of our issued share capital (assuming the Over-allotment Option is not exercised and without taking into account any Shares which may be issued pursuant to the exercise of any options which may be granted pursuant to the Share Option Scheme or upon the vesting of any RSUs granted or to be granted pursuant to the RSU Schemes) or approximately 83.1% of our issued share capital (assuming the Over-allotment Option is exercised in full but without taking into account any Shares which may be issued pursuant to the exercise of any options which may be granted pursuant to the Share Option Scheme or upon the vesting of any RSUs granted or to be granted pursuant to the RSU Schemes). Gold Silk is an investment holding company which is wholly owned by the Trustee, as the trustee of a discretionary trust established by Mr. Sukanto Tanoto as settlor and whose beneficiaries include the Tanoto Family. Accordingly, Gold Silk, the Trustee and Mr. Sukanto Tanoto are our Controlling Shareholders.

Our Ultimate Controlling Shareholder is not, and has never been, a director of our Company or any of our subsidiaries and has not been involved in the day-to-day operational decisions of the Group since the beginning of the Track Record Period.

We are not operationally dependent on our Controlling Shareholders, having independent access to sources of raw materials and independent production and operation capabilities.

Save for any trade balances relating to the Agency Agreement and the Sales Framework Agreement, all the amounts due to and from our Controlling Shareholders and their associates, including any security, guarantees or indemnities provided for the benefit of the Group (other than the Deed of Indemnity), will be fully settled prior to the Listing Date. We are capable of obtaining financing from third parties without reliance on our Controlling Shareholders. We have our own internal control and financing systems with an internal accounting and finance department independent from our Controlling Shareholders. Our treasury operations are handled by our treasury department which operates independently from our Controlling Shareholders.

From time to time there have been adverse claims, media speculation and other public statements relating to us, our associates, our Controlling Shareholders and/or persons affiliated with our Controlling Shareholders. Please refer to the section headed “Risk Factors — Risks Relating to Our Business and Industry — Adverse claims, media speculation and other public statements could adversely affect the value of our Shares” in this prospectus for a summary of the adverse claims, media speculation and other public statements relating to our Controlling Shareholders and/or persons affiliated with our Controlling Shareholders (which claims and allegations do not relate to our business or assets or ownership of any member of our Group).

Whether or not justified, any adverse claims, media speculation and other public statements relating to us, our associates, our Controlling Shareholders and/or persons affiliated with our Controlling Shareholders could adversely affect our reputation and our corporate image, or otherwise affect our ability to conduct our business in the ordinary course, including, without limitation, obtaining and renewing operational licenses and regulatory approvals and establishing and maintaining our relationships with customers and suppliers, and to expand our production capacity, including, without limitation, obtaining the necessary financing for such expansion.

These claims and allegations may also affect the value of our Shares or distract our management from their day-to-day management responsibilities, and may therefore have a material and adverse effect on our business, financial condition and results of operations. In the event any material claims arise out of or in connection with any such adverse claims, media speculation and other public statements, and if any of our Controlling Shareholders satisfies such claims through the disposal of some or all of their Shares, or the voting rights and/or other rights of ownership of some or all of their Shares are otherwise transferred to or for the benefit of or to be exercised by another person, our

SUMMARY

Controlling Shareholders' level of ownership in our Company may decrease significantly, which in turn may result in a change of control of our Company. For further details, please see the section headed "Risk Factors — Risks Relating to Our Business and Industry — Adverse claims, media speculation and other public statements could adversely affect the value of our Shares" in this prospectus.

THE GLOBAL OFFERING

The Global Offering comprises:

- (a) the Hong Kong Public Offering of 50,533,000 Shares (subject to reallocation) for subscription by the public in Hong Kong; and
- (b) the International Offering of 454,797,000 Shares (subject to reallocation and the Over-allotment Option) outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S and in the United States only to QIBs in reliance on Rule 144A.

SUMMARY COMBINED FINANCIAL INFORMATION

The following is a summary of our combined financial information as of and for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2009 and 2010, extracted from the Accountants' Report set out in Appendix I to this prospectus.

The results were prepared on the basis of presentation as set out in the Accountants' Report. The summary combined financial information should be read in conjunction with the combined financial statements set out in the Accountants' Report, including the related notes.

SUMMARY

Summary Combined Statements of Comprehensive Income

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	(unaudited)				
	(US\$ in thousands)				
Revenue	272,167	382,259	551,998	180,982	440,862
Cost of sales	(165,616)	(303,966)	(341,891)	(154,511)	(198,208)
Gross profit	106,551	78,293	210,107	26,471	242,654
Increase (decrease) in fair value of forestation and reforestation assets ⁽¹⁾	—	—	23,246	—	(524)
Other income and gains (losses) ⁽²⁾	9,889	32,880	(1,995)	(3,955)	1,947
Impairment loss on amounts due from subsidiaries of an associate	—	(4,945)	—	—	—
Changes in fair value of derivative financial instruments ⁽³⁾	13,572	(21,223)	1,832	10,426	233
Gain on settlement of derivative financial instruments ⁽⁴⁾	42,546	4,290	18,391	891	49
Selling and distribution expenses	(13,669)	(28,486)	(43,776)	(20,570)	(26,342)
Administrative expenses	(43,315)	(44,573)	(41,209)	(21,342)	(28,184)
Impairment loss recognized in respect of property, plant and equipment ⁽⁵⁾	—	—	(20,013)	—	—
Share of result of an associate	4,025	(5,421)	—	—	—
Finance costs	(11,895)	(22,808)	(36,414)	(18,576)	(12,327)
Imputed interest on advance from a related party	—	—	(5,755)	(2,877)	(2,877)
Profit (loss) before tax	107,704	(11,993)	104,414	(29,532)	174,629
Income tax (expense) credit	(4,205)	2,532	3,016	15,432	(8,065)
Profit (loss) for the year/period	<u>103,499</u>	<u>(9,461)</u>	<u>107,430</u>	<u>(14,100)</u>	<u>166,564</u>
Total comprehensive income (expense) for the year/period	<u>111,195</u>	<u>(655)</u>	<u>107,258</u>	<u>(13,706)</u>	<u>167,105</u>
Profit (loss) for the year/period attributable to owners of the Company	94,966	(3,979)	106,867	(14,597)	165,064
Total comprehensive income (expense) attributable to owners of the Company	101,044	4,729	105,883	(12,973)	165,484

Notes:

- (1) Our forestation and reforestation assets are subject to changes in fair value during each period and changes in fair value are recorded as a gain or loss in our combined statement of comprehensive income. Until 2009, we applied a cost basis methodology for determining the value of our forestation and reforestation assets since we could not reliably determine wood reference prices due to an inactive wood market in the region. Consequently, no fair value adjustment was made. These assets are stated at cost less decrease due to harvest which amounted to US\$104.4 million and US\$138.5 million as of December 31, 2007 and 2008, respectively. However, in 2009, we determined it was appropriate to change our application of IAS 41 (Agriculture) from a cost basis to a fair value methodology based on the prices agreed in the contracts we entered into with local farmers for wood used in our dissolving wood pulp production. The prices obtained in this manner provided reliable inputs for the estimate of the fair value of our forestation and reforestation assets and, accordingly, the forestation and reforestation assets are stated at fair value less costs to sell. During the Track Record Period, no external valuations were performed by independent professional valuers

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on the forestation and reforestation assets for the purposes of preparing the Company's audited financial statements. For further details see the section headed "Financial Information — Principal Components of Results of Operations — Increase/(Decrease) in Fair Value of Forestation and Reforestation Assets" in this prospectus and note 16 to the Accountants' Report set out in Appendix I to this prospectus.

- (2) Other income and gains (losses) primarily consist of rental income and bank interest income, interest income and service income from a related party, foreign currency exchange gain (loss), and impairment loss in respect of intangible assets and claim receivables (other long-term assets). For further details, see the section headed "Financial Information — Principal Components of Results of Operations — Other Income and Gains (Losses)" in this prospectus and note 9 to the Accountants' Report set out in Appendix I to this prospectus.
- (3) Changes in fair value of derivative financial instruments, comprising forward foreign exchange contracts and interest rate swaps, are determined on each balance sheet date. For further details, see note 28 to the Accountants' Report set out in Appendix I to this prospectus.
- (4) Gain on settlement of derivative financial instruments, comprising forward foreign exchange contracts and interest rate swaps, is determined on each balance sheet date. For further details, see note 28 to the Accountants' Report set out in Appendix I to this prospectus.
- (5) Impairment loss recognized in respect of property, plant and equipment relates to a building that was damaged by fire in December 2009 in the area of the expansion project at our Sateri Jiangxi mill that is still under construction. For further details, see note 17 to the Accountants' Report set out in Appendix I to this prospectus.

Summary Combined Statements of Financial Position

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	(US\$ in thousands)			
Assets				
Non-current assets	1,208,642	1,592,751	1,699,589	1,692,334
Current assets	439,719	453,734	406,910	515,674
Total assets	<u>1,648,361</u>	<u>2,046,485</u>	<u>2,106,499</u>	<u>2,208,008</u>
Liabilities				
Current liabilities	247,947	389,524	431,420	407,128
Non-current liabilities	321,483	578,685	489,545	448,241
Total liabilities	<u>569,430</u>	<u>968,209</u>	<u>920,965</u>	<u>855,369</u>
Equity				
Equity attributable to owners of the Company	1,043,745	1,048,474	1,154,357	1,319,841
Non-controlling interests	35,186	29,802	31,177	32,798
Total equity	<u>1,078,931</u>	<u>1,078,276</u>	<u>1,185,534</u>	<u>1,352,639</u>

LEGAL PROCEEDINGS AND CONTINGENT LIABILITIES

We are party to a number of legal actions arising from our normal business activities, including general civil, tax and labor litigation, adverse possession disputes and claims over property rights in Brazil, and administrative and environmental proceedings. As of June 30, 2010, we were involved in approximately 565 claims with an aggregate value of approximately US\$36.8 million in which our Brazilian legal advisors, based on the reports and assessments made by our legal counsels, have evaluated our risk of loss as probable or possible. As of June 30, 2010, of the 565 claims mentioned above, we were involved in approximately 290 claims with an aggregate value of approximately US\$9.4 million in which our risk of loss has been evaluated as probable. These claims include approximately 243 disputes involving potential labor liabilities, four proceedings relating to potential tax liabilities, three civil lawsuits and possessory disputes relating to our plantation land, including 26 actions filed by us against unauthorized occupiers of our land as well as 14 actions filed against us. We have made a provision in respect of this amount. As of June 30, 2010, of the 565

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claims mentioned above, we were also involved in approximately 275 claims with an aggregate value of approximately US\$27.4 million in which our risk of loss has been evaluated as possible but not probable, but have made no provision in respect of this amount. These claims include 225 labor disputes, including a claim brought by SINDICELPA, the labor union representing some of the employees of Bahia Specialty Cellulose, relating to the payment of allegedly required risk premiums on workers' wages and additional labor claims relating to secondary liabilities arising from certain third party contractors, 26 civil lawsuits and 23 proceedings relating to potential Brazilian tax liabilities. All of the claims in respect of which our risk of loss has been evaluated as probable or possible are in respect of proceedings in Brazil. Our management and legal personnel are able to manage all of these claims as part of our normal business operations, and we do not believe that a negative outcome in these disputes, individually or in the aggregate, would have a material adverse effect on our financial position or operations as a whole.

In addition, our subsidiaries, Sateri Singapore and Sateri International, are currently involved in litigation proceedings relating to the bankruptcy of our former subsidiary, Kuitu Oy. The claim against Sateri Singapore seeks approximately EUR18.2 million (US\$22.4 million) and certain interest costs, while the claim against Sateri International seeks approximately EUR41.5 million (US\$51.0 million) in damages. As part of these litigation proceedings, a joint claim has also been made against SISA, a company formerly owned by Sateri International, and Sateri International for approximately EUR9.0 million (US\$11.1 million). Having considered the advice given by our legal advisors in relation to the above legal proceedings, we believe that Sateri Singapore and Sateri International both have high chances of success in defending against the claims brought by the bankruptcy estate of Kuitu Oy and that our risk of loss in these claims is remote, and consequently we have not made any provision in respect of these claims. In addition, Gold Silk has agreed to indemnify us against all losses suffered or incurred by us arising out of or in connection with the claims against Sateri International. For further details, see the section headed "Business — Legal Proceedings — Proceedings Relating to Kuitu Oy" in this prospectus. Even if we are ultimately unsuccessful in defending the claims against Sateri Singapore and Sateri International, we believe that the outcome of these proceedings would not have a material adverse effect on our financial position and results of operations.

We have contingent liabilities in respect of the legal actions arising from our normal business activities. Our management has made certain estimates for potential litigation costs based upon consultation with legal counsel and considered that no significant loss will be incurred beyond the US\$9.4 million provided as of June 30, 2010. While actual results could differ from these estimates, our management does not expect that any material liabilities will arise from our contingent liabilities. For further details, see the section headed "Business — Legal Proceedings" in this prospectus.

BUSINESS RETAINED BY OUR CONTROLLING SHAREHOLDERS

As of the Latest Practicable Date, Pinnacle, a company which is controlled by our Ultimate Controlling Shareholder, held approximately 90.6% of the issued share capital of TPL, a company which is listed on the Indonesia Stock Exchange. The remaining issued share capital of TPL is held by public shareholders.

On December 23, 2007, the Group entered into a sale and purchase agreement to acquire Pinnacle. However, due to a change in our business strategy to focus on our business operations in Brazil and China, in July 2008, the sale and purchase transaction was rescinded by mutual agreement of the parties to the transaction. The Group has not suffered any losses or incurred any contingent liabilities resulting from the sale and purchase of Pinnacle and the subsequent rescission. Our Controlling Shareholders and Pinnacle do not have any current intention of injecting part or all of Pinnacle's shareholding interest in TPL into the Group in the future.

As of December 31, 2009, TPL owned approximately 41,000 hectares of planted forestry land in Indonesia and operated a mill in Indonesia, which can switch production between paper pulp and rayon grades of pulp. In the past, TPL has produced both paper pulp and rayon grades of pulp. We understand that TPL is not currently able to produce specialty grades of pulp or viscose staple fibers.

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During the Track Record Period, TPL produced both paper pulp and rayon grades of pulp. For the period from December 17, 2007 (when Pinnacle acquired a controlling interest in TPL) to December 31, 2009, the majority of the pulp produced by TPL was paper pulp. TPL's current maximum annual production capacity for dissolving wood pulp is 165,000 metric tons. For further details, see the section headed "Relationship with our Controlling Shareholders — Business Retained by Our Controlling Shareholders" in this prospectus.

Our core business is in the manufacturing, marketing and sale of, and the provision of technical services for the use of, dissolving wood pulp and viscose staple fibers. Given our focus on the dissolving wood pulp business, we have made significant investments in expanding and upgrading our Bahia Specialty Cellulose mill and have established our own international sales, marketing and technical service network. We have no plans to produce paper pulp in the future and, as such, we have a different strategic focus from TPL.

Our Directors are of the view that TPL is unlikely to become a material competitor of our business for the following reasons: (i) we have a different business focus from that of TPL, which also includes the production of paper pulp, (ii) TPL currently does not have any international sales and marketing staff, (iii) TPL is reliant on our sales, marketing and technical service resources, (iv) we have entered into the Agency Agreement with DP Macao which provides us with a right of first refusal over the sale of dissolving wood pulp produced by TPL outside Indonesia and (v) we have entered into the Sales Framework Agreement with DP Macao which stipulates that all transactions for dissolving wood pulp produced by TPL and sold by DP Macao to Sateri Jiangxi and Sateri Fujian must be on normal commercial terms.

During the Track Record Period, TPL was our largest supplier due to DP Macao's purchases of dissolving wood pulp and paper pulp from TPL as part of its trading operations. DP Macao sold a portion of the dissolving wood pulp it sourced from TPL to Sateri Jiangxi for use in its production of viscose staple fibers with an aggregate value of US\$11.1 million during the Track Record Period. Following the Listing Date, we expect that the amount of dissolving wood pulp sourced from TPL that we purchase from DP Macao pursuant to the Sales Framework Agreement will increase due to factors including a reduction in supply on the open market, the expansion of production capacity at our Sateri Jiangxi and Sateri Fujian mills and the level of dissolving wood pulp produced by TPL.

Because we are able to source dissolving wood pulp from our Bahia Specialty Cellulose mill and other third party suppliers in the open market, and because TPL and DP Macao are also involved in the production and marketing of paper pulp, respectively, to third party customers unrelated to our Group, we do not consider that our Group and DP Macao and TPL are dependent upon one another for our respective continuing businesses.

Please see the sections headed "Relationship with Controlling Shareholders" and "Connected Transactions" in this prospectus for further details.

CONNECTED TRANSACTIONS

Following the Listing Date, members of our Group will be parties to transactions with persons connected to our Ultimate Controlling Shareholder that will be regarded as continuing connected transactions under the Listing Rules. These transactions include the provision of support services to members of our Group by Averis, a license from ARDL for the use of office premises in Hong Kong by a member of our Group, the Agency Agreement pursuant to which a member of our Group acts as sales agent for DP Macao in respect of sales of dissolving wood pulp and the Sales Framework Agreement which stipulates certain terms for the sale of dissolving wood pulp by DP Macao as principal to our subsidiaries Sateri Jiangxi and Sateri Fujian. The Agency Agreement and the Sales Framework Agreement are non-exempt continuing connected transactions under the Listing Rules. We have applied for, and the Stock Exchange has granted to us, a waiver from strict compliance with the provisions of Chapter 14A of the Listing Rules in respect of these continuing connected transactions. Please see the section headed "Connected Transactions" in this prospectus for further details.

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UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma data relating to our net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only and is set out below to illustrate the effect of the Global Offering on our net tangible assets as of June 30, 2010 as if the Global Offering had taken place on June 30, 2010.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of the Group attributable to the owners of our Company as of June 30, 2010 or as of any subsequent dates, including following the Global Offering.

	Unadjusted audited combined net tangible assets of the Group attributable to the owners of our Company as of June 30, 2010 ⁽¹⁾	Estimated net proceeds to our Company from the Global Offering ⁽²⁾	Unaudited pro forma adjusted net tangible assets of the Group attributable to the owners of our Company ⁽³⁾	Unaudited pro forma adjusted net tangible assets per Share ⁽⁴⁾	
	US\$ (in millions)	US\$ (in millions)	US\$ (in millions)	US\$	HK\$
Based on an Offer Price of HK\$6.60 per Offer Share	1,319	400	1,719	0.51	3.98
Based on an Offer Price of HK\$9.20 per Offer Share	1,319	562	1,881	0.56	4.35

Notes:

- (1) The unadjusted audited combined net tangible assets of the Group attributable to the owners of our Company as of June 30, 2010 is extracted from the Accountants' Report set out in Appendix I to this prospectus, which is based on the audited combined net assets of the Group attributable to the owners of our Company of US\$1,319,841,000 with an adjustment for intangible assets of US\$825,000.
- (2) The estimated net proceeds to our Company from the Global Offering are based on the indicative Offer Prices of HK\$6.60 and HK\$9.20 per Offer Share, respectively, after deduction of underwriting fees and commissions and other related expenses payable by our Company and take no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option. Our Company may, at our sole discretion, pay to the Joint Bookrunners for themselves only a discretionary incentive fee of up to 1.0% of the Offer Price per Offer Share. If we decide to pay such additional fee, the net proceeds from the Global Offering and the unaudited pro forma adjusted net tangible assets per Share will decrease.
- (3) The unaudited pro forma adjusted net tangible assets of the Group attributable to the owners of our Company do not include the redemption consideration paid to Gold Silk, our immediate Controlling Shareholder, for the redemption of 22,800,000 class 1 preference shares with a redemption price of US\$1.00 per share and 4,410,067 class 2 preference shares with a redemption price of US\$100.00 per share in the capital of Sateri International in November 2010, amounting to an aggregate redemption amount of US\$463,806,700. Details of these are set out in Appendix I to this prospectus.
- (4) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in note (2) above and on the basis that 3,368,826,750 Shares were in issue assuming that the Reorganization and the Global Offering had been completed on June 30, 2010 and without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which may be granted pursuant to the Share Option Scheme or upon the vesting of any RSUs granted or to be granted pursuant to the RSU Schemes. Our Company's unaudited pro forma adjusted net tangible assets per Share are converted into Hong Kong dollars at an exchange rate of US\$1.00 to HK\$7.79.

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- (5) As of September 30, 2010, the Group's property interests were valued by CBRE, an independent property valuer, and the property valuation report is set out in Appendix IV to this prospectus. The surplus arising on the revaluation, representing the excess of market value of the property interests over their corresponding book value shown in investment properties, prepaid lease payments and certain property, plant and equipment, is approximately US\$279.5 million. This amount has not taken into account the associated deferred tax charge relating to this revaluation surplus, which will cause a material reduction in this revaluation surplus. The revaluation surplus has not been included in the Group's audited combined financial information as of June 30, 2010 and will not be included in the Group's financial statements for the year ending December 31, 2010. The above adjustment does not take into account the revaluation surplus.
- (6) No adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to June 30, 2010.

PROFIT FORECAST FOR THE YEAR ENDING DECEMBER 31, 2010

On the bases and assumptions set out in the section headed "Profit Forecast" in Appendix III to this prospectus and, in the absence of unforeseen circumstances, certain profit forecast data of the Group for the year ending December 31, 2010 are set out below.

Forecast profit attributable to the owners of our Company for the year ending December 31, 2010 ⁽¹⁾⁽²⁾	Not less than US\$302 million
Unaudited forecast earnings per Share on a pro forma basis ⁽³⁾	Not less than US\$0.09

Notes:

- (1) Our forecast profit attributable to the owners of our Company for the year ending December 31, 2010 is extracted from the section headed "Financial Information — Profit Forecast for the Year Ending December 31, 2010" in this prospectus. The bases and assumptions on which the above profit forecast has been prepared are summarized in the section headed "Profit Forecast" in Appendix III to this prospectus. The Directors have prepared the forecast profit attributable to the owners of our Company for the year ending December 31, 2010 based on the audited combined results of the Group for the six months ended June 30, 2010, the unaudited results based on the management accounts of the Group for the two months ended August 31, 2010 and a forecast of the results of the Group for the remaining four months ending December 31, 2010. The forecast has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by the Group as set out in Note 3 of Section A of the Accountants' Report, the text of which is set out in Appendix I to this prospectus.
- (2) In determining the forecast profit attributable to the owners of our Company for the year ending December 31, 2010, our estimates of sales volume and average selling prices of our products, based on legally binding contracts and sales orders as of October 31, 2010, accounted for approximately 75% of the forecasted sales volume for the period from September 1, 2010 through the end of 2010. We disposed of DP Macao effective as of September 30, 2010 to a subsidiary of our Ultimate Controlling Shareholder. The results of operations of DP Macao of US\$61.5 million are included in the forecast profit attributable to the owners of our Company.
- (3) The unaudited forecast earnings per Share on a pro forma basis is calculated by dividing the forecast profit attributable to the owners of our Company for the year ending December 31, 2010 by 3,368,826,750 Shares as if such Shares had been in issue on January 1, 2010. The number of Shares used in this calculation includes the Shares in issue as of the date of this prospectus and the Shares to be issued pursuant to the Global Offering but excludes any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which may be granted pursuant to the Share Option Scheme or upon the vesting of any RSUs granted or to be granted pursuant to the RSU Schemes.

GLOBAL OFFERING STATISTICS

	Based on an Offer Price of HK\$6.60	Based on an Offer Price of HK\$9.20
Market capitalization of the Shares (in millions) ⁽¹⁾	HK\$22,234	HK\$30,993
Unaudited pro forma adjusted net tangible assets per Share ⁽²⁾	HK\$3.98	HK\$4.35
Prospective price/earnings multiple ⁽³⁾	9.5 times	13.2 times

SUMMARY

Notes:

- (1) The calculation of the market capitalization of the Shares is based on the assumption that 3,368,826,750 Shares will be in issue and outstanding immediately following the completion of the Global Offering and that the Over-allotment Option is not exercised.
- (2) The unaudited pro forma adjusted net tangible assets per Share has been arrived at after the adjustments referred to in the section headed “Unaudited Pro Forma Financial Information” in Appendix II to this prospectus and on the basis that 3,368,826,750 Shares will be in issue immediately following the completion of the Global Offering and that the Over-allotment Option is not exercised.
- (3) The calculation of prospective price/earnings multiple is based on the unaudited pro forma forecast earnings per Share calculated by reference to the forecast profit attributable to the owners of our Company for the year ending December 31, 2010 at the assumed Offer Prices of HK\$6.60 and HK\$9.20 per Offer Share.

DIVIDEND POLICY

We will evaluate our dividend policy and dividends declared in any particular year in light of our financial position, the prevailing economic climate and expectations about the future macroeconomic environment and business performance. The determination to pay dividends will be made at the discretion of the Board and will be based upon our earnings, cash flow, financial condition, capital and other reserve requirements and any other conditions which the Board deems relevant. The payment of dividends may also be limited by legal restrictions and by financing agreements that we may enter into in the future. We did not declare any dividends during the Track Record Period.

Our ability to declare and pay dividends on our Shares is also subject to the requirements of Bermuda law. Moreover, we are a holding company which is dependent upon the operations of our subsidiaries for cash. Certain of our subsidiaries’ debt agreements, particularly the project finance loans entered into in connection with the expansion of our production facilities in China and the syndicated loan entered into to refinance funding provided for the expansion of our Bahia Specialty Cellulose mill, limit the ability of Sateri Jiangxi, SC International Macao, DPMI and Bahia Specialty Cellulose to make dividends or other distributions to us which in turn limit the ability of the Company to pay dividends on our Shares. Therefore, unless and until we pay cash dividends on our Shares, any return or gain on your investment in our Shares will have to come from an appreciation in value, if any, of such Shares, which may be reflected by an increase in their market price.

These restrictions require, among other things, Bahia Specialty Cellulose and SC International Macao to have, in aggregate, at least US\$60.0 million of cash equivalents on their balance sheets after the payment of dividends by either of these companies.

Please refer to the section headed “Financial Information — Dividend Policy” in this prospectus for further details.

USE OF PROCEEDS

We estimate that the net proceeds from the Global Offering which we will receive, assuming an Offer Price of HK\$7.90 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), will be approximately HK\$3,747 million, after deduction of underwriting fees and commissions (assuming the full payment of a discretionary incentive fee) and estimated expenses payable by us in connection with the Global Offering and assuming the Over-allotment Option is not exercised.

We currently intend to use such net proceeds from the Global Offering as follows:

- (a) approximately HK\$1,600 million (or approximately 42.7% of the net proceeds) will be used for the further expansion of our operations in Brazil, which will include increasing our wood supply for future mill capacity expansions and increasing the dissolving wood pulp design annual production capacity of our Bahia Specialty Cellulose mill from 465,000 metric tons to 550,000 metric tons by December 2013;

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- (b) approximately HK\$1,350 million (or approximately 36.0% of the net proceeds) will be used to build a greenfield viscose staple fiber mill with a design annual production capacity of 200,000 metric tons in Fujian province, China by December 2012;
- (c) approximately HK\$483 million (or approximately 12.9% of the net proceeds) will be used for possible acquisitions of businesses or assets that are complementary to our business operations and which we may identify through our continued monitoring and evaluation of potential acquisition targets and business opportunities and/or for the development of other greenfield projects. We have not identified any potential acquisition targets as of the Latest Practicable Date; and
- (d) the balance of approximately HK\$314 million (or approximately 8.4% of the net proceeds) will be used for our working capital requirements and general corporate purposes.

If the Offer Price is fixed at HK\$6.60 per Offer Share (being the low end of the Offer Price range stated in this prospectus) and assuming the Over-allotment Option is not exercised, the net proceeds we receive will be reduced by approximately HK\$631 million.

If the Offer Price is fixed at HK\$9.20 per Offer Share (being the high end of the Offer Price range stated in this prospectus) and assuming the Over-allotment Option is not exercised, we will receive additional net proceeds of approximately HK\$631 million.

In the event the Over-allotment Option is exercised in full and assuming an Offer Price of HK\$7.90 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), we will receive additional net proceeds of approximately HK\$575 million.

To the extent that the net proceeds from the Global Offering (including the net proceeds from the exercise of the Over-allotment Option) are either more or less than expected, we will adjust our allocation of the net proceeds for the purposes listed in paragraphs (c) and (d) above as follows:

- (i) if the Offer Price is fixed at HK\$6.60 per Offer Share (being the low end of the Offer Price range stated in this prospectus) and assuming the Over-allotment Option is not exercised, no net proceeds will be allocated for the purpose listed in paragraph (c) above and the net proceeds to be allocated for the purpose listed in paragraph (d) above will be reduced accordingly; and
- (ii) in all other cases, we will adjust our allocation of the net proceeds for the purposes listed in paragraphs (c) and (d) proportionately, provided that the amount allocated for the purpose listed in paragraph (d) above will not exceed 10% of the net proceeds from the Global Offering.

To the extent that the net proceeds from the Global Offering are not immediately used for the above purposes, we presently intend to deposit such net proceeds into short-term interest-bearing deposits and/or money market instruments.

RISK FACTORS

We and investors in the Offer Shares are subject to risks relating to our business and industry, and investors in the Offer Shares are also subject to risks relating to the Global Offering. While our integrated upstream dissolving wood pulp business and downstream viscose staple fibers business allow us to take advantage of market opportunities at multiple points of the value chain, price our products competitively and maximize our profit on a consolidated basis, we may face risks arising out of the inter-relationship between our upstream and downstream businesses that could have a material adverse effect on our business, financial condition and results of operations. These risks are due in part to the interconnection between the supply of key raw materials, changes in the prices we pay for raw materials and charge for our products, the demand for our products and the countries in which we source our raw materials and sell our products.

Among others, these risks include: that our products are subject to price fluctuations due to factors that we cannot control; that we rely on key suppliers for the raw materials used in the production of dissolving wood pulp and viscose staple fibers; that we may not be able to achieve and

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manage our growth; that the majority of our revenue is derived from sales in China; that we depend on access to water and other raw materials used in our production and efficient transportation for our goods; and that unfavorable outcomes in pending litigation and legal proceedings against us may negatively affect us.

We source the majority of our wood requirements used in the production of dissolving wood pulp from our own plantation land in Brazil. We also source a significant portion of the dissolving wood pulp required to produce our viscose staple fibers from our internal production at Bahia Specialty Cellulose. As such, any reduction in our wood supply as a result of, among other things, plantation restriction laws in Brazil or unfavorable outcomes in the lawsuits and possessory disputes relating to our plantation land could affect the volume and cost of production of our dissolving wood pulp which, in turn, could affect the volume and cost of production of our viscose staple fibers and our future expansion plans in respect of both our dissolving wood pulp and viscose staple fibers businesses. Similarly, any reduction in demand for our products in China, which accounted for 86.1% of our total revenue in 2009, could affect our ability to sell both our viscose staple fibers and dissolving wood pulp and could therefore affect our business, financial condition and results of operations and our future expansion plans. In addition, any unfavorable outcome in our existing and future legal proceedings could adversely affect our ability to expand our businesses.

Our assets and production facilities are located principally in Brazil and China. Therefore, the businesses conducted in those countries are subject to specific risks that are discussed in greater detail in the section headed “Risk Factors” in this prospectus. Investors should familiarize themselves with these country specific risks prior to making an investment decision.

Details of the risks and uncertainties relating to an investment in the Shares are set out in the section headed “Risk Factors” in this prospectus. A summary of these risks and uncertainties is set out below.

Risks Relating to Our Business and Industry

- Our products are subject to price fluctuations.
- Global economic conditions, and economic conditions in China and Brazil in particular, could adversely affect the specialty cellulose industry.
- We may be unable to achieve and manage our growth.
- We may experience difficulty in obtaining, and significant increases in prices for, raw materials and utilities.
- We may be unable to acquire enough raw materials and utilities, including wood, dissolving wood pulp and water, to support our future capacity expansions.
- Adverse claims, media speculation and other public statements could adversely affect the value of our Shares.
- Our future acquisitions may not achieve the anticipated benefits.
- We rely on a few major customers for a significant portion of our revenue and we do not have long-term commitments from some of these major customers.
- We rely on a limited number of key suppliers for some of the raw materials used in the production of dissolving wood pulp and viscose staple fibers.
- Our combined historical financial statements include the financial information of DP Macao, our former subsidiary which we disposed of as part of the Reorganization. Accordingly, our future financial performance may not be comparable with our historical financial results.
- Our results of operations may fluctuate due to, and can be adversely affected by, changes in the fair value of our forestation assets.

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- Unfavorable outcomes in pending litigation and legal proceedings against us may negatively affect our business, financial condition and results of operations.
- Our Controlling Shareholders have substantial control over our Company and their interests may not be aligned, and may conflict, with the interests of our other Shareholders.
- If our Controlling Shareholders fail to effectively procure TPL not to compete with us, we could face increased competition.
- We may be unable to enter target segments of the specialty cellulose industry.
- We may not be able to compete successfully in the highly competitive specialty cellulose industry.
- We are subject to risks relating to our target sales markets, particularly China.
- We may be adversely affected by fluctuations in foreign currency exchange rates and any restrictions on foreign currency exchange.
- We may not be successful in utilizing hedging arrangements to manage foreign exchange risks with respect to the Real.
- Demand for our products may be affected by price and the availability of alternative products.
- We are subject to extensive environmental, health, safety, water use and electric power regulations in Brazil and China and may be adversely affected by the imposition and enforcement of more stringent regulations.
- The successful enactment and enforcement of plantation restriction laws by Brazilian municipalities and recent and future changes in Brazilian rules and regulations, their interpretation and application concerning land acquisition by Brazilian companies in which the majority interest is held by foreign entities may adversely affect us.
- New industry technologies may be developed which could render our existing products or production technologies obsolete.
- Interruption of third party services for the transportation of our raw materials and our products could jeopardize our operations.
- If we fail to maintain effective controls over our outsourced functions, we may be unable to meet our business targets or report our results in an accurate or timely manner.
- We outsource certain core business operations, including our wood harvesting, logistics and certain transaction processing functions.
- If our third party contractors fail to comply with applicable laws and regulations, suffer financial difficulties or otherwise fail to make labor or social security payments, we may be deemed to be liable for our contractors' actions or obligations.
- Fire, severe weather, floods or other natural disasters as well as known and unknown plagues and diseases could cause significant damage to our wood plantations, research and development facilities and mills in Brazil and China.
- Our business may be materially and adversely affected if operations at the transportation, storage, distribution, waste management and port facilities we own or utilize experience interruptions.
- Our research and development efforts may be unsuccessful.
- We are subject to legal and business risks if we fail to obtain or renew the licenses and permits which enable us to conduct and expand our business.
- Material defects in title and claims from adverse possessors of parts of the land for our wood plantations in Brazil could adversely affect our ownership and use of such properties.

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- We depend upon certain key management and skilled personnel and our business and growth prospects may be disrupted if we lose their services.
- We may be subject to labor disputes from time to time.
- We had net current liabilities as of December 31, 2009.
- Our business operations could be adversely affected by high level of debt incurred by us.
- Our loan agreements contain financial and other covenants that may restrict our operational and financing activities in ways that may limit our growth.
- We rely on dividend payments from our subsidiaries for dividend payments to our Shareholders.
- Our insurance may be insufficient to cover the risks or losses related to our operations and we may incur losses for risks associated with our wood plantations.
- Non-governmental groups and interested individuals may seek to delay or disrupt our operations.
- Any future outbreak of a contagious disease, such as the H1N1 virus or Severe Acute Respiratory Syndrome (SARS), may have a negative impact on our business and results of operations.

Risks Relating to China

- Changes in political or economic policies of the PRC government and a slowdown in China's economy may have an adverse impact on our operations.
- The PRC legal system has inherent uncertainties that may limit the legal protections available to us in the event of any claims or disputes with third parties.
- Expiration of, or changes to, current PRC tax incentives that our business enjoys may have an adverse effect on our results of operations.
- Dividends from our PRC subsidiaries may be subject to withholding tax under the PRC EIT Law.
- We may be treated as a PRC tax resident enterprise under the PRC EIT Law, which may subject us to PRC income taxes on our worldwide income.
- Any dividends or capital gain received by our non-PRC Shareholders in respect of the Shares they hold may be subject to PRC income tax.
- PRC regulation of direct investment and loans by offshore holding companies to PRC entities may delay or limit us from using the net proceeds from the Global Offering to make additional capital contributions or loans to our PRC subsidiaries.

Risks Relating to Brazil

- The Brazilian government has exercised, and continues to exercise, significant influence over the Brazilian economy. This involvement, as well as Brazilian political and economic conditions, may adversely affect us and the market price of our Shares.
- Inflation and governmental efforts to combat inflation may contribute significantly to economic uncertainty in Brazil and could harm our business and the market price of our Shares.
- Developments and the perception of risk in emerging market countries may adversely affect Brazil and the market price of our Shares.
- The Brazilian federal government may institute a more restrictive exchange control policy which could affect our ability to meet our foreign currency obligations.
- Changes in Brazilian tax laws may have an adverse impact on the taxes applicable to our business.
- A significant part of our exports in Brazil are subject to transfer pricing rules.

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Risks Relating to the Global Offering

- The Offer Price may not be indicative of prices that will prevail in the trading market for our Shares and such market prices may be volatile.
- As the Offer Price is higher than the unaudited pro forma adjusted net tangible assets per Share, you will experience immediate dilution in the book value of the Shares you purchased in the Global Offering.
- Future sales of Shares by our Controlling Shareholders or our Company may decrease the value of your investment.
- Grants of RSUs pursuant to the RSU Schemes and grants of options pursuant to the Share Option Scheme could result in dilution to our Shareholders.
- There is no existing public market for our Shares and their liquidity and market price may be volatile.
- You may have difficulty enforcing judgments obtained against us.
- Certain industry statistics contained in this prospectus are derived from third party reports and publicly available official sources.
- We strongly caution you not to place any reliance on any information contained in press articles or other media regarding us and the Global Offering.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions shall have the following meanings. Certain other terms are explained in the section headed “Glossary of Technical Terms” in this prospectus.

“Agency Agreement”	the agency agreement entered into by SC International Macao and DP Macao on November 3, 2010, details of which are described in the section headed “Connected Transactions — Non-Exempt Continuing Connected Transactions — Agency Agreement with DP Macao” in this prospectus
“AMEC”	AMEC Forest Industry Consulting, a division of AMEC Americas Limited, an independent technical consultant
“Application Form(s)”	WHITE Application Form(s), YELLOW Application Form(s) and GREEN Application Form(s) or, where the context so requires, any of them
“APRIL”	Asia Pacific Resources International Limited, a limited liability company incorporated in Bermuda and ultimately controlled by the Tanoto Family
“ARDL”	Asian Resources Development Limited, a limited liability company incorporated in Hong Kong and controlled by our Ultimate Controlling Shareholder
“ASEAN”	the Association of Southeast Asian Nations
“Averis”	Averis Sdn. Bhd., a limited liability company incorporated in Malaysia and controlled by our Ultimate Controlling Shareholder
“Bahia Specialty Cellulose”	Bahia Specialty Cellulose S.A. (formerly known as Bahia Pulp S.A.), a company incorporated in Brazil on October 30, 1992 and one of our subsidiaries
“Bermuda Companies Act”	the Companies Act 1981 of Bermuda
“Birla”	Birla Cellulose, a business unit of the Aditya Birla Group
“Blue Dot”	Blue Dot Resources Ltd, a limited liability company incorporated in the British Virgin Islands and controlled by our Ultimate Controlling Shareholder
“Board” or “Board of Directors”	the board of directors of our Company
“BOCI”	BOCI Asia Limited
“Borregaard”	Borregaard Chemcell, a business unit of the Orkla Group
“Brazil”	the Federative Republic of Brazil
“Brazilian Central Bank”	<i>Banco Central do Brasil</i> , the central bank of Brazil
“business day”	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for business

DEFINITIONS

“BVI”	British Virgin Islands
“Bye-laws”	the bye-laws of our Company (as amended from time to time), conditionally adopted on November 8, 2010 and which will become effective upon the Listing, a summary of which is set out in the section headed “Summary of the Constitution of Our Company and Bermuda Company Law — Bye-laws” in Appendix VIII to this prospectus
“CAGR”	compound annual growth rate
“CBRE”	CB Richard Ellis Limited, an independent property valuer
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“CCF”	Zhejiang Huarui Information and Technology Co. Ltd., an independent consultant providing information on the chemical fiber industry in China
“CCF Research Report”	the report prepared by CCF on the chemical fiber industry in China which was commissioned by us
“Cetrel”	Cetrel S.A. Empresa de Proteção Ambiental, a company which is responsible for operating the environmental protection systems in the Camaçari industrial complex, within which our Bahia Specialty Cellulose mill is located
“China” or “the PRC”	the People’s Republic of China excluding, for the purpose of this prospectus, Hong Kong, Macau and Taiwan, unless otherwise specified
“Clothesource”	Clothesource Ltd., an independent consultant providing information on the fibers industry
“Clothesource Research Report”	the report prepared by Clothesource on the Chinese fibers industry and the use of fibers in the global apparel market which was commissioned by us
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended or supplemented from time to time

DEFINITIONS

“Company”, “our”, “we” or “us”	Sateri Holdings Limited, a company incorporated in Bermuda on June 8, 2010 as an exempted company with limited liability and, except where the context otherwise requires, all of its subsidiaries, or where the context refers to the period before the completion of the Reorganization, Sateri International and its subsidiaries
“Controlling Shareholders”	Gold Silk, the Trustee and Mr. Sukanto Tanoto
“Copener”	Copener Florestal Ltda., a limited liability company incorporated in Brazil on September 12, 1980 and one of our subsidiaries
“CRA”	<i>Centro de Recursos Ambientais</i> (the Center for Environmental Resources) of Brazil
“Credit Suisse”	Credit Suisse (Hong Kong) Limited
“Deed of Indemnity”	the deed of indemnity dated November 19, 2010 entered into by Gold Silk and our Company (for ourselves and as trustee for each of our subsidiaries) relating to certain indemnities given by Gold Silk in favor of the Group
“Director(s)”	director(s) of our Company
“DP Macao”	DP Marketing International Limited — Macao Commercial Offshore, a limited liability company incorporated in Macau on February 15, 2007 and one of our subsidiaries until its disposal effective as of September 30, 2010
“DPMI”	DP Marketing International Limited, a limited liability company incorporated in the BVI on November 6, 2003 and one of our subsidiaries
“EBITDA”	earnings before interest, tax, depreciation and amortization
“EIT”	enterprise income tax
“EUR” or “Euro”	Euro, the single currency of the participating member states of the European Union
“FCFC”	Formosa Chemicals & Fibre Corporation (台灣化學纖維有限公司), a company which specializes in the manufacture of viscose staple fibers in Taiwan
“FGV”	<i>Fundação Getúlio Vargas</i> (Getúlio Vargas Foundation)
“Finland”	the Republic of Finland
“Fujian mill”	a greenfield viscose staple fiber mill with an expected design annual production capacity of 200,000 metric tons which we plan to build in Putian, Fujian province, China

DEFINITIONS

“Fulida”	Fulida Group Holdings Company Limited (富麗達集團控股有限公司), a company which specializes in the manufacture of viscose staple fibers in China
“Gaomi Chemical Fibre Group - Yinying”	Shandong Gaomi Yinying Chemical Fibre Co., Ltd (山東銀鷹化纖有限公司), a company which specializes in the manufacture of viscose staple fibers in China
“GBP”	Pounds sterling, the lawful currency of the United Kingdom
“Global Offering”	the Hong Kong Public Offering and the International Offering
“Gold Silk”	Gold Silk Holdings Limited, a limited liability company incorporated in the Cayman Islands and our immediate Controlling Shareholder
“Goodwood Venture”	Goodwood Venture Limited, a limited liability company incorporated in the BVI
“GREEN Application Form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider
“Group”	our Company and our subsidiaries and, in respect of the period before the completion of the Reorganization, Sateri International and its subsidiaries
“Hibiscus Bay”	Hibiscus Bay Investments Ltd, a limited liability company incorporated in the BVI and controlled by our Ultimate Controlling Shareholder
“HK\$” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Offer Shares”	the 50,533,000 Shares being initially offered by our Company for subscription at the Offer Price under the Hong Kong Public Offering, subject to reallocation as described in the section headed “Structure of the Global Offering” in this prospectus
“Hong Kong Public Offering”	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong for cash at the Offer Price on and subject to the terms and conditions described in this prospectus and the Application Forms
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Underwriters”	the underwriters listed in the section headed “Underwriting — Hong Kong Underwriters” in this prospectus, being the underwriters of the Hong Kong Public Offering

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“Hong Kong Underwriting Agreement”	the underwriting agreement relating to the Hong Kong Public Offering entered into by the Joint Bookrunners, the Hong Kong Underwriters, our Company and our Controlling Shareholders on November 25, 2010, as further described in the section headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Hong Kong Underwriting Agreement” in this prospectus
“Hubei Jingwei”	Hubei Jingwei Chemical Fibre Co., Ltd. (湖北經緯化纖有限公司), a company which specializes in the manufacture of viscose staple fibers in China
“IAS”	International Accounting Standards
“IBAMA”	<i>Instituto Brasileiro do Meio Ambiente</i> (Brazilian Environmental Institute)
“IBRA”	Indonesian Bank Restructuring Agency
“IFRS”	International Financial Reporting Standards
“IMA”	<i>Instituto do Meio Ambiente</i> (the Environmental Institute) of the State of Bahia, Brazil
“INCRA”	<i>Instituto Nacional de Colonização e Reforma Agrária</i> (Institute of Rural Settlement and Agrarian Reform)
“Independent Board Committee”	an independent committee of our Board comprising the then serving independent non-executive Directors
“International Offer Shares”	the 454,797,000 Shares being initially offered by our Company for subscription under the International Offering, together with, where relevant, any additional Shares which may be issued by our Company pursuant to the exercise of the Over-allotment Option, subject to reallocation as described in the section headed “Structure of the Global Offering” in this prospectus
“International Offering”	the offer of the International Offer Shares at the Offer Price outside the United States in offshore transactions in accordance with Regulation S and in the United States to QIBs only in reliance on Rule 144A, as further described in the section headed “Structure of the Global Offering” in this prospectus
“International Underwriters”	the international underwriters named in the International Underwriting Agreement

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“International Underwriting Agreement”	the international underwriting agreement relating to the International Offering, which is expected to be entered into by the Joint Bookrunners, the Joint Representatives, the International Underwriters, our Company and our Controlling Shareholders on or about December 2, 2010, as further described in the section headed “Underwriting — Underwriting Arrangements and Expenses — International Offering — International Underwriting Agreement” in this prospectus
“IT”	information technology
“Jiangsu Aoyang”	Jiangsu Aoyang Group Co., Ltd (澳洋集團有限公司) a company which specializes in the manufacture of viscose staple fibers in China
“Joint Bookrunners” or “Joint Lead Managers”	Credit Suisse, Morgan Stanley and BOCI
“Joint Global Coordinators” or “Joint Sponsors”	Credit Suisse and Morgan Stanley
“Joint Representatives”	Credit Suisse, Morgan Stanley & Co. International plc and BOCI
“Kuitu Oy”	Kuitu Finland Oy (formerly known as Sateri Oy) a limited liability company incorporated in Finland and formerly one of our subsidiaries
“Latest Practicable Date”	November 19, 2010, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
“LIBOR”	London Interbank Offered Rate
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Committee”	the listing committee of the Stock Exchange
“Listing Date”	the date, expected to be on or about December 8, 2010, on which the Shares are listed on the Stock Exchange and from which dealings in the Shares are permitted to commence on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
“Macau”	the Macau Special Administrative Region of the PRC
“Memorandum of Association”	the memorandum of association of our Company (as amended from time to time), a summary of which is set out in the section headed “Summary of the Constitution of Our Company and Bermuda Company Law — Memorandum of Association” in Appendix VIII to this prospectus

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“MOFCOM”	the Ministry of Commerce of the PRC
“MOP” or “Pataca”	Macau Pataca, the lawful currency of Macau
“Morgan Stanley”	Morgan Stanley Asia Limited
“Non-Competition Deed”	the non-competition deed entered into by our Company, our Controlling Shareholders and Pinnacle on November 19, 2010 to, among other things, maintain a clear delineation of the respective businesses of our Group and that of our Controlling Shareholders and Pinnacle with effect from the Listing Date
“Norcell”	Norcell S.A., a corporation incorporated in Brazil on May 15, 1989 and one of our subsidiaries
“Offer Price”	the final offer price per Offer Share (exclusive of brokerage of 1.0%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%) of not more than HK\$9.20 and expected to be not less than HK\$6.60, such price to be determined by agreement between the Joint Bookrunners (on behalf of the Underwriters) and our Company on or before the Price Determination Date
“Offer Shares”	the Hong Kong Offer Shares and the International Offer Shares
“Over-allotment Option”	the option expected to be granted by our Company to the International Underwriters, exercisable by the Joint Bookrunners (on behalf of the International Underwriters), pursuant to which our Company may be required to issue up to 75,800,000 additional Shares (representing 15% of the number of Offer Shares initially being offered under the Global Offering) at the Offer Price to, among other things, cover over-allocations in the International Offering, details of which are described in the section headed “Structure of the Global Offering — International Offering — Over-allotment Option” in this prospectus
“PCI Fibres”	PCI Fibres, a specialist consultancy to the global fibers and related industries
“PCI Fibres Research Report”	the research report prepared by PCI Fibres on the global specialty cellulose industry which was commissioned by us
“PEAML”	Pacific Eagle Asset Management Limited, a limited liability company incorporated in Hong Kong and a company controlled by our Ultimate Controlling Shareholder
“Pinnacle”	Pinnacle Company Limited, a limited liability company incorporated in Republic of Seychelles and controlled by our Ultimate Controlling Shareholder

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“Post-IPO RSU Scheme”	the scheme conditionally approved and adopted by our Company on November 8, 2010 for the grant of RSUs to eligible participants following the completion of the Global Offering, the principal terms of which are summarized in the section headed “Statutory and General Information — Post-IPO RSU Scheme” in Appendix IX to this prospectus
“PRC EIT Law”	the PRC Enterprise Income Tax Law which came into effect on January 1, 2008
“PRC GAAP”	generally accepted accounting principles in China
“Pre-IPO RSU Scheme”	the scheme conditionally approved and adopted by our Company on November 8, 2010 for the grant of RSUs to eligible participants prior to the Global Offering, the principal terms of which are summarized in the section headed “Statutory and General Information — Pre-IPO RSU Scheme” in Appendix IX to this prospectus
“Price Determination Date”	the date, expected to be on or about December 2, 2010, on which the Offer Price will be determined and, in any event, not later than December 6, 2010
“QIB”	a qualified institutional buyer within the meaning of Rule 144A
“RAF”	<i>Registro de Atividade Florestal</i> (Forest Activity Register)
“Real”, “Reais” or “R\$”	Real, the lawful currency of Brazil
“Regulation S”	Regulation S under the US Securities Act
“Reorganization”	the reorganization of the Group in preparation for the Listing, details of which are set out in the section headed “History and Reorganization — Our Corporate Reorganization” in this prospectus
“RGE”	RGE Pte Ltd, a limited liability company incorporated in Singapore and a company controlled by our Ultimate Controlling Shareholder
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“RSU”	a restricted share unit granted pursuant to the Pre-IPO RSU Scheme or the Post-IPO RSU Scheme
“RSU Schemes”	the Pre-IPO RSU Scheme and the Post-IPO RSU Scheme
“Rule 144A”	Rule 144A under the US Securities Act
“SAFE”	State Administration of Foreign Exchange of the PRC

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“Sales Framework Agreement”	the sales framework agreement entered into by Sateri Jiangxi, Sateri Fujian and DP Macao on November 3, 2010 to govern sales of dissolving wood pulp, details of which are described in the section headed “Connected Transactions — Non-Exempt Continuing Connected Transactions — Sales Framework Agreement with DP Macao” in this prospectus
“Sateri Fujian”	Sateri (Fujian) Fibre Co., Ltd., a limited liability company incorporated in the PRC on June 4, 2010 and one of our subsidiaries
“Sateri International”	Sateri International Co. Ltd, a limited liability company incorporated in the BVI on August 9, 2001 and one of our subsidiaries
“Sateri Jiangxi”	Sateri (Jiangxi) Chemical Fibre Co., Ltd., a limited liability company incorporated in the PRC on August 23, 2002 and one of our subsidiaries
“Sateri Marketing International”	Sateri Marketing International Limited, a limited liability company incorporated in the Cayman Islands on May 20, 2010 and one of our subsidiaries
“Sateri Shanghai”	Sateri (Shanghai) Management Limited, a limited liability company incorporated in the PRC on April 28, 2004 and one of our subsidiaries
“Sateri Singapore”	Sateri International (Singapore) Pte Ltd, a limited liability company incorporated in Singapore on August 15, 2001 and one of our subsidiaries
“Sateri Specialty Cellulose”	Sateri Specialty Cellulose Limited, a limited liability company incorporated in the Cayman Islands on December 29, 2009 and one of our subsidiaries
“SC International Macao”	SC International Macao Commercial Offshore Limited (formerly known as Alloy Universal Trading (Macao Commercial Offshore) Limited), a limited liability company incorporated in Macau on November 22, 2007 and one of our subsidiaries
“SC Marketing”	SC Marketing Limited, a limited liability company incorporated in the BVI on July 22, 2010 and one of our subsidiaries
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“Shandong Helon”	Shandong Helon Co., Ltd (山東海龍股份有限公司), a company which specializes in the manufacture of viscose staple fibers and viscose filament yarn in China
“Shareholder(s)”	holder(s) of Shares

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“Shares”	ordinary shares in the capital of our Company with a nominal value of US\$0.05 each
“Share Option Scheme”	the share option scheme conditionally approved and adopted by our Company on November 8, 2010 for the grant of options to eligible participants, the principal terms of which are summarized in the section headed “Statutory and General Information — Share Option Scheme” in Appendix IX to this prospectus
“SISA”	Sateri International SA, a limited liability company incorporated in Switzerland on November 11, 2004 and formerly one of our subsidiaries
“sq.m.”	square meter
“Stabilizing Manager”	Credit Suisse
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into on or about the Price Determination Date between the Stabilizing Manager and Gold Silk
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“SUDENE Report”	the report provided by the <i>Superintendência do Desenvolvimento do Nordeste</i> (Superintendency for the Development of the Northeast)
“SUDIC”	<i>Superintendência de Desenvolvimento Industrial e Comercial</i> , an autonomous governmental entity of the State of Bahia, Brazil
“TAC”	<i>Termo de Ajustamento de Conduta</i> (Conduct Adjustment Agreement) entered into by Bahia Specialty Cellulose, Copener and the State Public Prosecutor’s Office on July 14, 2009
“Tangshan Sanyou”	Tangshan Sanyou Chemical Industries Co., Ltd (唐山三友化工股份有限公司), a company which specializes in the manufacture of, among other things, soda ash, viscose staple fibers, caustic soda and calcium chloride in China
“Tanoto Family”	Mr. Sukanto Tanoto and certain members of his family
“TPL”	PT Toba Pulp Lestari, Tbk, a limited liability company incorporated in Indonesia and listed on the Indonesia Stock Exchange. As of the Latest Practicable Date, our Ultimate Controlling Shareholder controlled approximately 90.6% of TPL’s issued share capital
“Track Record Period”	the financial years of our Company ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010

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“Trustee”	Fiduco Trust Management AG, the trustee of a discretionary trust established by our Ultimate Controlling Shareholder as settlor and whose beneficiaries include the Tanoto Family
“Ultimate Controlling Shareholder”	Mr. Sukanto Tanoto, the ultimate controlling shareholder of our Company
“UN Comtrade”	United Nations Commodity Trade Statistics Database, a database of international commodity trade statistics maintained by the United Nations Statistics Division
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“US” or “United States”	the United States of America
“US Exchange Act”	the United States Securities Exchange Act of 1934, as amended
“US Securities Act”	the United States Securities Act of 1933, as amended
“US\$” or “US dollars”	United States dollars, the lawful currency of the United States
“USDA FAS”	United States Department of Agriculture Foreign Agricultural Service, a United States government department responsible for the collection and analysis of statistics and market information for agricultural commodities and products
“VAT”	value added tax
“WestLB”	WestLB AG, New York Branch
“White Form eIPO”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of White Form eIPO at www.eipo.com.hk
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“Xinxiang Bailu”	Xinxiang Bailu Chemical Fiber Co., Ltd (新鄉白鷺化纖集團有限責任公司), a company which specializes in the manufacture of viscose staple fibers in China
“YNFX”	Yarn and Fibers Exchange

In this prospectus, the terms “associate”, “connected person”, “connected transaction”, “controlling shareholder”, “subsidiary” and “substantial shareholder” shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

In this prospectus, unless otherwise stated, certain amounts denominated in Euros, Reais, Renminbi, HK dollars or Patacas have been translated into US dollars at an exchange rate of EUR1.00 = US\$1.23, R\$1.80 = US\$1.00, RMB6.78 = US\$1.00, US\$1.00 = HK\$7.79 and MOP1.00 = US\$0.1246, respectively, in

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each case for illustrative purposes only. Such conversions shall not be construed as representations that amounts in Euros, Reais, Renminbi, US dollars or Patacas were or could have been or could be converted into HK dollars or US dollars (as the case may be) at such rates or any other exchange rates on such date or any other date.

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

Unless otherwise specified, all references to any shareholdings in our Company following the completion of the Global Offering assume that the Over-allotment Option is not exercised.

The English names of companies incorporated in the PRC are translations of their Chinese names and are included for identification purposes only. The Chinese names of some of the companies incorporated outside the PRC are translations of their English names and are included for identification purposes only.

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains terms used in this prospectus as they relate to our business. As such, these terms and their meanings may not always correspond to the standard industry meaning or usage of these terms.

“acetate” or “cellulose acetate”	a manufactured cellulose-based material made from cotton and/or wood pulp and acetic acid, by acetylation of cellulose into cellulose acetate. Completely acetylated cellulose acetate is referred to as cellulose triacetate, whereas cellulose diacetate refers to partially acetylated cellulose acetate
“acetate process”	the process of acetylation of cellulose (wood pulp or cotton linters) with acetic acid or acetic anhydride and sulfuric acid catalyst to make cellulose acetate resin or fiber
“acetate tow”	a manufactured bundle of fibers made from cellulose that is extruded through a spinneret and hardened and used to manufacture cigarette filters
“ADt”	air dry ton
“alpha-cellulose”	one of three forms of cellulose, which has the highest degree of polymerization and is the chief component of paper pulp and dissolving wood pulp
“black liquor”	the spent cooking liquor from the kraft process when digesting wood into dissolving wood pulp removing lignin, hemicelluloses and other extractives from the wood to free the cellulose fibers
“bleaching”	any of several processes to remove impurities, including hemicellulose, lignin and others, in dissolving wood pulp to obtain a bright white product
“caliper”	thickness of a sheet expressed in thousandth of an inch
“CCE”	cold caustic extraction, a special alkaline treatment used to increase pulp purity
“cellophane”	a generic term for regenerated cellulose film made from dissolving wood pulp which is transparent or dyed in colors or coated to render it moisture proof or heat-sealable and is primarily used for packaging
“cellulose”	a carbohydrate, which is the chief component of the cell walls in wood and in cotton, linen, jute, hemp, and all of the base, leaf and stem fibers of plants, and is a basic raw material in the manufacture of rayon, acetate, triacetate and other cellulose derivatives
“cellulose products”	dissolving wood pulp and other pulp products
“cellulosic fiber”	a fiber composed of, or derived from, cellulose, which includes cotton (cellulose), viscose (regenerated cellulose), acetate (cellulose acetate), and triacetate (cellulose triacetate)
“cN/tex”	centi-Newton per tex, a measure of the tenacity of fibers

GLOSSARY OF TECHNICAL TERMS

“cotton fiber”	a unicellular, natural fiber composed of almost pure cellulose extracted from cotton plants, which is in lengths of 3/8 to two inches and is graded and classed by length, strength and color
“cotton linters”	the short cotton fibers remaining on the seed after “first ginning” process, which are then cut from the seed and used as a source for cellulose derivatives and viscose rayon materials
“debottlenecking”	increasing production capacity of existing production facilities through the modification of existing equipment to remove capacity restrictions
“dissolving wood pulp”	highly purified wood pulp consisting primarily of alpha-cellulose that is intended primarily for conversion into chemical derivatives of cellulose and also in the manufacture of viscose staple fibers, solvent spin fiber and filament. Dissolving wood pulp is also known in the industry as specialty cellulose
“dtex” or “decitex”	a tenth of a tex, a unit of measure for the linear mass density of fibers, which is defined as the mass in grams per 10,000 meters
“fiber”	a natural or manufactured unit that forms the basic element of fabrics and other textile structures and is typically characterized as having a length at least 100 times its diameter or width
“filament”	a fiber of an indefinite or extreme length such as found naturally in silk, which can be extruded from manufactured fibers and can be converted into filament yarn, staple or tow
“hectare” or “ha”	a metric unit of area, which equals 10,000 square meters or approximately 2.5 acres
“high conservation value forests” or “HCVF”	a concept developed to help define forest areas of high environmental and social value
“high wet modulus fiber”	cellulosic fibers having improved strength and modulus when wet, which includes modal and polynosic fiber
“ISO”	International Organization for Standardization
“ISO 9001”	ISO standards for quality management, which are primarily concerned with what an organization does to ensure that its products conform to customer and applicable regulatory requirements and which set requirements for what an organization must do to manage processes influencing product quality
“ISO 14001”	ISO standards for environmental management, which are primarily concerned with what an organization does to minimize harmful effects on the environment caused by its activities and which set requirements for what an organization must do to manage processes influencing the impact of its activities on the environment

GLOSSARY OF TECHNICAL TERMS

“kraft process”	a technology for conversion of wood into dissolving wood pulp consisting of almost pure cellulose fibers, which entails treatment of wood chips with a mixture of sodium hydroxide and sodium sulfide, known as white liquor, that break the bonds that link lignin to the cellulose
“lignin”	the major non-carbohydrate portion of wood, which is an amorphous polymeric substance that cements the fibrous portions together and is the wood residue after extracting the cellulose in the delignification process
“lyocell”	a manufactured cellulosic fiber made by the lyocell process. Lyocell is classified as a sub-category of rayon by the US Federal Trade Commission
“lyocell process”	a process for the manufacture of regenerated cellulose fiber by direct dissolution of dissolving wood pulp in an amine oxide solvent, which is suitable for blending with cotton or other manufactured fibers and has the tendency to develop surface fibrils that can be beneficial in the manufacture of non-wovens and in specialty papers due to its molecular structure
“MAI”	mean annual increment, the average annual growth of a community of trees to the age in question, which is calculated by dividing yield at that age by the age itself
“man-made fiber”	a class of fibers (including filaments) that are chemically produced from fiber-forming substances, including (a) natural man-made fibers produced from natural polymers, such as cellulose, and (b) synthetic man-made fibers produced from polymers synthesized from chemical compounds, such as acrylic, nylon, polyester, polyethylene, polyurethane and polyvinyl fibers, and minerals, such as glass, and is distinguished from the natural fibers of cotton, wool, silk and flax
“MCC”	microcrystalline cellulose, a purified, partially depolymerized cellulose, prepared by treating alpha-cellulose with mineral acids
“metric ton”	equal to 1,000 kilograms or approximately 2,204.6 pounds. In relation to dissolving wood pulp, metric ton means air-dry metric ton
“modal”	a type of cellulosic fiber having improved strength and modulus when wet
“MW”	megawatt
“natural fiber”	a class of fibers (including filaments) from (a) animal, such as silk and wool, (b) mineral, such as asbestos, and (c) plant, such as cotton, flax, jute and ramie
“non-woven”	fibers held together by mechanical interlocking in a random web or mat, by fusing of the fibers or by bonding with a cementing medium

GLOSSARY OF TECHNICAL TERMS

“other pulp products”	paper pulp of various grades
“polymerization”	a chemical reaction in which many smaller molecules are joined together to form larger molecules called polymers
“polypropylene tow”	a bundle of filament fiber made from propylene (a synthetic polymer) and used to manufacture cigarette filters
“pulp”	the end product of cooking wood chips, cotton linter or some other source of cellulose with chemicals, which is used in manufacturing cellulosic fibers, paper and other cellulose-based products
“rayon”	a manufactured fiber and/or filament yarn composed of regenerated cellulose, which is derived from wood, cotton linters or other vegetable matter by one of several processes, such as the cuprammonium process, the acetate process, the lyocell process or the viscose process. Most commercial rayon manufacturing currently utilizes the viscose process and, as such, rayon is becoming synonymous with viscose in the textile industry. By extension, in the textile industry, rayon also refers to yarn and fabric made of rayon
“rayon grades of pulp”	a type of high purity pulp which can be mixed with sodium hydroxide, carbon disulfide and other chemicals to regenerate pure cellulose into viscose staple fibers
“regular viscose staple fibers”	the most common type of viscose staple fibers that are produced with minimum additives or modifications and having a titer range of between 1.33 dtex and 1.67 dtex and a tenacity range of up to 2.6 cN/tex
“specialty cellulose”	dissolving wood pulp and viscose staple fibers
“specialty grades of pulp”	dissolving wood pulp other than rayon grades of pulp
“specialty viscose staple fibers”	all other types of viscose staple fibers that are not regular viscose staple fibers
“spinneret”	a device for making viscose and other fibers, such as acetate, consisting of a plate pierced with holes through which cellulose is forced in the spinning of man-made filaments
“staple fiber”	natural fibers or cut lengths from filaments. The staple length of natural fibers varies from less than one inch, as with some cotton fibers, to several feet for some hard fibers. Manufactured staple fibers are cut to a definite length, from eight inches down to about 1.5 inches (occasionally down to one inch), so that they can be processed on cotton, woolen or worsted yarn spinning systems. The term staple (fiber) is used in the textile industry to distinguish natural or cut length manufactured fibers from filament
“tex”	a unit of measure for the linear mass density of fibers, which is defined as the mass in grams per 1,000 meters

GLOSSARY OF TECHNICAL TERMS

“titer”	a measurement of the amount or concentration of a substance in a solution
“viscose process”	a process for the manufacture of rayon by treating cellulose with caustic soda and with carbon disulfide to form cellulose xanthate, which is then dissolved in a weak caustic solution to form the viscose
“viscose staple fiber”	a manufactured fiber composed of regenerated cellulose, which is derived from wood, cotton linters or other vegetable matter by the viscose process. Viscose staple fiber is a form of cellulosic fiber
“viscosity”	the internal flow resistance of a fluid. The viscosity measurement of pulp provides an indication of the average molecular weight of the pulp polymer system
“white liquor”	an alkaline solution used in the first stage of the kraft process in which lignin and hemicellulose are separated from the cellulose fiber in the kraft process for the production of dissolving wood pulp
“yarn”	a generic term for a continuous strand of textile fibers, filaments or material in a form suitable for knitting, weaving, or otherwise intertwining to form a textile fabric, which occurs in various forms, including (a) a number of fibers twisted together (spun yarn), (b) a number of filaments laid together without twist (a zero-twist yarn), (c) a number of filaments laid together with a degree of twist, (d) a single filament with or without twist (a monofilament) or (e) a narrow strip of material, such as paper, plastic film or metal foil, with or without twist, intended for use in a textile construction

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements. All statements other than statements of historical fact contained in this prospectus, including, without limitation, the discussions of our business strategies and expectations concerning future operations, margins, profitability, liquidity and capital resources, the future development of our industry and the future development of the general economy of our key markets and any statements preceded by, followed by or that include words and expressions such as “expect”, “seek”, “believe”, “plan”, “intend”, “estimate”, “project”, “anticipate”, “may”, “will”, “would” and “could” or similar words or statements, as they relate to the Group or our management, are intended to identify forward-looking statements.

These statements are based on numerous assumptions regarding our present and future business strategy and the environment in which we will operate in the future. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and are subject to certain known and unknown risks, uncertainties and assumptions, including the risk factors described in this prospectus, which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. These factors include, among others, the risks associated with:

- general economic, political and business conditions in China and Brazil as well as the other markets in which we operate, including demand and prices for specialty cellulose products;
- any changes in the laws, rules and regulations of the central and local governments in China and Brazil;
- macroeconomic policies of the PRC government and the Brazilian government;
- the effects of the global financial markets and economic crisis;
- government regulations and restrictions, including tariffs, trade quotas and environmental regulations of countries in which we have a presence;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices;
- the effects of competition in the specialty cellulose industry;
- changes in production costs for specialty cellulose products, particularly for raw materials such as wood, energy and chemicals;
- the outcome of any ongoing and future litigation; and
- various business opportunities that we may pursue.

Subject to the requirements of applicable laws, rules and regulations, we do not have any and undertake no obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or developments or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

In this prospectus, statements of or references to our intentions or those of any of our Directors are made as of the date of this prospectus. Any such intentions may change in light of future developments.

RISK FACTORS

You should consider carefully all the information set out in this prospectus and, in particular, the risks and uncertainties described below before making an investment in our Shares. If any of these events occur, the trading price of our Shares could decline and you may lose all or part of your investment.

We and investors in the Offer Shares are subject to risks relating to our business and industry, and investors in the Offer Shares are also subject to risks relating to the Global Offering. While our integrated upstream dissolving wood pulp business and downstream viscose staple fibers business allow us to take advantage of market opportunities at multiple points of the value chain, price our products competitively and maximize our profit on a consolidated basis, we may face risks arising out of the inter-relationship between our upstream and downstream businesses that could have a material adverse effect on our business, financial condition and results of operations. These risks are due in part to the interconnection between the supply of key raw materials, changes in the prices we pay for raw materials and charge for our products, the demand for our products and the countries in which we source our raw materials.

Among others, these risks include: that our products are subject to price fluctuations due to factors that we cannot control; that we rely on key suppliers for the raw materials used in the production of dissolving wood pulp and viscose staple fibers; that we may not be able to achieve and manage our growth; that the majority of our revenue is derived from sales in China; that we depend on access to water and other raw materials used in our production and efficient transportation for our goods; and that unfavorable outcomes in pending litigation and legal proceedings against us and adverse claims or allegations against our Controlling Shareholders may negatively affect us.

We source the majority of our wood requirements used in the production of dissolving wood pulp from our own plantation land in Brazil. We also source a significant portion of the dissolving wood pulp required to produce our viscose staple fibers from our internal production at Bahia Specialty Cellulose. As such, any reduction in our wood supply as a result of, among other things, plantation restriction laws in Brazil or unfavorable outcomes in the lawsuits and possessory disputes relating to our plantation land could affect the volume and cost of production of our dissolving wood pulp which, in turn, could affect the volume and cost of production of our viscose staple fibers and our future expansion plans in respect of both our dissolving wood pulp and viscose staple fibers businesses. Similarly, any reduction in demand for our products in China, which accounted for 86.1% of our total revenue in 2009, could affect our ability to sell both our viscose staple fibers and dissolving wood pulp and could therefore affect our business, financial condition, results of operations and expansion plans. In addition, any unfavorable outcome in our existing and future legal proceedings could adversely affect our ability to expand our businesses.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

Our products are subject to price fluctuations.

Prices for dissolving wood pulp and viscose staple fibers may fluctuate from time to time and are subject to numerous factors that we cannot control, including the supply of, and the demand for, such products, which in turn are both affected by changes in industry capacity and output. During the Track Record Period, our product prices were significantly affected by the global economic downturn beginning in 2008. The average selling price of dissolving wood pulp per metric ton produced by our Bahia Specialty Cellulose mill was US\$1,183, US\$973, US\$886, US\$695 and US\$1,435 in the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2009 and 2010, respectively. The average selling price of our viscose staple fibers per metric ton was US\$2,271, US\$2,055, US\$1,897, US\$1,598 and US\$2,448 in the year ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2009 and 2010, respectively.

The demand for our dissolving wood pulp and viscose staple fibers is ultimately determined by the performance of downstream industries, which include the textile industry and the non-woven industry. Our results of operations were negatively affected by the significant fluctuations in the price of our products

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during the Track Record Period, particularly in 2008 and 2009 due to the global economic downturn where the average selling price per metric ton of dissolving wood pulp produced by our Bahia Specialty Cellulose mill and viscose staple fibers produced by our Sateri Jiangxi mill decreased by 17.8% and 9.5%, respectively, in 2008 compared to 2007 and decreased by a further 8.9% and 7.7%, respectively, in 2009 compared to 2008. Our results of operations partially recovered in the six months ended June 30, 2010 as the average selling price of our dissolving wood pulp and viscose staple fibers increased by 106.5% and 53.2%, respectively, compared to the corresponding period in 2009. See the section headed “Financial Information — Selected Combined Financial Data” in this prospectus. Changing demographics, economic crises, population growth and seasonal weather cycles, and the availability and prices of, and changing consumer preferences for, substitutes of the downstream viscose staple fiber products may also affect demand for our products. We cannot assure you that there will be sufficient demand for dissolving wood pulp and viscose staple fibers that we produce in the future, that the prices for dissolving wood pulp and viscose staple fibers will remain at current levels or will not decline in the future or that current producers will not expand their operations or new producers will not enter or reenter the market. A sustained period of weak demand or excess supply of dissolving wood pulp and viscose staple fibers would adversely affect prices for our products, which in turn would have a material adverse effect on our business, financial condition and results of operations.

Global economic conditions, and economic conditions in China and Brazil in particular, could adversely affect the specialty cellulose industry.

The global economic downturn that began in 2008 has adversely affected the economies in China and Brazil as well as other world economies. Although the PRC government announced a fiscal stimulus package aimed at offsetting the slowdown brought about by the global economic downturn, the growth of China’s overall economy has been negatively impacted by the downturn. In the past, the development of adverse economic conditions in other emerging markets resulted, in general, in the outflow of funds and, consequently, the reduction of external funds invested in Brazil. The Brazilian economy was also negatively affected by significant fluctuations in the value of the Real during the Track Record Period. For example, the Real appreciated in value against the US dollar by 17.2% in 2007, depreciated by 32.2% against the US dollar in 2008, appreciated 25.6% against the US dollar in 2009 and depreciated against the US dollar by 3.4% in the six months ended June 30, 2010. Our results of operations were negatively affected by the depreciation of the Real against the US dollar in 2008 largely as a result of the global economic downturn, as it resulted in a US\$21.2 million decrease in the fair value of our derivative financial instruments.

The global economic downturn also resulted in reduced demand for viscose staple fibers, high-end textiles and other applications that use dissolving wood pulp as a raw material in 2008 and the first half of 2009. This marked reduction in worldwide demand resulted in decreased market prices for dissolving wood pulp and viscose staple fibers. In particular, demand for dissolving wood pulp and its downstream product, viscose staple fibers, decreased markedly in China, our primary geographic market, which accounted for 72.1%, 82.8%, 86.1%, 88.1% and 76.6% of our total revenue in the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2009 and 2010, respectively. We experienced significant fluctuations in the price of our products during the Track Record Period, particularly in 2008 and 2009, as the average selling price of dissolving wood pulp produced by our Bahia Specialty Cellulose mill and viscose staple fibers produced by our Sateri Jiangxi mill decreased due to the reduction in demand for our products during the global economic downturn. While worldwide demand for dissolving wood pulp and viscose staple fibers has increased since the second half of 2009, future recurrence of a decrease in global demand or prices for dissolving wood pulp and viscose staple fibers as a result of worsening global economic conditions could have a material adverse effect on our business, financial condition and results of operations.

The global economic downturn also resulted in tightening credit markets and declining equity markets. The timing and nature of any recovery in worldwide financial markets and the global economy remain uncertain, and we cannot assure you that market conditions will improve in the near future or, if they improve, that they will not deteriorate again. If these conditions continue, worsen or recur, they may adversely affect the availability, terms and cost of borrowings in the future, including the financing available

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to us for capacity expansion, acquisitions or other capital expenditure as well as financing available to our customers to fund purchases. Any disruption in our or our customers' ability to renew existing borrowings or obtain new borrowings on commercially reasonable terms, or at all, could have a material adverse effect on our business, financial condition and results of operations.

We may be unable to achieve and manage our growth.

We have grown and plan to continue to grow our business through expansion of our production capacity and product offerings. However, the success of our business expansion plans requires:

- significant amounts of capital investment;
- the acquisition of additional land;
- obtaining and renewing licenses;
- effective recruitment, training and retention of skilled employees;
- improvement of our operational and financial systems;
- enhancement of our internal procedures and controls;
- significant management time and effort to manage our growing business; and
- maintaining valid title to our existing plantation lands which are the subject of ongoing disputes.

We are currently implementing an expansion plan to increase our Sateri Jiangxi mill's effective annual production capacity for viscose staple fibers to up to 160,000 metric tons through certain process improvements. In Brazil, we are implementing improvements to the existing production lines at our Bahia Specialty Cellulose mill, which are expected to increase its design annual production capacity for dissolving wood pulp from 465,000 metric tons to 550,000 metric tons by December 2013. We also have plans to construct a viscose staple fibers mill in Fujian province, China which are currently in the planning stage, and we are also exploring the feasibility of a greenfield project in Jiangsu province, China.

Our ability to successfully implement our expansion plans to build new production lines and additional mills is subject to various uncertainties and risks, including our ability to:

- obtain government approvals, licenses and permits required for our expansion projects;
- obtain additional financing for our planned expansion on commercial terms acceptable to us;
- procure sufficient supplies of machinery and raw materials, including wood, dissolving wood pulp and chemicals;
- acquire enough plantations;
- avoid construction delays and cost overruns;
- recruit, train and retain skilled employees; and
- prevent accidents, fire and other catastrophic events.

As a result of the above factors, we may be unable to complete our planned expansions on a timely basis or at all, which in turn could have a material adverse effect on our business, financial condition and results of operations.

We may experience difficulty in obtaining, and significant increases in prices for, raw materials and utilities.

Wood and chemicals comprise the primary raw materials for our manufacture of dissolving wood pulp. Dissolving wood pulp and chemicals comprise the primary components of our cost of sales for viscose staple fibers. In addition, our production at our Bahia Specialty Cellulose mill and our Sateri Jiangxi mill requires large amounts of thermal and electrical energy and water. We currently source substantially all of our wood

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requirements for the production of dissolving wood pulp from our own plantations. Wood used as a raw material accounted for 11.0%, 6.6%, 16.7%, 15.7% and 16.6% of our cost of sales for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2009 and 2010, respectively, and chemicals used as a raw material at both our Bahia Specialty Cellulose mill and our Sateri Jiangxi mill accounted for 13.7%, 11.8%, 10.9%, 13.6% and 14.3%, respectively, of our total cost of sales for the same periods. We may not be able to source our wood, chemicals, energy and water requirements at an economical price, or at all, if any of the following events occur:

- any changes to environmental regulation;
- fluctuations in market prices of chemicals;
- limited availability of plantation land for acquisition;
- catastrophic events; or
- fluctuations in exchange rates.

We rely on access to local water supplies in Brazil and China. Bahia Specialty Cellulose obtains the water required by its mill from 11 deep wells, which are located within or in close proximity to our production facilities under a grant from the State of Bahia. Copener obtains water for its nursery from two deep wells. Federal legislation has proposed regulations relating to the imposition of fees for the use of natural resources. As a result, we may incur additional costs for water upon implementation of such regulations. Additionally, for our current expansion plans we estimate that we will require an additional 500 cubic meters of water per hour. Although there are additional water resources under the area where our Bahia Specialty Cellulose mill is located, it will be necessary to dig deeper than previously to access this water, and we may not receive the necessary grants in respect of such wells.

Our Sateri Jiangxi mill is located by Poyang Lake, the largest fresh water lake in China. It draws all of its water requirements from Poyang Lake within the quota prescribed under a license granted by the local water authority, the Water Department of Lushan District, Jiujiang City, and pays a water usage fee for the actual amount of water used. Sateri Jiangxi has also obtained a second license to meet its additional water requirements after its capacity expansion. The two licenses will expire in 2012 and are renewable upon application.

Environmental regulatory developments have caused, and may cause in the future, significant reductions in the amount of wood available for commercial harvest in Brazil and affect our access to water and thermal and electrical energy in Brazil and China. In addition, future domestic or foreign legislation and litigation concerning the use of plantation land, the protection of endangered species, the promotion of forest health and the response to and prevention of catastrophic wildfires could also affect wood supplies. The availability and the transportation of harvested wood for our dissolving wood pulp may further be limited by fire, insect infestation, disease, storms, flooding and other natural and man-made causes.

In addition, our results of operations are affected by changes in the price of chemicals. During the Track Record Period, our results of operations were affected by changes in market prices for certain key chemicals, particularly in 2008. For example, the average purchase price of sodium hydroxide used by our Bahia Specialty Cellulose mill was US\$467, US\$715, US\$501 and US\$311 per metric ton in 2007, 2008 and 2009 and the six months ended June 30, 2010, respectively, and the average purchase price of sulfuric acid used by our Sateri Jiangxi mill was RMB345, RMB1,199, RMB163 and RMB388 per metric ton in the same periods, respectively. For further details, see the section headed “Financial Information — Key Factors Affecting Our Results of Operations and Financial Condition — Pricing and Consumption of Raw Materials” in this prospectus. Any shortage in the supply of or increase in the demand for the range of chemicals we use in our production processes could result in increases in raw material costs. In the event that we are unable to pass on the higher raw material costs to our customers, increase sales or otherwise lower our average operating costs in sufficient amounts to offset the higher raw material costs, our business, financial condition and results of operations would be materially and adversely affected.

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We may be unable to acquire enough raw materials and utilities, including wood, dissolving wood pulp and water, to support our future capacity expansions.

We have grown and expect to continue to grow our business through expansion of our production capacity of dissolving wood pulp and viscose staple fibers. A key component in achieving these expansion plans is ensuring that we have an economical source of raw materials, in particular wood suitable for dissolving wood pulp production, dissolving wood pulp used for viscose staple fibers production and water used in the production of both. If we are unable to meet the requirements of our expanding production capacity from our plantations, internal production of dissolving wood pulp and local water sources and/or fail to acquire additional raw materials and utilities as part of our contemplated expansion, we could be forced to buy wood or dissolving wood pulp or acquire other raw materials and utilities from other sources, possibly at a higher price or at a non-competitive price and/or at a greater distance from our mills, resulting in higher logistics costs, or we may not be able to obtain sufficient raw materials at all, thereby limiting our production capacity. Any of these constraints and related costs could materially and adversely affect our business, financial condition and results of operations.

Adverse claims, media speculation and other public statements could adversely affect the value of our Shares.

From time to time there have been adverse claims, media speculation and other public statements relating to us, our associates, our Controlling Shareholders and/or persons affiliated with our Controlling Shareholders. The adverse claims, media speculation and other public statements relating to our Controlling Shareholders and/or companies affiliated with our Controlling Shareholders (which claims and allegations do not relate to our business or assets or ownership of any member of our Group) include:

- legal disputes since 2001 relating to a claim brought by Beckett Pte Ltd, a company which is indirectly 29% owned by our Ultimate Controlling Shareholder, against, among others, Deutsche Bank. The claim relates to an alleged disposal by Deutsche Bank, without due process and at an undervalue, of the pledged shares owned directly or indirectly by Beckett Pte Ltd in PT Swabara Mining and Energy, PT Asminco Bara Utama, PT Indonesia Bulk Terminal and PT Adaro Indonesia. The shares were pledged by Beckett Pte Ltd to Deutsche Bank as collateral for a US\$100 million loan granted to PT Asminco Bara Utama that went into default. Following an appeal in 2009 to the final court of appeal in Singapore, Beckett Pte Ltd was successful in its claim and the amount of damages to be awarded to Beckett Pte Ltd is pending assessment by the court. These damages will be netted off against the amount owed to Deutsche Bank under the loan. We understand from our Ultimate Controlling Shareholder that certain of these disputes, including anti-suit proceedings filed by Deutsche Bank, remain ongoing as of the Latest Practicable Date;
- claims brought against TPL by its minority shareholders in 2002 alleging losses suffered by them as a result of the suspension of TPL's plant operations. We understand from TPL that the relevant courts dismissed these claims and that the minority shareholders who brought the claims in 2002 are now time barred from bringing any further appeal against the judgment. We further understand from TPL that no proceedings were pending in relation to these claims as of the Latest Practicable Date;
- allegations involving PT Unibank Tbk and our Ultimate Controlling Shareholder relating to our Ultimate Controlling Shareholder's previous ownership of PT Unibank Tbk, an Indonesian bank that was closed in 2001 following the Asian financial crisis with associated outstanding debts of US\$230 million, and an alleged corruption investigation in relation to such outstanding debts. We understand from our Ultimate Controlling Shareholder that (i) he held an interest of over 50% in the bank before its initial public offering in April 1997 and subsequently reduced his stake in the bank over time, holding less than 5% at the time of the bank's closure in 2001 and (ii) he has not served on the bank's board of directors or commissioners, and has held no direct management role in the bank, since 1998. The bank fell under the administration of IBRA after its closure in 2001,

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and IBRA concluded the process of liquidating 50 Indonesian banks, including PT Unibank Tbk, in April 2004. We further understand from our Ultimate Controlling Shareholder that there were no pending claims against our Ultimate Controlling Shareholder in respect of PT Unibank Tbk as of the Latest Practicable Date;

- allegations relating to tax evasion in Indonesia made against the Asian Agri group of companies in Indonesia, a palm oil business group ultimately controlled by the Tanoto Family, with respect to the period from 2002 to 2005. We understand from our Ultimate Controlling Shareholder that he has not been a member of the board of directors of any company in the Asian Agri group of companies in Indonesia since 1998. We understand from the Asian Agri group of companies that investigations by the relevant Indonesian authorities in relation to such allegations began in 2007 and that no final conclusions have been reached as of the Latest Practicable Date;
- allegations which appear from time to time in the media relating to illegal logging in Indonesia by PT Riau Andalan Pulp & Paper, an Indonesian pulp and paper company ultimately controlled by the Tanoto Family. We understand from PT Riau Andalan Pulp & Paper that no proceedings were pending in relation to these allegations as of the Latest Practicable Date. PT Riau Andalan Pulp & Paper is a subsidiary of APRIL, which is a member of the World Business Council for Sustainable Development and a signatory to the United Nations Global Compact initiative. Since 2002, PT Riau Andalan Pulp & Paper has used a professional third-party audited wood-tracking system which is reviewed by an international non-governmental organization; and
- ownership and other disputes involving, and allegations of embezzlement made by, relatives of our Ultimate Controlling Shareholder relating to shares in certain companies controlled by our Ultimate Controlling Shareholder in 1997 and which continue to be controlled by our Ultimate Controlling Shareholder. These disputes do not relate to the shares of any company within our Group. We understand from our Ultimate Controlling Shareholder that a legal settlement was reached with such relatives in 2002 in respect of the claims relating to shares in certain companies controlled by our Ultimate Controlling Shareholder in 1997. Notwithstanding this settlement, these relatives of our Ultimate Controlling Shareholder have continued to make allegations in the media from time to time.

These claims and allegations do not relate to our business or assets or the ownership of any member of our Group.

Whether or not justified, any adverse claims, media speculation and other public statements relating to us, our associates, our Controlling Shareholders and/or persons affiliated with our Controlling Shareholders could adversely affect our reputation and our corporate image, or otherwise affect our ability to conduct our business in the ordinary course, including, without limitation, obtaining and renewing operational licenses and regulatory approvals and establishing and maintaining our relationships with customers and suppliers, and to expand our production capacity, including, without limitation, obtaining the necessary financing for such expansion.

These claims and allegations may also adversely affect the value of our Shares or distract our management from their day-to-day management responsibilities, and may therefore have a material and adverse effect on our business, financial condition and results of operations. In the event that any material claim arises out of or in connection with any such adverse claims, media speculation and other public statements, and if any of our Controlling Shareholders satisfy such claims through the disposal of some or all of their Shares, or the voting rights and/or other rights of ownership of some or all of their Shares are otherwise transferred to or for the benefit of or being exercised by another person, our Controlling Shareholders' level of ownership in our Company may vary significantly, which in turn may result in a change of control of our Company.

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Our future acquisitions may not achieve the anticipated benefits.

From time to time, we have made and, in the future, we intend to make acquisitions that are intended to support our business objectives and our expansion plans. Future strategic transactions may expose us to potential risks, including risks associated with:

- the integration of new operations, services and personnel;
- unforeseen or hidden liabilities;
- the diversion of financial or other resources from our existing businesses;
- the inability to generate sufficient revenue to recover costs and expenses of the acquisitions;
- the inability to acquire sufficient raw materials, machinery and plantations to support our new acquisition;
- the technical challenges associated with combining the technologies of the acquired company with our own technologies;
- potential loss of, or harm to, relationships with employees or customers; and
- unforeseeable events, including major changes in the industry and markets in which we and the acquired company operate.

The success of any strategic transaction will depend on, among other things, our ability to identify suitable acquisition targets, finance the transaction and complete the transaction at a reasonable cost. Consideration of strategic opportunities could divert management's attention from our business and the financing of these transactions may negatively impact our financial condition. Additional debt financing may require us to enter into covenants that restrict the ways in which we can operate our businesses. Future equity financing could lead to dilution of the shares held by our Shareholders.

We rely on a few major customers for a significant portion of our revenue and we do not have long-term commitments from some of these major customers.

We derive a significant portion of our revenue from a few major customers. For the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, our top five customers collectively accounted for 47.2%, 34.0%, 43.0% and 43.2%, respectively, of our total revenue and our largest customer accounted for 19.3%, 8.9%, 21.0% and 10.8%, respectively, of our total revenue. These amounts include revenue from the DP Macao business. At the end of 2009, we became aware that the Group's largest customer in both 2008 and 2009, which accounted for 8.9% and 21.0% of our total revenue in each of those years, respectively, had entered into an agreement to invest in a dissolving wood pulp mill in Canada. As such, we reviewed the Group's relationship with this customer and whether this customer's dissolving wood pulp business could potentially compete with the Group's dissolving wood pulp business. As a result of the review, we reduced sales to that customer in the six months ended June 30, 2010, during which time sales to that customer accounted for approximately 1.5% of our total revenue. We have not made any sales to this customer since April 2010 and have reallocated all of the sales to our other customers.

We do not have long-term purchase commitments from most of our customers and we sell our existing products primarily through spot sales, short-term sales contracts and monthly and quarterly purchase orders. We expect that we will continue to rely on a relatively small number of major customers for a significant portion of our revenue in the foreseeable future. Furthermore, we cannot assure you that we will be able to maintain our commercial relationships with our major customers or that they will continue to purchase the same amount of products from us on similar terms or at all. As a result of our reliance on a few major customers, any of the following events may cause material fluctuations or a decline in our revenue, net income and cash flow:

- reductions, delays, modifications or cancellations of purchase orders from one or more of our major customers;

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- loss of one or more of our major customers and our failure to identify additional or replacement customers; and
- failure of any of our major customers to make timely payments for our products.

We rely on a limited number of key suppliers for some of the raw materials used in the production of dissolving wood pulp and viscose staple fibers.

We purchase the chemicals that we require for our dissolving wood pulp and viscose staple fiber production, such as sodium chlorate, sodium hydroxide and hydrogen peroxide from a few key suppliers through spot market sales or through supply contracts. We may also purchase dissolving wood pulp as a raw material for use at our Sateri Jiangxi mill, depending on market conditions, from suppliers, including TPL. Historically, Sateri Jiangxi has purchased all such dissolving wood pulp at arm's length prices, both from TPL through DP Macao, a wholly-owned subsidiary of our Group prior to its disposal pursuant to the Reorganization, and other suppliers, and there was no significant difference in prices of dissolving wood pulp purchased from TPL through DP Macao and from other suppliers during the Track Record Period. During the Track Record Period, Sateri Jiangxi purchased only a small portion of its total dissolving wood pulp requirements from TPL through DP Macao. These purchases comprised less than 7% of our total purchases throughout that period. However, in the future and as we expand our viscose staple fibers production capacity, we may seek to purchase greater quantities of dissolving wood pulp from TPL through DP Macao depending on various factors including our level of demand, whether TPL produces sufficient quantities of dissolving wood pulp to meet our demand and whether market conditions are such that we determine commercially that we wish to satisfy this demand through purchases from TPL through DP Macao rather than from our own internal sources. In the event that any of our existing suppliers are unable to continue to supply these raw materials in the amounts that we require, we may need to purchase these raw materials from other suppliers at prices higher than those which we currently pay. Any interruptions in the supply of, or shortages of, any of these key raw materials could limit our ability to produce dissolving wood pulp and viscose staple fibers or, if the shortages are severe, could mean that we might be required to shut down our production, which would have a material adverse effect on our business, financial condition and results of operations.

Our combined historical financial statements include the financial information of DP Macao, our former subsidiary which we disposed of as part of the Reorganization. Accordingly, our future financial performance may not be comparable with our historical financial results.

We began trading activities through DP Macao in December 2007 and, as part of the Reorganization, we disposed of DP Macao to a company which is controlled by our Ultimate Controlling Shareholder. Our audited combined financial statements contained in the Accountants' Report set out in Appendix I to this prospectus have been prepared based on the consolidated financial statements of Sateri International and its subsidiaries, for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010 which include the financial information of DP Macao.

We have included unaudited financial information in this prospectus for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2009 and 2010 presenting the DP Macao business and the business of Bahia Specialty Cellulose, which includes its own sales of dissolving wood pulp and sales of its products by DPMI, separately. See the section headed "Financial Information" in this prospectus for further information. The unaudited financial information of our DP Macao business and our Bahia Specialty Cellulose business, which includes its own sales of dissolving wood pulp and sales of its products by DPMI, as of and for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2009 and 2010 is not directly extracted from our historical financial information set out in the Accountants' Report included in Appendix I to this prospectus. The Accountants' Report does not extend to the financial information of our DP Macao business and our Bahia Specialty Cellulose business and should not be read to do so. See the section headed "Financial Information" in this prospectus for further information.

The disposal of DP Macao was effective as of September 30, 2010. We expect that our revenue from our trading activities under the Agency Agreement with DP Macao will be significantly lower than the historical revenue derived from DP Macao's principal trading business during the Track Record Period.

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As a result of the above, our future financial performance on which to evaluate the Group and your investment decision may not be comparable with our historical financial results presented in this prospectus.

Our results of operations may fluctuate due to, and can be adversely affected by, changes in the fair value of our forestation assets.

Changes in the fair value of our forestation assets can materially impact the results of our operations. For the year ended December 31, 2009, we recognized an increase in the fair value of our forestation and reforestation assets of approximately US\$23.2 million. Under IAS 41 (Agriculture), we are required to reassess the fair value of our forestation assets less costs to sell at each balance sheet date. The fair value of our forestation assets is derived from many key assumptions. These key assumptions include, among other things, the discount rate, market prices for each grade of logs produced, production costs, yield volume, natural tree growth, the harvesting rate at our forests and the Real to US dollar exchange rate. Any changes in these assumptions may result in a significant increase or decrease in the fair value of our forestation assets. For further information, please see the section headed “Financial Information — Critical Accounting Policies — Forestation and Reforestation Assets” in this prospectus. The key assumptions on physical factors, such as yield estimates used in valuing the forestation assets, may also vary from time to time when updated information is collected by us. All these factors could impact the fair value of our forestation assets which, in turn, could affect our results of operations.

Unfavorable outcomes in pending litigation and legal proceedings against us may negatively affect our business, financial condition and results of operations.

We are party to a number of legal actions arising from our normal business activities, including general civil, tax and labor litigation, possessory actions and claims over property rights in Brazil, and administrative and environmental proceedings which may involve potential material liabilities. As of June 30, 2010, we were involved in approximately 565 claims with an aggregate value of approximately US\$36.8 million which our Brazilian legal advisors, based on the reports and assessments made by our legal counsels, have evaluated our risk of loss as probable or possible. As of June 30, 2010, of the 565 claims mentioned above, we were involved in approximately 290 claims with an aggregate value of approximately US\$9.4 million in which our risk of loss has been evaluated as probable. These claims include approximately 243 disputes involving potential labor liabilities, four proceedings relating to potential tax liabilities, three civil lawsuits and possessory disputes relating to our plantation land, including 26 actions filed by us against unauthorized occupiers of our land as well as 14 actions filed against us. We have made a provision in respect of this amount. As of June 30, 2010, of the 565 claims mentioned above, we were also involved in approximately 275 claims with an aggregate value of approximately US\$27.4 million in which our risk of loss has been evaluated as possible but not probable, but have made no provision in respect of this amount. An unfavorable outcome in any of these legal actions could heighten political pressure and scrutiny of our operations by local authorities which in turn could limit our ability to expand our production capacity and have a material adverse effect on our financial condition, results of operations and cash flow. In addition, regardless of the outcome of the disputes, defending ourselves in these proceedings generally involves significant expense and diversion of management attention and resources, which are detrimental to the operation of our business. Moreover, future domestic or foreign legislation and litigation concerning the use of plantation land, the protection of endangered species and the promotion of forest health could also affect wood supplies which in turn could impair our ability to expand our production capacity. For further details regarding our litigation matters, see the section headed “Business — Legal Proceedings” in this prospectus.

Under the share purchase agreement in connection with the acquisition of our Brazilian subsidiaries, the previous owners agreed to indemnify us for losses arising out of or in connection with certain potential tax, labor, environmental and civil liabilities, subject to certain conditions including that the circumstances or violations giving rise to such liabilities were in existence prior to the acquisition. However, we cannot assure you that we will be successful in asserting our indemnification rights against these previous owners,

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or that they will be financially capable of fully compensating us, should any of these potential liabilities arise. As a result, we may not be fully indemnified for losses arising out of pending litigation against our Brazilian subsidiaries and we may bear the full financial impact of any such losses. Any failure to obtain full indemnification could adversely affect our business, financial condition and results of operations.

In addition, our subsidiaries, Sateri Singapore and Sateri International, are currently involved in litigation proceedings relating to the bankruptcy of our former subsidiary, Kuitu Oy. The claim against Sateri Singapore seeks approximately EUR18.2 million (US\$22.4 million) and certain interest costs, the claim against Sateri International seeks approximately EUR41.5 million (US\$51.0 million) in damages and a further joint claim against both Sateri International and SISA seeks approximately EUR9.0 million (US\$11.1 million) in damages. Both Sateri Singapore and Sateri International have filed defenses in the relevant courts. We cannot guarantee that they will be successful or that further proceedings may not be filed in relation to these matters. Although we do not consider that a failure to defend these claims against Sateri Singapore and Sateri International will have a material adverse effect on our operations, in the event that any further claims are brought against our Group, a failure to defend such claims could have a material adverse effect on our business, financial condition and results of operations. Gold Silk has agreed to indemnify us against all losses suffered or incurred by us arising out of or in connection with the claims against Sateri International. For further details, see the section headed “Business — Legal Proceedings” in this prospectus.

Our Controlling Shareholders have substantial control over our Company and their interests may not be aligned, and may conflict, with the interests of our other Shareholders.

Immediately following the completion of the Global Offering, our Controlling Shareholders will own approximately 85% of our issued share capital (assuming the Over-allotment Option is not exercised and without taking into account any Shares which may be issued pursuant to the exercise of any options which may be granted pursuant to the Share Option Scheme or upon the vesting of any RSUs granted or to be granted pursuant to the RSU Schemes) and approximately 83.1% of our issued share capital (assuming the Over-allotment Option is exercised in full and without taking into account any Shares which may be issued pursuant to the exercise of any options which may be granted pursuant to the Share Option Scheme or upon the vesting of any RSUs granted or to be granted pursuant to the RSU Schemes) and will remain our Controlling Shareholders with substantial control over our issued share capital. Subject to the Bye-laws and the Bermuda Companies Act, our Controlling Shareholders will be able to exercise significant control and exert significant influence over our business or otherwise on matters of significance to us and other Shareholders by voting at the general meetings of the Shareholders, including:

- election of Directors;
- selection of senior management;
- amount and timing of dividend payments and other distributions;
- annual budget;
- acquisition of or merger with other entities;
- overall strategic and investment decisions;
- issuance of securities and adjustments to our capital structure; and
- amendments to the Bye-laws.

The interests of our Controlling Shareholders may differ from the interests of other Shareholders and they are free to exercise their votes according to their interests.

If the interests of our Controlling Shareholders conflict with the interests of our other Shareholders or our business, those other Shareholders could be disadvantaged by the actions that our Controlling Shareholders choose to pursue. Except as otherwise disclosed in the section headed “Connected Transactions” in this prospectus, our Controlling Shareholders are not obligated to exercise their rights as Shareholders in our best interests or the interests of our minority Shareholders.

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We have engaged Averis, a company which is controlled by our Ultimate Controlling Shareholder, for certain business process and administration services to support the finance and accounting, human resources and IT functions of DPMI, Sateri Jiangxi, Sateri Marketing SA, SC Marketing and Sateri Shanghai, including general accounting, accounts payable and receivable, management reporting, payroll processing, personnel data administration, recruitment, IT management, helpdesk and application support service. See the section headed “— If we fail to maintain effective controls over our outsourced functions, we may be unable to meet our business targets or report our results in an accurate or timely manner” below.

In addition, we have entered into the Non-Competition Deed with our Controlling Shareholders and Pinnacle which contains certain restrictions and non-competition arrangements, including obligations of our Controlling Shareholders and Pinnacle in relation to the sale outside Indonesia of dissolving wood pulp produced by TPL.

We have also entered into the Agency Agreement with DP Macao which gives us a right of first refusal to act as the agent of DP Macao with respect to any sales outside Indonesia of dissolving wood pulp sold by TPL to DP Macao. For further details, see the sections headed “Relationship with Our Controlling Shareholders — Business Retained by Our Controlling Shareholders” and “Connected Transactions” in this prospectus. These restrictions and non-competition arrangements may be terminated if our Controlling Shareholders cease to be our controlling shareholders or our Shares cease to be listed on the Stock Exchange. If these restrictions, non-competition arrangements or agency terms are terminated or not observed, our Controlling Shareholders may compete with us in the future. We cannot assure you that any conflicts of interest or overlap of business activities between our Controlling Shareholders, TPL, DP Macao and us will not have a material adverse effect on our business, financial condition and results of operations, as well as your investment in our Shares.

If our Controlling Shareholders fail to effectively procure TPL not to compete with us, we could face increased competition.

TPL, a company controlled by our Ultimate Controlling Shareholder, has historically been, and is capable of, producing dissolving wood pulp. Pursuant to the Non-Competition Deed, each of our Controlling Shareholders and Pinnacle has undertaken to us that it or he will procure that, among other things, TPL will sell all of its dissolving wood pulp for sale outside Indonesia through DP Macao and will otherwise not compete with us outside Indonesia. For further details, see the section headed “Relationship with Our Controlling Shareholders — Non-Competition Deed” in this prospectus. If our Controlling Shareholders or Pinnacle fail, or are otherwise unable, due to Indonesian laws and regulations or rules of the Indonesia capital markets regulators (such as those rules relating to conflict of interest matters), to effectively procure TPL not to compete with us, we could face increased competition from TPL, particularly with respect to sales of dissolving wood pulp in our target markets. Any increased competition with TPL could have a material adverse impact on our business, financial condition and results of operations.

We may be unable to enter target segments of the specialty cellulose industry.

We intend to expand our sales of specialty grades of pulp. We cannot assure you that we will achieve increased sales of specialty grades of pulp products in the future. We intend to commence the production of specialty viscose staple fibers by December 2010. Any failure of these initiatives or other efforts to enter the target segments of our industry (such as acetate grade dissolving wood pulp and specialty viscose staple fibers) may limit our growth, which could have a material adverse effect on our business, financial condition and results of operations.

We may not be able to compete successfully in the highly competitive specialty cellulose industry.

We operate in the specialty cellulose industry, which is highly competitive. In 2009 and the six months ended June 30, 2010, our sales of dissolving wood pulp produced by our Bahia Specialty Cellulose mill comprised 56.9% and 62.8% of our total revenue, respectively. During the same periods, sales of viscose staple fibers comprised 23.1% and 17.1% of our total revenue, respectively. We currently compete primarily with Domsjo Fabriker AB, Sappi Limited and Tembec Inc. in the rayon grades of pulp market. We currently

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compete with other viscose staple fibers producers in China, including Shandong Helon from Shandong province, Tangshan Sanyou from Hebei province, Jiangsu Aoyang from Jiangsu province and Fulida from Zhejiang province. Our primary competitors in the international regular viscose staple fibers market are Birla, Lenzing AG and Tangshan Sanyou. As we enter the specialty grades of pulp market, we expect to compete with Borregaard, Buckeye Technologies, Inc., Rayonier Inc. and Sappi Limited. We compete on the basis of price, technical specifications, quality, technical support and services and distribution network. If our products do not meet our customers' specifications and quality standards, or if our customer service does not meet our customers' requirements, we may lose customers to our competitors and our results of operations will be adversely affected.

Some of our competitors may have greater financial and operating resources than we do. They may be able to gain access to raw materials at lower costs, implement more efficient production processes or develop more sophisticated products. We may also not be able to continue to compete with our competitors if they take steps to expand their production capacity. In addition, while only a few of our competitors currently have the capacity and expertise to produce and market products for both specialty grades and rayon grades of pulp customers, if our competitors undertake the process of expanding their facilities to produce specialty grades of pulp or if the technology to produce specialty grades of pulp becomes more accessible or affordable, we may not be able to compete with these new competitors in the specialty grades of pulp market. If we are unable to compete effectively with our competitors, our business, financial condition and results of operations will be adversely affected.

We are subject to risks relating to our target sales markets, particularly China.

In 2009, our sales to China, Europe, the Americas and Asia (ex-China) accounted for 86.1%, 6.4%, 5.2% and 2.3%, respectively, of our total revenue. These amounts include revenue from the DP Macao business. As a result, we are subject to risks relating to the economic, political and social conditions in our target sales markets, particularly China, and may be adversely affected by factors that are beyond our control in these regions, such as:

- the interference of local governments in economic policies;
- exchange rate instability and devaluation of the currencies in our primary target sales markets;
- any deterioration of economic conditions in our target sales markets, particularly in China;
- inflation and changes in interest rates;
- exchange controls and restrictions on remittances abroad;
- tax policies and laws; and
- other political, social and economic developments in or affecting our target sales markets, and the PRC market in particular.

The occurrence of any of the above factors may have a material adverse effect on our business, financial condition and results of operations.

We may be adversely affected by fluctuations in foreign currency exchange rates and any restrictions on foreign currency exchange.

Our reporting currency is the US dollar, which is different from the functional currency of our operations in China, which is the Renminbi. Our operations in China and Brazil primarily incur costs denominated in the Renminbi and the Real, respectively. In the three years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2009 and 2010, our Renminbi-denominated revenue comprised 33.3%, 23.2%, 18.5%, 25.5% and 13.2% and our Real-denominated revenue comprised 17.4%, 5.5%, 4.4%, 4.5% and 2.7%, respectively, of our total revenue; and our Renminbi-denominated cost of sales comprised 30.7%, 18.5%, 13.9%, 15.0% and 11.8% and our Real-denominated cost of sales comprised 44.3%, 26.4%, 49.5%, 56.6% and 54.4%, respectively, of our total cost of sales. As a result, fluctuations in the exchange

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rates or any restrictions on the exchange of the Renminbi or the Real for the US dollar could have a material adverse effect on our profit margin, financial condition and results of operations. See the section headed “Financial Information — Key Factors Affecting Our Results of Operations and Financial Condition — Changes in Foreign Exchange Rates” in this prospectus.

During 2010, the US dollar has depreciated against a number of currencies in developed and developing economies, such as Brazil and China. Further depreciation of the US dollar could have an adverse effect on our results of operations, financial condition and business due to increased operational costs which are primarily denominated in Real in Brazil and Renminbi in China.

China

The exchange rates between the Renminbi, on the one hand, and the HK dollar, the US dollar and other foreign currencies, on the other hand, are affected by, among others, changes in China’s political and economic conditions. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the US dollar. Under the new policy, the Renminbi is pegged against a basket of currencies, determined by the People’s Bank of China, against which it can rise or fall by as much as 0.5% each day. This change in policy resulted in the value of the Renminbi appreciating more than 20% against the US dollar over the following three years. The Renminbi reached a high against the US dollar in July 2008 and subsequently traded within a narrow range against the US dollar, remaining within 1% of its July 2008 high, until September 2010 when it increased beyond such 1% band. Recent media and financial industry speculation has suggested that the PRC government may change its policy with regards to the Renminbi and allow it to appreciate against the US dollar. It is difficult to predict how long the current situation will last and when and how Renminbi exchange rates may change going forward.

Furthermore, we will need to convert part of the net proceeds from the Global Offering and future financing in foreign currencies into the Renminbi for our operational use in China. Appreciation of the Renminbi against the relevant foreign currencies would have an adverse effect on the amount of Renminbi we receive following conversion. In addition, it could adversely affect our results of operations because a significant component of our operational costs is denominated in the Renminbi, including chemicals, energy, logistics and labor costs. Very limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these transactions may be limited, and we may not be able to successfully hedge our exposure at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currencies freely. As a result, any significant revaluation of the Renminbi may have a material adverse effect on our cash flow, financial condition and results of operations.

Brazil

There have been significant fluctuations in the exchange rates between the Real and the US dollar and other currencies. In the past, the Brazilian government implemented various economic plans and utilized a number of exchange rate policies, including devaluations, floating exchange rate systems, exchange controls and dual exchange rate markets. Historically, such governmental policies resulted in significant fluctuations in the exchange rate between the Real and the US dollar. For example, the Real depreciated 18.7% in 2001 and 52.3% in 2002 against the US dollar. In 2003, the Brazilian government implemented new economic policies that have helped to restore confidence in the Brazilian financial markets. The Real increased in value against the US dollar by 11.8%, 8.7% and 17.2% in 2005, 2006 and 2007, respectively. In 2008, as a result of the global economic crisis, the Real depreciated by 32.2% against the US dollar to R\$2.34 per US dollar on December 31, 2008 as compared to R\$1.77 per US dollar on December 31, 2007. During 2009, the Real appreciated by 25.6% against the US dollar. Our results of operations were negatively affected by the depreciation of the Real against the US dollar in 2008, as it resulted in a US\$21.2 million decrease in the fair value of derivative financial instruments. We cannot assure you that there will not be significant volatility

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in the exchange rate between the Real and the US dollar or other currencies in the future. We have entered into hedging transactions with respect to foreign currency exchange risk involving the Real. See the section headed “Financial Information — Market Risks, Derivative Financial Instruments and Hedging Activities” in this prospectus.

Depreciations of the Real in relation to the US dollar could create additional inflationary pressures in Brazil and lead to increases in interest rates, which may negatively affect the Brazilian economy as a whole and, in particular, our results of operations. On the other hand, the appreciation of the Real in relation to the US dollar may impact Brazil’s current accounts and balance of payments, as well as reduce the gross domestic product resulting from exports. In particular, a significant portion of our operating costs for dissolving wood pulp production is denominated in the Real, but our dissolving wood pulp sales are generally denominated in US dollars. Continued appreciation of the Real against the US dollar may increase our production costs relative to our revenue and decrease our profit margins.

Furthermore, Brazilian law permits the Brazilian government to impose temporary restrictions on the conversion of the Real into foreign currencies and on the remittance to foreign investors of proceeds from their investments in Brazil whenever there is a serious imbalance, or a foreseeable serious imbalance, in Brazil’s balance of payments. For example, the Brazilian government imposed remittance restrictions for approximately six months in 1989 and early 1990. We cannot assure you that the Brazilian government will not take similar measures in the future. Any such measures could potentially have an adverse impact on our operational liquidity.

We may not be successful in utilizing hedging arrangements to manage foreign exchange risks with respect to the Real.

We entered into forward foreign exchange contracts with respect to the Real as part of an overall risk management policy to seek to reduce our exposure to foreign exchange risks. We had unrealized changes in fair value of derivative financial instruments of a net gain of US\$13.6 million, a net loss of US\$21.2 million, a net gain of US\$1.8 million and a net gain of US\$0.2 million in 2007, 2008, 2009 and the six months ended June 30, 2010, respectively. We had realized net gains on settlement of derivative financial instruments of US\$42.5 million, US\$4.3 million and US\$18.4 million and a net gain of US\$0.1 million in 2007, 2008 and 2009 and for the six months ended June 30, 2010, respectively. These changes in the value of our derivative financial instruments are primarily the result of the changes in foreign exchange rates discussed above. As we primarily incur production costs for dissolving wood pulp produced at our Bahia Specialty Cellulose mill in Real and conclude sales in US dollars, we take a short position in US dollars against Real in the forward foreign exchange contracts market. We intend to continue to use forward foreign exchange contracts and options contracts to hedge foreign exchange risks in the future and do not intend to use forward foreign exchange contracts for speculation or earning of profits. However, these investments may not be effective in hedging foreign exchange risks. Failure to manage our foreign exchange risk effectively could have a material adverse effect on our business, financial condition and results of operations. See the section headed “Financial Information — Market Risks, Derivative Financial Instruments and Hedging Activities — Foreign Exchange Risk” in this prospectus.

Demand for our products may be affected by price and the availability of alternative products.

The demand and price for our products may be adversely affected by the price and availability of products that are substitutes for our products. Any substantial shift in demand from our products to competing products or materials could result in a material decrease in sales of our products and could adversely affect our business, financial condition and results of operations. We cannot assure you that any efforts we might undertake to adapt our product offerings to such changes would be successful or sufficient.

Companies in the specialty cellulose industry are subject to possible declines in demand for their products if the use of alternative products grows and the prices of such alternatives become more competitive. We compete with manufacturers of products that may be used as substitutes for our products. For example, cotton, polyester and other man-made fibers are all substitutes for viscose staple fibers. In China, in particular, we compete with manufacturers of cotton linter pulp, which can also be used to produce viscose

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staple fibers. Cotton linter pulp is made from cotton linter, a by-product of the cotton production industry. Historically, the production cost of cotton linter pulp was significantly higher than that of dissolving wood pulp. However, we cannot guarantee that the supply of cotton linter pulp will not increase or that the price of cotton linter pulp may not become lower than that of dissolving wood pulp in the future.

We are subject to extensive environmental, health, safety, water use and electric power regulations in Brazil and China and may be adversely affected by the imposition and enforcement of more stringent regulations.

We are subject to extensive environmental, health and safety regulations in Brazil and China that govern our air emissions, disposal of effluents, use, handling, discharge and disposal of solid waste and hazardous materials and forestry practices. In 2009, our sales to China accounted for 86.1% of our total revenue, and a substantial portion of our assets are located in China, including our Sateri Jiangxi mill and our Fujian greenfield project. In addition, a substantial portion of our assets are located in Brazil, including all of our wood plantation land and our Bahia Specialty Cellulose mill. We are required to obtain various permits from the relevant governmental authorities in connection with our operations in Brazil and China. These environmental laws, regulations and permits require us to adhere to strict standards and maintain certain practices with respect to water discharge, air emissions and the use, handling, discharge and disposal of solid waste and hazardous materials. In complying with certain environmental laws and regulations, we incur costs to purchase and install pollution control equipment or change our production techniques in order to limit the impact that our operations may have on the environment. In addition, under environmental laws in Brazil, a controlling shareholder may be liable for environmental claims against its subsidiaries operating in Brazil. We may also be held liable, jointly and severally with other local companies that engage Cetrel to treat liquid effluent in the Camaçari industrial complex where our Bahia Specialty Cellulose mill is located in Brazil, if there is environmental damage caused by Cetrel.

The use of waterways is also highly regulated under Brazilian environmental laws. The use of water resources, including the establishment of private wells or in connection with the discharge of effluents, often requires a right to use to be granted by a government environmental agency. The production of dissolving wood pulp at our Bahia Specialty Cellulose mill requires a significant amount of water and its expansion will require additional sources of water. Bahia Specialty Cellulose currently obtains water required for its mill from 11 deep wells located within or in close proximity to its production facilities under valid water grants issued by the competent environmental agency. These grants are currently not subject to any levy imposed by either the state or the federal government. However, the federal government has proposed regulations relating to the imposition of fees for the use of natural resources, and we may incur additional costs for water in the event such regulations are implemented. Although we have not experienced any difficulty in obtaining sufficient water in the past, we will need to search for alternative sources for our future needs which will require us to incur additional investment costs and could decrease the availability of funds for other capital expenditure and other purposes.

Since we have our own electricity generation facilities at our Bahia Specialty Cellulose mill, we are also subject to a comprehensive regulatory framework and, in particular, laws and regulations enacted by Brazilian governmental authorities such as the Ministry of Mines and Energy (*Ministério de Minas e Energia*) and the Brazilian Electricity Regulatory Agency (*Agência Nacional de Energia Elétrica*). On July 14, 2009, Bahia Specialty Cellulose and Copener entered into the TAC with the Bahia State Public Prosecutor's Office, related to their potential non-compliance with requirements for the creation and maintenance of legal reserve and permanent preservation areas with respect to certain properties located in different municipalities where Bahia Specialty Cellulose and Copener operate. Bahia Specialty Cellulose and Copener are currently in the process of regularizing all the areas involved in the TAC. Once the requirements under the TAC are fulfilled by Bahia Specialty Cellulose and Copener, all civil investigatory procedures relating to legal reserve compliance by them shall be fulfilled.

Our Sateri Jiangxi mill is subject to PRC national and local environmental laws and regulations. Prior to its establishment, Sateri Jiangxi was required to obtain the appropriate environmental impact assessment report and approval of such report from the relevant PRC environmental protection authorities. It was also

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required to pass the examination of construction of environmental protection facilities by the environmental protection authorities. In addition, Sateri Jiangxi is required to ensure that any waste products or pollutants discharged or emitted from its manufacturing activities are within the types and level or amount specified in the relevant permits and approvals, and to register any deviation in the types and level or amount of waste products or pollutants discharged with local environmental protection authorities in Jiangxi. In complying with these environmental laws and regulations, we have to incur additional costs to purchase and install pollution control equipment, treat effluent or change our production techniques in order to limit the impact that our operations may have on the environment.

Future changes in environmental, health and safety, water use and electric power laws and regulations in Brazil and China may impose more stringent requirements on our operations. As a result, we may incur increased costs in order to comply with such new laws and regulations or to obtain or renew the required permits for our operations. Failure to comply with environmental, health and safety, water use and electric power laws and regulations or conditions contained in our permits could result in administrative, civil and/or criminal penalties, including substantial fines, revocations of operating permits and/or shutdowns of our facilities. Increased costs incurred in connection with environmental, health and safety and electric power compliance could have a material adverse effect on our business, financial condition and results of operations.

The successful enactment and enforcement of plantation restriction laws by Brazilian municipalities and recent and future changes in Brazilian rules and regulations, their interpretation and application concerning land acquisition by Brazilian companies in which the majority interest is held by foreign entities may adversely affect us.

Some Brazilian municipalities have enacted laws restricting the planting of eucalyptus trees and other non-Brazilian native vegetations. Such restrictions include, for example, the limitation of eucalyptus plantations in areas where agriculture is viable. These restrictions could result in increased wood costs and/or reduce the amount of wood available for our dissolving wood pulp production. The current restrictions would affect less than 5% of our total plantation area.

We have instituted actions to resist such planting restrictions and have obtained preliminary injunctions against the imposition of such restrictions, based on the argument that the municipal legislation is against the Brazilian constitution, since according to advice from our legal counsels, municipalities are not competent to legislate on environmental issues of this nature. The successful enactment and enforcement of such plantation restriction laws could result in increased costs if we are forced to seek alternative supplies of wood, which could have a material adverse effect on our business, financial condition and results of operations. Moreover, we cannot assure you that no further similar enactments will be made by relevant municipalities in the future or that we will be successful in our proceedings. Future restrictions could affect our use of land and have a material adverse effect on our business, financial condition and results of operations.

On August 23, 2010, the opinion CGU/AGU n° 01/2008-RVJ (the “**Opinion**”) of the Solicitor General’s Office in Brazil (AGU), which represents Brazil before the courts and provides legal advice to the Brazilian executive branch, was executed by the President of Brazil, changing the interpretation applicable by the Federal Administration of legal rules concerning the acquisition of rural properties by foreigners or by Brazilian companies of which the majority of the capital is owned by foreign entities. According to the Opinion, Brazilian companies that are controlled by foreign capital are subject to Brazilian Law n° 5.709/71, which imposes certain restrictions or requirements with respect to the acquisition of rural property in Brazil. For example, certain purchases require authorization from the Brazilian Institute for Agrarian Reform - INCRA or the Brazilian National Congress. In addition, the acquisition of rural property must be directly linked to the development of rural agriculture, livestock farming, industrialization or settlement. Moreover, the total rural area to be acquired by foreigners may not exceed 25% of the total area of a municipality, and

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foreigners of the same nationality may not be owners, in a given municipality, of more than 40% of the total area of the municipality which may be owned by foreigners. The publication of the Opinion is recent and, as a result, there is no prevailing interpretation of its terms and it is not currently possible to ascertain its impact and how the relevant government authorities will apply it.

The Opinion must be observed by all entities of the Federal Administration for future acquisitions of rural land made as from the date of its publication and will not be applied retrospectively to past acquisitions of rural land provided that such acquisitions have already been registered by the competent real estate registry. Since the Brazilian judicial branch is not bound by the Opinion, it is possible to question its applicability in court based on alleged constitutional violations and legal principles. In case the restrictions under Law n° 5.709/71 are interpreted to be applicable to us, or new laws and regulations are enacted and although we may adjust our operations in order to observe the applicable restrictions, we may be restricted from acquiring properties that we deem necessary or relevant to our strategy which would impair our ability to expand our production capacity and we may also experience delays in the process necessary to conclude such acquisitions, which may adversely affect us.

New industry technologies may be developed which could render our existing products or production technologies obsolete.

New industry technologies may develop in the specialty cellulose industries which could render existing products or production techniques obsolete, or make it more commercially feasible to produce similar products. Alternative products that are fungible for our products may also be developed. Although we emphasize product quality and intend to adopt new technologies to expand product offerings for our customers, we may not be able to accurately predict product trends and successfully implement new technologies in our production. As a result, we may not be able to respond to changing market demand in a timely manner. In addition, we will incur substantial costs to upgrade our production facility and train our operating personnel before we can adopt any new production techniques. If we are unable to adopt new technologies, we may not be able to compete with other companies in our industry. Failure to implement new industry technologies could have a material adverse effect on our business, financial condition and results of operations.

Interruption of third party services for the transportation of our raw materials and our products could jeopardize our operations.

We rely on a few logistics companies for the transportation and shipment of the raw materials that we use as well as for delivery of our final products. In particular, we use third party logistics companies to transport wood from our wood plantations to our Bahia Specialty Cellulose mill and to ship the dissolving wood pulp produced at our Bahia Specialty Cellulose mill in Brazil to our Sateri Jiangxi mill in China, as well as to transport dissolving wood pulp and viscose staple fibers to our customers. Shipping and transportation costs with these logistics companies are subject to various factors such as fluctuations in international trade volume and fuel costs, which are beyond our control. Such delivery services could be suspended, which in turn could interrupt the supply of our products to our customers and to our Sateri Jiangxi mill, if any unforeseen events which are beyond our control occur, such as poor handling and damage to our products, transportation bottlenecks, natural disasters or labor strikes. In the event that any of these service providers are unable to continue to provide our transportation and other logistical requirements and services, we may need to contract additional service providers at prices higher than those which we currently pay. Any interruptions in the supply of, or shortages of, any of these third party services could limit our ability to produce dissolving wood pulp and viscose staple fibers, restrict the sales of our products to customers or, if the shortages are severe, could mean that we might be required to shut down our production, any of which would have a material adverse effect on our market reputation, business, financial condition and results of operations.

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If we fail to maintain effective controls over our outsourced functions, we may be unable to meet our business targets or report our results in an accurate or timely manner.

We have outsourced certain of our business process and administrative services since 2008 to support the finance and accounting, human resources and IT functions of DPPI, Sateri Jiangxi and Sateri Shanghai to Averis, a company which is controlled by our Ultimate Controlling Shareholder. We also entered into similar agreements with Averis in August and September 2010 in respect of Sateri Marketing SA and SC Marketing, respectively, and expect to enter into further agreements of the same nature with Averis through certain of our other subsidiaries, including Bahia Specialty Cellulose and Copener, following the Listing Date. As a result, we rely and will continue to rely on Averis to perform some business process and administration services of our business that are necessary to the integrity of our financial results. If we fail to maintain adequate monitoring control on the outsourced functions, we may be unable to accurately report our financial results or prevent fraud, and investor confidence and the market price of our Shares may be adversely affected. In addition, Averis owns the license to the software used for our finance and accounting functions. If our arrangements with Averis were terminated, we would incur additional costs in connection with the replacement of this software or acquiring the license from Averis. For further details, see the section headed “Connected Transactions — Exempt Continuing Connected Transactions — Support Services Agreements with Averis” in this prospectus.

The failure to maintain effective control over our outsourced functions could adversely affect our ability to timely fulfill our financial reporting obligations. Any misstatements or adjustments due to errors or the failure to satisfy our reporting obligations on a timely basis could have a material adverse effect on our business, financial condition and results of operations.

We outsource certain core business operations, including our wood harvesting, logistics and certain transaction processing functions.

We outsource certain core business operations, including our wood harvesting, logistics and certain transaction processing functions. These operations are required for the successful operation of our business particularly with respect to the provision of raw materials for our dissolving wood pulp production and the transportation of our products to customers and to our Sateri Jiangxi mill. If these third parties fail to perform their contracted functions or do so at a level of insufficient quality, we may be exposed to increased operating costs, potential litigations and legal proceedings and third party liability claims. Additionally, if any of our operational outsourced service providers do not meet their operational targets, such as harvesting and logistics targets, our operations, customer deliveries and sales could be disrupted. The occurrence of any of these events could have a material adverse effect on our business, financial condition and results of operations.

If our third party contractors fail to comply with applicable laws and regulations, suffer financial difficulties or otherwise fail to make labor or social security payments, we may be deemed to be liable for our contractors’ actions or obligations.

We rely on third party contractors to perform some of the activities at our mills in Brazil and China, and at our effluent treatment facilities and wood plantations in Brazil. We also engage third party contractors for the construction work relating to our expansion projects in Brazil and China. While third party contractors serve as an efficient and cost-effective supplement to our work force, we have less control over the quality of their performance than that of our own work force. In particular, Brazilian regulations provide for strict and joint liabilities of companies and their contractors for environmental damage and for certain labor and social security claims of the contractors. As a result, we may be deemed to be liable in Brazil for damages arising out of the activities of our contractors, including those responsible for planting, harvesting, land clearing on plantations, cleaning, maintenance at our research and development facilities, plantation land and mills. In addition, we may be directly liable for the employment agreements of certain outsourced workers performing activities that may be considered to be directly related to our business. For example, in the six months ended June 30, 2010, 202 claims in an estimated aggregate amount of US\$3.8 million were brought against us by employees of three third party contractors which had performed plantation activities for us in

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Brazil and which ran into financial difficulties, resulting in them not making the required labor and social security payments to their employees. For further information, please see the section headed “Business – Legal Proceedings” in this prospectus. We may also be required to account for the employees of our third party contractors as our own employees if the Brazilian labor authorities were to consider the activities of planting, harvesting and land clearing at our wood plantations as part of our core business. Non-compliance with or violation of environmental, labor, social security or certain other applicable laws or regulations by our third party contractors could have a material adverse effect on our business, financial condition and results of operations.

Fire, severe weather, floods or other natural disasters as well as known and unknown plagues and diseases could cause significant damage to our wood plantations, research and development facilities and mills in Brazil and China.

Although our plantations are located on non-contiguous land, our plantations are cultivated on large tracts, which have high densities of trees per unit of land. As a result, we may face events such as:

- fire, floods or other natural disasters;
- epidemic of some known and unknown diseases or plagues; and
- exposure to adverse climate change.

Historically, our business has not been significantly affected by adverse weather conditions. However, severe climate change could negatively impact planting and our supply chain as unusually wet conditions impact harvesting operations, reducing our ability to source wood in sufficient quantities for our dissolving wood pulp production. Alternatively, extended periods of drought and/or reduced rainfall in Brazil could negatively affect the growth of our plantations thereby reducing or delaying our supply of wood. If any of these events occur, we may have to reduce or suspend our operations in Brazil or China. In particular, we may be forced to source our raw materials at a significantly higher price and/or a greater distance from our mills. If the shortages or disruptions are severe, we could be forced to stop our production which would have a material adverse effect on our business, financial condition and results of operations.

Any one or more of these events could significantly disrupt our operations by, among other things, delaying or preventing production and product shipments, imposing substantial uninsured repair or replacement costs, impeding the ability of personnel to report to work, or limiting our ability to source raw materials. For example, in December 2009, the expansion of our production capacity at our Sateri Jiangxi mill was delayed when part of the expansion project was damaged by fire. We recognized an impairment loss provision in respect of property, plant and equipment relating to this incident of approximately US\$20.0 million for the year ended December 31, 2009. If another event occurs, it may take time to rectify any problem or repair any damage. This could result in an increase in our costs or lost sales and sales opportunities. Therefore, the occurrence of any of these events could have a material adverse effect on our business, financial condition and results of operations.

Our business may be materially and adversely affected if operations at the transportation, storage, distribution, waste management and port facilities we own or utilize experience interruptions.

Our operations are dependent upon the uninterrupted operation of transportation, storage, distribution, waste management and port facilities that we own or utilize. Operations at facilities that we use to transport, store, distribute and export our products or to manage our waste could be partially or completely shut down, temporarily or permanently, as a result of circumstances that are not within our control, such as:

- catastrophic events (including severe weather conditions);
- strikes or other labor disputes;
- other disruptions in transportations systems; and
- suspension or termination of concessions or licenses granted to us or our commercial partners or independent contractors related to the rights to provide services.

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Any significant interruption at these facilities or inability to transport products to or from these facilities (including through exports) or to or from our customers for any reason would have a material adverse effect on our business, financial condition and results of operations.

Our research and development efforts may be unsuccessful.

We expect to continue to expend significant amounts of time and resources on research and technological developments in the future. We have a program in Brazil which seeks to improve the quality and yield of our eucalyptus trees, which is an important raw material for our dissolving wood pulp business. Our research and development efforts may not result in improved technologies or expertise or we may fail to implement these improved technologies or expertise in a timely or cost-efficient manner, which could have a material adverse effect on our business, financial condition and results of operations.

We are subject to legal and business risks if we fail to obtain or renew the licenses and permits which enable us to conduct and expand our business.

In order to conduct and expand our business, we have obtained, or are required to obtain, certain key permits and licenses for our mills and our plantations, including compliance reports with certain emissions standards. If we are unable to obtain or are unable to continue to renew these permits or licenses or to do so in a timely manner, we may not be permitted to develop greenfield projects or other acquired operations or continue to harvest and continue our manufacturing, and this may materially and adversely affect our business, financial condition and results of operations.

Material defects in title and claims from adverse possessors of parts of the land for our wood plantations in Brazil could adversely affect our ownership and use of such properties.

Out of our total plantation land of approximately 150,000 hectares in Brazil, we have full title to approximately 142,000 hectares of land and we have acquired the rights of possession to approximately 8,000 hectares of land pursuant to sales contracts or other documents. For those parcels of land where we only have the right of possession, we are currently taking steps under Brazilian law to obtain the title deeds for such land through judicial or administrative proceedings. If we fail in these proceedings, we would still have the right of possession, but such right will cease to exist if a third party can prove to the competent court that it has the title deeds for the relevant land. Since such proceedings are currently pending at the relevant local courts or administrative agencies, we cannot assure you that the outcome of the proceedings will be favorable to us, or that we will not lose our right to continue our wood plantations on such lands, or our operations will not otherwise be disrupted as a result of such title disputes. Material defects in title for our plantation land in Brazil could have a material adverse effect on our business, financial condition and results of operations.

Due to the relatively vast border areas of our non-contiguous plantation land in Brazil, it is difficult for us to ensure that there are no adjacent occupants who cross the borders and adversely possess parts of our land. Currently, we estimate that approximately 6% of our total plantation land is possessed by unauthorized occupiers and we have filed possessory actions against some of these unauthorized occupiers. See the section headed "Business — Legal Proceedings" in this prospectus. There may be additional land areas possessed by unauthorized occupiers that are unknown to us. In addition, there are currently a total of 14 possessory actions filed against us with respect to less than 2% of our total plantation land. While we do not currently consider that the failure to evict unauthorized occupiers of our land or defend ourselves in possessory actions made against us in respect of this portion of our total plantation land would have a material adverse effect on our business, there may be additional land areas possessed by unauthorized occupiers that are unknown to us and further possession claims may be made against us in the future. In such a case, the failure to evict unauthorized occupiers of our land or defend claims made against us could disrupt or delay our plans to expand our production capacity and could in the aggregate have a material adverse effect on our business, financial condition and results of operations.

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We depend upon certain key management and skilled personnel and our business and growth prospects may be disrupted if we lose their services.

Our future success depends upon the continued service of our senior management and our skilled personnel. Their talents, efforts and leadership are critical to our operations and financial performance due to the technical nature of our operations. If one or more of our key personnel are unable or unwilling to continue in their present positions, or if they join a competitor or form a competing company, we may not be able to timely identify or attract suitable replacements. While our employment contracts with some of our senior management and key personnel include non-compete clauses in accordance with market practice, we cannot assure you that such non-compete clauses are enforceable in all cases. Furthermore, we carry only group life insurance on our employees and do not carry any “key-man” insurance. Failure to retain existing management and skilled personnel with specialized technical know-how, or to identify and attract key management or skilled personnel or employees in the future, could have a material adverse effect on our business, financial condition and results of operations.

We may be subject to labor disputes from time to time.

In Brazil, the majority of our employees are represented by unions or equivalent bodies and all of our employees are covered by collective bargaining or similar agreements which are subject to periodic renegotiation. We may not be able to successfully conclude our annual labor negotiations on satisfactory terms, which may result in a significant increase in the cost of labor or may result in work stoppages or labor disturbances that disrupt our operations. As of June 30, 2010 we were involved in 564 legal claims involving potential labor liabilities in Brazil, including a claim brought by SINDICELPA, the labor union representing some of the employees of Bahia Specialty Cellulose, relating to alleged required risk premiums on workers’ wages. We do not believe that a negative outcome in these disputes, individually or in the aggregate, would have a material adverse effect on our financial position or operations as a whole. In addition, on February 23, 2010, we filed a lawsuit against a labor union in Brazil when it threatened to block access to one of our plantations. This matter was resolved without disruption to our operations and any payment being made by the Group. However, other disputes, work stoppages or labor disturbances affecting our operations in Brazil could have a material adverse effect on our business, financial condition and results of operations.

In China, there has been an increase in labor disruptions and publicity given to employee minimum wages and compensation of employees, particularly in the manufacturing sector. If there are such disputes affecting our operations in China, this may result in cost increases, work stoppages or labor disturbances that could disrupt our operations which may have a material adverse effect on our business, financial condition and results of operations.

We had net current liabilities as of December 31, 2009.

Our operations are capital intensive. We had net current liabilities of US\$24.5 million as of December 31, 2009, primarily due to (i) cash outflow in relation to the early repayment of loans from related parties under non-current liabilities, (ii) a reduction of amounts due from related parties under current assets, (iii) increased short-term working capital loans to support our increased production capacity in 2009 and (iv) a portion of our project finance loans for Sateri Jiangxi becoming current liabilities in 2009. We had net current assets of US\$108.5 million and US\$156.4 million as of June 30, 2010 and September 30, 2010, respectively.

In addition, we may need to raise additional funds to finance our expansion plans and refinance our existing debt, meet unanticipated operating cash outflows, develop new or enhanced products, respond to competition or brand pressures, invest in or acquire businesses or technologies, or respond to unanticipated requirements or developments. The actual amount of our future financing requirements will depend on our future performance, market conditions and other factors, many of which are beyond our control and cannot be predicted with certainty. We expect to seek such additional funds, if necessary, through new issuances of Shares and/or debt financing from banks or other sources.

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Our ability to arrange financing or refinancing is dependent on a number of factors, including observing current restrictive covenants under our syndicated loan in connection with the refinancing of the funding provided for the expansion of our Bahia Specialty Cellulose mill, general economic and capital market conditions and credit availability from banks or other lenders. Certain PRC banks may halt or reduce new lending in certain industries in response to inflationary pressures or government policies. In the future, if sufficient funds are unavailable to meet our needs or refinancing cannot be obtained on commercially acceptable terms, if at all, then we may not be able to repay our borrowings, particularly our short-term borrowings, upon maturity or expand, introduce new products or compete effectively. This could have a material adverse effect on our business, financial condition and results of operations.

Our business operations could be adversely affected by the high level of debt incurred by us.

As of September 30, 2010, our total outstanding consolidated bank borrowings amounted to US\$440.6 million including US\$201.6 million of bank borrowings due within one year. Our net gearing ratio (which is calculated by dividing (i) long-term and short-term borrowings minus pledged bank deposits, bank balances and cash by (ii) total equity (including non-controlling interests)) was 31.4%, 36.1%, 29.2% and 22.9% as of December 31, 2007, 2008 and 2009 and June 30, 2010.

Our level of debt could have important consequences, including:

- requiring a substantial portion of our cash flow from operations to be used for the payment of interest on our debt, therefore reducing the funds available to us for our operations and other capital needs;
- limiting our flexibility in planning for or reacting to changes in our business and the industry in which we operate because our available cash flow after paying principal and interest on our debt may not be sufficient to make the capital and other expenditure necessary to address these changes;
- increasing our vulnerability to general adverse economic and industry conditions because, during periods in which we experience lower earnings and cash flow, we will be required to devote a proportionally greater amount of our cash flow to paying principal and interest on our debt;
- limiting our ability to obtain additional financing in the future to fund working capital, capital expenditure, acquisitions and general corporate requirements;
- making it difficult for us to refinance our indebtedness or to refinance such indebtedness on comparable terms;
- restricting our ability to take advantage of opportunities that would permit us to acquire other businesses; and
- any borrowings we make at variable interest rates leave us vulnerable to increases in interest rates generally.

Our loan agreements contain financial and other covenants that may restrict our operational and financing activities in ways that may limit our growth.

Our loan agreements, particularly our syndicated loan entered into in November 2010 in connection with the refinancing of the funding provided for the expansion of our Bahia Specialty Cellulose mill, contain various financial and other covenants, including, among other things, the maintenance of certain financial measures, such as a maximum debt to equity ratio of certain of our operating subsidiaries. These covenants may restrict our operational and financing activities in ways that could limit our growth. While we have complied with these covenants in the past, we cannot assure you that a breach will not occur in the future. Any non-compliance with such covenants could constitute an event of default, in which case the lenders

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would have the right to demand acceleration of our repayment obligations. Defaults under one loan could also cause cross-defaults under other loans and the imposition of penalties, including the imposition of default interest and the cancellation of unused loan facilities, any of which would have a material adverse effect on our business, financial condition and results of operations.

In addition, some of the loan agreements entered into by our operating subsidiaries require prior consent from the lenders for any additional indebtedness incurred by our subsidiary or any security interests created over its assets. We cannot assure you that we will be able to obtain such consents in the future and consequently we may be limited in our ability to obtain additional financings. Limitations on our ability to obtain future financings could limit our growth and our ability to achieve our business objectives and could have a material adverse effect on our business, financial condition and results of operations.

We rely on dividend payments from our subsidiaries for dividend payments to our Shareholders.

We are a holding company established in Bermuda and operate our business through our subsidiaries located in China and Brazil. Our ability to pay dividends to our Shareholders depends upon the dividends we receive from our subsidiaries. Profit available for distribution from our operating subsidiaries may be determined in accordance with accounting principles and laws applicable in their respective jurisdictions. These profit calculations may differ from those performed in accordance with IFRS. Each of our PRC subsidiaries is also required to set aside at least 10% of its after-tax profit based on PRC accounting standards to its general reserve fund until the aggregate amount of such reserves reaches 50% of its respective registered capital, as well as to allocate a discretionary portion of its after-tax profits to its staff welfare and bonus fund. Our statutory reserves are not distributable as cash dividends. Our subsidiaries may also be restricted from paying dividends to us under certain loan agreements. In addition, if our subsidiaries incur debt or losses, such indebtedness or losses may impair their ability to pay dividends or make other distributions to us. As a result, we may not receive sufficient distributions from our operating subsidiaries to enable us to make dividend distributions to our Shareholders in accordance with our results of operations indicated in our IFRS financial statements. Furthermore, distributions made by our operating subsidiaries to us other than dividends, such as shareholder or intercompany loans, may be subject to governmental approval and taxation. See the section headed “Financial Information — Dividend Policy” in this prospectus.

Our insurance may be insufficient to cover the risks or losses related to our operations and we may incur losses for risks associated with our wood plantations.

Our insurance may be insufficient to cover the risks that we might face or the losses that we may incur in connection with our operations. Although we maintain what we believe to be a prudent and customary level of insurance for the industry in which we operate, we cannot assure you that any losses we incur will not exceed our insurance limits or that our insurance policies are sufficient to cover all the risks associated with our operations. As we believe that insurance with respect to our wood plantations is not available on commercially reasonable terms and that, in particular, the risks of fire are mitigated by our fire prevention systems and our multiple non-contiguous wood plantations, we do not maintain insurance for loss of our wood as a result of fire, disease or other potential risks associated with our wood plantations. Certain risks associated with our operations, even if covered by insurance policies, may in addition cause personal injuries, consequential loss of profits or environmental damage. These may result in disruption of operations and the imposition of civil or criminal penalties upon us, which may not be covered by our insurance policies. We cannot assure you that we will not suffer significant losses from liabilities in connection with accidents or natural disasters on our wood plantations from which we source our wood.

Non-governmental groups and interested individuals may seek to delay or disrupt our operations.

In some industry sectors, including the resources and agricultural sectors, it is common for non-governmental groups and interested individuals to seek to delay or disrupt operations of targeted companies. Any such incidents with respect to our operations could materially delay our operations and

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adversely affect our results of operations. In addition, non-governmental groups and individuals may file or threaten to file lawsuits that seek to prevent us from obtaining permits for our operations. Any lawsuit or threatened lawsuit could delay harvesting on our wood plantations or restrict our ability to invest or operate in our mills.

Any future outbreak of a contagious disease, such as the H1N1 virus or Severe Acute Respiratory Syndrome (SARS), may have a negative impact on our business and results of operations.

Any outbreak of a contagious disease such as the H1N1 virus or SARS could adversely affect consumer demand for the products for which our products are components, our ability to adequately staff our operations and the distribution networks for our products, as well as the general level of economic activity worldwide. If there is an outbreak of such a contagious disease, our business, financial condition and results of operations may be materially and adversely affected.

RISKS RELATING TO CHINA

The large majority of our revenue is currently derived from sales in China and a substantial portion of our assets are located in China. Accordingly, our business, financial condition and results of operations are subject to a significant degree to economic, political and legal developments in China.

Changes in political or economic policies of the PRC government and a slowdown in China's economy may have an adverse impact on our operations.

Our overall business may be significantly affected by the PRC economy as well as the policies of the PRC government. The demand for dissolving wood pulp and viscose staple fibers within China depends on its overall economic growth, including local consumption and export growths. Accordingly, demand for our products and our business, financial condition and results of operations may be adversely affected by:

- changes in political, economic and social conditions in China;
- relationships between China and its trading partners;
- changes in policies of the PRC government, including changes in policies affecting the textile industry;
- changes in laws and regulations or their interpretations;
- measures that may be introduced to control inflation or deflation;
- changes in the rate or method of taxation;
- imposition of additional restrictions on currency conversion and remittances abroad; and
- tariff measures and other import restrictions.

Although China has experienced significant growth over the past two decades, we cannot assure you that such growth will be sustained in the future. Since early 2004, the PRC government has implemented certain measures in order to prevent the PRC economy from overheating. Such governmental measures may cause a decrease in the level of economic activity, including demand for our products, and may have an adverse impact on economic growth in China. Should local consumption of specialty cellulose products (such as textiles) decline due to a slowdown in China's economic growth or a recession in the PRC economy, demand for our products may also decrease. We cannot assure you that such a decline in local consumption would be offset by any growth in export-driven demand for our products and *vice versa*. Any slowdown in China's economic growth could have a material adverse effect on our business, financial condition and results of operations.

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The PRC legal system has inherent uncertainties that may limit the legal protections available to us in the event of any claims or disputes with third parties.

The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited value as precedents. Since 1979, the central government has promulgated laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. In particular, legislation over the past 25 years has significantly enhanced the protections afforded to various forms of foreign investment in China. Sateri Jiangxi, our subsidiary that operates our viscose staple fibers mill in Jiangxi province, was incorporated in China as a wholly foreign-owned enterprise. Although we are the majority shareholder of, and therefore have control over, Sateri Jiangxi, the exercise of our shareholder rights in Sateri Jiangxi is subject to its articles of association and PRC laws applicable to foreign investment enterprises in China, which may be different in material respects from the laws of other jurisdictions. As the PRC legal system is still evolving, the interpretations of such laws, regulations and rules are not always uniform and their enforcement may involve significant uncertainties. In addition, any litigation in China may be protracted and may result in substantial costs and diversion of resources and management attention. As a result, the remedies available to us in the event of any claims or disputes with third parties may be limited and this may have a material adverse effect on our business, financial condition and results of operations.

Expiration of, or changes to, current PRC tax incentives that our business enjoys may have an adverse effect on our results of operations.

Our subsidiaries in China are generally subject to the applicable tax rates of the PRC EIT on their taxable income in accordance with the relevant PRC income tax laws. Prior to the effectiveness of the PRC EIT Law on January 1, 2008, Chinese companies were generally subject to a statutory EIT rate of 33%. However, some of our subsidiaries in China that satisfied certain conditions enjoyed preferential tax treatments. For example, Sateri Jiangxi is a foreign-invested enterprise of a manufacturing nature and was eligible for full exemption from EIT for two years starting with the first profit-making year and followed by a 50% reduction in the next three years. Sateri Shanghai received preferential tax treatment from the local governmental authority of the Pudong New Area in Shanghai.

The PRC EIT Law was enacted by the National People's Congress of the PRC on March 16, 2007 and became effective on January 1, 2008. In December 2007, the State Council promulgated the implementation rules to the PRC EIT Law, which also became effective on January 1, 2008. The PRC EIT Law imposes a uniform EIT rate of 25% on all PRC tax resident enterprises, including domestic enterprises and foreign invested enterprises unless they qualify under certain limited exceptions. Under the PRC EIT Law and its implementation rules and the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax, enterprises that were established and already entitled to preferential tax treatments pursuant to laws or regulations of the central government before March 16, 2007 will (a) in the case of preferential tax rates, be subject to a progressive increase in the applicable tax rate up to 25% over a transitional period of five years from January 1, 2008, on a gradually increasing rate or (b) in the case of preferential tax exemption or reduction for a specified term, continue to enjoy such exemption or reduction until the expiration of such term, which shall have started from no later than January 1, 2008. Sateri Jiangxi began to receive its preferential tax treatment in its first profitable year in 2007 and is eligible to enjoy a full term of two-year exemption and three-year 50% reduction for EIT tax until 2011. However, the PRC EIT Law does not expressly provide for tax benefits received from local governmental authorities. Sateri Shanghai may be required to repay any preferential tax treatment that it has previously received from the local governmental authority and there is no certainty that Sateri Shanghai can continue to enjoy the preferential tax treatment it now receives from the local governmental authority under the PRC EIT Law. If our current tax benefits and/or preferential tax treatment expire earlier than anticipated or otherwise become unavailable to us for any reason, our profitability may be materially and adversely affected and this may have a material adverse effect on our business, financial condition and results of operations.

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Dividends from our PRC subsidiaries may be subject to withholding tax under the PRC EIT Law.

Under the PRC tax regime prior to 2008, dividend payments to foreign investors made by FIEs, such as dividends made to us by Sateri Jiangxi, were exempt from PRC withholding tax. Under the PRC EIT Law and its implementing rules, dividend payments from PRC subsidiaries to their foreign shareholders, if not deemed as a PRC tax resident enterprise under the PRC EIT Law, are subject to a withholding tax at the rate of 10%, unless the jurisdiction of such foreign shareholders has a tax treaty or similar arrangement with China that provides for a different withholding arrangement and the foreign shareholder obtains approval from competent local tax authorities for application of such tax treaty or similar arrangement. We invest in our PRC subsidiaries through our management service subsidiary incorporated in Singapore. Pursuant to the tax treaty between Singapore and China, and subject to approval from relevant tax authorities, a company incorporated in Singapore is subject to a withholding tax at the rate of 5% on dividends it receives from a PRC company in which it holds a 25% or more interest. There is no assurance that we can obtain approval from the tax authority for such lower withholding tax rate. If the dividends from our PRC subsidiaries are subject to higher withholding tax under the PRC EIT Law, our financial condition and results of operations could be adversely affected.

We may be treated as a PRC tax resident enterprise under the PRC EIT Law, which may subject us to PRC income taxes on our worldwide income.

We are a holding company incorporated under the laws of Bermuda. However, under the new PRC EIT Law, enterprises organized under the laws of jurisdictions outside China with their “de facto management bodies” located within China may be considered PRC tax resident enterprises and therefore subject to PRC income tax on their worldwide income.

The implementation rules to the PRC EIT Law define the term “de facto management bodies” as “bodies that substantially carry out comprehensive management and control on the business operation, employees, accounts and assets of enterprises”. Under the PRC EIT Law, an enterprise outside China whose “de facto management bodies” are located in China is considered a “tax resident enterprise” and will be subject to a uniform 25% EIT rate on its worldwide income. In April 2009, the State Administration of Taxation further specified certain criteria for the determination of what constitutes “de facto management bodies” for foreign enterprises of which PRC enterprises are controlling investors. If all of these criteria are met, the relevant foreign enterprise controlled by a PRC enterprise will be deemed to have its “de facto management bodies” located in China and therefore be considered a PRC tax resident enterprise. These criteria include (a) the enterprise’s day-to-day operational management is primarily exercised in China, (b) decisions relating to the enterprise’s financial and human resource matters are made or subject to approval by organizations or personnel in China, (c) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholders’ meeting minutes are located or maintained in China and (d) 50% or more of voting board members or senior executives of the enterprise habitually reside in China.

However, there have been no official implementation rules regarding the determination of the “de facto management bodies” for foreign enterprises of which PRC enterprises are not controlling investors (including companies like ourselves). Therefore, it remains unclear how the tax authorities will treat an overseas enterprise invested in or controlled by another overseas enterprise and ultimately controlled by non-PRC individual residents. We are currently not treated as a PRC tax resident enterprise by the relevant tax authorities. It is, however, currently unclear under the PRC EIT Law under what circumstances the “de facto management body” of a foreign enterprise, which is not controlled by PRC enterprises, would be considered to be located within China. In addition, although the PRC EIT Law provides that “dividend income between qualified resident enterprises” is exempted income, it is not clear what is considered a “qualified resident enterprise” under such law. If our Group’s non-PRC members are treated as “tax resident enterprises” under the PRC EIT Law, this may result in increased tax liabilities which will have a material adverse effect on our business, financial condition and results of operations.

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Any dividends or capital gain received by our non-PRC Shareholders in respect of the Shares they hold may be subject to PRC income tax.

Under the PRC EIT Law and its implementation rules issued by the State Council, a 10% PRC withholding tax is applicable to dividends payable to investors that are “non-resident enterprises”, that is, investors which do not have an establishment or place of business in China or which have such establishment or place of business but have income not effectively connected with such establishment or place of business, to the extent such dividends are derived from sources within China. Similarly, any gain realized on the transfer of shares by such investors is also subject to a PRC withholding tax, usually at rate of 10% unless otherwise reduced or exempted by relevant tax treaties or similar arrangements, if such gain is regarded as income derived from sources within China. It is unclear whether dividends paid on our Shares, or any gain realized from the transfer of our Shares, would be treated as income derived from sources within China and would as a result be subject to PRC withholding tax. Especially, if we are considered a PRC “resident enterprise”, then any dividends paid to our overseas Shareholders that are “non-resident enterprises” and any gains realized by them from the transfer of our Shares may be regarded as being derived from PRC sources and, as a result, would be subject to a 10% PRC withholding tax, unless otherwise reduced or exempted. It is unclear whether, if we are considered a PRC “resident enterprise”, our Shareholders would be able to claim the benefit of income tax treaties or agreements entered into between PRC and other countries or areas. If dividends payable to our non-PRC Shareholders that are “non-resident enterprises”, or gains from the transfer of our Shares are subject to PRC tax, the value of your investment in our Shares may be materially and adversely affected.

PRC regulation of direct investment and loans by offshore holding companies to PRC entities may delay or limit us from using the net proceeds from the Global Offering to make additional capital contributions or loans to our PRC subsidiaries.

Any capital contributions or loans that we, as an offshore entity, make to our PRC subsidiaries, including from the net proceeds from the Global Offering, are subject to PRC regulations. For example, any of our loans to our PRC subsidiaries cannot exceed the difference between the total amount of investment each of our PRC subsidiaries is approved to make under relevant PRC laws and the registered capital of each of our PRC subsidiaries, and such loans must be registered with the local branch of SAFE. In addition, our capital contributions to each of our PRC subsidiaries must be approved by MOFCOM or its local counterpart. We cannot assure you that we will be able to obtain these approvals on a timely basis, or at all. If we fail to obtain such approvals, our ability to make equity contributions or provide loans to our PRC subsidiaries or to fund their operations may be negatively affected, which may adversely affect our PRC subsidiaries’ liquidity and ability to fund their working capital and expansion projects and meet their obligations and commitments and would have a material adverse effect on our business, financial condition and results of operations.

RISKS RELATING TO BRAZIL

A substantial portion of our assets are located in Brazil, including all of our wood plantation land and dissolving wood pulp mill. Accordingly, our business, financial condition and results of operations are subject to a significant degree to economic, political and legal developments in Brazil.

The Brazilian government has exercised, and continues to exercise, significant influence over the Brazilian economy. This involvement, as well as Brazilian political and economic conditions, may adversely affect us and the market price of our Shares.

The Brazilian government has occasionally made significant changes to policies and regulations that affected the Brazilian economy. The Brazilian government’s actions to control inflation and other policies and regulations have often involved, among other measures, increases in interest rates, changes in tax policies, price controls, currency devaluations, capital controls and limits on imports. Our business, financial

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condition and results of operations may be adversely affected by changes in policy or regulations involving or affecting factors such as:

- interest rates on our Real denominated loans;
- exchange controls and restrictions on remittances abroad which affect the payment of dividends, our ability to obtain financing from international capital markets and the repayment of any such financing;
- currency fluctuation and volatility;
- inflation which affects our operating costs in Brazil;
- liquidity of domestic financial and capital markets;
- monetary and tax policies;
- social and political instability; and
- other political, social and economic developments in or affecting Brazil.

As a large portion of our costs are denominated in the Real, we are exposed to changes in Brazilian political and economic policies. Uncertainty over whether the Brazilian government will implement changes in policy or regulation affecting these or other factors in the future may contribute to economic uncertainty in Brazil. Accordingly, any such uncertainty and future developments in the Brazilian economy may have a material adverse effect on our business, financial condition and results of operations.

Inflation and governmental efforts to combat inflation may contribute significantly to economic uncertainty in Brazil and could harm our business and the market price of our Shares.

We incur significant operating costs in the Real relating to our operations in Brazil which exposes us to inflation risk in Brazil. Brazil has experienced extremely high rates of inflation in the past. Inflation, governmental measures to combat inflation and public speculation about possible future governmental measures to curb inflation have had significant negative effects on the Brazilian economy in the past, contributing to economic uncertainty and heightened volatility in the Brazilian securities market. The annual rate of inflation, as measured by the general market price index (*Índice Geral de Preços do Mercado*) decreased from 20.1% in 1999 to 1.2% in 2005 and was (1.7)% in 2009, according to data from Instituto de Pesquisa Econômica Aplicada, a Brazilian government-led research organization.

The Brazilian government's measures to control inflation have often included maintaining a tight monetary policy with high interest rates, thereby restricting the availability of credit and reducing economic growth. As a result, interest rates have fluctuated significantly. For example, the official interest rates in Brazil at the end of 2007, 2008 and 2009 were 11.25%, 13.75% and 8.75% per year, respectively, as set by the Brazilian Monetary Policy Committee (*Comitê de Política Monetária*) ("COPOM") according to the Brazilian Central Bank.

Developments and the perception of risk in emerging market countries may adversely affect Brazil and the market price of our Shares.

The market price of securities issued by companies with substantial Brazilian assets is affected to varying degrees by economic and market conditions in other countries, including other Latin American and emerging market countries. Investors' reactions to developments in these other countries may have an adverse effect on the market price of securities of companies with substantial Brazilian assets. Crises in other emerging market countries may diminish investor interest in securities of issuers with substantial Brazilian assets, including ours. This may adversely affect the trading price of our Shares and make it more difficult for us to access the capital markets and finance our operations in the future on acceptable terms or at all.

In the past, the development of adverse economic conditions in other emerging market countries resulted, in general, in the outflow of funds and, consequently, the reduction of external funds invested in Brazil. The global financial crisis which began in the third quarter of 2008 resulted in a global economic

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downturn, with various effects that, directly or indirectly, adversely affected the stock market and the Brazilian economy. These effects include fluctuations in the prices of securities issued by publicly held companies, lack of availability of credit, reduction of expenses, economic slowdown, currency exchange instability and inflationary pressure. Moreover, financial institutions may not intend to renew, extend or grant us new credit facilities under economically favorable conditions, or may be incapable of performing or unwilling to perform their obligations entirely. Any of the developments described above may adversely affect the trading price of our Shares, and make it more difficult for us to access the capital markets and finance our operations in the future on acceptable terms or at all.

The Brazilian federal government may institute a more restrictive exchange control policy which could affect our ability to meet our foreign currency obligations.

The purchase and sale of foreign currency in Brazil is subject to governmental control. The Brazilian federal government currently restricts the ability of Brazilian and foreign persons or entities to convert Brazilian currency into US dollars or other currencies, other than in connection with certain authorized transactions through the Brazilian Central Bank. Mechanisms for the transfer of Real and conversion into US dollars or other foreign currencies may not be available to us. If such financial mechanisms are not available, we will have to rely on a special authorization from the Brazilian Central Bank to make payments in foreign currency. Such central bank approval may not be obtained on a timely basis or at all.

It is uncertain whether in the future the Brazilian federal government will institute a more restrictive exchange control policy. Such a policy could affect the ability of Brazilian debtors (including us) to make payments outside of Brazil to meet foreign currency obligations under foreign currency-denominated liabilities, or require that any payments be made in Reais. Many factors beyond our control may affect the likelihood of the Brazilian federal government's imposition of such restrictions at any time. Among such factors are:

- the extent of Brazil's foreign currency reserves;
- the availability of sufficient foreign exchange on the date a payment is due;
- the size of Brazil's debt service burden relative to the economy as a whole;
- Brazil's policy towards the International Monetary Fund; and
- political constraints to which Brazil may be subject.

Changes in Brazilian tax laws may have an adverse impact on the taxes applicable to our business.

The Brazilian government frequently implements changes to tax regimes that may affect us and our customers. These changes include changes in prevailing tax rates and, occasionally, enactment of temporary taxes, the proceeds of which are earmarked for designated governmental purposes. Some of these changes may result in increases in our tax payments, which could adversely affect our profitability and increase the prices of our products, restrict our ability to do business in our existing and target markets and have a material adverse effect on our business, financial condition and results of operations. There can be no assurance that we will be able to maintain our projected cash flow and profitability following any increases in Brazilian taxes applicable to us and our operations. In addition, due to the complexity of Brazilian tax law, companies subject to Brazilian tax are required to make judgments regarding the proper application of the relevant Brazilian tax law. This practice may result in periodic tax adjustments required by, and disputes with, Brazilian tax authorities. These adjustments and disputes could result in penalties and incur legal costs which could have a material adverse effect on our business, financial condition and results of operations.

A significant part of our exports in Brazil are subject to transfer pricing rules.

In 2009 and the six months ended June 30, 2010, respectively, approximately 93% and 96% of the exports of our Brazilian subsidiary, Bahia Specialty Cellulose, were transferred to our subsidiary, DPPI, and are subject to the transfer pricing rules explained in the section headed "Taxation" in Appendix VII to this prospectus. Changes in the interpretation of Brazilian transfer pricing rules by Brazilian tax authorities may

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result in increased tax payments, which could affect our profitability. Bahia Specialty Cellulose's transfer pricing policy complies with Brazil's applicable transfer pricing rules and regulations and, since our acquisition of Bahia Specialty Cellulose, we have never been questioned by the Brazilian tax authorities in respect of our transfer pricing policy in Brazil and have made no provisions with respect to related tax issues. If new transfer pricing rules and regulations are promulgated or the Brazilian tax authorities adopt a different interpretation of the existing rules and regulations, we may be subject to additional taxes and failure to comply with the new rules, regulations or interpretations may have a material adverse effect on our business, financial condition and results of operations.

RISKS RELATING TO THE GLOBAL OFFERING

The Offer Price may not be indicative of prices that will prevail in the trading market for our Shares and such market prices may be volatile.

The Offer Price for the Offer Shares will be determined on the Price Determination Date by our Company and the Joint Bookrunners (on behalf of the Underwriters). The Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to occur some time on or before the sixth day after the Price Determination Date. The Offer Price for the Offer Shares may not be indicative of prices that will prevail in the trading market. Investors may not be able to resell their Shares at or above the Offer Price. The financial markets in Hong Kong and other countries have in the past experienced significant price and volume fluctuations. Volatility in the price of the Shares may be caused by factors outside our control and may be unrelated or disproportionate to our operating results.

As the Offer Price is higher than the unaudited pro forma adjusted net tangible assets per Share, you will experience immediate dilution in the book value of the Shares you purchased in the Global Offering.

The Offer Price will be higher than the unaudited pro forma adjusted net tangible assets per Share immediately prior to the Global Offering. Therefore, purchasers of the Shares in the Global Offering will experience an immediate dilution in the unaudited pro forma adjusted net tangible assets per Share. Immediately following the completion of the Global Offering and without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which may be granted pursuant to the Share Option Scheme or upon the vesting of any RSUs granted or to be granted pursuant to the RSU Schemes, the unaudited pro forma adjusted net tangible assets per Share based on 3,368,826,750 Shares in issue will be approximately US\$0.51 (HK\$3.98) per Share (assuming an Offer Price of HK\$6.60 per Offer Share) or US\$0.56 (HK\$4.35) per Share (assuming an Offer Price of HK\$9.20 per Offer Share). If we issue additional Shares or equity-linked securities in the future, purchasers of the Shares may experience further dilution.

Future sales of Shares by our Controlling Shareholders or our Company may decrease the value of your investment.

Future sales by our Controlling Shareholders, or the issuance by our Company of substantial amounts of Shares after the Global Offering, could adversely affect the market prices of the Shares prevailing from time to time. The number of Shares available for sale or issuance immediately following the completion of the Global Offering will be limited in comparison to the number of Shares then in issue due to contractual and regulatory restrictions on disposal and new issuance. Nevertheless, after these restrictions lapse or if they are waived or breached, future sales of substantial amounts of the Shares in the public market or the possibility of such sales, could negatively impact the market price of the Shares and the ability of our Company to raise equity capital in the future.

RISK FACTORS

Grants of RSUs pursuant to the RSU Schemes and grants of options pursuant to the Share Option Scheme could result in dilution to our Shareholders.

We have granted RSUs pursuant to the Pre-IPO RSU Scheme and intend to grant RSUs pursuant to the Post-IPO RSU Scheme and options pursuant to the Share Option Scheme which will entitle participants in these share incentive schemes to receive Shares under certain circumstances. For further information on these share incentive schemes, please see the sections headed “Statutory and General Information — Pre-IPO RSU Scheme”, “Statutory and General Information — Post-IPO RSU Scheme” and “Statutory and General Information — Share Option Scheme” in Appendix IX to this prospectus. The vesting of RSUs and the exercise of options may result in an increase in our issued share capital, which in turn may result in a dilution of our existing Shareholders’ shareholding interest in our Company and a reduction in earnings per Share.

There is no existing public market for our Shares and their liquidity and market price may be volatile.

Prior to the Global Offering, there was no market for our Shares. The Offer Price for the Offer Shares will be determined by our Company and the Joint Bookrunners (on behalf of the Underwriters) and may differ significantly from the market price for our Shares following the completion of the Global Offering.

We have applied for the listing of, and permission to deal in, the Shares on the Stock Exchange. A listing on the Stock Exchange, however, does not guarantee that an active trading market for our Shares will develop or, if it does develop, will be sustained following the completion of the Global Offering or that the market price of our Shares will not decline following the completion of the Global Offering. In addition, we cannot assure you that the Global Offering will result in the development of an active and liquid public trading market for the Shares. Furthermore, the price and trading volume of our Shares may be volatile. Factors such as the following may affect the volume and price at which our Shares will trade:

- actual or anticipated fluctuations in our results of operations;
- announcements of expansions in production capacity by us or our competitors;
- news regarding recruitment or loss of key personnel by us or our competitors;
- announcements of competitive developments, acquisitions or strategic alliances in our industry;
- changes in earnings estimates or recommendations by financial analysts;
- potential litigation or regulatory investigations;
- general economic, market or regulatory conditions or other developments affecting us or our industry;
- the operating and stock price performance of other companies, other industries and other events or factors beyond our control; and
- release of lock-up or other transfer restrictions on the outstanding Shares or sales or perceived sales of additional Shares by our Company and our Controlling Shareholders.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also materially adversely affect the market price of the Shares.

You may have difficulty enforcing judgments obtained against us.

We are a Bermuda exempted company. All of our current operations and administrative and corporate functions are conducted in Brazil and China and substantially all of our assets are located in Brazil and China. In addition, a substantial portion of the assets of our Directors and officers, at any one time, are and may be located outside Hong Kong. As a result, it may be difficult for you to effect service of process within Hong Kong upon these persons. It may also be difficult for you to enforce against us and our officers and Directors in Bermuda, Brazil and China any judgments obtained in the courts of Hong Kong or other foreign

RISK FACTORS

jurisdictions based on the civil liability provisions of the laws of Hong Kong or such jurisdictions. For example, the enforcement in Brazil of a judgment of a court sitting in a jurisdiction outside Brazil without consideration of the merits needs to meet certain requirements and be confirmed by the Brazilian Superior Court of Justice.

Certain industry statistics contained in this prospectus are derived from third party reports and publicly available official sources.

This prospectus, particularly the section headed “Industry Overview” in this prospectus, contains information and statistics, including but not limited to information and statistics relating to China, Brazil and the global dissolving wood pulp and viscose staple fibers industry and markets. Such information and statistics have been derived from various official government and other publications and from third party reports commissioned by us. We believe that the sources of such information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. The information has not been independently verified by our Company, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering and no representation is given as to its accuracy. We cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy, as the case may be, in other jurisdictions. Therefore, you should not unduly rely upon the industry facts and statistics contained in this prospectus.

We strongly caution you not to place any reliance on any information contained in press articles or other media regarding us and the Global Offering.

Prior to the publication of this prospectus, there has been press and media coverage regarding us and the Global Offering. Such press and media coverage included certain financial information, financial projections, valuations and other information that are not contained in this prospectus. There may continue to be additional press and media coverage on us and the Global Offering. We do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information appearing in publications other than this prospectus is inconsistent or conflicts with the information contained in this prospectus or to the extent that information which appears in this prospectus is quoted out of context, we disclaim it, and accordingly you should not rely on any such information. In making your decision as to whether to purchase our Shares, you should rely only on the information included in this prospectus.

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES

In preparation for the Global Offering, our Company has sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, we must have sufficient management presence in Hong Kong. This normally means that at least two of the executive Directors must be ordinarily resident in Hong Kong. Our business operations are primarily located in Brazil and China. Our executive Directors are based in China as we believe it is more effective and efficient for our executive Directors to be based in a location where we have significant operations. We therefore do not, and in the foreseeable future will not, have a management presence in Hong Kong.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has agreed to grant, a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules. In order to maintain effective communication with the Stock Exchange, we will put in place certain measures in order to ensure that regular communication is maintained between the Stock Exchange and us. Further details of such waiver are set out in the section headed “Directors and Senior Management — Management Presence in Hong Kong” in this prospectus.

CONNECTED TRANSACTIONS

We have entered into certain transactions which would constitute continuing connected transactions of our Company under the Listing Rules following the completion of the Global Offering. We have applied to the Stock Exchange for, and the Stock Exchange has agreed to grant, a waiver from strict compliance with the announcement and/or independent shareholders’ approval requirements set out in Chapter 14A of the Listing Rules for certain continuing connected transactions. Further details of such continuing connected transactions and the waiver are set out in the section headed “Connected Transactions” in this prospectus.

PUBLIC FLOAT

Rule 8.08(1)(a) of the Listing Rules requires that at least 25% of an issuer’s total issued share capital must at all times be held by the public. We expect to achieve a minimum market capitalization of at least HK\$10 billion upon Listing and we have applied to the Stock Exchange to request the Stock Exchange to exercise, and the Stock Exchange has confirmed that it will exercise, its discretion under Rule 8.08(1)(d) of the Listing Rules to accept a lower public float percentage of 15% of our issued share capital, or such higher percentage as is held by the public upon completion of any exercise of the Over-allotment Option. The above discretion is subject to the condition that we make appropriate disclosure of the lower prescribed percentage of public float in this prospectus and confirm the sufficiency of the public float in our successive annual reports after the Listing. We and the Joint Sponsors will be able to demonstrate compliance with Rules 8.08(2) and 8.08(3) of the Listing Rules.

In addition, we will implement appropriate measures and mechanisms to ensure continual maintenance of a 15% public float (or a higher percentage upon completion of any exercise of the Over-allotment Option). In the event that the public float percentage falls below the minimum percentage prescribed by the Stock Exchange, the Directors and our Controlling Shareholders will take appropriate steps, which may include a further issue of Shares by us and/or the placing of some Shares by our Controlling Shareholders and/or their associates to independent third parties, to ensure the minimum percentage of public float prescribed by the Stock Exchange is complied with.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to us. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

INFORMATION ON THE GLOBAL OFFERING

We have not authorized anyone to provide any information or to make any representation not contained in this prospectus. You should not rely on any information or representation not contained in this prospectus as having been authorized by us, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors, the Underwriters or any of our or their respective directors, officers or representatives or any other person involved in this Global Offering. Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with the Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering.

The listing of, and permission to deal in, the Shares on the Stock Exchange is sponsored by the Joint Sponsors. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters. The International Underwriting Agreement is expected to be entered into on or about the Price Determination Date, subject to agreement on the Offer Price between our Company and the Joint Bookrunners (on behalf of the Underwriters). Further details about the Underwriters and the underwriting arrangements are contained in the section headed "Underwriting" in this prospectus.

RESTRICTIONS ON OFFERS AND SALES OF SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his acquisition of Offer Shares to, confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus.

No action has been taken to permit a public offering of the Offer Shares or the general distribution of this prospectus and/or the Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions and pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue, the Shares to be issued pursuant to the Global Offering, the Shares to be issued pursuant to the exercise of the options which may be granted pursuant to the Share Option Scheme and the

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

new Shares underlying the RSUs granted or to be granted pursuant to the RSU Schemes. Save as disclosed in this prospectus, no part of the share or loan capital of our Company is listed on or dealt in on any other stock exchange. At present, our Company is not seeking or proposing to seek such listing of, or permission to deal in, the share or loan capital of our Company on any other stock exchange.

HONG KONG REGISTER OF MEMBERS

Our principal register of members will be maintained by our principal registrar, Codan Services Limited, in Bermuda and our Hong Kong register of members will be maintained by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, in Hong Kong.

STAMP DUTY

Dealings in the Shares registered in our Hong Kong register of members will be subject to Hong Kong stamp duty. The current ad valorem rate of Hong Kong stamp duty is 0.1% on the higher of the consideration for or the market value of the Shares and it is charged on the purchaser on every purchase and on the seller on every sale of the Shares. In other words, a total stamp duty of 0.2% is currently payable on a typical sale and purchase transaction involving the Shares.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the Shares on the Stock Exchange and our compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date as determined by HKSCC.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Shares to be admitted into CCASS.

PROFESSIONAL TAX ADVICE RECOMMENDED

You should consult your professional advisors if you are in any doubt as to the taxation implications of subscribing for, purchasing, holding, disposing of and dealing in the Shares. We emphasize that none of our Company, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering accepts responsibility for any tax effects or liabilities resulting from your subscription for, purchase, holding or disposing of, or dealing in, the Shares or your exercise of any rights attaching to the Shares.

PROCEDURES FOR APPLICATION FOR HONG KONG OFFER SHARES

The application procedures for the Hong Kong Offer Shares are set out in the section headed “How to Apply for the Hong Kong Offer Shares” in this prospectus and on the relevant Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Residential Address	Nationality
<i>Chairman and Independent Non-executive Director</i>		
YING, John Jeffrey	22nd Floor 41-43 Graham Street Central Hong Kong	American
<i>Executive Directors</i>		
HOON, Will Wee Teng	7A Boscombe Road Singapore 439764	Singaporean
BARKER, Craig Edward	No. 190 Green Hills Lane 418 Jin Xiu Road Shanghai The People's Republic of China	American
<i>Non-executive Directors</i>		
LOH, Meng See	44 Elite Terrace Singapore 458795	Singaporean
SETO, John Gin Chung	Flat C, 42/F, Block 2 Estoril Court 55 Garden Road Central Hong Kong	Chinese
TEY, Wei Lin	477, River Valley Road #02-02 Valley Park Condominium Singapore 248362	Singaporean
WEERASINGHE, Rohan	Apt 11D 1220 Park Ave FL 11 New York NY 10128-1733 United States of America	American
<i>Independent Non-executive Directors</i>		
LAM, Jeffrey Kin-fung	Flat 26A, Block 2, Cavendish Heights 33 Perkins Road Jardines Lookout Hong Kong	Chinese
YU, David Hon To	5A Monte Verde 41 Repulse Bay Road Hong Kong	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

**Joint Global Coordinators
and Joint Sponsors**
(in alphabetical order)

Credit Suisse (Hong Kong) Limited
45th Floor, Two Exchange Square
8 Connaught Place
Central
Hong Kong

Morgan Stanley Asia Limited
Level 46, International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

**Joint Bookrunners and Joint Lead
Managers**

Credit Suisse (Hong Kong) Limited
45th Floor, Two Exchange Square
8 Connaught Place
Central
Hong Kong

Morgan Stanley Asia Limited
Level 46, International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

BOCI Asia Limited
26th Floor, Bank of China Tower
1 Garden Road
Central
Hong Kong

Legal Advisors to our Company

as to Hong Kong and US laws:
Freshfields Bruckhaus Deringer
11th Floor, Two Exchange Square
8 Connaught Place
Central
Hong Kong

as to Bermuda, BVI and Cayman Islands laws:
Conyers Dill & Pearman
2901 One Exchange Square
8 Connaught Place
Central
Hong Kong

as to Brazilian law:
Machado Meyer Sendacz e Opice Advogados
Avenida Brigadeiro Faria Lima 3144
11th Floor
01451-000 São Paulo SP
Brazil

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

as to Macau law:

Manuela António — Lawyers and Notaries
Avenida Dr. Mário Soares, no. 25
Edf. Montepio, 1st floor, Apt. 13
Macau

as to PRC law:

King & Wood
28-30th Floor, Huai Hai Plaza
1045 Huai Hai Road (M)
Shanghai 200031
The People's Republic of China

**Legal Advisors to the Joint Sponsors
and the Underwriters**

as to Hong Kong, US and Brazilian laws:

Linklaters
10th Floor, Alexandra House
18 Chater Road
Hong Kong

as to PRC law:

Fangda Partners
20th Floor, Kerry Center
1515 Nan Jing West Road
Shanghai 200040
The People's Republic of China

Auditors and Reporting Accountant

Deloitte Touche Tohmatsu
Certified Public Accountants
35th Floor, One Pacific Place
88 Queensway
Admiralty
Hong Kong

Property Valuer

CB Richard Ellis Limited
34th Floor, Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Receiving Bankers

Industrial and Commercial Bank of China (Asia) Limited
33rd Floor, ICBC Tower
3 Garden Road
Central
Hong Kong

Bank of Communications Co., Ltd., Hong Kong Branch
20 Pedder Street
Central
Hong Kong

The Bank of East Asia, Limited
10 Des Voeux Road Central
Hong Kong

CORPORATE INFORMATION

Registered Office in Bermuda	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Head Office	23rd Floor, East Tower Zhong Rong Heng Rui International Plaza No.620 Zhang Yang Road Pudong Shanghai 200122 The People's Republic of China
Place of Business in Hong Kong Registered under Part XI of the Companies Ordinance	2709 Gloucester Tower The Landmark 15 Queen's Road Central Hong Kong
Company's Website	<u>www.sateri.com</u> <i>(The information on the website does not form part of this prospectus)</i>
Company Secretary	WONG, Sincere, <i>Solicitor (Hong Kong)</i>
Authorized Representatives	HOON, Will Wee Teng 7A Boscombe Road Singapore 439764 WONG, Sincere 7th Floor, Flat C, Nelson Court 45 Waterloo Road Kowloon Hong Kong
Audit Committee	YU, David Hon To (<i>Chairman</i>) TEY, Wei Lin LAM, Jeffrey Kin-fung
Remuneration Committee	LOH, Meng See (<i>Chairman</i>) YING, John Jeffrey YU, David Hon To
Nomination Committee	SETO, John Gin Chung (<i>Chairman</i>) LOH, Meng See TEY, Wei Lin
Bermuda Principal Share Registrar and Transfer Office	Codan Services Limited Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Hong Kong Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong

CORPORATE INFORMATION

Compliance Advisor

Anglo Chinese Corporate Finance, Limited
40th Floor, Two Exchange Square
8 Connaught Place
Central
Hong Kong

Principal Bankers

Hong Kong

Bank of China (Hong Kong) Limited
1 Garden Road
Hong Kong

CITIC Bank International Limited
80th Floor, International Commerce Centre
1 Austin Road West
Kowloon

Taishin International Bank
6th Floor, Sun Life Tower
The Gateway
15 Canton Road
Tsimshatsui
Kowloon

Singapore

ABN AMRO Bank N.V.
80 Raffles Place
#10-20 UOB Plaza 2
Singapore 048624

China

Bank of China, Jiangxi branch
No. 1 West Zhanqian Road
Nanchang, Jiangxi, 330000
China

China Merchants Bank, Nanchang branch
No.468 Dieshan Road
Nanchang, Jiangxi, 330008
China

Industrial and Commercial Bank of China, Jiangxi branch
No.233, North Fuhe Road
Nanchang, Jiangxi, 330008
China

Brazil

WestLB AG
Av. Eng° Luiz Carlos Berrini, 716, 9° andar
São Paulo
Brazil
CEP 04571-000

Itaú BBA
Av. Bridaeiro Faria Lima, 3400, 5° andar
São Paulo
Brazil
CEP 04538-000

Banco Santander, S.A.
Av. Presidente Juscelino Kubitscheck, 2235, 26° andar
São Paulo
Brazil
CEP 04543-000

HISTORY AND REORGANIZATION

OUR HISTORY

We were incorporated in Bermuda on June 8, 2010 as a holding company for the dissolving wood pulp and viscose staple fiber businesses established by Mr. Sukanto Tanoto, our Ultimate Controlling Shareholder, and we are the flagship company for such businesses in our Ultimate Controlling Shareholder's group of companies.

We primarily conduct our business through our three principal operating subsidiaries, being Bahia Specialty Cellulose and Copener in Brazil and Sateri Jiangxi in China. We began our business with the construction of a viscose staple fiber mill by Sateri Jiangxi, which was incorporated on August 23, 2002. The construction of this mill was completed and it went into commercial production in the first half of 2004. Between September and December 2003, we acquired an aggregate of 98.2% of the common shares and 100% of the preferential shares in Bahia Specialty Cellulose in three tranches through our subsidiary Sateri Bacell Limited, and acquired 100% of the common shares in Norcell S.A. and, directly and indirectly, 100% of the quota capital of Copener through our subsidiary Sateri Copener Limited. We also acquired 100% of the shares of Kuitu Oy, a viscose staple fiber manufacturer based in Finland, in February 2003, but we subsequently disposed of 70% of our interest in Kuitu Oy to a third party in January 2007 as we decided to focus on our Chinese and Brazilian operations, and disposed of the remaining 30% interest in Kuitu Oy to a company controlled by our Ultimate Controlling Shareholder in August 2009.

Our Ultimate Controlling Shareholder

Mr. Sukanto Tanoto, our Ultimate Controlling Shareholder, is an entrepreneur who started his business more than 40 years ago supplying spare parts to oil and construction companies. He entered the plywood business in 1973 and subsequently ventured into other resources-based businesses, including pulp and paper, agribusiness, energy resources development and the business of the Group (that is, dissolving wood pulp and viscose staple fibers) which are currently operating across Asia, Europe and North and South America.

The Tanoto Family has a deemed controlling interest in each of the following major business groups: (i) the fiber, pulp and paper business group, which is operated primarily through APRIL, a leading fiber, pulp and paper company and which owns PT Riau Andalan Pulp & Paper, (ii) the agro industry business group, which is operated primarily through the Asian Agri group of companies, an Indonesian-based palm oil business group, (iii) the dissolving wood pulp and viscose staple fibers business group, which is operated through the Group, (iv) the energy resources development business group, which is operated through the Pacific Oil & Gas group of companies and (v) TPL. Collectively, these business groups have total assets in excess of US\$10 billion.

The Tanoto Family has established a charitable foundation, the Tanoto Foundation. One of the primary areas which the Tanoto Foundation supports is education. Mr. Sukanto Tanoto is passionate about both continuing his own education and ensuring that others benefit from an education at an early age, which he missed out on. Through various charitable organizations which he founded, Mr. Sukanto Tanoto donated a library to INSEAD, built several schools in China and created scholarships and fellowships in Indonesia. Mr. Sukanto Tanoto is a member of the Board of Overseers of the Wharton School, the INSEAD International Council and various other educational, community and industry bodies. The charitable organizations founded by Mr. Sukanto Tanoto are legal entities which are independent from the Group and their activities do not have any impact on the Group's business and operations.

Save as disclosed in the section headed "Relationship with Our Controlling Shareholders — Business Retained By Our Controlling Shareholders" in this prospectus, Mr. Sukanto Tanoto is not interested in any business apart from the Group's business which competes or is likely to compete, directly or indirectly, with the business of the Group.

HISTORY AND REORGANIZATION

From time to time there have been adverse claims, media speculation and other public statements relating to us, our associates, our Controlling Shareholders and/or persons affiliated with our Controlling Shareholders.

The adverse claims, media speculation and other public statements relating to our Controlling Shareholders and/or companies affiliated with our Controlling Shareholders (which claims and allegations do not relate to our business or assets or ownership of any member of our Group) include:

- legal disputes since 2001 relating to a claim brought by Beckett Pte Ltd, a company which is indirectly 29% owned by our Ultimate Controlling Shareholder, against, among others, Deutsche Bank. The claim relates to an alleged disposal by Deutsche Bank, without due process and at an undervalue, of the pledged shares owned directly or indirectly by Beckett Pte Ltd in PT Swabara Mining and Energy, PT Asminco Bara Utama, PT Indonesia Bulk Terminal and PT Adaro Indonesia. The shares were pledged by Beckett Pte Ltd to Deutsche Bank as collateral for a US\$100 million loan granted to PT Asminco Bara Utama that went into default. Following an appeal in 2009 to the final court of appeal in Singapore, Beckett Pte Ltd was successful in its claim and the amount of damages to be awarded to Beckett Pte Ltd is pending assessment by the court. These damages will be netted off against the amount owed to Deutsche Bank under the loan. We understand from our Ultimate Controlling Shareholder that certain of these disputes, including anti-suit proceedings filed by Deutsche Bank, remain ongoing as of the Latest Practicable Date;
- claims brought against TPL by its minority shareholders in 2002 alleging losses suffered by them as a result of the suspension of TPL's plant operations. We understand from TPL that the relevant courts dismissed these claims and that the minority shareholders who brought the claims in 2002 are now time barred from bringing any further appeal against the judgment. We further understand from TPL that no proceedings were pending in relation to these claims as of the Latest Practicable Date;
- allegations involving PT Unibank Tbk and our Ultimate Controlling Shareholder relating to our Ultimate Controlling Shareholder's previous ownership of PT Unibank Tbk, an Indonesian bank that was closed in 2001 following the Asian financial crisis with associated outstanding debts of US\$230 million, and an alleged corruption investigation in relation to such outstanding debts. We understand from our Ultimate Controlling Shareholder that (i) he held an interest of over 50% in the bank before its initial public offering in April 1997 and subsequently reduced his stake in the bank over time, holding less than 5% at the time of the bank's closure in 2001 and (ii) he has not served on the bank's board of directors or commissioners, and has held no direct management role in the bank, since 1998. The bank fell under the administration of the IBRA after its closure in 2001, and IBRA concluded the process of liquidating 50 Indonesian banks, including PT Unibank Tbk, in April 2004. We further understand from our Ultimate Controlling Shareholder that there were no pending claims against our Ultimate Controlling Shareholder in respect of PT Unibank Tbk as of the Latest Practicable Date;
- allegations relating to tax evasion in Indonesia made against the Asian Agri group of companies in Indonesia, a palm oil business group ultimately controlled by the Tanoto Family, with respect to the years 2002 to 2005. We understand from our Ultimate Controlling Shareholder that he has not been a member of the board of directors of any company in the Asian Agri group of companies in Indonesia since 1998. We understand from the Asian Agri group of companies that investigations by the relevant Indonesian authorities in relation to such allegations began in 2007 and that no final conclusions have been reached as of the Latest Practicable Date;
- allegations which appear from time to time in the media relating to illegal logging in Indonesia by PT Riau Andalan Pulp & Paper, an Indonesian pulp and paper company ultimately controlled by the Tanoto Family. We understand from PT Riau Andalan Pulp & Paper that no proceedings were pending in relation to these allegations as of the Latest Practicable Date. PT Riau Andalan

HISTORY AND REORGANIZATION

Pulp & Paper is a subsidiary of APRIL, which is a member of the World Business Council for Sustainable Development and a signatory to the United Nations Global Compact initiative. Since 2002, PT Riau Andalan Pulp & Paper has used a professional third-party audited wood-tracking system which is reviewed by an international non-governmental organization; and

- ownership and other disputes involving, and allegations of embezzlement made by, relatives of our Ultimate Controlling Shareholder relating to shares in certain companies controlled by our Ultimate Controlling Shareholder in 1997 and which continue to be controlled by our Ultimate Controlling Shareholder. These disputes do not relate to the shares of any company within our Group. We understand from our Ultimate Controlling Shareholder that a legal settlement was reached with such relatives in 2002 in respect of the claims relating to shares in certain companies controlled by our Ultimate Controlling Shareholder in 1997. Notwithstanding this settlement, these relatives of our Ultimate Controlling Shareholder have continued to make allegations in the media from time to time.

These claims and allegations do not relate to our business or assets or ownership of any member of our Group.

Whether or not justified, any adverse claims, media speculation and other public statements relating to us, our associates, our Controlling Shareholders and/or persons affiliated with our Controlling Shareholders could adversely affect our reputation and our corporate image, or otherwise affect our ability to conduct our business in the ordinary course, including, without limitation, obtaining and renewing operational licenses and regulatory approvals and establishing and maintaining our relationships with customers and suppliers, and to expand our production capacity, including, without limitation, obtaining the necessary financing for such expansion.

These claims and allegations may also adversely affect the value of our Shares or distract our management from their day-to-day management responsibilities, and may therefore have a material and adverse effect on our business, financial condition and results of operations. In the event any material claim arises out of or in connection with any such adverse claims, media speculation and other public statements, and if any of our Controlling Shareholders satisfy such claims through the disposal of some or all of their Shares, or the voting rights and/or other rights of ownership of some or all of their Shares are otherwise transferred to or for the benefit of or to be exercised by another person, or Controlling Shareholders' level of ownership in our Company may vary significantly which in turn may result in a change of control of our Company. For further details, please see the section headed "Risk Factors — Adverse claims, media speculation and other public statements could adversely affect the value of our Shares" in this prospectus.

Our Principal Operating Subsidiaries

Bahia Specialty Cellulose and Copener

Through our subsidiary Sateri Bacell Limited, we acquired 98.2% of the common shares and 100% of the preferential shares in Bahia Specialty Cellulose from a third party in Brazil in three tranches between September and December 2003. Such third party was at the time of the acquisition and remains a third party independent of the Group, our Shareholders, our Directors and senior management and their respective associates, past and present. The consideration paid by us for Bahia Specialty Cellulose was determined, following a competitive bidding process, through commercial negotiations with reference to valuations based on discounted cash flows and market comparables. Currently, the three directors whom we have appointed to the board of directors of Bahia Specialty Cellulose, being Mr. Will Hoon Wee Teng, Mr. Ivan Alves and Mr. Claudio Laert Cotrim Passos, each owns one common share in Bahia Specialty Cellulose pursuant to the relevant Brazilian statutory and legal requirements and the remaining common shares in Bahia Specialty Cellulose are held by Lenzing AG (as to 1.2%) and Bacell Handels GmbH (as to 0.6%), neither of which is a connected person of the Group. Lenzing AG is also a dissolving wood pulp customer of the Group. These two companies have no role in, or influence on, the day-to-day management of Bahia Specialty Cellulose. We currently have no intention to acquire the outstanding equity interest of Bahia Specialty Cellulose held by these two companies.

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In September 2003, through our subsidiary Sateri Copener Limited, we acquired 76.52% of the common shares and 74.30% of the preference shares in Norcell S.A., a holding company that held 99.99% of the quota capital of Copener, from a third party, and we acquired the remaining 0.01% of the quota capital of Copener and the remaining 23.48% of the common shares in Norcell S.A. from another third party. Before we acquired Bahia Specialty Cellulose, it already held 25.7% of the preference shares of Norcell S.A.. Therefore, through our acquisition of Bahia Specialty Cellulose, we indirectly acquired this 25.7% interest and came to hold 100% of the preference shares of Norcell S.A.. Both the third parties above were at the time of the acquisition and remain independent from our Group, our Shareholders, our Directors and senior management and their respective associates, past and present. The consideration paid by us for Norcell S.A. and Copener was determined, following a competitive bidding process, through commercial negotiations with reference to valuations based on discounted cashflows and market comparables.

Through the acquisition of Bahia Specialty Cellulose and Copener, we established our upstream operations in the production of dissolving wood pulp. Bahia Specialty Cellulose has been producing dissolving wood pulp since the mid 1990s and at the time of our acquisition had a design annual production capacity of 115,000 metric tons. Bahia Specialty Cellulose had an existing customer base at the time of our acquisition. With a view to expanding this customer base, we subsequently recruited additional sales professionals to our sales teams, with particular focus on China and the specialty grades of pulp segment. We also established our subsidiary, Sateri Marketing SA, in Switzerland and recruited customer technical and marketing services professionals in order to provide technical support and marketing services and further enhance our offering to customers in the dissolving wood pulp industry.

Copener is a wood plantation company which at the time of our acquisition held and, together with Bahia Specialty Cellulose, currently hold approximately 150,000 hectares of land for wood plantations. Our wood plantations are capable of supplying substantially all of the wood requirements for the dissolving wood pulp production at our Bahia Specialty Cellulose mill. Our Bahia Specialty Cellulose mill currently has a design annual production capacity of 465,000 metric tons of dissolving wood pulp and we expect to expand its design annual production capacity to 550,000 metric tons by December 2013.

Sateri Jiangxi

In anticipation of the strong growth in the Chinese textile and consumer goods market, we established Sateri Jiangxi to engage in viscose staple fiber production in China in 2002. Strategically located in Jiangxi province, China, our Sateri Jiangxi mill is in close proximity to Jiangsu and Zhejiang provinces, China's textile production centers. Our Sateri Jiangxi mill primarily produced textile viscose fibers when it commenced commercial production in 2004 and expanded into the production of non-woven viscose fibers in the second quarter of 2005. Our Sateri Jiangxi mill currently operates four production lines with a total design annual production capacity of 120,000 metric tons, of which two lines are fully operational, and we commenced trial production on the remaining two lines in June 2010 and October 2010, respectively. The ramp up and commissioning of the two new lines is expected to occur by February 2011. Thereafter, we are targeting to expand our Sateri Jiangxi mill's effective annual production capacity to 160,000 metric tons by December 2011 through certain process improvements. Sateri Jiangxi is recognized for its high quality textile and non-woven fiber products and has established a global customer base. This global customer base was initially established through the recruitment of an experienced senior manager, Mr. Yongning Sun, as team leader in Sateri Jiangxi's marketing department in 2002. We subsequently recruited additional sales professionals to work as part of this team and grow Sateri Jiangxi's sales to key target customers. Please see the section headed "Directors and Senior Management" in this prospectus for further details of Mr. Sun's experience and qualifications.

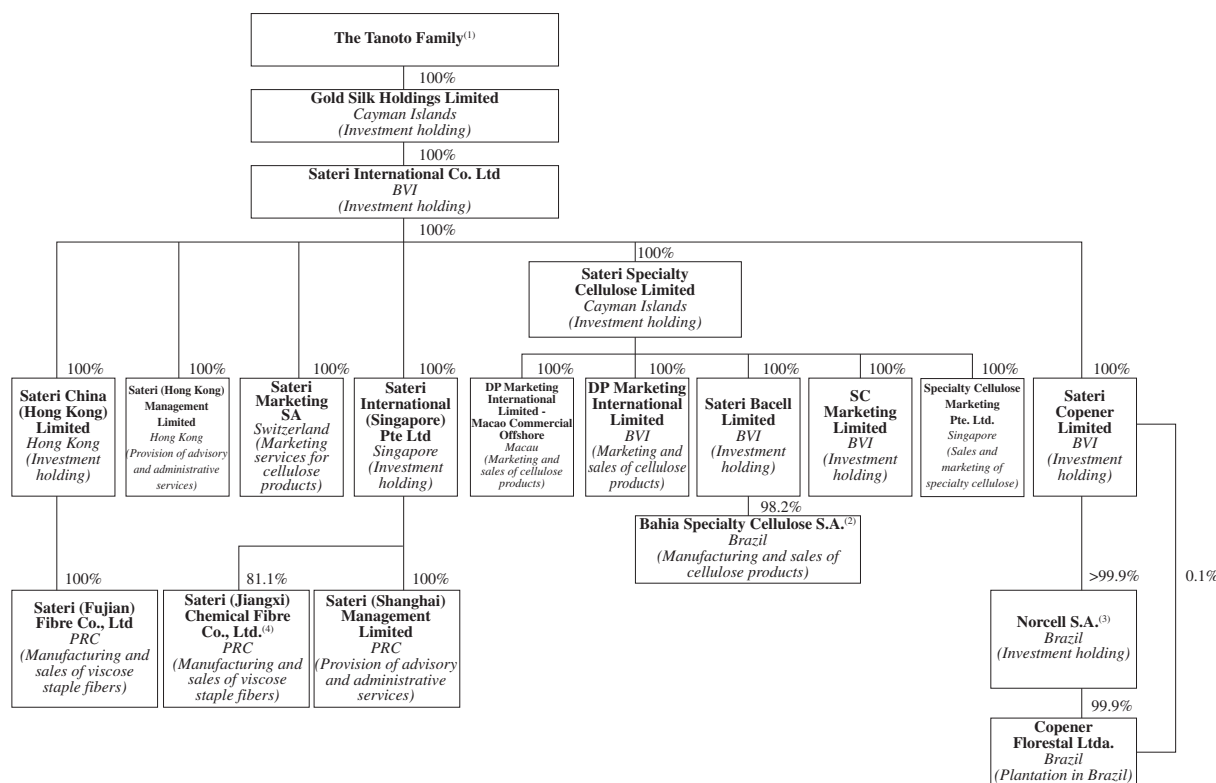
In October 2003, we transferred a 30% interest in Sateri Jiangxi from Sateri Singapore to our former subsidiary, Kuitu Oy. Since this transfer, Sateri Jiangxi has received capital injections from us amounting to approximately US\$8.5 million, US\$16.7 million and US\$17.1 million during the three years ended December 31, 2007, 2008, and 2009, respectively. Kuitu Oy did not contribute any further equity during this period and, as a result, its interest in Sateri Jiangxi was diluted. We currently hold an 81.1% interest and Kuitu Oy holds an 18.9% interest in Sateri Jiangxi. Kuitu Oy filed for bankruptcy in Finland in December 2008 due to its

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inability to meet its creditor obligations as a result of the global financial crisis and, in October 2009, the bankruptcy estate of Kuitu Oy filed an action against Sateri Singapore seeking to set aside the 2003 transfer of the 30% interest in Sateri Jiangxi. Please see the section headed “Business — Legal Proceedings” in this prospectus for further details on this action.

OUR CORPORATE REORGANIZATION

Prior to the Reorganization, our simplified corporate structure was as follows:



Notes:

- (1) The Tanoto Family beneficially own 100% of Gold Silk. The Trustee holds 100% of the issued share capital of Gold Silk on trust for beneficiaries including the Tanoto Family.
- (2) Sateri Bacell Limited holds 98.2% of the total issued common shares and 100% of the total issued preferential shares in Bahia Specialty Cellulose. The three directors whom we have appointed to the board of directors of Bahia Specialty Cellulose, being Mr. Will Hoon Wee Teng, Mr. Ivan Alves and Mr. Claudio Laert Cotrim Passos, each holds one common share pursuant to the relevant Brazilian statutory and legal requirements. Lenzing AG holds 1.2% and Bacell Handels GmbH holds 0.6% of the remaining common shares. The preferential shares carry the same rights as common shares, except that they do not carry any voting rights, they have priority in the event of a capital reimbursement and are entitled to dividends 10% higher than those payable for common shares, and they may be converted into common shares by a resolution of the common shareholders.
- (3) Sateri Copener Limited holds all except for three of the total issued common shares and 74.3% of the total issued preferential shares in Norcell S.A.. The three directors whom we have appointed to the board of directors of Norcell S.A., being Mr. Will Hoon Wee Teng, Mr. Ivan Alves and Mr. Claudio Laert Cotrim Passos, each holds one of the three remaining common shares pursuant to the relevant Brazilian statutory and legal requirements. Bahia Specialty Cellulose holds the remaining 25.7% of the preferential shares. The preferential shares carry the same rights as common shares, except that they do not carry any voting rights, they have priority in the event of a capital reimbursement, and they may be converted into common shares by a resolution of the common shareholders.
- (4) Sateri Singapore holds 81.1% of the registered capital in Sateri Jiangxi while Kuitu Oy is the existing holder of the remaining 18.9% of the registered capital in Sateri Jiangxi.

Prior to the Global Offering, the following reorganization steps were taken in preparation for the Listing. Our BVI, Bermuda, Cayman Islands and Macau legal advisors have advised that we and the companies controlled by our Ultimate Controlling Shareholder which are involved in the Reorganization

HISTORY AND REORGANIZATION

have complied in all material respects with applicable laws and regulations of the BVI, Bermuda, Cayman Islands and Macau, as the case may be, and have obtained the necessary regulatory approvals, if any, required in the BVI, Bermuda, Cayman Islands or Macau, as the case may be, in each case in respect of the Reorganization.

1. Incorporation of Our Company

Our Company was incorporated in Bermuda on June 8, 2010 with an authorized share capital of US\$10,000, divided into 10,000 ordinary shares with a nominal value of US\$1.00 each, and an issued and fully paid-up share capital of US\$100, divided into 100 ordinary shares with a nominal value of US\$1.00, all of which were allotted and issued to Gold Silk, a company ultimately controlled by the Tanoto Family.

2. Disposal of DP Macao

On August 24, 2010, Sateri Specialty Cellulose entered into a share transfer agreement (which was supplemented by a supplemental agreement dated October 1, 2010) to dispose of its entire shareholding interest in DP Macao with effect from September 30, 2010 to Blue Dot, a company controlled by our Ultimate Controlling Shareholder, for a cash consideration of MOP13,229,521 (US\$1.6 million) which represents the net book value of DP Macao as of September 30, 2010.

DP Macao's principal business is in the trading of pulp, which includes paper pulp and dissolving wood pulp produced by TPL, a company controlled by our Ultimate Controlling Shareholder. TPL does not have its own international sales, marketing or technical service team, international customer relationships or an international distribution network for dissolving wood pulp and it has relied on the Group's sales, marketing and technical service resources to market, sell and provide technical service to its dissolving wood pulp customers outside Indonesia.

Our strategy following the Listing is to focus on producing and selling our own dissolving wood pulp and viscose staple fibers and not to engage in the trading of paper pulp and dissolving wood pulp as principal so as to avoid trading risks which could potentially affect our overall profitability and the volatility of our earnings. DP Macao's principal business is not in line with this strategy. For the foregoing reasons and in order to minimize operational disruption to our operations and DP Macao's existing paper pulp customers and operations and to allow us to concentrate on our strategy, we disposed of our entire shareholding interest in DP Macao but retained DP Macao's international sales team for dissolving wood pulp within the Group. Following this disposal, we no longer have any liabilities in respect of DP Macao, save for any trade balances relating to the Agency Agreement and the Sales Framework Agreement.

In order to minimize any potential competition from TPL in relation to our dissolving wood pulp business, SC International Macao, our subsidiary, entered into the Agency Agreement with DP Macao on November 3, 2010 pursuant to which SC International Macao has been appointed as DP Macao's agent for the sale of the dissolving wood pulp produced by TPL and acquired by DP Macao outside Indonesia and SC International Macao has the right of first refusal to sell such dissolving wood pulp as DP Macao's agent.

Please see the section headed "Relationship with Our Controlling Shareholders — Business Retained by Our Controlling Shareholders" in this prospectus for further details.

3. Acquisition of Sateri Marketing International

On September 13, 2010, Sateri Specialty Cellulose acquired the entire issued share capital of Sateri Marketing International, an investment holding company incorporated in the Cayman Islands, from Hibiscus Bay, a company controlled by our Ultimate Controlling Shareholder for a nominal consideration of US\$1.00, which represents the net book value of Sateri Marketing International. Prior to the Acquisition, Sateri Marketing International acquired the entire issued share capital of SC International Macao from an independent third party for a cash consideration of MOP100,000 (US\$12,460) on September 2, 2010.

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The Group acquired SC International Macao through the acquisition of Sateri Marketing International rather than directly from the independent third party because the independent third party was not a party familiar to the Group and Hibiscus Bay agreed to indemnify the Group against all losses suffered or incurred by the Group in connection with the business carried on by Sateri Marketing International and SC International Macao prior to the completion of the Acquisition.

SC International Macao was incorporated in Macao as a commercial offshore institution in Macao and was granted a permit by the Macao Trade and Investment Promotion Institute to operate offshore business in Macao. Since commencing business operations, SC International Macao has been engaged in offshore business in Macao relating to the trading of paper products. Following its acquisition by Sateri Marketing International, SC International Macao ceased its original trading activities and was appointed as DP Macao's agent for the sale of the dissolving wood pulp produced by TPL outside Indonesia pursuant to the terms of the Agency Agreement. SC International Macao has also commenced selling our own dissolving wood pulp.

The audited statutory financial statements of SC International Macao were prepared in accordance with Financial Reporting Standards of Macao. There are differences between Macao GAAP and IFRS because Macao GAAP has not adopted the new, revised and amended IFRS standards from April 1, 2004 onwards. However, in the context of us and SC International Macao, taking into consideration the fact that SC International Macao's audited statutory financial statements for the year ended December 31, 2009 show total assets, total liabilities, revenue and profit after tax of only US\$0.3 million, US\$0.3 million, US\$0.3 million and US\$0.1 million (representing less than 0.1%, 0.1%, 0.1% and 0.1% respectively of those of the Group), the Group's consolidated financial results and position would not be materially different whether or not SC International Macao's financial results and position were restated under IFRS if consolidated with the Group's financial results and position during the Track Record Period. Similarly, SC International Macao's financial results and position would also not be materially different if its financial results and position were restated under IFRS during the Track Record Period.

4. Increase in the Authorized Share Capital of Our Company and Subdivision of Shares

On November 8, 2010, the authorized share capital of our Company was increased from US\$10,000 to US\$750,000,000 by the creation of an additional 749,990,000 ordinary shares with a nominal value of US\$1.00 each and each issued and unissued ordinary share with a nominal value of US\$1.00 each in the capital of our Company was sub-divided into 20 Shares, resulting in our Company having an issued and fully paid-up share capital of US\$100, divided into 2,000 Shares.

5. Redemption of Preference Shares by Sateri International

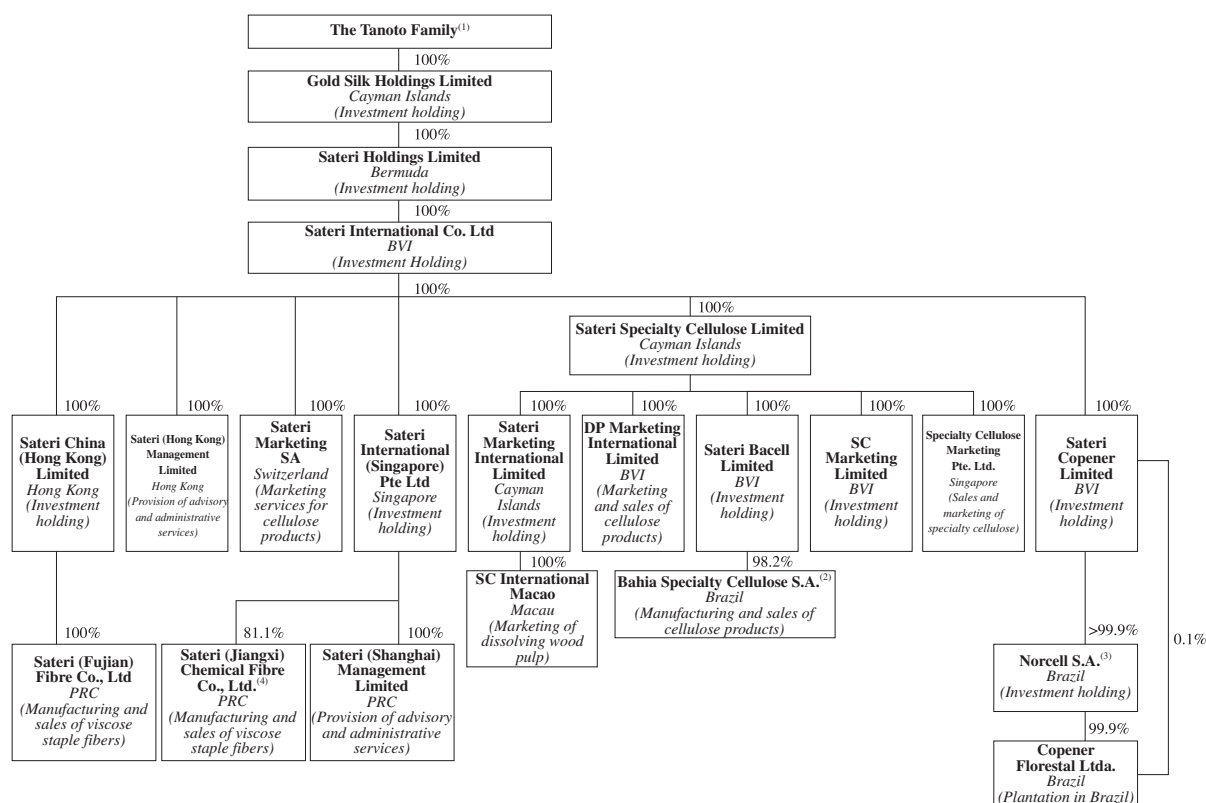
On November 22, 2010, Sateri International redeemed 22,800,000 class 1 preference shares and 4,410,067 class 2 preference shares in the capital of Sateri International, representing approximately 5.6% of the outstanding class 1 preference shares and 100% of the outstanding class 2 preference shares, owned by Gold Silk. In accordance with the terms of the class 1 preference shares, the redemption price was US\$1.00 for each class 1 preference share, being the par value of each class 1 preference share. In accordance with the terms of the class 2 preference shares, the redemption price was US\$100.00 for each class 2 preference share, being the aggregate of the par value and the premium paid on each class 2 preference share by Gold Silk.

6. Share Exchange Between Gold Silk and Our Company

On November 23, 2010, Gold Silk entered into a share exchange agreement with our Company pursuant to which it transferred to our Company its entire shareholding interest in Sateri International, comprising (a) 100 ordinary shares and (b) the remaining 381,799,200 class 1 preference shares, which carry one vote each, are convertible into ordinary shares at the option of the holder and are entitled to receive dividends in preference to the ordinary shares in exchange for 750 Shares and 2,863,494,000 Shares, respectively, which were allotted and issued to Gold Silk credited as fully paid. Following the completion of such share exchange, Gold Silk holds an aggregate of 2,863,496,750 Shares.

HISTORY AND REORGANIZATION

Immediately following the Reorganization, our simplified corporate structure will be as follows:

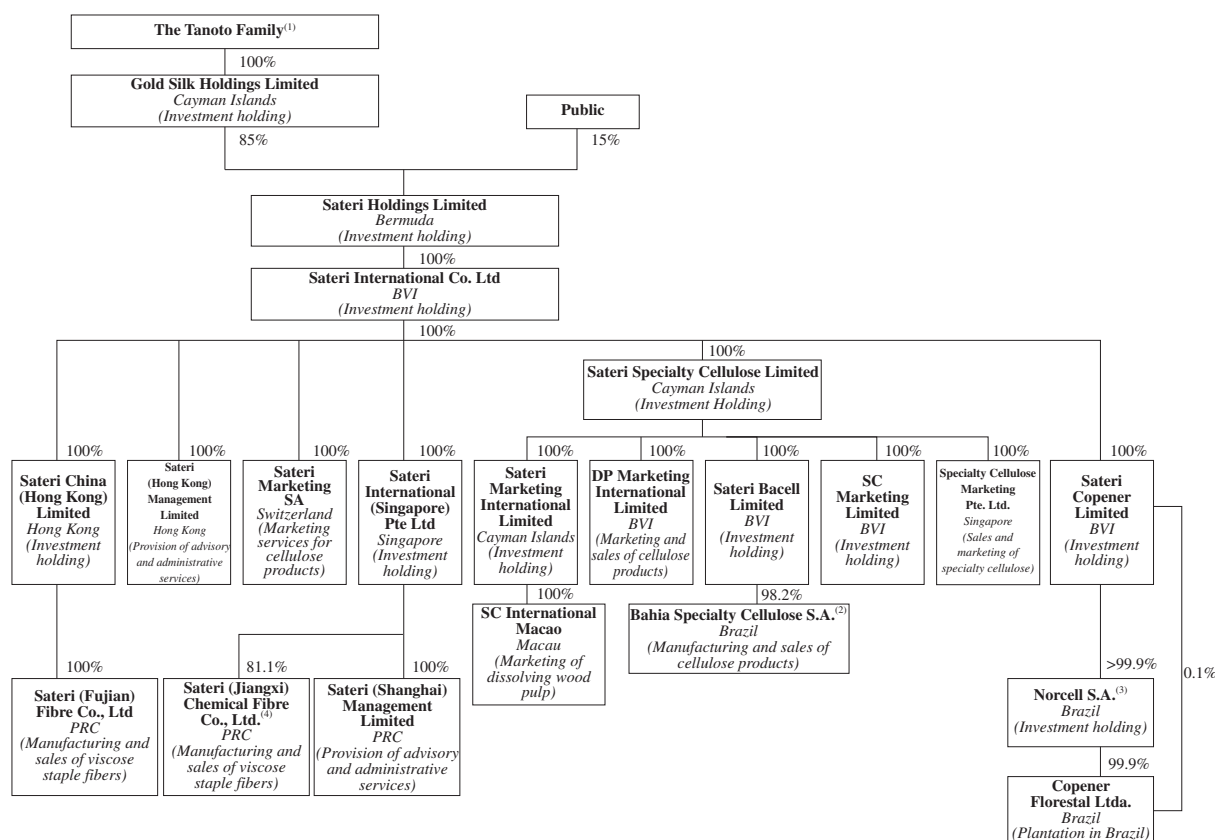


Notes:

- (1) The Tanoto Family beneficially own 100% of Gold Silk. The Trustee holds 100% of the issued share capital of Gold Silk on trust for beneficiaries including the Tanoto Family.
- (2) Sateri Bacell Limited holds 98.2% of the total issued common shares and 100% of the total issued preferential shares in Bahia Specialty Cellulose S.A. The three directors whom we have appointed to the board of directors of Bahia Specialty Cellulose, being Mr. Will Hoon Wee Teng, Mr. Ivan Alves and Mr. Claudio Laert Cotrim Passos, each hold one common share pursuant to the relevant Brazilian statutory and legal requirements. Lenzing AG holds 1.2% and Bacell Handels GmbH holds 0.6% of the remaining common shares. The preferential shares carry the same rights as common shares, except that they do not carry any voting rights, they have priority in the event of a capital reimbursement and are entitled to dividends 10% higher than those payable for common shares, and they may be converted into common shares by a resolution of the common shareholders.
- (3) Sateri Copener Limited holds all except for three of the total issued common shares and 74.3% of the total issued preferential shares in Norcell S.A.. The three directors whom we have appointed to the board of directors of Norcell S.A., being Mr. Will Hoon Wee Teng, Mr. Ivan Alves and Mr. Claudio Laert Cotrim Passos, each holds one of the three remaining common shares pursuant to the relevant Brazilian statutory and legal requirements. Bahia Specialty Cellulose holds the remaining 25.7% of the preferential shares. The preferential shares carry the same rights as common shares, except that they do not carry any voting rights, they have priority in the event of a capital reimbursement, and they may be converted into common shares by a resolution of the common shareholders.
- (4) Sateri Singapore holds 81.1% of the registered capital in Sateri Jiangxi while Kuitu Oy is the existing holder of the remaining 18.9% of the registered capital in Sateri Jiangxi.

HISTORY AND REORGANIZATION

Immediately following the completion of the Global Offering and assuming the Over-allotment Option is not exercised, our simplified corporate structure will be as follows:



Notes:

- (1) The Tanoto Family beneficially own 100% of Gold Silk. The Trustee holds 100% of the issued share capital of Gold Silk on trust for beneficiaries including the Tanoto Family.
- (2) Sateri Bacell Limited holds 98.2% of the total issued common shares and 100% of the total issued preferential shares in Bahia Specialty Cellulose S.A. The three directors whom we have appointed to the board of directors of Bahia Specialty Cellulose S.A., being Mr. Will Hoon Wee Teng, Mr. Ivan Alves and Mr. Claudio Laert Cotrim Passos, each holds one common share pursuant to the relevant Brazilian statutory and legal requirements. Lenzing AG holds 1.2% and Bacell Handels GmbH holds 0.6% of the remaining common shares. The preferential shares carry the same rights as common shares, except that they do not carry any voting rights, they have priority in the event of a capital reimbursement and are entitled to dividends 10% higher than those payable for common shares, and they may be converted into common shares by a resolution of the common shareholders.
- (3) Sateri Copener Limited holds all except for three of the total issued common shares and 74.3% of the total issued preferential shares in Norcell S.A.. The three directors whom we have appointed to the board of directors of Norcell S.A., being Mr. Will Hoon Wee Teng, Mr. Ivan Alves and Mr. Claudio Laert Cotrim Passos, each holds one of the three remaining common shares pursuant to the relevant Brazilian statutory and legal requirements. Bahia Specialty Cellulose holds the remaining 25.7% of the preferential shares. The preferential shares carry the same rights as common shares, except that they do not carry any voting rights, they have priority in the event of a capital reimbursement, and they may be converted into common shares by a resolution of the common shareholders.
- (4) Sateri Singapore holds 81.1% of the registered capital in Sateri Jiangxi while Kuitu Oy is the existing holder of the remaining 18.9% of the registered capital in Sateri Jiangxi.

INDUSTRY OVERVIEW

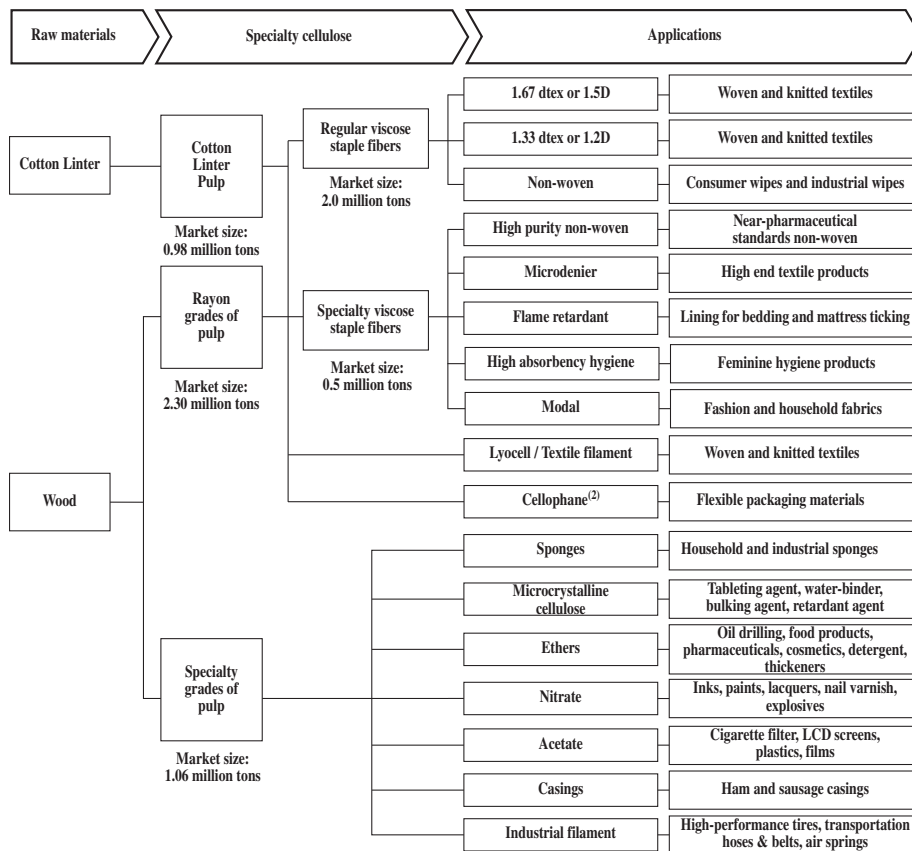
The information presented in this section is derived from various official government and other publications and from the PCI Fibres Research Report, the Clothesource Research Report and the CCF Research Report which were commissioned by us, unless otherwise indicated. We believe that the sources of such information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. The information has not been independently verified by our Company, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering and no representation is given as to its accuracy. See also the section headed “Risk Factors — Risks Relating to the Global Offering — Certain industry statistics contained in this prospectus are derived from third party reports and publicly available official sources” in this prospectus.

Introduction

Cellulose is a fibrous organic material and is the principal constituent of plant biomass. It is a natural and bio-degradable polymer used as feedstock to manufacture a broad range of recyclable commodity and specialty products.

Dissolving wood pulp is a highly purified form of cellulose made from wood. Cotton linter pulp, which is a by-product of cotton production is a substitute of dissolving wood pulp. Both dissolving wood pulp and cotton linter pulp can be further processed into cellulose-based products used in a wide range of applications.

The chart below illustrates the specialty cellulose value chain.



INDUSTRY OVERVIEW

Source: PCI Fibres

Notes:

- (1) Market size as of December 2009
- (2) Consistent with the practice of comparable companies, we categorize cellophane as an application under “specialty grades of pulp”.

Principal Cellulose-Based Products

In 2009, the six principal cellulose-based products, viscose staple fibers, acetate tow, cellulose ethers, microcrystalline cellulose, viscose filament and nitrocellulose, together accounted for approximately 89% of the global demand for dissolving wood pulp.

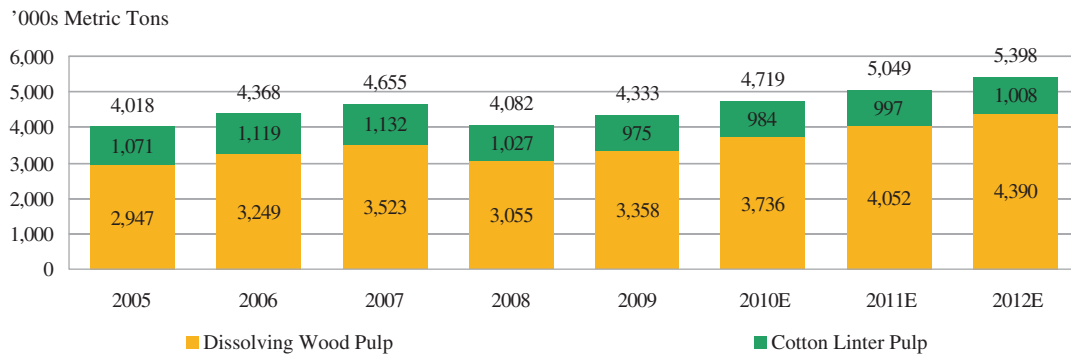
- **Viscose Staple Fibers:** These are the principal mainstream product of rayon grades of pulp. The demand for rayon grades of pulp for production of viscose staple fibers grew at a CAGR of 9.0% between 2005 and 2009, and is expected to grow at a CAGR of 13.3% between 2009 and 2012. While demand slowed in 2008, recovery was underway by the end of the year, aided by a proportion of viscose staple fibers demand switching from developed markets, where consumer spending decreased, to emerging markets, notably China, where consumer spending had remained robust. Viscose staple fibers are used in textiles, for example in knitwear, men’s jackets, shirts, suits and trousers, women’s jackets, dresses and blouses, sportswear, underwear and nightwear. Viscose staple fibers produced for textiles are first spun into a yarn, which is then further processed by knitting or weaving into cloth. The cloth is then dyed, cut and sewn into garments. Viscose staple fibers can also be used in non-woven applications, for example baby wipes, cosmetic and personal care wipes, household and industrial wipes as well as flame retardant applications, for example in mattress ticking.
- **Acetate Tow:** The second largest downstream product of dissolving wood pulp, this is predominantly used as the filtration medium in cigarette filters. While smoking rates in developed markets have been falling, this decline has been more than offset by the rise in smoking rates in major emerging markets, notably China, South America, Eastern Europe, India and Southeast Asia, and rising wealth has enabled smokers to switch from non-filtered to filtered cigarettes. In addition, demand for triacetate cellulose film, used in liquid crystal display (LCD) screens, is estimated to drive demand for other specialty grades of pulp used to produce acetate products.
- **Cellulose Ethers:** These are used as additives, acting as thickeners, stabilizers, film formers, rheology modifiers, emulsifiers, lubrication aids and conditioners in a wide range of fluid products. The principal market for these additives is the industrial and construction materials market, including pumpable plasters and paints.
- **Microcrystalline Cellulose:** This is used as an excipient in the manufacturing of pharmaceutical tablets, as well as a gum and a low digestibility bulking agent in processed foods.
- **Viscose Filament:** The main markets for viscose filament are in linings (principally for jackets) and high end fashion-wear. As the textile industry has migrated to lower cost markets, demand for viscose filament has grown in these markets, notably China but also in India, South Korea and Turkey.
- **Nitrocellulose:** There are two grades of nitrocellulose: high-nitrogen nitrocellulose, which is typically produced using cotton linter pulp and is used as a smokeless propellant, and low-nitrogen nitrocellulose, which is used in coatings, paints, lacquers and varnishes for a wide range of applications including automotive, outdoor furniture and nail varnishes.

INDUSTRY OVERVIEW

Global Demand for Dissolving Wood Pulp and Cotton Linter Pulp

In 2009, demand for dissolving wood pulp was approximately 3.4 million metric tons, compared with approximately 1.0 million metric tons of cotton linter pulp. The chart below shows the historical and expected global demand for dissolving wood pulp and cotton linter pulp between 2005 and 2012.

Demand for Dissolving Wood Pulp and Cotton Linter Pulp



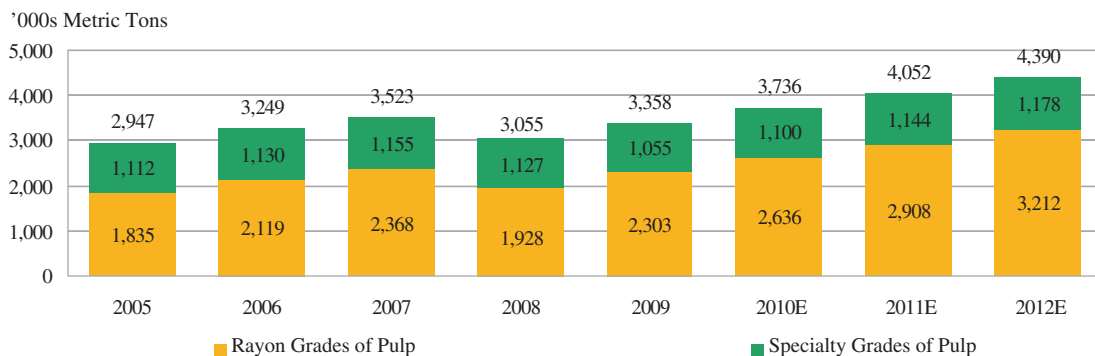
Source: PCI Fibres

Cotton linter pulp is predominantly produced and used in China, where it is utilized for the manufacture of textile viscose fibers, viscose filament and nitrocellulose. Outside China, the high price of cotton linter pulp limits its use to the production of a narrow range of specialty products.

Global Demand for Dissolving Wood Pulp

Depending on its level of purity and type of application, dissolving wood pulp is generally categorized into rayon grades of pulp and specialty grades of pulp. Rayon grades of pulp typically contain between 91% and 95% of alpha-cellulose, while specialty grades of pulp typically contain over 95% of alpha-cellulose. The chart below shows the historical and expected global demand for rayon grades of pulp and specialty grades of pulp between 2005 and 2012.

Demand for Rayon Grades and Specialty Grades of Pulp

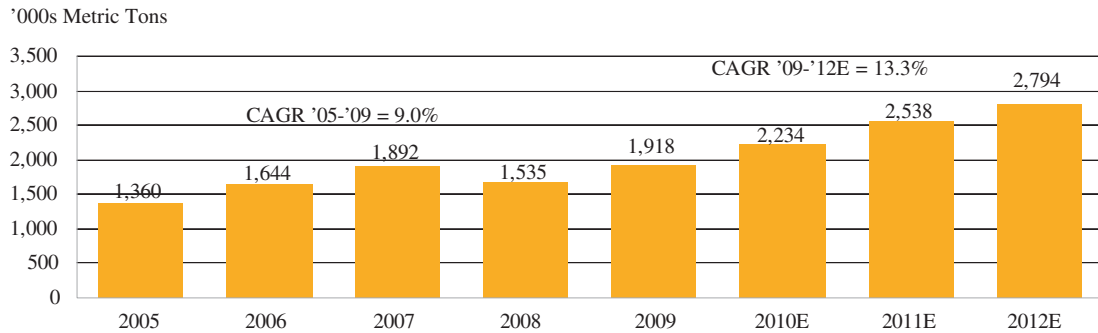


Source: PCI Fibres

INDUSTRY OVERVIEW

The chart below shows the historical and expected global demand for dissolving wood pulp for viscose staple fibers production between 2005 and 2012.

Demand for Dissolving Wood Pulp for Production of Viscose Staple Fibers



Source: PCI Fibres

Principal Drivers of Global Demand for Dissolving Wood Pulp

Since the 1980s demand for dissolving wood pulp decreased in many market segments due to substitution by lower priced synthetic alternatives in applications that previously had used dissolving wood pulp. For example, viscose staple fibers, viscose filament and acetate filament were being substituted by polyester staple and filament fibers; cellophane by polypropylene film; and acetate film by polyester and polypropylene film. Since 2002, however, this trend has been reversed. Demand for dissolving wood pulp reached 3.4 million metric tons in 2009, and is expected to grow to 4.4 million metric tons in 2012, representing a CAGR of 9.3%. This can be attributed to a number of key factors:

- **Macroeconomic and Demographic Changes:** The global population increase and strong economic growth have significantly increased the demand for textile viscose staple fibers, which in turn increased the demand for dissolving wood pulp. Due to its attractive characteristics such as comfort, dyeability, drape and handle, textile viscose staple fibers have been preferred, especially for summer clothing, to polyester-based fibers.
- **China:** China has been the principal contributor to the increase in demand for dissolving wood pulp. The increase in personal disposable income in China and the migration of a substantial proportion of the global textile manufacturing industry from higher cost regions to China have led it to account for 50% to 60% of global textile production in 2009, a development that triggered substantial investment in man-made fiber production capacity, including viscose staple fiber capacity, in China.
- **New Applications:** New applications have been developed in recent years that contributed to the increase in demand for dissolving wood pulp. For example, triacetate cellulose film, which is used as a protective layer on LCD screens, microcrystalline cellulose, which is used as bulking agents, and disposable wipes, which are made with high absorbency viscose staple fibers.
- **Increasing Environmental Awareness:** Increasing environmental awareness has shifted consumers' preference away from non-recyclable materials towards recyclable products with low environmental impact. The biodegradable feature of viscose staple fibers has made it a suitable material to be used for the production of disposable non-woven products.

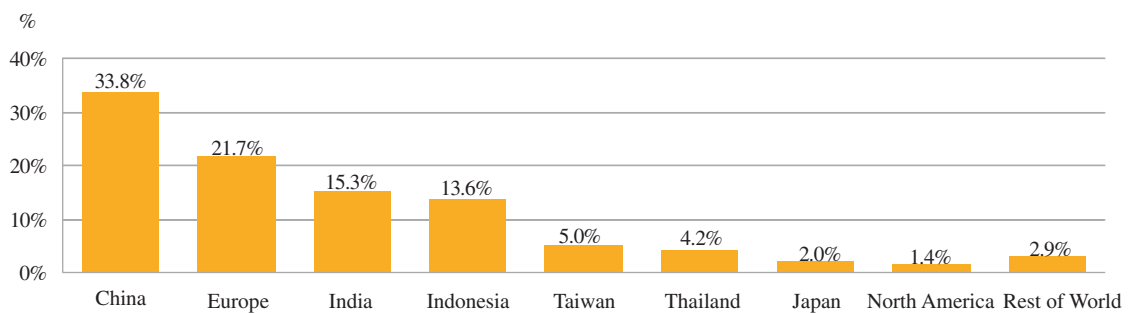
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Demand for Dissolving Wood Pulp By Region

Demand for dissolving wood pulp has historically been concentrated in the developed markets. However, the globalization of the production of cellulose-based products, notably viscose staple fibers and viscose filament, has led to the migration of capacity for these products to lower cost markets, especially the emerging Asian markets. Moreover, future demand for dissolving wood pulp is set to grow in these Asian markets as capacity for viscose staple fibers and other cellulose-based products grows, while demand continues to contract in developed markets.

China now holds the largest share of global demand for rayon grades of pulp, with a 33.8% market share in 2009. The chart below shows the demand for rayon grades of pulp by region in 2009.

Demand for Rayon Grades of Pulp by Region (2009)

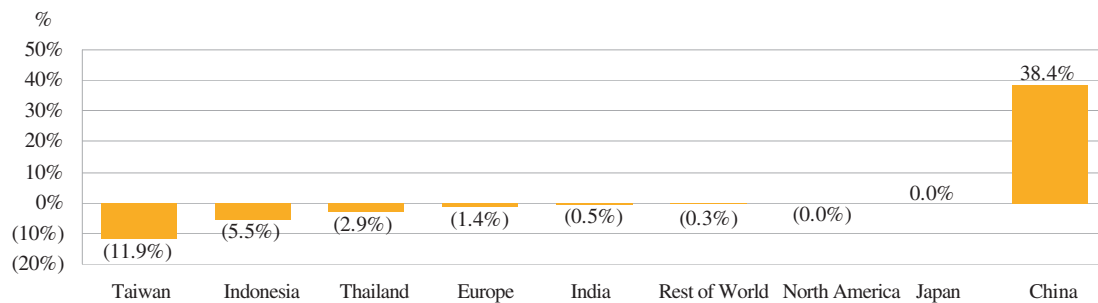


Source: PCI Fibres

Demand for dissolving wood pulp in China has been growing rapidly in recent years. In 2007, China imported approximately 0.39 million metric tons of rayon grades of pulp. Between 2007 and 2009, Chinese imports of rayon grades of pulp increased at a CAGR of 38.4% to 0.74 million metric tons. This rapid rise was due to increased viscose staple fiber production and constrained cotton linter pulp supply. Considering the continuous investments in additional viscose staple fiber capacity in China and the constraints limiting the supply of cotton linter pulp, China's total demand for dissolving wood pulp may surpass two million metric tons in 2012, representing more than 48% of the global market for rayon grades of pulp.

The chart below shows the annual growth in rayon grades of pulp demand in China from 2007 to 2009, compared with other Asian countries and developed markets.

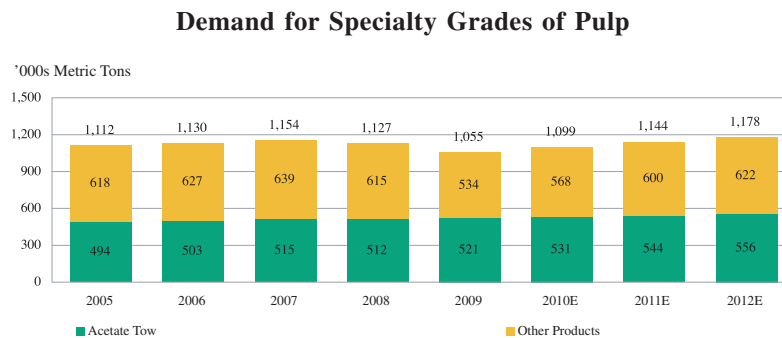
Growth in Rayon Grades of Pulp Demand (CAGR 2007-2009)



Source: PCI Fibres

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The chart below shows the historical and expected global demand for specialty grades of pulp between 2005 and 2012.



Source: PCI Fibres

Demand for specialty grades of pulp used for the manufacture of acetate tow grew at a CAGR of 1.4% between 2005 and 2009 and was relatively unaffected by the economic downturn in 2008 and 2009. According to PCI Fibres, demand is expected to rise at a CAGR of 2.1% between 2009 and 2012, aided by increasing smoking rates in emerging markets, further displacement of polypropylene tow by acetate tow in cigarette filters in China and the development of “light” cigarettes and the concomitant increase in the size of cigarette filters (and the average weight of acetate tow per filter). Demand for specialty grades of pulp for other products grew at a CAGR of 1.7% between 2005 and 2007. Aggregate demand for specialty grades of pulp then fell in 2008 and 2009 as the downturn in construction activity, particularly in the developed markets, due to the global economic downturn adversely impacted the demand for cellulose ethers. Total demand for the specialty grades of pulp is expected to expand at a CAGR of 5.2% between 2009 and 2012, according to PCI Fibres, driven principally by the recovery in demand for cellulose ethers.

For specialty grades of pulp, chemical properties and quality (for example, consistency) are especially important and, as a result, product qualification is often a requirement to sell to downstream processors, such as the manufacturers of the specialty cellulose ethers and cellulose acetate, or their customers, such as cigarette and pharmaceutical manufacturers. For example, cigarette manufacturers require the qualification of the acetate tow used in their filters, which, in turn, demands the qualification of the specialty grades of pulp used to manufacture this acetate tow. Similarly, pharmaceutical manufacturers typically qualify the cellulose ethers and MCC used in their products. The qualification process is highly technical and involves participants from all sides assessing product specifications and quality. This process also leads to considerable customization. One consequence of the qualification process and high degree of customization is the development of strong long term relationships between producers of specialty grades of pulp and their major customers.

Price is also becoming an increasingly important consideration within even the higher end applications in the specialty grades of pulp industry. For example, triacetyl film, used in liquid crystal display units, has historically been produced using cotton linter pulp due to the high optical purity and strength of triacetyl film made with cotton linter pulp. However, competitively priced specialty grades of pulp that can be used to produce triacetyl films have entered the market and are beginning to displace some cotton linter pulp-based triacetyl products.

Dissolving Wood Pulp Production By Producer

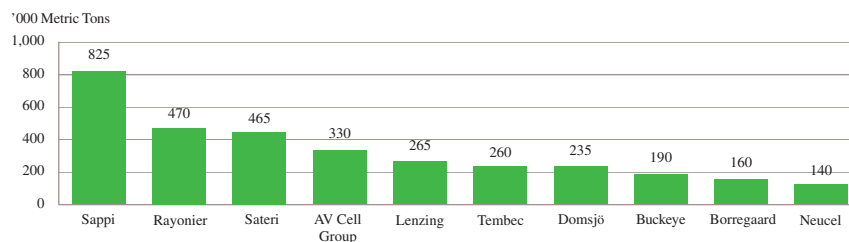
There are 17 major dissolving wood pulp producers currently operating 21 mills worldwide. Together, the five largest producers, Sappi Saiccor, Sateri, Rayonier, Birla (including AV Cell Group) and Lenzing, together account for approximately 65% of global dissolving wood pulp production capacity as of July 2010. During 2008 and 2009, three large dissolving wood pulp mills ceased production, constraining the global dissolving wood pulp production capacity. A high cost mill, the Borregaard Schweiz mill in Switzerland

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closed in 2008 followed by two Russian mills, Kotlas (which is now part of International Paper and converted to paperboard pulp production) and Baikalsk, which closed in 2009. As demand is beginning to recover, market supply of dissolving wood pulp is set to increase through 2011 and 2012 as existing producers expand production capacity and new producers enter the market.

The chart below shows the world's top ten dissolving wood pulp producers by estimated production capacity as of the end of 2010.

Estimated Production Capacity of Major Dissolving Wood Pulp Producers (as of the end of 2010)



Source: PCI Fibres

The table below details the principal grades produced by the top ten dissolving wood pulp producers by estimated production capacity together with their major geographic markets.

Business Profiles of the Top Dissolving Wood Pulp Producers

	Country	Principal Geographic Markets	Principal Grades Produced
Sappi Saiccor . . .	South Africa	Global	Rayon and specialty
Sateri	Brazil	Global	Rayon and specialty
Rayonier	USA	Global	Specialty
AV Cell Group . .	Canada	Integrated (Aditya Birla)	Rayon
Lenzing	Austria	Integrated (Lenzing)	Rayon
Tembec	Canada	Global	Rayon and specialty
Domsjö	Sweden	Europe & Asia	Rayon
Buckeye	USA	Global	Specialty
Borregaard	Norway	Europe & Asia	Specialty
Neucel	Canada	Asia (China)	Rayon and specialty

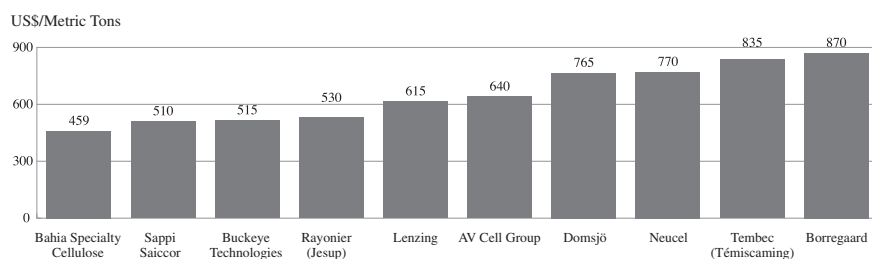
Source: PCI Fibres

Production Costs by Producer

Mills operating in low cost markets have been able to benefit from access to both low cost labor and wood. The chart below shows the estimated production costs of the global top ten dissolving wood pulp producers by production capacity as of the end of 2010.

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Estimated Production Costs of the Global Top Ten Dissolving Wood Pulp Producers (as of end of 2010)



Source: PCI Fibres

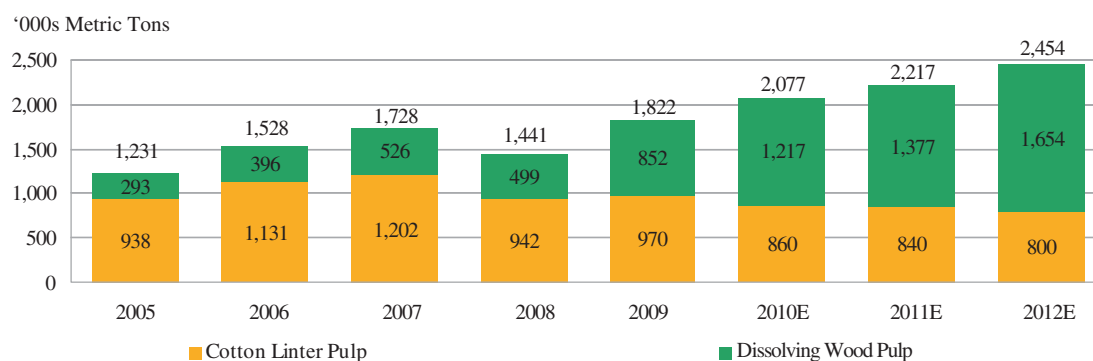
These global top ten dissolving wood pulp producers include two major merchant suppliers of rayon grades of pulp (Bahia Specialty Cellulose and Sappi Saiccor) and two major producers of specialty grades of pulp (Rayonier and Buckeye Technologies), together with four mills in high cost regions supplying both specialty grades of pulp (Borregaard and Tembec-Témiscaming) and predominantly rayon grades of pulp (Domsjö and Neucel). The final two producers operate mills that are fully integrated with viscose staple fibers production: the Lenzing mill, which is fully integrated with its viscose staple fibers production; and the AV Cell Group mill in eastern Canada, which supplies rayon grades of pulp to Birla's viscose staple fibers mills in Asia.

Consumption of Dissolving Wood Pulp and Cotton Linter Pulp In China

The rapid growth in viscose staple fibers production capacity in China has led to a significant demand for dissolving wood pulp and cotton linter pulp. Given the absence of domestic sources of dissolving wood pulp, demand was initially met by domestic Chinese production of cotton linter pulp. However, since 2004, the increase in viscose staple fibers and viscose filament production has resulted in increased imports of dissolving wood pulp, as Chinese cotton linter pulp producers have been unable to expand their output sufficiently due predominantly to the shortage of cotton linter. This shortage has also led to higher costs for cotton linter pulp compared to dissolving wood pulp.

Chinese imports of dissolving wood pulp have risen sharply from approximately 293,000 metric tons in 2005 to approximately 852,000 metric tons in 2009. With cotton linter supply not expected to exceed 800,000 metric tons in 2012, imports of dissolving wood pulp are set to increase to 1,654,000 metric tons in 2012. The chart below shows the historical and expected balance between imported dissolving wood pulp and domestically produced cotton linter pulp consumed in China between 2005 and 2012.

Consumption of Dissolving Wood Pulp and Cotton Linter Pulp in China

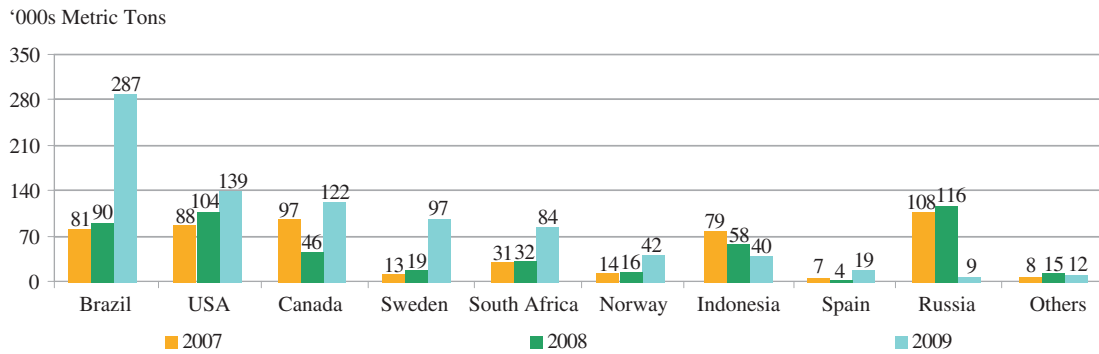


Source: UN Comtrade and PCI Fibres

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According to UN (Comtrade data) in 2009, Brazil was the largest supplier of dissolving wood pulp to China, with an approximately 34% share of total dissolving wood pulp imports by volume, more than double the share of the next largest supplier. Bahia Specialty Cellulose has been the only supplier of dissolving wood pulp from Brazil into China. The chart below shows the countries exporting dissolving wood pulp to China between 2007 and 2009.

Dissolving Wood Pulp Imports to China by Country

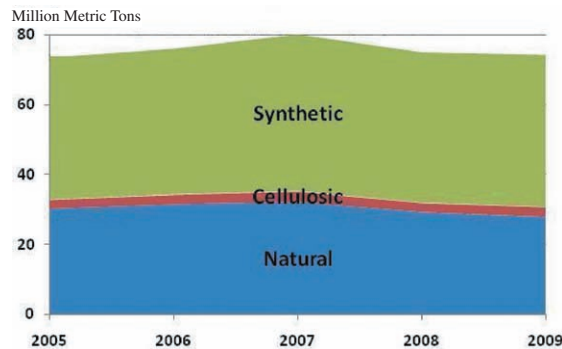


Source: UN Comtrade

Type of Fibers

In 2009, global fiber production was approximately 74 million metric tons with a value of approximately US\$204 billion at mid-2010 prices.

Global Fibers Production



Source: Clothesource from Fiber Organon

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The table below shows the breakdown of global fiber production by weight and value respectively in 2009.

Global Fiber Production (2009)

	Type of Fibers	% by Weight	% by Value
Natural	Cotton	30.2%	35.1%
	Sheep's wool	1.6%	4.5%
	Cashmere	0.0%	0.3%
	Flax	1.4%	3.2%
	Jute	3.1%	0.1%
	Ramie	0.4%	0.1%
	Silk	0.2%	1.0%
	Sisal	0.4%	0.1%
	Other Natural	1.0%	2.9%
	Total Natural	38.3%	47.4%
Cellulosic	Lyocell / Tencel	0.1%	0.4%
	Viscose Filament Yarn	0.4%	0.7%
	Viscose Staple Fibers	3.3%	2.9%
	Total Cellulosic	3.8%	4.0%
Synthetic	Acrylic Staple Fibers	2.8%	3.1%
	Nylon	4.1%	7.1%
	Polyester Staple Fibers	16.7%	8.5%
	Polyester Filament Yarn	26.6%	16.2%
	Other synthetics	7.8%	13.7%
	Total Synthetics	58.0%	48.6%

Source: Clothesource from Fiber Organon and YNFX

The table below summarizes the key qualities of major fibers categories compared with viscose staple fibers.

Key Qualities of Major Fibers

Key Quality	Viscose Staple Fibers	Cotton ⁽¹⁾	Polyester ⁽¹⁾	Wool
Absorbency	✓	✓		✓
Biodegradation	✓	✓		✓
Breathability	✓	✓		✓
Brightness	✓	✓	✓	
Drape	✓			✓
Dyeability	✓		✓	
Regeneration	✓	✓		✓
Softness	✓	✓	✓	✓
Purity	✓		✓	

Source: Clothesource

Note: Combed cotton and polyester have the quality of drape in higher counts

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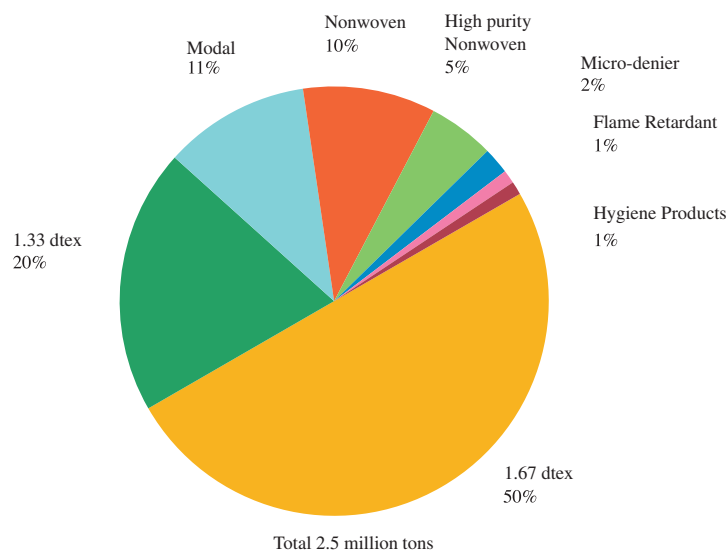
Demand For Viscose Staple Fibers

Viscose staple fibers are fibers composed of, or derived from, cellulose and provide the same (or superior) moisture absorbency and breathability as cotton. They also have excellent handle, drape and dyeability.

The viscose staple fibers market is segmented into regular viscose staple fibers used principally in textile and non-woven applications, and specialty viscose staple fibers, which include flame retardant viscose fibers for bedding linings, high absorbency fibers for personal hygiene products, micro-denier fibers for woven and non-woven products, high end non-woven grades and high wet modulus fibers.

The chart below shows the breakdown of global production volume between these products in 2009.

Estimated Global Production of Major Categories of Viscose Staple Fibers (2009)



Source: PCI Fibres

Note: 1.67 dtex and 1.33 dtex are equivalent to 1.5D and 1.2D titer

Wipes constitute a fast expanding market segment encompassing consumer wipes (which include baby, cosmetic or personal care and household wipes) and industrial wipes (used in applications ranging from cleaning and food services to medical care). Viscose staple fibers have proved to be highly suitable in this application due to their high absorbency, moisture retention and soft handle. They are also biodegradable and can be made to be flushable. Consequently, the single-use, task-centered, disposable, viscose-based wipe is the fastest growing sector of the non-woven market, and it is expanding strongly in emerging markets, including China.

Nevertheless, despite the growth in viscose staple fibers used in non-woven applications, textile applications continue to be the largest source of viscose staple fibers demand and this is set to grow, driven by demand for comfortable clothing as a result of the combination of population growth, rising wages and increasing disposable incomes. This demand cannot be fully met by cotton, as the global cotton supply continues to remain flat. According to the USDA FAS database, annual cotton production is expected to fall from between 25 and 26 million metric tons in 2004 to 2008 to 22.4 million metric tons in the 2009/10 crop year. Currently, production in the 2010/11 crop year is expected to recover to 24.8 million metric tons, due largely to improved US output. Production in other major cotton producing regions has been adversely affected by rain or drought. While current high cotton prices may result in considerable additional planting, 2011/12 crop production will continue to be affected by the weather in key regions and the underlying trend is expected to be one of flat to limited growth.

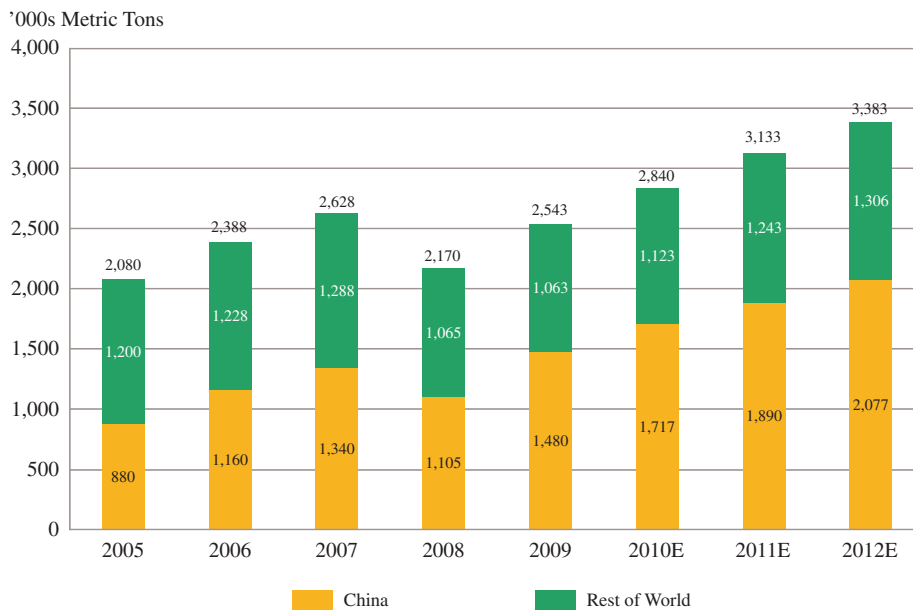
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While China accounts for the bulk of the supply and demand of viscose staple fibers, there is substantial demand for viscose staple fibers in Europe, Turkey, North America and the rest of Asia. In order to meet this anticipated growth in the demand for viscose staple fibers, there has been substantial investment in new production capacity, particularly in China, as well as other markets, including India, the ASEAN region and Europe. There are also plans for further investments in capacity additions in these markets as well as in Egypt. The chart below shows the increase in global viscose staple fiber production. Further, global production of viscose staple fibers is expected, according to PCI Fibres, to increase at a CAGR of 10.0% between 2009 and 2012.

The viscose staple fibers market has shown considerable resilience in recent years. While demand slowed in 2008, recovery was well underway by the end of 2008 aided by a substantial proportion of this demand switching from the developed markets, where consumer spending slumped, to emerging markets, notably China, where consumer spending has remained robust.

As a result, the growth in viscose staple fibers production in China has outpaced that of the rest of the world, increasing from 42% of the global market in 2005 to 58% of the global market in 2009. According to PCI Fibres, this is expected further to increase to 61% in 2012. The following chart shows the historical and expected volume of viscose staple fibers production in China and the rest of the world.

Viscose Staple Fibers Production in China and the Rest of the World



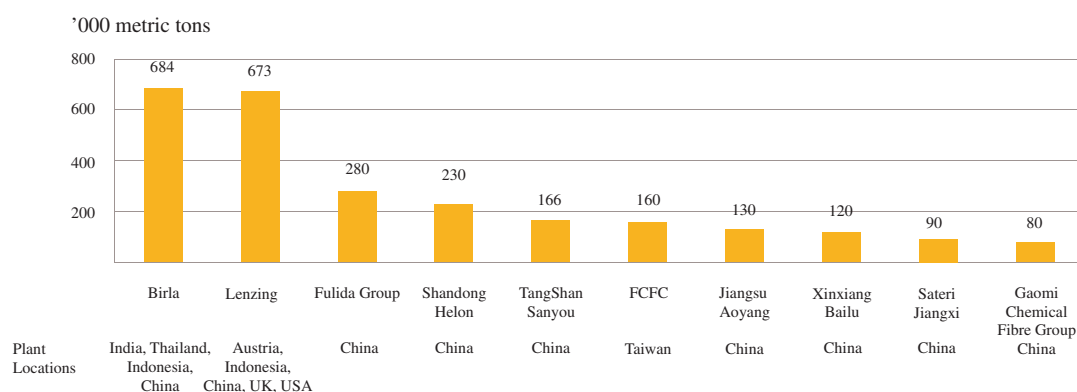
Source: PCI Fibres

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Global Viscose Staple Fibers Production by Producer

There are 11 viscose staple fibers producers outside China along with approximately 40 producers within China. The chart below shows the global top ten viscose staple fibers producers by estimated design annual production capacity as of June 30, 2010.

Estimated Design Annual Production Capacity of the Global Top Ten Viscose Staple Fibers Producers (as of June 30, 2010)



Source: PCI Fibres

Viscose Staple Fibers Industry in China

Viscose staple fibers are gradually replacing cotton in the China fibers industry, as the growth of cotton production had remained stagnant in recent years. The share of cotton in Chinese fibers production decreased to 22.2% in 2009 from 28.5% in 2005 while the share of viscose staple fibers increased to 4.6% in 2009. Between 2005 and 2009, the production of viscose staple fibers in China increased at a CAGR of 14.3% compared to 3.5% for cotton in the same period.

The table below shows the breakdown of Chinese major fibers production in 2009 and the CAGR between 2005 and 2009.

China Major Fibers Production (2009)

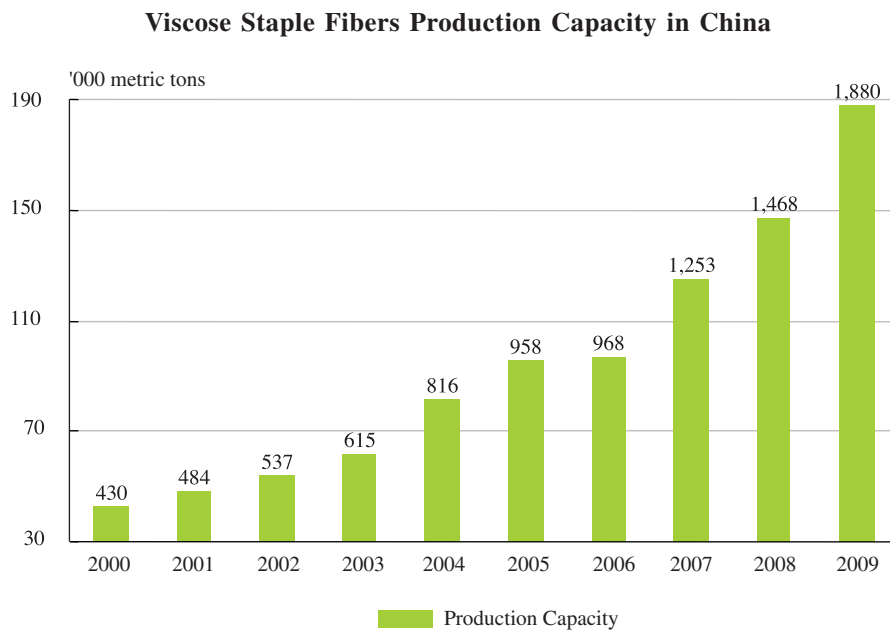
		'000 metric tons	% of World	CAGR 2005-2009
Natural	Cotton	7,100	32.2%	3.5%
	Wool (Sheep)	161	13.9%	(1.1)%
Synthetic	Acrylic Staple Fibers	745	37.0%	(3.7)%
	Nylon	1,088	36.6%	11.0%
	Polyester Staple Fibers	13,705	70.4%	15.0%
	Polyester Filament Yarn	7,591	62.0%	11.8%
Cellulosic	Viscose Filament Yarn	189	59.8%	(1.2)%
	Viscose Staple Fibers	1,462	61.4%	14.3%
Total		32,041	51.2%	10.2%

Source: Clothesource from Fiber Organon and YNFX

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China has become, according to CCF, the largest viscose staple fibers producer globally, accounting for 50% to 60% of global production capacity. The annual production capacity of viscose staple fibers in China increased from less than 430,000 metric tons in 2000 to approximately 1.9 million metric tons in 2009. In 2009, ten new viscose staple fibers lines came on-stream in China, adding approximately 500,000 metric tons of viscose staple fibers capacity. By comparison, approximately 100,000 metric tons of new viscose staple fibers production capacity was added in the rest of the world in 2009. With continued investment in new capacity still underway, viscose staple fibers capacity in China could exceed three million metric tons by 2012.

The chart below shows the growth in viscose staple fibers production capacity in China between 2000 and 2009.



Source: CCF

There are approximately 40 viscose staple fibers producers in China, and as of the second quarter of 2010, five of these producers have an annual production capacity of 100,000 metric tons or above as of the second quarter of 2010. In addition, many of these producers have announced significant capacity expansion plans for 2011 and 2012, further increasing the viscose staple fiber production capacity in China.

The table below shows the usage of viscose staple fibers in China. Based on the Clothesource estimates, with no assumptions of fibers substitution, the forecast median CAGR of viscose staple fibers is 5% between 2009 and 2014.

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Usage of Viscose Staple Fibers in Textiles in China

	Current	2014 Target	CAGR
	(in thousands of metric tons)		(2009-2014)
Domestic Apparel			
Retail	159	277	12%
Institutional	39	49	5%
Apparel Export Markets	562	686	4%
Total Apparel	760	1,012	6%
Used in Non-apparel (Home Textiles and Technical			
Textiles, Domestic and Exports)	69	83	4%
Exported as Yarn	93	112	4%
Exported as Fabric	64	77	4%
Total Non-Apparel	226	272	4%
Total	986	1,284	5%

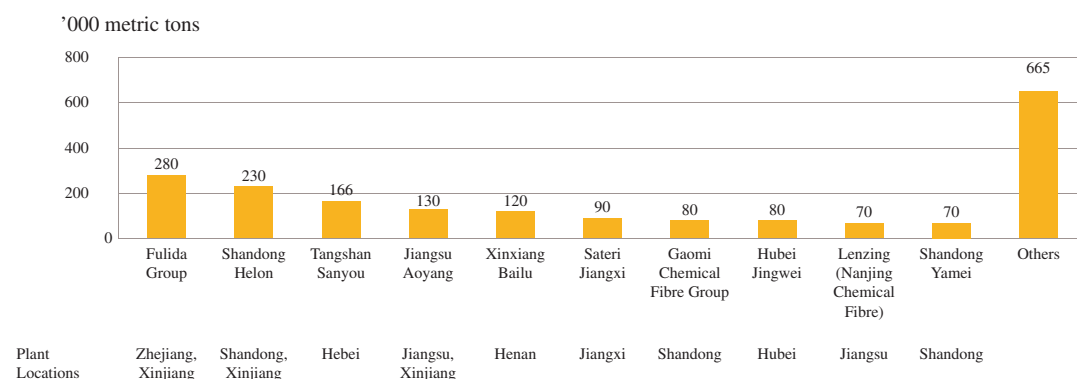
Source: Clothesource

According to Clothesource, if the use of viscose staple fibers in Chinese made apparel fabrics is increased from 5.7% used in 2009 to between 7.5% to 9.0% by 2014, demand for viscose staple fibers would grow to around 1.6 to 1.8 million metric tons from current demand of 1.0 million metric tons.

Usage of Viscose Staple Fibers in Textiles in China by 2014

	Current	Different Share of Fabric Used in Apparel		
Viscose Staple Fibers Share of Apparel				
Production	5.7%	5.7%	7.5%	9.0%
Apparel ('000 metric tons)	760	1,012	1,315	1,566
Non-apparel ('000 metric tons)	226	272	272	272
Total	986	1,284	1,587	1,838

Design Annual Production Capacity of Top Ten Viscose Staple Fibers Producers in China (as of June 30, 2010)

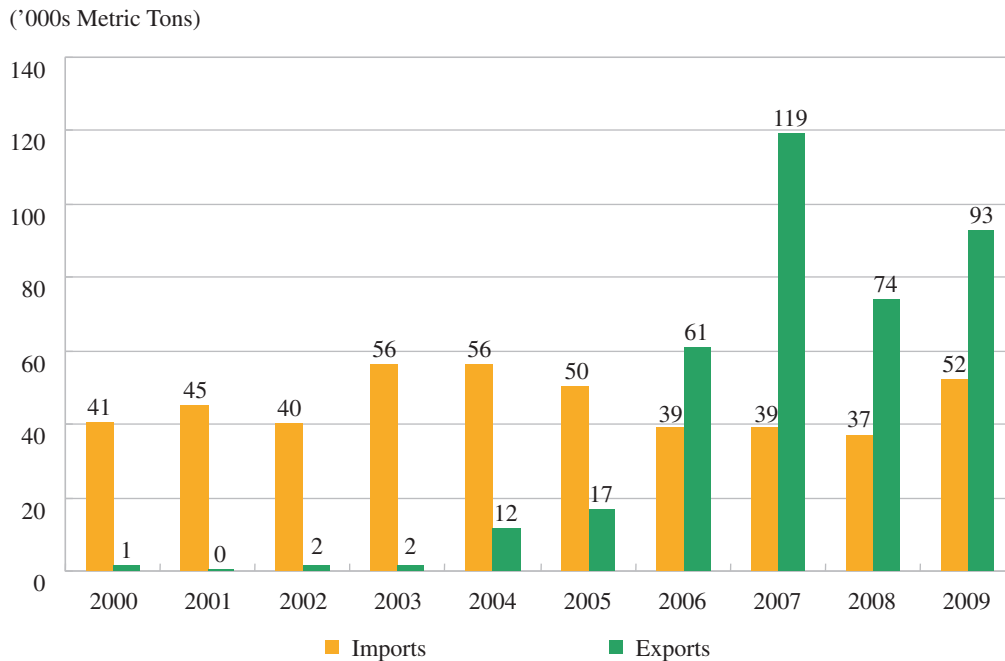


Source: PCI Fibres

INDUSTRY OVERVIEW

The chart below shows the evolution of imports and exports of viscose staple fibers to and from China.

China's Imports and Exports of Viscose Staple Fibers



Source: CCF

Currently, Chinese viscose staple fibers exports are largely concentrated in a few companies such as Tangshan Sanyou, Sateri, Lenzing (Nanjing) and Shandong Helon. However, some new businesses have also begun to compete in the export market by developing medium-end products. As a result, the export market has become more competitive with cost and product quality becoming the determining factors for sales in this market.

Pricing For Dissolving Wood Pulp

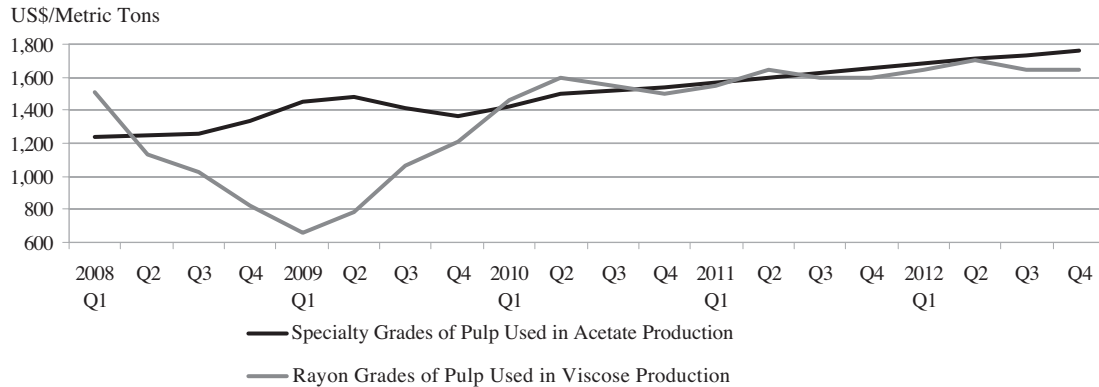
Due to the requirement for consistent quality, specific product characteristics and on-going customer support, price is not the sole determinant driving demand for dissolving wood pulp. Customers for rayon grades of pulp tend to use a number of suppliers and prices are typically negotiated on a quarterly basis. On the other hand, customers for specialty grades of pulp tend to use only a few qualified suppliers with whom they have long established relationships and prices are typically negotiated on the basis of annual contracts.

Consequently, prices for specialty grades of pulp have generally been more stable than the prices for rayon grades of pulp. Historically, specialty grades of pulp traded at a US\$250-300 per metric ton premium over rayon grades of pulp. However, as of April 2010, the spot price of rayon grades of pulp in China was approximately US\$1,600 per metric ton, whereas that of specialty grades of pulp was close to US\$1,450 per metric ton. This reversal of prices for rayon grades of pulp and specialty grades of pulp creates considerable tensions within the market, since there is now a considerable incentive for dissolving wood pulp producers which can switch their production to rayon grades of pulp to do so in light of the higher margin currently available. PCI Fibres believes that rayon grades of pulp prices will soften through the third quarter of 2010 but then rise as viscose staple fibers demand picks up towards the end of 2010 (when production switches to comfortable clothing for next year's summer season). This cycle is expected to be repeated on an annual basis, with rayon grades of pulp prices moving up towards US\$1,650 to US\$1,700 per metric ton by the end of 2012.

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The chart below shows the historical price and the price outlook for rayon grades and specialty grades of pulp.

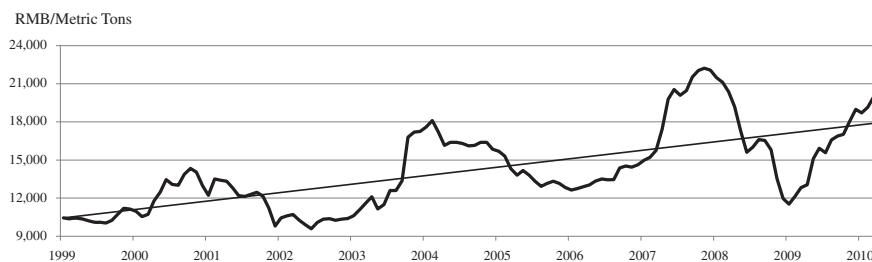
Price Outlook for Rayon Grades and Specialty Grades of Dissolving Wood Pulp



Source: PCI Fibres

Pricing for Viscose Staple Fibers in China

Viscose staple fibers prices in China have been on an upward trend since 2000. Before 2005, viscose staple fibers was mainly used as an alternative to cotton, and its price consistently followed, but at a discount to, cotton prices. Increases in the price of viscose staple fibers in 2000 and 2003 were largely attributable to a rise in cotton prices. When cotton prices fell in early 2004, viscose staple fibers prices also declined rapidly. From the second half of 2006, viscose staple fibers prices began an upward cycle benefiting from strong demand in sirospun yarns, compacted spun yarns, air-jet spun yarns and non-spun products, amidst a generally subdued textile market. The global economic crisis in 2008 weakened viscose staple fibers prices significantly, but beginning in early 2009, the economic recovery (and accompanying upturn in consumer demand) spurred viscose staple fibers prices from RMB11,600 (US\$1,711) per metric ton in early 2009 to RMB18,880 (US\$2,785) per metric ton at the end of 2009. This was due to constrained supply against strongly increasing demand. On the other hand, specialty viscose staple fibers command markedly higher prices than regular viscose staple fibers. The ongoing economic recovery is expected to lead to further increases in the price for viscose staple fibers.



Source: CCF

Competitive Landscape and Outlook for Specialty Cellulose Industry

There are 17 major dissolving wood pulp producers currently operating 21 mills worldwide. The five largest producers accounted for approximately 65% of global dissolving wood pulp production capacity in 2009. There are 11 viscose staple fibers producers outside China along with approximately 40 producers in China. The five largest producers accounted for 63% of viscose staple fibers capacity in 2009.

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The specialty cellulose industry has considerable barriers to entry. Substantial investment is necessary to establish production facilities and to obtain the required technology, especially with regards to environmental protection and waste treatment management. In addition, sizeable recurrent investment in maintenance is also necessary. Specifically, for the viscose staple fibers industry in China, operators with new capacity additions from 2009 onward are required to demonstrate a secure source of dissolving wood pulp and adequate environmental protection.

While the need for customization in the rayon grades of pulp segment is not as stringent as it is in the specialty grades segment, processors producing viscose staple fibers need to make adjustments in order to substitute one source of rayon grades of pulp for another. Further, specialty grades of pulp have to meet other demanding technical specifications, such as minimum standards for brightness and viscosity, in addition to other parameters that are either stipulated by individual downstream processors or incorporated by the specialty grades of pulp producers. In order to meet these parameters, substantial investment of capital and time is required in the qualification process. Moreover, because of the high degree of integration with the downstream customer's production processes, there is limited substitution between suppliers due to high switching costs. Consequently in this part of the market, there tends to be long-term relationships between customers and suppliers.

The risk of obsolescence for the products of the specialty cellulose industry due to substitution is low, according to PCI Fibres. Over the past five decades, cellulose-based products have competed in many downstream markets with low cost petrochemical-based substitutes and they have remained the material of choice in those markets where their price and performance profile give them a significant competitive advantage. Acetate tow, which provides the filtration medium for cigarette filters, is a clear example. Considerable efforts were expended in developing a low cost synthetic alternative, polypropylene tow, but polypropylene tow was rejected by consumers on the basis of taste. Products such as viscose staple fibers will play an increasingly important role in meeting demand for cellulosic fibers as the increase in demand for comfortable fabrics cannot be fully met by cotton, especially since little or no growth is currently anticipated in the global cotton supply.

In addition, specialty cellulose is superior to that of competing petrochemical-based products from an environmental perspective. This is fueling a revival of interest in specialty cellulose products in many applications, such as cellophane.

Broader applications for specialty cellulose are also being continually developed. In particular, PCI Fibres expects the trend of more specialty grades of viscose staple fibers being developed and commercialized by the major Chinese producers to continue. For example, of the mills outside Europe in 2007, only Birla had the capability to produce high-end nonwoven and modal grades while FCFC was competent to supply a modal grade. By 2009, Birla had added a microdenier grade to its viscose staple fibers portfolio while the Chinese manufacturer, Helon, had developed flame retardant and modal grades.

Sources of Information

Our Company commissioned PCI Fibres, an independent specialist consultancy to the global fibers and related industries founded in 1988, to conduct research and prepare a report on the global specialty cellulose industry. Our Company also commissioned CCF to prepare a report on the chemical fibers industry in China. Founded in 1997, CCF is an independent consultancy specializing in high quality chemical fiber and textile research. Our Company also commissioned Clothesource, an independent consultancy in the apparel and textile industries, to prepare a report on the Chinese cellulosic fibers industry, with particular reference to their use in the global apparel market.

Each of the PCI Fibres Research Report, the CCF Research Report and the Clothesource Research Report was prepared based on publicly available economic statistics and demographic data from governmental authorities and various industrial associations, and the proprietary databases of PCI Fibres, CCF and Clothesource. For example, PCI Fibres uses its proprietary global databases of fibers demand and supply as well as manufacturing plants, the USDA FAS database covering agricultural commodities production (including cotton), the GTIS' (Global Trade Information Services) GTA (Global Trade Atlas)

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database on world trade flows, and the UN Comtrade (United Nations Commodity Trade Statistics) database on dissolving wood pulp export and import for various countries. Clothesource, on the other hand, uses its proprietary global databases of fibers production, the UN Comtrade (United Nations Commodity Trade Statistics) database and China Customs on Chinese garment export. In addition, through frequent discussions and interviews with major producers as well as publicly available information on these producers, PCI Fibres, CCF and Clothesource are able to monitor the capacity expansion, maintenance, production, sales and inventories in the industries.

The PCI Fibres Research Report covered the global dissolving wood pulp and viscose staple fibers markets from 2000 to 2009 and contains estimated industry information through 2012. The CCF Research Report covered the viscose staple fibers industry in China from 2000 to 2009. The Clothesource Research Report covered the fibers industries including viscose staple fibers industry in China from 2005 to 2009 and contains estimated industry information through 2014. The information contained in the PCI Fibres Research Report, the CCF Research Report and the Clothesource Research Report was obtained from sources believed by PCI Fibres, CCF and Clothesource to be reliable, but there can be no assurance as to the accuracy or completeness of included information.

The total fees paid by our Company for the PCI Fibres Research Report, the CCF Research Report and the Clothesource Research Report were US\$30,500. We have included certain information from the PCI Fibres Research Report, the CCF Research Report and the Clothesource Research Report for purposes of this prospectus because we believe such information facilitates an understanding of these markets for potential investors. Except for these research reports, we did not commission any other research report in connection with the Listing.

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We are one of the largest specialty cellulose producers in the world, producing dissolving wood pulp at our mill in Brazil and viscose staple fibers at our mill in China. We also operate our own wood plantations in Brazil, which provide us with a secure and stable supply of eucalyptus wood, the principal raw material used in our production of dissolving wood pulp.

Our Products

Our products currently include both rayon grades and specialty grades of dissolving wood pulp, as well as regular viscose staple fibers.

Dissolving wood pulp is used for a wide range of applications, such as textiles, non-woven products, tires, thickeners, lacquers, cigarette filters, pharmaceuticals, food products, sausage casings and cosmetics. Depending on its level of purity and type of application, dissolving wood pulp is generally categorized into rayon grades of pulp and specialty grades of pulp. Rayon grades of pulp are the principal raw material used in the production of viscose staple fibers. In recent years, the demand for rayon grades of pulp has increased as the production of viscose staple fibers increased, especially in China.

Viscose staple fibers are fibers composed of, or derived from, cellulose and are a type of cellulosic fiber. Viscose staple fibers provide the same absorbency and breathability as cotton and are used in a wide variety of textile and non-woven applications, such as baby wipes, personal hygiene products, medical pads and household wipes. Depending on their tenacity, brightness and titer, viscose staple fibers are generally categorized into regular viscose staple fibers and specialty viscose staple fibers. Worldwide demand for viscose staple fibers has increased in recent years with rising personal incomes and the resulting growth in demand for both comfortable clothing and absorbent non-woven products.

According to PCI Fibres, in 2009, we were the largest supplier of dissolving wood pulp by volume to China, the largest dissolving wood pulp market by demand in the world. Our specialty cellulose product line was also one of the broadest among the major producers in the industry in 2009. According to PCI Fibres, our selected major peers in the specialty cellulose industry had five products on average while we had ten products in our product line. Our rayon grades of pulp have one of the highest alpha-cellulose contents among major merchant producers of rayon grades of pulp due to our adoption of the more advanced pre-hydrolyzed kraft process technology. Our rayon grades of pulp have an alpha-cellulose content of up to 96% as compared to the typical range for this grade of pulp of between 91% and 95%, according to PCI Fibres. This allows our customers to achieve higher efficiency and less waste during their production processes.

Our Business Model

Our business model allows us to maintain a cost competitive operating structure and benefit from economies of scale. Our integrated upstream dissolving wood pulp business and downstream viscose staple fibers business allow us to take advantage of market opportunities at multiple points of the value chain, price our products competitively and maximize our profit on a consolidated basis. We participate in every stage of the production process, from research and development and planting of seedlings of eucalyptus trees to the production of dissolving wood pulp and viscose staple fibers. Our plantations have a relatively short harvest cycle and as a result are more productive, which means that the cost of our wood is lower than that produced by many other plantations elsewhere where the harvest cycle is longer. In addition, our mills are strategically located to keep our transportation costs low: our dissolving wood pulp mill at Bahia Specialty Cellulose is only approximately 155 kilometers from our wood sources on average and approximately 50 kilometers from Port of Salvador, a deep water port; and our viscose staple fibers mill at Sateri Jiangxi is located near Poyang Lake, with convenient access to water transportation on the Yangtze River and in close proximity to customers in the textile production centers in China. Moreover, all of our production facilities are located in countries where we are able to access cost competitive labor.

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The short harvest cycle of our plantations and low transportation and labor costs, together with the advanced production processes we utilize at our mills using modern equipment, allow us to enhance our cost competitiveness. As a percentage of cost of sales, the cost of wood used as a raw material (which includes tree plantation and maintenance costs, harvesting, transportation, road maintenance as well as depletion charges) was 11.0%, 6.6%, 16.7%, 15.7% and 16.6% for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2009 and 2010, respectively.

Our Wood Plantations and Production Facilities

We have approximately 150,000 hectares of plantation land, of which approximately 92,000 hectares are covered by our licenses for operating wood plantation activities with the remaining plantation land being either legal reserve or permanent preservation areas under Brazilian law, land used for infrastructure, or land which is not suitable for eucalyptus planting, for example due to streams or other bodies of water. Of the 92,000 hectares covered by our licenses, approximately 84,000 hectares are productive and/or plantable. Eucalyptus wood is the principal raw material used in our production of dissolving wood pulp.

Our Bahia Specialty Cellulose mill has a design annual production capacity of 465,000 metric tons of dissolving wood pulp across two production lines and produces both rayon grades and specialty grades of pulp. The second production line at this mill, which was completed in 2008, has a design annual production capacity of 350,000 metric tons and is capable of switching production between rayon grades and specialty grades of pulp. For the year ended December 31, 2009 and the six months ended June 30, 2010, the utilization rate at our Bahia Specialty Cellulose mill was approximately 79% and 95%, respectively, based on the design annual production capacity during those periods. Our Bahia Specialty Cellulose mill is capable of supplying all of the dissolving wood pulp currently required for our viscose staple fibers production. In addition, we expect to expand the design annual production capacity of this mill to 550,000 metric tons by the end of 2013.

Our Sateri Jiangxi mill had a design annual production capacity of 120,000 metric tons of viscose staple fibers as of the Latest Practicable Date and currently produces regular viscose staple fibers. For the year ended December 31, 2009 and the six months ended June 30, 2010, the utilization rate at this mill was approximately 111% and 118%, respectively, based on the design annual production capacity during those periods. We completed the construction of, and commenced trial production on, one new production line in June 2010 and a second new production line in October 2010. The process of ramp-up and commissioning of the two new lines is expected to be completed by February 2011. Thereafter, we are targeting to further expand the effective annual production capacity of our Sateri Jiangxi mill to 160,000 metric tons by December 2011 through certain process improvements. We intend to commence the production of specialty viscose staple fibers by December 2010. In addition, we are developing a greenfield viscose staple fibers mill with a design annual production capacity of 200,000 metric tons in Putian, Fujian province, China. The project comprises two phases which are expected to commence production in March 2012 and December 2012, respectively. We are currently in the process of obtaining the relevant regulatory approvals and we are not aware of any legal impediment to us obtaining the necessary approvals and licenses for the construction of the Fujian mill.

We estimate that our expansion plans at our Bahia Specialty Cellulose and Fujian mills will require approximately US\$705 million in capital expenditure, of which approximately US\$7 million had been committed or incurred as of June 30, 2010. We intend to finance this capital expenditure with cash generated from our operations, bank borrowings and a portion of the net proceeds from the Global Offering. We expect our expanded production capacity to be a key driver of growth for our revenue and profitability in the future.

We believe we are well placed to implement our expansion plans as we are able to leverage our existing production infrastructure, supplier networks for raw materials and services and sales and marketing offices. Our existing production facilities and the site of our greenfield project are located near well established cities, namely Salvador, Brazil and Jiujiang and Putian, China where we expect to recruit the additional work force required to support the expansion in our production capacity. We can utilize our current production facilities to train the staff for our new production lines and new mill. We intend to leverage our internal sources and

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our relationships with our existing suppliers to help meet our increased need for raw materials and also to seek additional suppliers of raw materials as required for our expanded production capacity. We believe we will be able to take advantage of our experience at Sateri Jiangxi to sell and market our Sateri Fujian mill's products through our existing customer networks.

OUR ATTRACTIVENESS

We believe that we are attractive for the following reasons:

We are one of the global market leaders in the specialty cellulose industry and, among them, one of the fastest growing over the last three years, in terms of revenue

We were one of the global market leaders in the specialty cellulose industry in terms of revenue in the year ended December 31, 2009 based on publicly available company information. Our revenue grew from US\$272.2 million in the year ended December 31, 2007 to US\$552.0 million in the year ended December 31, 2009, which represents a CAGR of 42.4%, one of the fastest growing among our publicly listed peers in the industry. These results include revenue from the DP Macao business which was disposed of with effect from September 30, 2010. The expansion of our Bahia Specialty Cellulose mill and our strategic position in China, which was the world's largest market for rayon grades of pulp in terms of demand in 2009 and the fastest growing market for rayon grades of pulp in terms of demand over the past three years, has allowed us to achieve such scale and growth.

We were the largest supplier by volume of rayon grades of pulp into China in 2009, the largest and fastest growing market for the product

We were the largest supplier by volume of rayon grades of pulp into China in 2009, according to PCI Fibres. We have experienced strong growth in sales of our dissolving wood pulp in China, enjoying a market share of 18% in 2007, 23% in 2008 and 40% in 2009 of China's total imports of rayon grades of pulp, according to PCI Fibres.

China was the largest consumer of rayon grades of pulp in 2009 and, between 2007 and 2009, the fastest growing consumer of rayon grades of pulp in the world. China's large population, rising purchasing power and the aspiration of its emerging middle class for higher living standards are driving growth in domestic consumer spending. As the world's largest textile manufacturer by volume, China has experienced a strong demand growth for viscose staple fibers, with its production growing from 1.34 million metric tons in 2007 to 1.48 million metric tons in 2009, according to PCI Fibres. This has, in turn, led to growth in the demand for rayon grades of pulp, which grew at a CAGR of 38.0% from approximately 390,000 metric tons in 2007 to approximately 740,000 metric tons in 2009, according to PCI Fibres. China has, therefore, become and we expect will continue to be our most important market. In particular, demand for rayon grades of pulp in China accounted for 34% of worldwide demand in 2009, and this is estimated to grow to 48% of worldwide demand in 2012, according to PCI Fibres.

Our production costs are among the lowest within the global dissolving wood pulp industry

We believe our production costs are among the lowest within the global dissolving wood pulp industry according to PCI Fibres as detailed further in the section headed "Industry Overview — Production Costs by Producer" in this prospectus. We are able to leverage the low cost supply of our dissolving wood pulp in Brazil and sell to the Chinese market, the largest market by demand for rayon grades of pulp. Our cost competitiveness stems from the following key factors:

- (1) We have access to our own low cost wood supply in Brazil, which reduces our susceptibility to price fluctuations in the wood chip market and therefore reduces the volatility in our raw material costs. Our plantation land in Brazil covers approximately 150,000 hectares and we hold licenses for operating wood plantation activities on 92,000 hectares of plantation land of which approximately 84,000 hectares were planted with eucalyptus, which provides our Bahia Specialty

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Cellulose mill with a stable supply of wood. In addition, our Bahia Specialty Cellulose mill is only approximately 155 kilometers from our wood plantations on average and approximately 50 kilometers from Port of Salvador, a deep water port. This close proximity reduces our transportation costs.

- (2) According to AMEC, our wood plantations are expected to achieve an average maturation and harvest cycle of six to seven years in 2010, which we believe is among the shortest harvest cycles in the industry. We believe that our short harvest cycle, our plantation management techniques and favorable climate and soil conditions at our wood plantations mean that the output of wood from our plantations is higher on a per hectare basis, and consequently the per unit cost of our wood is lower.
- (3) Our state-of-the-art production line at our Bahia Specialty Cellulose mill, which employs CCE, a more advanced and cost-efficient special alkaline treatment process, allows us to have low maintenance costs and reduced equipment downtime. This production line is also capable of recovering the chemicals used in our production process, which further reduces our raw material costs.
- (4) Our location in the Camaçari industrial complex provides us with convenient access to chemicals, which form a substantial portion of our costs, at competitive prices, and service providers such as Cetrel, a waste treatment specialist.

We have one of the broadest and fastest growing product lines in the specialty cellulose industry, with exposure to a broad range of fast growing consumer end markets, especially in China

Our specialty cellulose product line is one of the broadest in the industry with a total of ten products, as compared to an average of 5.3 among our selected major peers in the industry, according to PCI Fibres. Our products currently include both rayon grades and specialty grades of pulp, as well as regular viscose staple fibers, the downstream product of rayon grades of pulp. The number of specialty cellulose products we produced grew from seven to ten between 2007 and 2009.

Our products serve a large customer base and can be applied to a wide range of applications such as textile yarn, tire cord, cigarette filters and sponges, across different geographical markets including Asia, North America and Europe.

Rising consumption and environmental awareness, especially in China, is translating into robust demand growth for a broad range of consumer end markets, which we have exposure to. For example, our product microcrystalline cellulose can be used as a tableting agent, high absorbency viscose staple fibers can be used for disposable wipes and cellophane can be used to produce biodegradable flexible packaging materials. In addition, our state-of-the-art production line at our Bahia Specialty Cellulose mill is capable of switching production between rayon grades and specialty grades of pulp, which enables us to plan our production according to prevailing market conditions. The diversity of our products and our ability to switch production between dissolving wood pulp types give us a competitive advantage, as we can tailor our production to react to changes in the macroeconomic environment and end consumer demand.

Our broad product line is a direct result of our business model, which vertically integrates the upstream dissolving wood pulp business with the downstream viscose staple fiber business. As a result of our participation in both segments, we have knowledge of, and understand the trends in, both markets, which enable us to anticipate future price movements in one market based on developments in the other. Our business model allows us to take advantage of market opportunities at multiple points of the value chain, price our products efficiently and maximize our profit on a consolidated basis.

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We produce rayon grades of pulp with one of the highest alpha-cellulose content

We completed construction of a second production line at our dissolving wood pulp mill in Brazil in the middle of 2008, allowing us to increase our design annual production capacity to approximately 465,000 metric tons by the end of 2008. This production line, which uses the more advanced pre-hydrolyzed kraft process technology instead of the sulphite process used by most of our competitors, allows us to be one of the few manufacturers in the world to produce rayon grades of pulp with an alpha-cellulose content of up to 96%, one of the highest in the rayon grades of pulp industry as compared to the typical range for this grade of pulp of 91% to 95%, according to PCI Fibres. This allows our customers to achieve higher efficiency and less wastage of rayon grades of pulp during their production processes.

We have an internationally experienced management team

Our management team has complementary experiences by industry, function and geography. Members of our senior management team, and in particular Mr. Craig Barker, Mr. Ivan Alves, Mr. John Liu, Mr. Christian Chavassieu, Mr. Marcelo Leite, Mr. Kari Parviainen, Mr. Sun Yongning and Mr. Wu Heping, have extensive experience in the specialty cellulose industries with approximately 20 years of experience on average in those industries. Other members of our senior management have also held senior financial and management roles within major organizations globally. Members of our management team have extensive and in-depth experience in the commercial, technical and managerial areas of our business, which, together with their execution capabilities and managerial skills, have contributed and will continue to contribute to our focused marketing efforts, superior quality assurance, efficient production planning and stringent cost controls. In addition, certain members of our senior management team have also been brought on board for their expertise in their respective areas of responsibility. Their experience spans across different continents, allowing us to create an experienced management team with industry and relevant expertise and an international perspective which help us to develop and execute our strategies. We believe that the experience and quality of our management team has been an important factor in our operating and financial performance during the Track Record Period.

We engage in active efforts in corporate social responsibility and environmental protection for sustainable long-term growth

We strive to be socially responsible and to cooperate with local communities where our operations are located. This allows us to maintain and foster relationships with the local residents, local government institutions and non-governmental organizations. We have established programs and initiatives to provide employment opportunities, improve road infrastructure, support education and encourage local entrepreneurship for the local communities, such as our community planting programs under which we provide seedlings, fertilizer and technical assistance to farmers near our plantations in Brazil in order to grow trees for sale back to us.

We value the ecology of our plantations and have developed eco-friendly plantation techniques in order to increase the water retention and soil fertility of our plantations. We have achieved the ISO 14001:2004 certification for the environmental management systems at all of our mills and plantations, including for the use of wastes as bio-fuels in high purity cellulose plants or as fertilizers in wood plantations, and for emission controls through chemical and biological treatment and recovery systems. Our Bahia Specialty Cellulose mill recovers approximately 95% of the chemicals used in the cooking process and treats all of its effluent by itself, or through Cetrel.

These efforts demonstrate our commitment to the local communities and, in return, earn their support for our presence in the areas where our facilities are located.

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We attach great importance to environmental protection. At least 20% of our plantation land is reserved for high conservation value forests (HCVF), including a 31 kilometer ecological corridor. Our Bahia Specialty Cellulose mill for dissolving wood pulp is carbon positive. The greenhouse gas emissions from our dissolving wood pulp production were about 20 times less than the greenhouse gas absorbed by our eucalyptus plantations in 2009 according to a study on carbon balance conducted by Geoklock, an environmental consulting firm.

OUR STRATEGIES

We intend to pursue the following strategies to further strengthen our market leadership in the specialty cellulose industry.

We seek to increase our production capacity by expanding our mills, developing greenfield projects and pursuing strategic acquisitions

We plan to continue to expand our production capacity through organic expansions, acquisitions and greenfield projects. We have made, and will continue to make, significant capital investments in our production facilities, both by “debottlenecking” our existing operations and by adding new production lines. We expect to expand the design annual production capacity at our Bahia Specialty Cellulose mill by approximately 20,000 metric tons through “debottlenecking” by the first quarter of 2011. In addition, we are planning to expand our design annual production capacity by 65,000 metric tons at our Bahia Specialty Cellulose mill by December 2013 through expansion of our second production line. We also expect to increase effective annual production capacity at our Sateri Jiangxi mill from 120,000 metric tons to 160,000 metric tons by December 2011 through certain process improvements.

In addition, we will consider developing greenfield projects in order to further expand our production capacity. We are in the process of applying for approvals and licenses from the relevant PRC authorities to build the Fujian mill for viscose staple fibers with 200,000 metric tons of design annual production capacity in Putian, Fujian province, China. We have not yet commenced the construction of the mill pending receipt of all the necessary approvals and licenses. In addition, we are exploring the feasibility of building an integrated dissolving wood pulp and viscose staple fibers mill in Jiangsu province, China. The feasibility study for this project is at a preliminary stage and any decision to proceed with this project will depend on, among others, the outcome of the feasibility study and all necessary approvals which are required by the relevant governmental authorities. Please refer to the section headed “— Our Production Facilities — Expansion Through Greenfield Projects and Acquisitions — Greenfield Projects” below for further details.

We also intend, as opportunities arise, to pursue strategic acquisitions to strengthen or complement our existing businesses. This may include strategic acquisitions of both upstream and downstream production facilities, that is, those producing or capable of producing dissolving wood pulp and viscose staple fibers, respectively. We may also seek to make strategic acquisitions that will position us to capture new business opportunities and meet the growing demand from our customers in Asia, North America and Europe. We constantly monitor and evaluate potential acquisition targets and business opportunities; however, as of the Latest Practicable Date, we did not foresee any immediate material acquisitions. When we evaluate an acquisition opportunity, we will take into account the potential synergies brought by, and value added by, such target business to our businesses. In addition, major acquisitions will be discussed and approved by the Board and, if required by applicable law, the Listing Rules or our Bye-laws, by our Shareholders.

We expect our expansion plans to create greater economies of scale, increase our market share and position us as a leading global player in the specialty cellulose industry. Moreover, we believe that our increased capacity and improved production capabilities will enable us to respond more quickly to changing market conditions and customers’ specifications and preferences.

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We seek to broaden our product line and access additional end market customer segments

We seek to broaden our product line, especially in specialty grades of pulp and viscose staple fibers. We aim to continue to invest significantly in research and development to innovate and enhance our product offerings. Such diversification will enable us to develop additional applications to access additional end-market customer segments. Some of these segments may be less susceptible to market cycles, such as baby wipes and cigarette filters. The specialty grades of pulp sector is characterized by high product customization, a limited number of qualified suppliers and high switching costs for customers. Successful penetration and qualification of our products in this area will allow us to enter into long term relationships with these customers and further improve our revenue visibility.

We seek to increase our sales and market share in Asia (ex-China), North America and Europe, while maintaining our market leadership in China

We constantly seek opportunities to increase our sales and market share in the dissolving wood pulp and viscose staple fiber businesses. We aim to increase our market share in North America and Europe by leveraging our existing leadership and sales network in China's specialty cellulose market and bolstering our marketing efforts in the specialty viscose staple fibers market in North America and Europe once we complete our production lines to produce specialty viscose staple fibers. As part of such efforts, we transferred Mr. Kari Parviainen, our vice president for sales and marketing of specialty viscose staple fibers, to our marketing office in Switzerland in the third quarter of 2010. He will continue to seek to expand our market share by developing customer relationships for specialist applications in non-woven products in North America and Europe. We will expand our marketing team in Europe and North America if needed in the future. In addition, we plan to increase sales in the specialty grades of pulp market both in Asia and North America through targeted marketing of our qualifications to potential customers that require customized products.

We seek continuous improvements in order to further reduce our production costs

We intend to further lower our production costs through process improvements in each part of the production process, for example, by reducing the wood costs of our plantation land, taking advantage of our increased scale to lower our overhead costs and securing lower prices for our key raw materials. In view of the contemplated further expansion of our dissolving wood pulp production capacity at our Bahia Specialty Cellulose mill, we intend to acquire additional plantation land in order to have sufficient wood supply for our increased dissolving wood pulp production and to maintain our low production costs.

We seek to expand our efforts in corporate social responsibility and environmental protection

We believe that maintaining a cooperative relationship with the local communities and being a socially responsible corporate citizen creates value both for the local communities and for our business. We plan to continue to strengthen our relationships with the local residents, local government institutions and non-governmental organizations in those communities, by continuing to implement education, health and community improvement programs for the benefit of the local communities where our operations are located.

We seek to increase our efforts to protect the environment. Our goal is to become the industry leader in eco-friendly production practices. We prepared our first sustainability report in 2008 and plan to prepare such report every two years. Our dissolving wood pulp production at our Bahia Specialty Cellulose mill is carbon positive. We plan to continue to monitor our carbon footprint to identify areas for improvement.

OUR PRODUCTS

Our broad specialty cellulose product line includes both dissolving wood pulp and viscose staple fibers, which are our two primary operating segments.

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The table below shows our production volume of each product for the periods indicated.

	Year Ended December 31,			Six months ended June 30,
	2007	2008	2009	2010
	(in metric tons)			
Dissolving wood pulp				
<i>Rayon grades of pulp</i>	115,249	205,752	339,785	190,964
<i>Specialty grades of pulp</i>	—	4,340	27,521	30,618
Total dissolving wood pulp	115,249	210,092	367,306	221,582
Viscose staple fibers	68,740	61,233	66,551	35,416

Dissolving Wood Pulp

We produce dissolving wood pulp both for our own viscose staple fiber operations and for sale to customers around the world with particular focus on China. Dissolving wood pulp primarily consists of cellulose, a natural, renewable and biodegradable polymer. Dissolving wood pulp is used for a wide range of applications, such as textiles, non-woven products, tires, thickeners, lacquers, cigarette filters, pharmaceuticals, food products, sausage casings and cosmetics. Our production of dissolving wood pulp involves the chemical extraction of fibers from wood to obtain cellulose. Depending on its purity and type of application, dissolving wood pulp is generally categorized into rayon grades of pulp and specialty grades of pulp. We produce both grades of dissolving wood pulp. We are able to produce dissolving wood pulp for a wide range of applications according to customer specifications.

Rayon Grades of Pulp

In 2009, we had the largest market share for rayon grades of pulp imports in China. Rayon grades of pulp are primarily used by our customers in the production of viscose staple fibers, which are used in the production of textiles, non-woven materials (such as disposable wipes and hygiene products) and cellophane (which is used in packaging and wrapping materials). Rising personal incomes and the growth in demand for both comfortable clothing and absorbent non-woven materials, particularly in emerging markets like China, have resulted in increased demand for viscose staple fibers, which has in turn led to increased demand for rayon grades of pulp.

One of our production lines at our Bahia Specialty Cellulose mill, which uses the pre-hydrolyzed kraft process technology instead of the sulfite process used by most of our competitors, allows us to be one of the few manufacturers in the world to produce rayon grades of pulp with an alpha-cellulose content of up to 96%. This is one of the highest alpha-cellulose contents in the rayon grades of pulp industry, which allows our customers to achieve higher efficiency and less wastage of rayon grades of pulp during their production processes.

Specialty Grades of Pulp

Specialty grades of pulp are distinguished from rayon grades of pulp not only because of their high levels of cellulose purity, but also through a series of other qualifications such as brightness and viscosity. In one of our production lines at our Bahia Specialty Cellulose mill, we use CCE, an advanced special alkaline treatment process, which allows us to meet the qualifications and produce specialty grades of pulp with alpha-cellulose content of up to 98% and expand our product offerings to customers in the specialty grades of pulp market, and we also use an advanced bleaching process to produce dissolving wood pulp of higher brightness. The ability to produce an extensive range of products is particularly important in the specialty grades of pulp market, which involves tailoring the products to satisfy customers with specific product requirements.

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Our specialty grades of pulp products are used in the production of a broad range of applications such as MCC, ether, acetate, sponge and industrial filaments.

Viscose Staple Fibers

Viscose staple fibers are generally categorized into regular viscose staple fibers and specialty viscose staple fibers depending on their tenacity, brightness and titer. We currently produce regular viscose staple fibers only at our Sateri Jiangxi mill. Our viscose staple fibers are typically used in a variety of textile products to enhance comfort and to add a silky touch and color brilliance. Due to their high purity, biodegradability and high absorbency, our viscose staple fibers are also used to manufacture non-woven products, such as baby wipes, personal hygiene products, medical pads and household wipes. We have obtained certification from Testex, a Switzerland-based international association for research and testing in the field of textile ecology, certifying that our viscose staple fibers are free from any harmful substances and that we are authorized to use the “Oeko-Tex” mark on our products to signify our compliance with the human-ecological requirements under the relevant regulations of the European Union.

Regular Viscose Staple Fibers

Textile Viscose Staple Fibers

Our textile viscose staple fibers produced for the textile industry are primarily used in spinning mills to make yarn for woven and knitted fabrics. We select dissolving wood pulp, including the dissolving wood pulp from our Bahia Specialty Cellulose mill, based on its quality, which we use to produce high performance fibers according to customer specifications. Our textile viscose staple fibers can be blended with other fibers such as cotton, polyester and flax to make different textile products. Combining advanced manufacturing technology and the inherent properties of natural wood, our textile viscose staple fibers possess certain beneficial characteristics, such as brilliant color, high fiber strength, softness, silky feel and biodegradability, and non-allergenic and anti-static features, making it a suitable material for the manufacture of a variety of textile products.

By using advanced technology, we also produce high tenacity viscose staple fibers that are finer and stronger than regular textile viscose staple fibers and have a softer feel. These products are high performance fibers that are suitable for the latest high speed spinning technologies, such as open-ended and airjet spinning adopted in the textile industry, and meet the stringent production requirements of our customers in the textile industry.

Non-woven Viscose Staple Fibers

Our non-woven viscose staple fibers made from dissolving wood pulp are naturally comfortable and highly absorbent. Due to their non-allergenic and anti-static characteristics, they do not attract dust, which make them a suitable raw material for the production of non-woven products for personal hygiene and medical applications, such as hospital drapes, gowns, masks and swabs. The high quality materials used and our advanced production techniques make our non-woven fibers particularly suitable for the production of premium baby wet wipes, facial masks and surgical textiles. Since our viscose staple fibers are 100% biodegradable, they are particularly suitable for the production of disposable products. Our non-woven viscose staple fibers are also used to produce restaurant and industrial wipes, as well as other industrial and technical products.

Specialty Viscose Staple Fibers

We currently produce regular viscose staple fibers only, but intend to commence the production of specialty viscose staple fibers products, such as micro fibers for fine silky fabrics, flame retardant fibers for home textiles and tampon fibers for feminine hygiene products, using the fourth production line at our Sateri Jiangxi mill, by December 2010.

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OUR WOOD PLANTATIONS

Our wood plantations in Brazil provide a stable and secure supply of wood for our dissolving wood pulp production at our Bahia Specialty Cellulose mill. All of the wood from our wood plantations that is suitable for the production of dissolving wood pulp is used by our Bahia Specialty Cellulose mill and our wood plantations are the source of the majority of wood for our Bahia Specialty Cellulose mill.

We plant eucalyptus trees according to the soil and climate conditions of our wood plantations. We benefit from the climate of the tropical locations of our eucalyptus forests, including abundant rainfall and warm temperatures, which are favorable for tree growth throughout the year. According to AMEC, our plantations are expected to achieve an average maturation and harvest cycle of six to seven years, which we believe is one of the shortest harvest cycles in the industry. These factors, together with our efficient planting techniques, enable us to achieve higher MAI and a higher output of wood from our plantations on a per hectare basis. Consequently the per unit cost of our wood is lower.

The survival rate of our plantations is approximately between 98% and 99%, estimated using sampling and statistical techniques which have a combined accuracy rate of approximately 95%. Our pre-harvest volume is also estimated using the same techniques. We also maintain records of forest conditions on a continual basis. These records assist us in monitoring the condition of our wood plantations, estimating the actual forest volume consisting of areas maturing into the second year of growth and above, monitoring the forest growth rate and predicting the actual forest volume expected at the sixth and seventh year of growth. All data are then processed and stored in our forest management system (“FMS”).

Our wood plantations in Brazil, located approximately 155 kilometers on average from our Bahia Specialty Cellulose mill, consist of approximately 150,000 hectares of non-contiguous land. We operate our wood plantations through Copener and Bahia Specialty Cellulose, our Brazilian operating subsidiaries. Copener holds a license for operating wood plantation activities from the CRA (currently IMA) for the period from November 1, 2006 to November 1, 2011, which authorizes eucalyptus silvicultural activity in an area of approximately 85,000 hectares. Bahia Specialty Cellulose holds a license for operating wood plantation activities from the IMA for the period from June 4, 2009 to June 4, 2014, which authorizes eucalyptus silvicultural activity in an area of approximately 7,000 hectares. The licenses are renewable for another five year term upon application. Such renewal is administrative in nature and our Brazilian legal advisor has advised that it is not aware of any legal impediment for us to renew such licenses. We do not have to make any payment under these licenses other than the usual fees charged for the renewal of such licenses. The remaining plantation land of approximately 58,000 hectares for which we do not hold a license for operating wood plantation activities is either legal reserve or permanent preservation areas under Brazilian law, land used for infrastructure or land which is not suitable for eucalyptus planting, for example, due to streams or other bodies of water. This area cannot be used for wood plantation activities and is not required for our current production requirements and as such no such license is required in respect of this land. For a summary of the relevant Brazilian rules and regulations governing forestry management practices and harvesting activities, please see the section headed “Regulation — Brazil” set out in Appendix VI to this prospectus.

As of December 31, 2009 we had planted approximately 84,000 hectares of land with mainly *Eucalyptus Grandis*, *Urophylla* and the scientifically developed hybrid, *Urograndis*. We expect to plant approximately 14,000 to 15,000 hectares of land in 2010, including land covered by the community planting program described below and land which we have previously planted and harvested. Of this, as of July 31, 2010, we had already planted 8,000 hectares. During the Track Record Period, we harvested, on average, approximately 5,900 hectares of land per annum with a harvesting rate (being the total area harvested during a year divided by the total planted area as of the end of that year) of approximately 8%. We have a policy that trees with an age of approximately six to seven years will be harvested. We currently plan to plant approximately 13,000 hectares of land each year going forward, which would be no less than the land we harvest each year. We preserve more than one-third of our plantation land for native forests and maintain mosaic plantation patterns that intersperse eucalyptus plantations with natural forest reserves in order to maintain the biodiversity of the floral habitat and to protect indigenous flora and fauna. There are no

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applicable deforestation quotas for our harvesting activities. Our licenses permit and limit the total area in which we can perform our harvesting activities. We currently observe and have observed the limits imposed in our licenses and the sustainable forestry management regime imposed by relevant Brazilian laws during the Track Record Period.

Since 2007, we have also operated a community planting program in cooperation with local farmers. As of December 31, 2007, 2008 and 2009, we had 32, 78 and 85 agreements with local farmers covering approximately 2,600, 5,200 and 5,600 hectares of land, respectively. Under these agreements, we are responsible for the planting, maintenance and harvesting of eucalyptus trees on the farmers' land for two harvest cycles (approximately 12 to 14 years). In return, we pay the landowners a combination of fees for the use of the land and a predetermined inflation-adjusted purchase price for a portion of the harvested wood. The farmers may choose to receive some of the purchase price for the wood as advance payments over the course of the harvest cycle. The fees and, where applicable, advance payments are settled on an annual basis. We paid approximately R\$344,000 (US\$0.2 million), R\$1.6 million (US\$0.9 million), R\$1.9 million (US\$1.1 million) and R\$152,000 (US\$84,444) to the local farmers for each of the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, respectively, and the estimated amount to be paid during the six months ending December 31, 2010 is approximately R\$2 million (US\$1.1 million). The plantation assets are owned by the farmers who own the land. However, depending on the type of agreement and the level of risk which the farmers wish to assume, the harvested wood is either owned by us or the farmers or shared between us and the farmers, and we have the right to purchase no less than 95% of the harvested wood with stem diameters more than 4 centimeters owned by the farmers or, under certain types of agreements, the farmers may choose to keep up to 15% of the harvested wood that they own to sell to third parties, subject to a right of first refusal in our favor.

We are able to, and we believe that we will continue to be able to, meet our wood requirements for our current production capacity at our Bahia Specialty Cellulose mill, based on the current plantation program, harvest cycles and yield rate of our plantations.

We also operate a nursery in Brazil, which has an area of approximately 21 hectares and an annual capacity of 40 million seedlings, and a research center that focuses on improving our wood plantation management techniques to achieve consistently high MAI, while balancing silvicultural, ecological and economic considerations.

We do not perform a physical tree count but estimate the total number of trees in our plantations based on data generated from our field surveys and statistical analysis. We record the estimated volume of wood in our plantations using sampling techniques during each year. The sample size obtained in our field survey is approximately 500 square meters for each 15 hectares of planted area which represents approximately 0.33% of our total plantation land. This sample size is sufficient to enable an accurate assessment of our plantations as a whole because our trees are typically grown from seedlings with similar genetic material and share similar characteristics. The records are collected through mathematically and statistically established randomized procedures which take into consideration the abovementioned sample size. We use our geographic information system ("GIS") and FMS to maintain permanent records of and store the information relating to our plantation land and trees. The value of our trees are recorded as forestation and reforestation assets. We take inventory of our forestation and reforestation assets on a continuous basis, during which process we collect data such as diameter at breast height, total height, number of stems per hectare, number of trees per hectare, basal area and dominant height. We conduct statistical analysis of such data to estimate the variables used in the value assessment of our wood plantation assets, such as volume per stem, volume per hectare, annual mean increment and the future volume of forest plantation aged between six and seven years. The Group's forest stock volume as of December 31, 2007, 2008 and 2009 and June 30, 2010 was 84,368 hectares, 86,235 hectares, 85,899 hectares and 88,693 hectares, respectively, which included the planted areas under our community planting program.

We use independent third party contractors for certain activities relating to our wood plantations in Brazil. As of June 30, 2010, we engaged two main contractors under service agreements, one for planting and maintenance and one for harvesting. The contractor for planting and maintenance is a private company and its principal business is forest engineering and maintenance. We have had a business relationship with this

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contractor for four years. The contractor for harvesting is primarily engaged in, among others, mechanical harvest, wood transportation and wood extraction within the forest. We have had a business relationship with this contractor for three years. We also engage other ancillary contractors on a short-term temporary basis under separate service orders to fulfill seasonal work requirements. As of March 31, 2010, we had terminated our agreement with a further harvesting contractor due to a failure on the part of this contractor to meet the required service levels under the agreement. This termination has had no material impact on our business or operations, as we were able to transfer the outstanding harvesting work required to our other harvesting contractors. Apart from certain labor law claims that have been made against us by employees of this contractor and which are described further in the section headed “— Legal Proceedings” below, we do not expect any material litigation to arise as a result of our termination of this agreement. The total amounts paid by us to all such contractors for each of the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010 were R\$69.4 million (US\$38.6 million), R\$63.2 million (US\$35.1 million), R\$57.8 million (US\$32.1 million) and R\$37.5 million (US\$20.8 million), respectively.

The major terms of the service agreements we have entered into with our two main contractors are summarized below. These agreements set out the basis for remuneration and our respective rights and obligations towards one another. These contractors are typically paid on the basis of cubic meters of wood harvested, or hectares or hours of machine use in the case of the planting and maintenance. With the exception of certain specialist machinery owned by us which we provide for the harvesting contractor to use, these contractors are responsible for providing the vehicles and equipment required for performing the services. In addition, each contractor is responsible for providing suitable staff, the maintenance and repair of all vehicles and equipment owned by them and the provision of insurance coverage in respect of labor accidents and environmental liabilities incurred in providing services to us, to the extent permitted by law. These services agreements were entered into for periods of between two and five years, and may only be terminated earlier in the event of a default by the other party.

No material losses were caused to the Group by any non-compliance of our third party contractors referred to above during the Track Record Period.

Our Brazilian legal advisor has advised that, to the best of its knowledge, the Group has complied in all material respects with the relevant Brazilian environmental rules and regulations regarding harvesting and wood plantation activities during the Track Record Period.

Please refer to the independent technical report prepared by AMEC set out in Appendix V to this prospectus for further information on our wood plantations in Brazil.

OUR PRODUCTION FACILITIES

Our dissolving wood pulp and viscose staple fiber production facilities are located in Brazil and China, respectively. The table below shows certain information regarding our production facilities as of December 31, 2007, 2008 and 2009, June 30, 2010 and as of the Latest Practicable Date.

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Facility	Number of production lines	Products	Design annual production capacity (in metric tons)				
			As of December 31,			As of June 30,	As of the Latest Practicable Date
			2007	2008	2009	2010	
Bahia Specialty Cellulose mill in Bahia, Brazil . . .	2	Dissolving wood pulp	115,000	465,000	465,000	465,000	465,000
Sateri Jiangxi mill in Jiangxi, China ⁽¹⁾ . . .	4	Viscose staple fibers	60,000	60,000	60,000	90,000	120,000

Note:

- (1) From January 1, 2007 until June 30, 2010, Sateri Jiangxi was able to exceed its design annual production capacity to produce up to approximately 70,000 metric tons per annum through process improvements. In June 2010, its third production line with a design annual production capacity of 30,000 metric tons commenced trial production and in October 2010, its fourth production line with a design annual production capacity of 30,000 metric tons commenced trial production. The process of ramp-up and commissioning of the two new lines is expected to be completed by February 2011.

The table below shows the utilization rates of our production facilities for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010.

	For the year ended December 31,			Six months ended June 30,
	2007	2008	2009	2010
	Bahia Specialty Cellulose (dissolving wood pulp):			
Design production capacity (in metric tons)	115,000	290,000 ⁽¹⁾	465,000	232,500 ⁽⁴⁾
Production volume (in metric tons)	115,249	210,092	367,306	221,582
Utilization rate	100%	72% ⁽²⁾	79% ⁽²⁾	95%
Sateri Jiangxi (viscose staple fibers):				
Design production capacity (in metric tons)	60,000	60,000	60,000	30,000 ⁽⁵⁾
Production volume (in metric tons)	68,740	61,100	66,551	35,416
Utilization rate	115% ⁽³⁾	102% ⁽³⁾	111% ⁽³⁾	118% ⁽³⁾

Notes:

- (1) As we completed construction of the second production line at our Bahia Specialty Cellulose mill with a design annual production capacity of approximately 350,000 metric tons at the end of June 2008, the design annual production capacity for 2008 was calculated based on the first production line's design annual production capacity of 115,000 metric tons plus half of the second production line's design annual production capacity, i.e. $115,000 + (350,000/2) = 290,000$.
- (2) From November 2008 to April 2009, we shut down the first production line at our Bahia Specialty Cellulose mill to allow the second production line, which was newly completed then, to go through the process of ramp-up.
- (3) The utilization rate was calculated using actual annual production volume divided by design annual production capacity. From January 1, 2007 until June 30, 2010, Sateri Jiangxi was able to exceed its design annual production capacity and was capable of producing up to approximately 70,000 metric tons per annum through process improvements.
- (4) Design production capacity for each half year is 50% of the design annual production capacity.
- (5) Design annual production capacity at our Sateri Jiangxi mill increased to 90,000 metric tons at the end of June 2010, following completion of a new production line with a design annual production capacity of 30,000 metric tons that is currently in trial production. The design production capacity for the six months ended June 30, 2010 is therefore taken as 30,000 metric tons, which represents 50% of the annual design production capacity of the functioning production lines during that period.

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The following table sets out our current production expansion plans in Brazil and China.

Production capacity expansion project	Actual/expected dates of commencement and completion of construction	Estimated capital expenditure	Estimated amount of capital committed or incurred as of June 30, 2010	Expected timeframe for capital expenditure	Estimated amount to be financed by net proceeds from the Global Offering
Bahia Specialty Cellulose - 20,000 metric tons debottlenecking	Targeted to be completed by March 2011	US\$20 million	Nil	Ongoing to June 2011	Nil
Bahia Specialty Cellulose - 65,000 metric tons expansion of existing production lines	Targeted to commence in the second half of 2011 and to be completed by December 2013	US\$250 million	Nil	Between first half of 2011 and June 2014	US\$130 million
Sateri Fujian - 200,000 metric tons greenfield project	Ongoing, targeted to be completed by December 2012	US\$435 million	US\$7 million	Ongoing to June 2013	US\$173 million

By implementing these expansion plans and process improvements, we expect to significantly increase our annual production capacity of our products. We expect to increase the design annual production capacity of dissolving wood pulp at our Bahia Specialty Cellulose mill from 465,000 metric tons to 485,000 metric tons or an increase of 4.3% by March 2011 and a further increase from 485,000 metric tons to 550,000 metric tons or an increase of 13.4% by December 2013. We also expect to increase the effective annual production capacity of viscose staple fibers at our Sateri Jiangxi mill from 130,000 metric tons to 160,000 metric tons or an increase of 23.1% by the end of 2011 and a further increase from 160,000 metric tons to 360,000 metric tons or an increase of 125.0% by December 2012.

We believe we are well placed to implement our expansion plans as we are able to leverage our existing production infrastructure, supplier networks for raw materials and services and sales and marketing offices. Our existing production facilities and the site of our greenfield project are located near well established cities, namely Salvador, Brazil and Jiujiang and Putian, China, where we expect to recruit the additional work force required to support the expansion in our production capacity. We can utilize our current production facilities to train the staff for our new production lines and new mill. A key component in achieving our expansion plans is ensuring that we have an economical source of raw materials, including primarily wood suitable for dissolving wood pulp production, dissolving wood pulp used for viscose staple fibers production and water used in the production of both. If we fail to do so, this may have a material adverse effect on our expansion plans and our results of operations. Please refer to the section headed “Risk Factors — We may be unable to acquire enough raw materials and utilities, including wood, dissolving wood pulp and water, to support our future capacity expansions” in this prospectus for further details. We intend to enter into discussions with our existing suppliers with respect to the provision of raw materials to meet our increased need for raw materials as well as seek alternative suppliers for raw materials for our expanded production capacity prior to the completion of our expansion projects. As part of our expansion plan for the Fujian mill, we have conducted detailed feasibility studies. We believe we will be able to take advantage of our previous experience with Sateri Jiangxi and sell and market our Sateri Fujian mill’s products in China through our existing customer networks. In respect of wood supply required for the expanded production capacity of our Bahia Specialty

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Cellulose mill, please see the section headed “— Raw Materials for Dissolving Wood Pulp Production” below for more details. We intend to finance our expansion plans with cash generated from our operations, bank borrowings and a portion of the net proceeds from the Global Offering. Please see the section headed “Future Plans and Use of Proceeds — Use of Proceeds” in this prospectus for further details.

Bahia Specialty Cellulose

Our Bahia Specialty Cellulose mill is located in northeastern Brazil near Salvador, the capital of the State of Bahia, Brazil. Located in the Camaçari industrial complex, a well developed industrial center that includes the largest integrated petrochemical complex in Latin America and other enterprises in oil refining, petrochemical, synthetic and paint industries, our Bahia Specialty Cellulose mill benefits from comprehensive local infrastructure and suppliers located nearby. Our mill is conveniently connected by road to Salvador and a deep water port is located approximately 50 kilometers away at Port of Salvador, Bahia Bay.

Our Bahia Specialty Cellulose mill commenced production of dissolving wood pulp in the mid 1990s and we acquired it from an independent third party in 2003. Our Bahia Specialty Cellulose mill currently operates two production lines with a design annual production capacity of 465,000 metric tons in total. We completed our second production line in June 2008, which has a design annual production capacity of approximately 350,000 metric tons. We plan to expand the design annual production capacity at our Bahia Specialty Cellulose mill by approximately 20,000 metric tons through “debottlenecking” by March 2011. In addition, we plan to further expand the design annual production capacity at our Bahia Specialty Cellulose mill by approximately 65,000 metric tons by December 2013 through the expansion of our second production line by December 2013.

We employ CCE, a more advanced and cost-efficient special alkaline treatment process, on our second production line, which enables us to expand our product offerings to specialty grades of pulp with a purity level of up to 98% alpha-cellulose. This production line also provides us with the flexibility to switch production between rayon grades and specialty grades of pulp, thereby enabling us to plan our production according to prevailing market conditions. As part of the expansion project, we also introduced an advanced bleaching process to produce dissolving wood pulp of a more uniform high brightness. In addition, this production line requires low maintenance cost and reduced equipment downtime and is capable of recovering the chemicals used in our production process, hence lowering our raw material costs.

Our management system ensures that all our activities, from planting seedlings to pulp production, are in compliance with quality, environmental and health and safety standards. We also own a plant specifically developed for the recovery of chemicals and have contracted an environmental protection company to treat the liquid effluents produced by our Bahia Specialty Cellulose mill. Our dissolving wood pulp production at our Bahia Specialty Cellulose mill is carbon positive. Bahia Specialty Cellulose’s facilities have been certified under ISO 9001:1994 since 1998 and under ISO 9001:2000, which replaced ISO 9001:1994, since 2003. Bahia Specialty Cellulose’s environmental management system was awarded ISO 14001:2004 certification in February 2005.

Sateri Jiangxi

Our Sateri Jiangxi mill is located by Poyang Lake, with convenient access to water transportation on the Yangtze River and close proximity to customers in the textile production centers in China, such as Jiangsu province and Zhejiang province. We currently own an 81.1% interest in Sateri Jiangxi, and Kuitu Oy holds an 18.9% minority interest in Sateri Jiangxi. The mill was established in 2002 and commenced business operations in 2004. We currently have four production lines with a total design annual production capacity of 120,000 metric tons of viscose staple fibers, including two new production lines which commenced trial production in June 2010 and October 2010, respectively. We produce regular viscose staple fibers for sale to textile and non-woven manufacturers in China and internationally.

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We are targeting to complete the full ramp-up and commissioning of the two new production lines by February 2011. Thereafter, we are targeting to increase the effective annual production capacity at our Sateri Jiangxi mill to 160,000 metric tons by December 2011 through certain process improvements, including an increase of up to 10,000 metric tons per annum that has already been achieved at Sateri Jiangxi's first two production lines. The increase of the additional 30,000 metric tons may incur additional capital expenditure. However, such capital expenditure can only be ascertained after the full ramp-up of both of the two new production lines.

We intend to leverage our technical expertise and expand Sateri Jiangxi's product offerings to include specialty viscose staple fiber products, such as flame retardant fiber. Sateri Jiangxi has been certified under ISO 9001:2008 since January 2010 for its quality management systems, and certified under ISO 9001:2004, which was replaced by ISO 9001:2008, since 2005. Sateri Jiangxi has also been certified under ISO 14001:2004 for its environmental management system since 2006.

Expansion through Greenfield Projects and Acquisitions

Greenfield Projects

We plan to build the Fujian mill for the production of viscose staple fibers with a design annual production capacity of 200,000 metric tons. This project comprises phase I ("**Phase I**") and phase II ("**Phase II**") with a design annual production capacity of 45,000 metric tons and 155,000 metric tons, respectively. Please refer to the table above in this section with respect to our current production expansion plans for further details.

We have not yet commenced the construction of the Fujian mill pending receipt of all the necessary approvals and licenses. We obtained the approval for Phase I from the competent subdivision of the National Development and Reform Commission on June 5, 2010 and have signed the land use right transfer agreement for the construction of Phase I. We expect to obtain the land use right in respect of the land by December 2010 and thereafter will apply for the permits for the construction of Phase I. We are also in the process of applying for the necessary approvals and licenses for Phase II and expect to obtain all of them by the end of December 2010 and commence the construction of Phase II in early 2011. Phase I and Phase II are expected to commence production in March 2012 and December 2012, respectively. We are not currently aware of any legal impediment to us obtaining the necessary approvals and licenses for the construction of the Fujian mill.

Approximately RMB2.95 billion (US\$435 million) of capital expenditure has been planned for Phase I and Phase II, which will be financed by a combination of a portion of the net proceeds from the Global Offering and bank borrowings.

The Fujian mill's major raw materials will be dissolving wood pulp and chemicals. While our Bahia Specialty Cellulose mill can fully supply the Fujian mill with dissolving wood pulp, we envisage that the Fujian mill's dissolving wood pulp supply will be a combination of dissolving wood pulp sourced from our Bahia Specialty Cellulose mill, TPL (through DP Macao) and third party suppliers. This will enable the Fujian mill to optimize its cost structure and its production. Chemicals required for the Fujian mill's production will be products which are readily available in China and could be supplied by our existing suppliers or potential new suppliers in Fujian province. Utilities required for the Fujian mill's production are expected to be supplied locally.

In addition, we are exploring the feasibility of building an integrated dissolving wood pulp and viscose staple fiber mill in Jiangsu province, China. The feasibility study for this project is at a preliminary stage and any decision to proceed with this project will depend on, among others, the outcome of the feasibility study and all necessary approvals having been granted by the relevant governmental authorities.

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Acquisitions

We also intend, as opportunities arise, to pursue strategic acquisitions to strengthen or complement our existing businesses. This may include strategic acquisitions of both upstream and downstream production facilities, that is, those producing or capable of producing dissolving wood pulp and viscose staple fibers, respectively. We may also seek to make strategic acquisitions that will position us to capture new business opportunities and meet the growing demand from our customers in Asia, North America and Europe. We constantly monitor and evaluate potential acquisition targets and business opportunities; however, as of the Latest Practicable Date, we did not foresee any immediate material acquisitions. When we evaluate an acquisition opportunity, we will take into account the potential synergies brought, and value added, by such target business to our businesses. In addition, major acquisitions will be discussed and approved by the Board and, if required by applicable law, the Listing Rules or our Bye-laws, by our Shareholders.

THE PRODUCTION PROCESS

Dissolving Wood Pulp

The process of producing dissolving wood pulp involves the chemical extraction of fibers from wood to obtain cellulose with different levels of purity according to individual customer specifications. The typical process of producing rayon grades of pulp from wood generally follows the following steps:

Debarking and Chipping. We first debark and chip eucalyptus logs. We screen the chips to ensure that they conform to certain defined dimensions in order to improve infusion of steam and chemicals.

Cooking and De-lignification. The wood chips are then put in digesters, which are high pressure vessels, to first be heated to around 170°C for the pre-hydrolysis stage and sequentially react with a mixture of sodium hydroxide and sodium sulfide at temperatures between 130°C and 180°C. Under these conditions, lignin, the wood component that binds individual fibers, is degraded and separated from the cellulose. We adjust the length of the cooking time during the pre-hydrolysis stage and the cooking stage to produce cellulose of different purities. The recovery process enhances the overall energy and chemical efficiency of our production process.

Bleaching. Next, we bleach the cellulose to obtain the desired brightness. In this process, we use either ozone and peroxide or chlorine dioxide and peroxide as bleaching agents.

Drying. Finally, the wet dissolving wood pulp produced after bleaching is dried and compressed into sheets according to customers' specifications. The dissolving wood pulp sheets are packed in bales or rolls for delivery to customers.

For the production of specialty grades of pulp products, we typically add an additional step called cold caustic extraction (CCE) to further increase the purity level of alpha-cellulose without affecting the other properties of the dissolving wood pulp.

We use the more advanced pre-hydrolyzed kraft process technology in our dissolving wood pulp production instead of the sulfite process used by most of our competitors, allowing us to be one of the few manufacturers in the world to produce rayon grades of pulp with alpha-cellulose content of up to 96%, which allows our customers to achieve higher efficiency and less wastage of rayon grades of pulp during their production processes. In addition, the use of CCE on our second production line enables us to expand our product offerings to specialty grades of pulp with an alpha-cellulose content of up to 98%. We also use an advanced bleaching process on our second production line to produce specialty grades of pulp of higher brightness.

We recover substantially all of the chemicals used in the production of our dissolving wood pulp. We also re-use certain waste products generated by our production cycle, such as black liquor, bark and boiler ash, for other stages of our dissolving wood pulp production, such as to serve as bio-fuels for dissolving wood pulp plants and as fertilizer in our plantations. We dispose of any liquid waste products generated during the production process which we are unable to re-use, by ourselves or through a comprehensive liquid waste disposal system operated by Cetrel that runs through the Camaçari industrial complex. Cetrel maintains

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several waste disposal sites throughout the Camaçari industrial complex utilized by us and the other companies located in the Camaçari industrial complex and a distribution system that transports this waste to its large disposal system just outside of the Camaçari industrial complex. Please see the section headed “— Environmental Matters — Bahia Specialty Cellulose and Copener” below for further information on Cetrel.

Viscose Staple Fibers

We use dissolving wood pulp to make a spinnable liquid called viscose. Our production process consists of a series of automated chemical and mechanical operations, each of which is controlled and/or monitored electronically on a continuous basis to ensure the desired fiber qualities, such as length, thickness, tenacity, brightness and oil content. The process of producing viscose staple fibers from dissolving wood pulp generally follows the following steps:

Steeping, Pressing and Shredding. Steeping involves saturation of cellulose sheets with a solution of caustic soda, or sodium hydroxide, to allow the caustic soda to penetrate the cellulose sheets and convert them into alkali cellulose. The alkali cellulose is then mechanically squeezed to remove any excess caustic soda solution and shredded to increase surface area for purposes of oxidization in the next step.

Aging and Xanthation. Aging involves oxidization of the shredded alkali cellulose under carefully controlled conditions to reduce molecular weights to the desired level. The aged alkali cellulose is then placed in a vessel, and carbon disulfide is added to form cellulose xanthate.

Dissolving, Filtering and Spinning. Cellulose xanthate is dissolved in diluted caustic soda to produce a viscous liquid referred to as viscose. The viscose solution is filtered to remove the impurities, which may disrupt the spinning process or cause defects in the rayon filament, and then pressed through the fine holes of the spinneret into a sulfuric acidic tank to regenerate viscose staple fibers. In the spinning process, cellulose xanthate is converted chemically back to purified cellulose.

Cutting, Bleaching, Drying and Packaging. As a last step, the fibers are stretched, cut, bleached, washed, dried and in the end pressed into bales for delivery to customers.

Viscose staple fibers have historically been used in a variety of apparel and home furnishings applications. Specialty applications have been developed over time to take advantage of the supplier’s ability to adjust, modify, and control certain key fiber properties. In addition, requirements of customers in other specialty or niche markets can be met by adjusting the viscose staple fibers production process to produce fibers with specific fineness, length or luster properties. Furthermore, the process can be modified through the use of certain additives prior to spinning to impart special characteristics such as flame retardant properties to the final product.

A key part of our viscose staple fibers production process is the ability to recover certain raw materials and to extract other chemicals as by-products derived from using caustic soda and sulfuric acid. These operations allow us to save costs on raw materials and ensure compliance with the relevant environmental regulations.

At our Sateri Jiangxi mill, we treat all waste water from our production process and recover part of the chemicals used in the production of viscose staple fibers. We have on-site sewage treatment works to treat all the waste water generated from the viscose staple fibers production process. We use desulfurization equipment to remove more than 80% of the sulfur from the boiler waste gas. In our production process, we use a combination of sulfate soda recovery and carbon disulfide scrubbing to recover 70% of the carbon disulfide used in our production process, and remove, in aggregate, 95% of the carbon disulfide used in our production process from the waste water generated from our production process.

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MAJOR CUSTOMERS AND SUPPLIERS

Major Customers

We had more than 200 customers for our viscose staple fibers and dissolving wood pulp during the Track Record Period. For the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, our five largest customers accounted for approximately 47.2%, 34.0%, 43.0% and 43.2%, respectively, of our total revenue and our largest customer for each period accounted for approximately 19.3%, 8.9%, 21.0% and 10.8%, respectively, of our total revenue. These amounts include revenue from the DP Macao business. To the knowledge of our Directors, none of our Directors or their respective associates or any of our existing Shareholders who owns more than 5% of our issued share capital has any interest in any of our five largest customers.

As a result of a change in our relationship with our largest customer in both 2008 and 2009, which accounted for 8.9% and 21.0% of our total revenue in each of those years, respectively, we reduced sales to that customer in the six months ended June 30, 2010, during which time sales to that customer accounted for 1.5% of our total revenue. We have not made any sales to this customer since April 2010 and have reallocated all of the sales to our other customers.

Among our five largest customers for each of the periods comprising the Track Record Period were five major producers of viscose staple fibers globally, of which three were based in China, one in Brazil and one in Austria, and the other three customers were consumer product producers based in China, a producer of cellulose film for packaging and labels based in the United Kingdom and a trading company based in Switzerland. We have more than two years of business relationship with most of these customers, however, we do not have long-term purchase commitments from the majority of them and we sell our existing products primarily through spot sales, short-term sales contracts and monthly and quarterly purchase orders. As we expand our sales of specialty grades of pulp, we plan to enter into contracts for terms of one to three years, consistent with industry practice. Please see the section headed “Risk Factors — Risks Relating to Our Business and Industry — We rely on a few major customers for a significant portion of our revenue and we do not have long-term commitments from some of these major customers” in this prospectus for further information.

Major Suppliers

For the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, our five largest suppliers accounted for approximately 28.8%, 50.5%, 50.9% and 39.2%, respectively, of our total purchases, including raw materials, fuels and logistics expenses, while the largest supplier for each period accounted for approximately 9.5%, 34.5%, 25.3% and 22.2%, respectively, of our total purchases. During the Track Record Period, TPL, a company controlled by our Ultimate Controlling Shareholder, was our largest supplier due to DP Macao’s purchases of dissolving wood pulp and other pulp products from TPL as part of its trading operations. Following the disposal of DP Macao, the amount of total purchases sourced from TPL and supplied by DP Macao is expected to reflect factors including a reduction in supply on the open market, our expanded operations in China and the level of dissolving wood pulp produced by TPL. DP Macao sold nil, US\$1.8 million, US\$4.3 million, US\$1.9 million and US\$3.1 million of dissolving wood pulp sourced from TPL to our Sateri Jiangxi mill for use as a raw material in the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2009 and 2010, respectively. We have entered into the Sales Framework Agreement to govern the terms on which we will purchase dissolving wood pulp sourced from TPL and sold by DP Macao following the Listing Date. For further details on the Sales Framework Agreement and our relationship with TPL, see the section headed “Connected Transactions — Non-Exempt Continuing Connected Transactions” and “Relationship with our Controlling Shareholders — Business Retained by our Controlling Shareholders” in this prospectus. To the knowledge of our Directors, save as disclosed in this prospectus, none of our Directors or their respective associates or any of our existing Shareholders who owns more than 5% of our issued share capital has any interest in any of our five largest suppliers.

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Among our five largest suppliers for each of the periods comprising the Track Record Period were two producers and a trader of dissolving wood pulp, a wood transporter and a pulp ocean transporter, two suppliers of gas to our Bahia Specialty Cellulose mill and Cetrel. We have entered into long-term agreements with three of our five largest suppliers, being a supplier of gas, a pulp ocean transporter and Cetrel. The agreement with the supplier of gas is currently subject to negotiations between us and the supplier in relation to an extension of its term, and we expect it to continue up to December 31, 2012. Payment under this agreement is settled in Real with a credit term of eight days from the date of the issuance of an invoice. The prices under this agreement are based on the volume in cubic meters of gas supplied, and are decided by the supplier and subject to approval by the relevant local authority on an annual basis. There is no minimum purchase commitment under this agreement. The agreement with the pulp ocean transporter has a term of six years expiring on December 31, 2013 and payment under it is settled in US dollars with freight to be 100% prepaid within five days of signing or releasing of bills of lading or prior to discharge of cargo, whichever occurs first. The prices under this agreement are based on the weight in metric tons of dissolving wood pulp transported from the Port of Salvador to customers in Europe and to customers and our Sateri Jiangxi mill in Asia. The price per metric ton varies depending on whether the dissolving wood pulp is transported to Europe or Asia and was determined through arm's length negotiation with reference to benchmark prices of ocean freight. The pulp ocean transporter agreed to provide us with a minimum amount of transportation capacity during the term of the agreement. Please refer to the section headed “— Environmental Matters — Bahia Specialty Cellulose and Copener” below for details of the agreement between Cetrel and us. Most of our major suppliers have maintained a relationship with us for over five years.

During 2008 and 2009, our five largest suppliers accounted for approximately 50% of our total purchases primarily due to the total purchases from TPL generated by our DP Macao business after it began trading operations in December 2007. Following the disposal of DP Macao, we expect to purchase dissolving wood pulp from DP Macao pursuant to the Sales Framework Agreement. Please refer to the sections headed “Connected Transactions”, “Financial Information — Principal Components of Results of Operations — Cost of Sales” and “Financial Information — Principal Components of Results of Operations — Selling and Distribution Expenses” in this prospectus for further information.

RAW MATERIALS AND UTILITIES

Our raw materials for the production of dissolving wood pulp primarily consist of wood and chemicals, and our raw materials for the production of viscose staple fibers primarily consist of dissolving wood pulp, chemicals and coal, for the generation of steam. Our production at our Bahia Specialty Cellulose mill and our Sateri Jiangxi mill both require large amounts of thermal and electrical energy and water. In most cases, we are not dependent on particular third party suppliers for any of our raw materials and have not experienced any difficulty in obtaining sufficient raw materials during the Track Record Period and we have alternative suppliers for most of the raw materials and utilities required in our operations as detailed below. This access to alternative sources of raw materials and utilities allows us to negotiate better prices. In addition, we have entered into long-term agreements with certain suppliers of raw materials and utilities, which helps us to manage the fluctuations in raw materials and utilities cost. We did not experience any material shortages or disruptions in supplies, including raw materials and utilities, during the Track Record Period.

In the event that any of our existing suppliers are unable to continue to supply raw materials in the amounts that we require, we may need to purchase raw materials from other suppliers at prices higher than those which we currently pay, or in the case of a severe or prolonged shortage shut down production at our facilities. Please refer to the section headed “Risk Factors — Risks Relating to Our Business and Industry — We rely on a limited number of key suppliers for some of the raw materials used in the production of dissolving wood pulp and viscose staple fibers” in this prospectus for further details.

Except dissolving wood pulp required for our viscose staple fibers production, we generally procure other raw materials from suppliers close to our production facilities, primarily to control transportation costs and minimize order lead time. We select our suppliers based on quality and cost. Depending on the type of raw materials and our relationship with the particular supplier, our procurement contracts typically provide a payment term of 30 days. Our procurement contracts are principally denominated in US dollars, Renminbi

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and Real. We regularly review our suppliers and the market prices of alternative suppliers to manage our raw materials costs. See the section headed “Risk Factors — Risks Relating to Our Business and Industry — We may experience difficulty in obtaining, and significant increases in prices for, raw materials and utilities” in this prospectus.

For further details, see the section headed “Financial Information — Principal Components of Results of Operations — Cost of Sales” in this prospectus. A brief description of the major raw materials used in our production is set out below.

Raw Materials for Dissolving Wood Pulp Production

Wood

Wood is the primary raw material for our dissolving wood pulp production. We source the majority of the wood internally from our plantations operated by Copener and Bahia Specialty Cellulose. The plantation land from which we source our wood is located an average of approximately 155 kilometers away from our Bahia Specialty Cellulose mill, and consists of approximately 84,000 hectares of non-contiguous plantable land. Based on the current plantation programs, harvest cycles and yield rates on this land, we are able to, and we believe that we will continue to be able to, meet our wood requirements for the current production capacity of our Bahia Specialty Cellulose mill of up to 465,000 metric tons of dissolving wood pulp. See the section headed “— Our Wood Plantations” above for more details.

In order to secure sufficient wood supply for our dissolving wood pulp production when the design annual production capacity of our Bahia Specialty Cellulose mill is expanded to 550,000 metric tons, which is expected to occur by December 2013, we plan to acquire additional plantation land close to our Bahia Specialty Cellulose mill and to continue to expand our tree farming program in the local communities in the area we operate, which will provide additional sources of wood supply. We will also explore possible sources of wood chip and potential wood swap arrangements with third parties who have wood suitable for our operations.

Chemicals

Certain chemicals such as sodium chlorate, sulfuric acid, hydrogen peroxide and sodium hydroxide are required in the production process of our dissolving wood pulp. In order to meet our production needs, we maintain key supply relationships with several suppliers, a number of which are located within the Camaçari industrial complex in Brazil, which houses a number of multinational chemical companies. The recovery boilers at our Bahia Specialty Cellulose mill recover approximately 97% of the white liquor (mixture of sodium hydroxide and sodium sulfide) used in our production process.

Raw Materials for Viscose Staple Fibers Production

Dissolving Wood Pulp

Rayon grades of pulp comprise the primary raw material for our viscose staple fibers production. We have traditionally used a mixture consisting of hardwood-based dissolving wood pulp and softwood-based dissolving wood pulp in our viscose staple fibers production to achieve the desired chemical and physical properties of our viscose staple fibers products, reduce our production time and maximize our output. Due to our advanced production technology, we are capable of producing viscose staple fibers of the desired qualities using hardwood-based dissolving wood pulp only. However, primarily to achieve cost efficiency when its market price is lower than that of hardwood-based dissolving wood pulp, we typically also use a certain amount of softwood-based dissolving wood pulp. We source dissolving wood pulp primarily from Bahia Specialty Cellulose and third party suppliers in Sweden or Canada, depending on pricing and delivery terms. We have not entered into any long-term contracts with suppliers of softwood-based dissolving wood pulp and purchase softwood-based dissolving wood pulp on a short-term basis at prevailing market prices. We make our procurement either directly or through independent or affiliated procurement agents or high

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purity cellulose trading companies. So far as we are aware, none of our third party suppliers of dissolving wood pulp has been subject to any criminal conviction or civil judgment in relation to illegal logging activities during the Track Record Period. We believe that we are less exposed than many of our competitors to the risk of short supply of, and price increases for, dissolving wood pulp due to our ability to source dissolving wood pulp internally from Bahia Specialty Cellulose when dissolving wood pulp is in short supply on the market.

We are able to source internally all of our dissolving wood pulp requirements for our viscose staple fibers production. For the years ended December 31, 2007, 2008 and 2009, Sateri Jiangxi sourced approximately 65.3%, 57.1% and 74.5%, respectively, of its dissolving wood pulp requirements from internal sources, including from DP Macao, with the remainder sourced from third parties.

Chemicals

We are highly dependent on certain chemicals in our viscose staple fibers production process, such as sulfuric acid, caustic soda and carbon disulfide. In order to meet our various production needs, we maintain key supply relationships with several suppliers, most of which are located in Jiangxi province, Jiangsu province, Anhui province and Hubei province, China, and we believe, if necessary, we would be able to source those chemicals from alternative suppliers in China. We use advanced technology to recover over 70% of the carbon disulfide used in our production process.

Coal

At our Sateri Jiangxi mill, coal is used to generate steam for use in our production process. We currently source coal primarily from Sichuan province, China and also plan to purchase coal imported from Russia and Indonesia. We currently have an inventory storage area at our Sateri Jiangxi mill for 13,000 metric tons of coal and are developing additional inventory storage area for a total of up to 50,000 metric tons of coal. An increased stock of coal will help us to minimize the impact of price fluctuations of coal on our production cost.

Utilities

Thermal and Electrical Energy

Production of dissolving wood pulp and viscose staple fibers requires significant amounts of thermal and electrical energy.

Our Bahia Specialty Cellulose mill uses several sources to generate thermal energy for its production process, including fuel oil, natural gas and liquefied petroleum gas. It obtains its electricity requirements from the combustion of organic compounds from the dissolving wood pulp production process through a steam-based power facility with a total capacity of approximately 109 MW, which is sufficient to meet all of its current electricity requirements.

Our Sateri Jiangxi mill operates two on-site coal-fueled boilers of 75 metric tons each per hour to generate all of the steam requirements of our viscose staple fibers production along with a back pressure steam turbine that has a steam-based electricity generation capacity of 14 MW to provide approximately 60% of the electricity requirements of our viscose staple fibers production. We are in the process of installing an additional boiler of 300 tons per hour in order to provide steam requirements for our expanded viscose staple fibers production.

Water

Production of dissolving wood pulp and viscose staple fibers requires a significant amount of water, although it is not a significant cost component of our raw materials.

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Bahia Specialty Cellulose obtains the water required by its mill from 11 deep wells, which are located within or in close proximity to its production facilities under a grant from the State of Bahia. Copener obtains water for its plantations from two deep wells. Both Bahia Specialty Cellulose and Copener have valid water grants issued by the competent environmental agency. The grants have no levy imposed by either the state or the federal government. However, federal legislation has proposed regulations relating to the imposition of fees for the use of natural resources. As a result, we may incur additional costs for water upon implementation of such regulations. Two of the deep wells from which Bahia Specialty Cellulose obtains its water have recently presented signs of a reduction in water volume and, therefore, we expect we will be required to reduce the use of water from those wells, although this is not expected to have any material adverse impact on our operations as it is currently our regular practice to save water by suspending the use of certain wells throughout the day. In addition, for our current expansion plans we estimate that we will require an additional 500 cubic meters of water per hour. Although there are additional water resources under the area where our Bahia Specialty Cellulose mill is located, it will be necessary to dig deeper than previously to access this water, and we may not receive the necessary grants in respect of such wells. We have started searching for potential alternative sources of water, including from other deep wells located within 5 kilometers to 12 kilometers of the mill and superficial water from water barriers within the region, through further optimization of water use and the implementation of water recycling projects, and through integrated management of our water needs with those of other water users in the Camaçari industrial complex. See the section headed “Risk Factors — Risks Relating to Our Business and Industry — We may experience difficulty in obtaining, and significant increases in prices for, raw materials and utilities” in this prospectus.

Our Sateri Jiangxi mill is located by Poyang Lake, the largest fresh water lake in China. It draws all of its water requirements from Poyang Lake within the quota prescribed under a license granted by the local water authority, Water Department of Lushan District, Jiujiang City, and pays a water usage fee for the actual amount of water used. Sateri Jiangxi has also obtained a second license to meet its additional water requirements after its capacity expansion. The two licenses will expire in 2012 and are renewable upon application. We believe we will have sufficient water supply to meet our production requirements at our Sateri Jiangxi mill.

We currently require about 36 cubic meters of water to produce one metric ton of dissolving wood pulp and 100 to 140 cubic meters of water to produce one metric ton of viscose staple fibers, and we continue to introduce new technology and implement improvements in our industrial processes and methods to further decrease these usage rates.

QUALITY CONTROL

We adhere to a strict system of quality control over our operations, from selecting seedlings for plantation and sourcing raw materials to the production and delivery of our products. We inspect raw materials and return to suppliers those that do not meet our standards. We have established quality controls at each stage of our production process to closely monitor the quality of our products and to ensure that our products meet our internal benchmarks and customers’ specifications. In addition, we have established a quality documentation system for all purchasing, production and sales units and implemented procedures for constant improvement and flaw prevention. Our senior management is actively involved in establishing quality control policies and monitoring our quality control performance. We also undertake internal initiatives in order to continuously improve our product quality and delivery standards.

We monitor the quality of our products by analyzing a series of key parameters throughout the entire production process. At our Bahia Specialty Cellulose mill, these parameters include pulp purity, pulp kappa number, pulp viscosity and pulp brightness. Based on the analysis of these four parameters, we adjust the processing conditions at different stages of production to achieve the required pulp specifications. We also monitor the final product by conducting online analysis and performing laboratory tests which analyze the moisture content, basis weight, sheet caliper and sheet density of the pulp. Data collected from these tests are used to determine final pulp quality and classification.

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At our Sateri Jiangxi mill, these parameters include alpha-cellulose content, alkali-cellulose content, viscosity and ripening index. Based on the analysis of these four parameters, we adjust the processing conditions at different stages of production to achieve the required viscose staple fiber specifications. The desulfurizing, bleaching and softening concentrations of the fibers are also monitored for post-production quality control. We then conduct a fiber index test on the finished product which analyzes fiber titer, titer deviation, whiteness, sulfur residue and moisture content to determine final fiber quality and classification.

As of December 31, 2009, we had a core quality management unit consisting of 45 and 40 employees at our Bahia Specialty Cellulose and Sateri Jiangxi mills, respectively, overseeing our quality control processes, audits and engineering. At each stage of the production process, we conduct tests to ensure quality and compliance with all our internal production benchmarks. For example, at our Sateri Jiangxi mill, we perform tests at quality control checkpoints during the production process. We then conduct a final quality check prior to packaging our products. Before we send our products to customers, we inspect them through sample testing to ensure that all customer specifications are met.

The core quality control team at our Bahia Specialty Cellulose mill is headed by three senior technical staff with an average work experience of 14 years. The quality and development manager holds a bachelor's degree in chemical engineering and a master's degree in chemical fiber technology, and the industrial quality coordinator holds a bachelor's degree in industrial chemistry. The core quality control team at our Sateri Jiangxi mill is headed by one senior technical staff with 16 years of work experience and who holds a postgraduate degree in industrial engineering.

Our quality assurance and quality control procedures, together with our corporate standards established for the quality checks conducted by our quality management unit, are compliant with ISO 9001 requirements and our own internal quality guidelines. We have received ISO 9001 and ISO 14001 quality assurance certifications for both our Bahia Specialty Cellulose and Sateri Jiangxi mills. The validation periods for the ISO 9001 and ISO 14001 quality assurance certifications for our Bahia Specialty Cellulose mill are from December 4, 1998 to March 23, 2011 and from February 28, 2005 to March 23, 2011, respectively. The validation periods for the ISO 9001 and ISO 14001 quality assurance certifications for our Sateri Jiangxi mill are from January 23, 2010 to January 22, 2013 and from January 23, 2010 to December 15, 2010, respectively.

Bahia Specialty Cellulose has standard operating procedures in place to deal with customer complaints in relation to its products. Complaints are registered with the quality department (*Sistema Integrado de Gestão*) and logged in the tracking system. The customer technical service division conducts a preliminary technical evaluation based on the information provided by the customer. This involves performing a product batch trace and evaluating the relevant product technical data. Once evaluations have been completed, remedial action is generally proposed within two weeks. The sales team then provides feedback to the customer and the agreed cause of action is implemented within a reasonable timeframe.

Sateri Jiangxi has similar standard operating procedures to address customer complaints in relation to its products. Once technical evaluations have been completed, the sales team generally proposes remedial actions to the customer within two working days. These can include compensation, product exchanges, replacements or returns.

We have encountered periodic sales returns in the ordinary course of our business due to non-conformity with product specifications. For each of the years ended December 31, 2007, 2008 and 2009, the volume of sales returns attributed to Bahia Specialty Cellulose amounted to nil, US\$21 million and nil, respectively, which represented less than 1% of its total sales in each of those years. For the years ended December 31, 2008 and 2009, the volume of sales returns attributed to Sateri Jiangxi amounted to RMB10.3 million (US\$1.5 million) and RMB1.2 million (US\$0.2 million), respectively, which represented less than 1.2% of its total sales in each of those years. There were no sales returns in the year ended December 31, 2007.

Our Directors are of the opinion that the Group has not experienced any material losses from product quality issues during the Track Record Period.

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LOGISTICS

In Brazil, our wood supply, our Bahia Specialty Cellulose mill, the deep water port from which we export our dissolving wood pulp, our waste disposal facilities and many of our chemical suppliers are all conveniently located in close proximity to one another, contributing to our low production costs. An independent contractor transports the wood that we grow by truck from plantation land located at an average distance of approximately 155 kilometers from our Bahia Specialty Cellulose mill. Throughout the production process we utilize well water sourced from the various wells located within or in close proximity to our Bahia Specialty Cellulose mill. We purchase a substantial portion of the chemicals that we use in our production process from companies located within the Camaçari industrial complex in which our mill is located, further reducing the transportation costs involved in the production of our products. As we recycle nearly all chemicals, we also save on the cost of transportation of these raw materials.

Our dissolving wood pulp is currently transported by truck to Port of Salvador, a deep water port located approximately 50 kilometers from our Bahia Specialty Cellulose mill, and then shipped to our customers both in the domestic and international markets. The trucks and ships used to transport our raw materials and finished products are owned and operated by independent contractors.

Our Sateri Jiangxi mill is located by Poyang Lake with convenient access to water transportation on the Yangtze River and in close proximity to customers in the textile production centers in China, such as Jiangsu province and Zhejiang province. We have our own jetty for the transportation of our products and raw materials by barge. The viscose staple fibers produced by Sateri Jiangxi and most of our raw materials including chemicals, and coal are transported by barge on the waterways of Poyang Lake and the Yangtze River. The dissolving wood pulp we source both internally, from Bahia Specialty Cellulose, and externally is shipped to seaports in China and then transported to our Sateri Jiangxi mill by barge on the waterways of Poyang Lake and the Yangtze River. Compared with land transportation, water transportation incurs lower costs, which enables us to save on the cost of transportation.

SALES AND MARKETING

The following table shows our revenue by geographic market for the periods indicated.

Geographic Markets	Year ended December 31,						Six months ended June 30,			
	2007		2008		2009		2009		2010	
	Revenue	% of Total	Revenue	% of Total	Revenue	% of Total	Revenue	% of Total	Revenue	% of Total
(unaudited)										
(US\$ in thousands except the percentages)										
China	196,114	72.0	316,382	82.8	475,094	86.1	159,514	88.1	337,742	76.6
Europe ⁽¹⁾	24,911	9.2	29,740	7.8	35,510	6.4	7,746	4.3	56,614	12.9
Americas ⁽²⁾	51,142	18.8	18,062	4.7	28,522	5.2	12,715	7.0	26,595	6.0
Asia (ex-China) ⁽³⁾	—	—	18,075	4.7	12,872	2.3	1,007	0.6	19,911	4.5
Total revenue	<u>272,167</u>	<u>100.0</u>	<u>382,259</u>	<u>100.0</u>	<u>551,998</u>	<u>100.0</u>	<u>180,982</u>	<u>100.0</u>	<u>440,862</u>	<u>100.0</u>

Notes:

- (1) Primarily consists of revenue derived from sales in Austria, Germany and the United Kingdom.
- (2) Primarily consists of revenue derived from sales in Brazil and the United States.
- (3) Primarily consists of revenue derived from sales in Taiwan.

Our sales contracts are based on our general standard terms and market prices. We typically do not provide volume discounts to our customers. There is no minimum purchase requirement but, in practice, we do not accept orders that are too small in quantity. Products sold may be returned to us if it can be demonstrated that they are sub-standard or do not meet the product specifications. Most of the returned products we receive involve damage or contamination caused during delivery.

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Most of our products are marketed and distributed by our own sales teams. From time to time we also engage sales agents for the marketing and sale of dissolving wood pulp and viscose staple fibers in geographic markets in which those agents specialize. During the Track Record Period, we used agents for sales of dissolving wood pulp in the PRC and for sales of viscose staple fibers in Pakistan, Taiwan, Indonesia, Malaysia, Thailand, India, Bangladesh, Vietnam and South Korea, being areas which typically focus on the trading of textiles and/or raw materials for the textile industry.

Our sales agents facilitate sales and provide market information in the respective territories in which they operate. Our sales agents are remunerated on a commission basis based on the amount of sales made through them and the commission rate charged is up to 3% of sales depending on the extent of services required from each respective agent and the region in which the sales take place. Such commission is generally payable after the payment has been received from the relevant customer. All of our agents are engaged on a non-exclusive basis and there are no minimum sales commitments under any of our agency agreements. Our agreements with agents for the sale of dissolving wood pulp are for a duration of one year, and our current arrangements with agents for the sale of viscose staple fibers are negotiated on an ad hoc basis depending on customer orders received by us. None of the sales agents which we currently engage are connected persons of our Group.

During each of the three years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, less than 30% of the Group's sales were made via sales agents, and the total sales commissions paid by us to sales agents amounted to less than US\$1 million.

Dissolving Wood Pulp

We have 12 employees based in China and worldwide dedicated to our dissolving wood pulp sales and after-sales support in China and in the international markets. We typically negotiate and price our sales contracts for rayon grades of pulp in US dollars on a quarterly basis, and may also conduct spot sales or enter into monthly contracts or, occasionally, enter into yearly sales contracts, which is mainly for the purpose of agreeing on the sales volume but not price. As we expand our sales of specialty grades of pulp, we plan to enter into contracts for terms of one to three years, consistent with industry standards. Our technical experts periodically visit our customers to provide support in order to optimize the performance of our products. We typically receive payments from our customers on a cash advance basis or on credit terms of up to 90 days, which are backed by irrevocable letters of credit from an acceptable bank or covered by our credit insurance.

In addition to the dissolving wood pulp used by our Sateri Jiangxi mill, we sell dissolving wood pulp to our global customers in the viscose staple fibers, cellophane and sponge industries, which are primarily located in Asia and Western Europe. China is the primary market for our dissolving wood pulp sales. Demand for dissolving wood pulp in China has been growing rapidly in the past five years with its imports increasing from 294,500 metric tons in 2005 to 852,000 metric tons in 2009. In 2010, China is expected to consume approximately 1.22 million metric tons of dissolving wood pulp, accounting for approximately 34% of the total market for dissolving wood pulp.

The demand in emerging markets has been primarily driven by the growth in the textile industry as a result of a global shift in the industry to the emerging market countries, particularly to China, and in the non-woven sector due to China's robust economic growth. We expect demand in China to continue to grow as the supply of cotton linter pulp, the main product that competes with our dissolving wood pulp in the textile industry, becomes scarce as a result of the decline of cotton output in most of the major cotton producing countries. The sales to Sateri Jiangxi represented approximately 11.7% of the total revenue of our Bahia Specialty Cellulose business in 2009.

Our sales of specialty grades of pulp normally start with a qualification process with our potential customers. The qualification process is highly technical as it involves engineers on both sides discussing specifications and involves qualifications at both our customers and their customers, which are the

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end-product manufacturers. The end-product manufacturers, which produce the final products such as pharmaceuticals and cigarettes, are typically reluctant to switch their raw material suppliers. Hence, once they accept a product, there would usually be a strong relationship extending upstream throughout the supply chain.

The sales of our dissolving wood pulp are conducted through our subsidiaries, DPMI, SC International Macao and, prior to its disposal, DP Macao.

During the Track Record Period, DP Macao purchased paper pulp and dissolving wood pulp from TPL, a connected person of our Company, as principal in its ordinary course of business and sold those products to its customers. The revenue from such sales accounted for approximately 4.9%, 36.5%, 20.0% and 20.1% of our total revenue for the years ended December 31, 2007, 2008 and 2009, and the six months ended June 30, 2010, respectively. As our strategy following the Listing is to focus on selling and marketing our own dissolving wood pulp and viscose staple fibers and not to engage in the trading of dissolving wood pulp and paper pulp as principal, as part of the Reorganization, we disposed of DP Macao to Blue Dot, a company which is controlled by our Ultimate Controlling Shareholder. Pursuant to the Agency Agreement, our subsidiary SC International Macao acts as agent for DP Macao to sell dissolving wood pulp produced by TPL outside Indonesia. Please see the sections headed “History and Reorganization — Our Corporate Reorganization”, “Relationship with Our Controlling Shareholders” and “Connected Transactions” in this prospectus for further details.

Viscose Staple Fibers

We produce viscose staple fibers at our Sateri Jiangxi mill for the textile and non-woven industries. We have 19 employees based in China dedicated to our viscose staple fiber sales and after-sales support in China and in the international markets. As a result of the rapid growth of China’s textile industry, demand for viscose staple fibers in China has increased considerably in recent years and we believe that this demand is set to grow, driven by the combination of population growth, rising wages and disposable income. We intend to continue to expand our sales team in China in order to fully benefit from the expected increase in demand for viscose staple fibers in China. We primarily target our export sales efforts at Turkey, South Asia and Southeast Asia. In addition, we aim to increase our market share in North America and Europe through strengthening our sales team and bolstering our marketing efforts in the specialty viscose staple fiber markets in North America and Europe.

We sell viscose staple fibers primarily through spot sales. All our sales in China are denominated in Renminbi and we generally require cash payment and bank acceptances prior to delivery. Our sales outside China are made primarily in US dollars and are generally based on letters of credit. For sales that are not based on letters of credit, we have obtained credit insurance to cover any risk of non-payment associated with sales on credit terms, which are typically up to 15 days.

We believe that our Sateri brand is well established and recognized for our high quality products, timely delivery and reliable after-sales service. Our technical experts visit our customers periodically to ensure that our products meet our customer’s production requirements. We are one of the major exporters of viscose staple fibers from China.

Pricing

Our products are priced according to the supply and demand dynamics of the dissolving wood pulp and viscose staple fiber markets. Generally, price information is not publicly disclosed in the dissolving wood pulp or viscose staple fiber industries. Our marketing intelligence team collects price information through various sources including the market reports prepared by independent market research institutes such as PCI Fibres, as well as directly from our customers. Taking into account such price information and relevant factors including prevailing market conditions, our orders in hand, our inventory levels, prices for raw materials and trends in our downstream industries, our market review committee, comprising our chief

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executive officer, our director of sales and marketing and our business controller, provides quarterly price range guidance on our products, which our sales teams use to negotiate with our customers. We believe that our knowledge of the market and flexible pricing methodology enable us to respond in a timely manner to market changes.

COMPETITION

Dissolving Wood Pulp

The dissolving wood pulp market is highly competitive. We are the third largest dissolving wood pulp producer worldwide in terms of design production capacity according to PCI Fibres. We believe that we are one of the global leaders in the dissolving wood pulp market as a result of a number of factors, including the wide range of our product offerings, the high quality of our products, our production capacity, our secure supply of wood and timely delivery of products to our clients.

Competition in the rayon grades of pulp segment is based, to a larger extent, on price and to a lesser extent, alpha-cellulose content and quality. In 2009, we were the largest importer by volume of rayon grades of pulp into China, according to China Customs. Our primary competitors in the rayon grades of pulp market include Domsjo Fabriker AB, Sappi Limited and Tembec Inc.

In contrast to the rayon grades of pulp product line, the specialty grades of pulp product line places greater emphasis on product quality, uniformity and services, due to the existence of relatively few suppliers in the segment. Purchasers of specialty grades of pulp used for acetate tow and other high-end applications attach particular importance to the reliability and quality consistency of dissolving wood pulp. Our primary competitors in the specialty grades of pulp market include Borregaard, Buckeye Technologies, Inc., Rayonier Inc. and Sappi Limited.

According to PCI Fibres, worldwide demand for dissolving wood pulp will continue to grow and will potentially exceed worldwide production capacity by 2012. Our position as the third largest producer of dissolving wood pulp in terms of design annual production capacity in 2009 will position us well to take advantage of the increase in worldwide demand, and we believe that our relatively low cost base and our position as a producer of both rayon grades of pulp and specialty grades of pulp products will provide us with an opportunity to continue to increase our market share. Unlike many of our competitors, we source substantially all our wood requirements from our eucalyptus wood plantations located in close proximity to our Bahia Specialty Cellulose mill, which are expected to achieve a maturation and harvest cycle of six to seven years in 2010, according to AMEC, which we believe is one of the shortest harvest cycles in the industry. Due to the flexibility of our second production line at our Bahia Specialty Cellulose mill, we are also able to switch between production of rayon grades of pulp and specialty grades of pulp according to market conditions.

In addition, we are one of the few producers in the world that uses the advanced pre-hydrolyzed kraft production process to produce rayon grades of pulp with an alpha-cellulose content of up to 96%, and we are one of the three producers in the world to use the more advanced CCE on our production line, which enables us to expand our product offerings to a broad range of specialty grades of pulp products with an alpha-cellulose content of up to 98%.

Viscose Staple Fibers

The viscose staple fiber market is highly competitive. China is currently the largest producer and consumer for viscose staple fibers representing over 50% of the global market in terms of production output in 2009, according to CCF. We are currently one of the largest viscose staple fiber producers in China as measured by estimated annual production capacity, according to PCI Fibres. The viscose staple fiber market in China is largely fragmented with more than 40 producers. We have attained our market position due in part to a structural competitive advantage derived from our relatively large design annual production capacity of 120,000 metric tons, our secure internal supply of dissolving wood pulp, and our modern production facilities with advanced technology for both production and environmental protection.

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We currently compete with other viscose staple fiber producers in China, including Shandong Helon from Shandong province, Tangshan Sanyou from Hebei province, Jiangsu Aoyang from Jiangsu province and Fulida from Zhejiang province. We are one of the major exporters of viscose staple fibers from China. In the international markets, we compete primarily with Birla, Lenzing AG and Tangshan Sanyou.

We compete with our competitors in the viscose staple fiber sector based on the price and quality of our products. We believe we are one of the few China-based viscose staple fiber producers that can meet the quality standards of certain key export markets, such as Turkey, France, Italy, Korea and Taiwan, and we intend to further increase our sales in these markets.

RESEARCH AND DEVELOPMENT

As part of our operations, our production teams in Brazil and China conduct research and development activities in order to improve the sustainability and yield of our wood plantations, the quality and efficiency of the wood we produce for use in our dissolving wood pulp production and the processes that we use in our production and manufacturing facilities.

In order to improve the quality and efficiency of our wood supply, as part of our wood plantation operations we continually cross breed different eucalyptus species, producing hundreds of hybrids each year that we plant under controlled conditions. We then assess which species produce higher yielding trees with wood properties desirable for different end uses, take sprigs from these high-yielding trees and grow them in our nurseries as seedlings. These seedlings are then planted in our plantations. Through this process, we continue to improve the yield of the trees in our plantations in terms of volume of wood and content of fiber. Our research and development efforts have resulted in improvements in our wood plantation techniques and processes as well as our discovery of breeds of eucalyptus seedlings that have higher MAI and are particularly well suited for the soil and climate of our wood plantations.

We also conduct research and development activities to improve the efficiency of our dissolving wood pulp production process and to expand our product offerings for target customers, for example in acetate, an application of specialty grades of pulp. To achieve these improvements we work to advance both the technology and the techniques that we use in the cooking, bleaching and drying processes. We also collaborate with our clients, particularly in the specialty grades of pulp segment, and continually work to refine our products to meet the demanding and diverse specifications that they require.

Our research and development activities primarily relate to Bahia Specialty Cellulose and Copener. Our research and development activities in Brazil are led by nine employees, six of whom work for Bahia Specialty Cellulose and three of whom work for Copener. All of them were educated at local universities in Brazil and have obtained bachelor's degrees or above in chemical industry, chemical engineering or forestry engineering. They have an average work experience of 14 years.

The research and development activities at Sateri Jiangxi relate mainly to process improvement in the manufacturing plants by our production team.

PROPERTIES

China

As of June 30, 2010, we owned four parcels of land (with an aggregate area of approximately 40.4 hectares) for use as production facilities, and possessed a parcel of land (with an aggregate area of approximately 5.3 hectares) for use as staff dormitory. All of these land parcels are located in Jiujiang City, Jiangxi Province, China. We have obtained land use right certificates for all of these land parcels.

As of June 30, 2010, we owned 19 completed buildings (with an aggregate area of approximately 49,200 sq.m.) and 32 buildings (with an aggregate area of approximately 75,700 sq.m.) under construction, for use as production facilities and offices, staff dormitories and ancillary buildings. All of these buildings

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are located in Jiujiang City, Jiangxi Province, China. We have obtained ownership certificates for all of our completed buildings. In respect of the 32 buildings under construction, we have obtained all necessary construction planning permits for the construction of buildings, and construction work commencement permits.

In addition, as of June 30, 2010, we owned six office units (with an aggregate area of approximately 1,500 sq.m.) in Shanghai, China. We have obtained the property certificates for all of these office units.

Brazil

As of June 30, 2010, we owned one parcel of land in Camaçari (with an aggregate area of approximately 44 hectares) for use as production facilities and offices, and owned 570 parcels of land (with an aggregate area of approximately 140,000 hectares) for wood plantations. We have title deeds for all 571 parcels of land owned by us and, based on such title deeds, we have all the legal rights attaching to the land, such as the right of exclusive possession, the right to mortgage the land and the right to sell the land.

In addition, we have rights of possession over one parcel of land in Camaçari (with an aggregate area of approximately 40 hectares) for use as production facilities and offices, and have rights of possession over 182 parcels of land (with an aggregate area of approximately 10,000 hectares) for wood plantations. Such rights of possession give us exclusive possession of the land but do not entitle us to sell or mortgage the land. We acquired these parcels of land through a transfer of possession rights, which can only be converted into full title through legal proceedings. We are currently taking steps under Brazilian law to obtain the title deeds for such parcels of land through judicial proceedings that we have filed or will file. As advised by our Brazilian legal advisor, it is not aware of any legal impediment to our obtaining the title deeds for these parcels of land save as disclosed in the section headed “Risk Factors — Risks Relating to Our Business and Industry — The successful enactment and enforcement of plantation restriction laws by Brazilian municipalities and recent and future changes in Brazilian rules and regulations, their interpretation and application concerning land acquisition by Brazilian companies in which the majority interest is held by foreign entities may adversely affect us” in this prospectus.

As of June 30, 2010, we owned 48 buildings (with an aggregate area of approximately 90,000 sq.m.), for use as production facilities and offices, and ancillary buildings. We have legal title to 18 buildings which are located on the land in Camaçari that we own and have title deeds for, and therefore have all the legal rights attaching to such buildings. Although we have legal title to the other 30 buildings, including the second production line at our Bahia Specialty Cellulose mill, such buildings are located on the land in Camaçari where we only have the right of possession. We can only obtain title deeds for these buildings when we have obtained the title deed for the land. If we lose the right of possession in respect of the land, we will also lose the title to the buildings which will then be considered to belong to the land’s owner. We have received a written statement from SUDIC, an autonomous governmental entity of the State of Bahia, Brazil, to the effect that they do not foresee any impediments for our obtaining the title of the land and accordingly the remaining procedures are administrative in nature. As such, we consider that the risk of losing our right of possession in respect of the land is remote. However, if we do lose our right of possession in respect of the land, we have the legal right to be fully refunded for all investment made and indemnified by SUDIC for loss of profit by our operations and have a reasonable time to move off the land so as not to affect our normal business operations.

As advised by our Brazilian legal advisor, to the best of its knowledge, we have not breached any laws and regulations in relation to the land and buildings for which we have not obtained title deeds. Considering the uncertainty of both the results of the lawsuits in relation to the land as detailed in the section headed “— Legal Proceedings” below and the length of time it will take for SUDIC to complete the formalities in relation to the title of the land for the relevant buildings, we currently cannot provide a realistic estimate of the timing for obtaining the title deeds in respect of the land and buildings described above. We will update our Shareholders in our interim or annual report immediately after we have obtained the title deeds.

All of these land parcels and buildings are located in the State of Bahia, Brazil.

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Based on the information provided by our management, the Directors are of the view that:

- (a) the properties on which our plantation land is located and for which we do not currently have the title deeds, are not crucial to our business and operations and a negative outcome in any proceedings currently affecting such properties would not have a material adverse effect on our financial position and operations as a whole; and
- (b) the land on which the second production line at our Bahia Specialty Cellulose mill is located, is crucial to our business and operations and our failure to obtain the title deeds to such land could have a material adverse effect on our financial position and operations as a whole. However, as stated above, in view of the fact that the completion of the transfer of the legal title to such land from SUDIC to us is only pending the completion of certain administrative procedures and that SUDIC does not foresee any impediments to our obtaining the title deeds to such land, the Directors consider the risk of the failure to obtain the title deeds to such land to be remote.

EMPLOYEES

We had a total of 1,005, 1,220 and 1,407 employees worldwide as of December 31, 2007, 2008 and 2009 respectively. The following tables set forth the number of our full-time employees by geographical location and by function and as a percentage of our workforce as of December 31, 2009.

Geographical Location	Number of Employees
China (including Macau and Hong Kong)	782
Brazil	613
Singapore	1
Switzerland	11
Total	<u>1,407</u>

Function	Number of Employees	Percentage
Manufacturing	883	63%
Forestry	43	3%
Quality control	85	6%
Research, development, projects and engineering	103	7%
Administration	120	9%
Sales and marketing	47	3%
Production planning	13	1%
Finance	63	4%
Procurement	50	4%
Total	<u>1,407</u>	<u>100%</u>

In addition to our full-time employees, we retain independent contractors through agreements with service providers to assist us in various aspects of our business, especially in the research and development and plantation activities of Copener. For the year ended December 31, 2009, we employed a maximum of 2,318 contract workers in Brazil. Our independent contractors perform several activities, such as planting, harvesting, land clearing of our wood plantations, cleaning, maintenance at our research and development facilities, wood land and mills in Brazil and China. The number of outsourced workers in Copener and Bahia Specialty Cellulose significantly increases during harvest periods.

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In addition, we outsource certain financial and accounting, human resources and IT services to Averis, a company controlled by our Ultimate Controlling Shareholder. See the section headed “Connected Transactions” in this prospectus for further details.

We have designed certain training programs for our employees, which aim to continuously strengthen and develop the skills of our employees to assist them in meeting their personal development targets and to improve their job satisfaction. We believe our emphasis on training and development helps our employees meet business challenges effectively and enables us to attract and retain high-quality employees.

Compensation

The standard remuneration package for our full-time employees includes:

- salary, which we believe is competitive in the relevant market;
- bonus, which is tied to our performance, the performance of the specific business unit in which the employee reports and individual performance;
- certain other benefits depending on the geographic location and seniority of the employee; and
- a cash-based long term incentive.

Following the Listing, the current cash-based long-term incentive will be supplemented by the Post-IPO RSU Scheme and the Share Option Scheme.

Although it is not a legal requirement for our Brazilian employees to be members of a union, the majority of these employees are represented by unions or equivalent bodies and all of these employees are covered by collective bargaining or similar arrangements. Generally speaking, a union in Brazil represents employees in the negotiation of compensation matters, including salaries, overtime payment and mandatory profit sharing payments, and other matters relating to employee benefits and working hours. There is an annual negotiation in November of the collective labor agreement between us and the labor union of which our Brazilian employees are members. All these employees are entitled to the rights and benefits provided in the collective labor agreement. Notwithstanding the collective labor agreement, our management has the right to review and increase our employees’ salaries based on our internal appraisal. Currently, approximately 83% of the employees of Bahia Specialty Cellulose and 44% of the employees of Copener are members of the SINDICELPA trade union.

Our employees in China are not unionized although they are entitled to be members of a union according to PRC laws and the articles of association of Sateri Jiangxi, Sateri Shanghai and Sateri Fujian. There is no mandatory requirement under PRC laws for Sateri Jiangxi, Sateri Shanghai and Sateri Fujian to establish unions for their employees.

Social Welfare

We provide various healthcare benefits to our employees in accordance with applicable laws and regulations in China and Brazil.

Our employees in China are members of a central pension scheme operated by the relevant local municipal governments. Our PRC subsidiaries are required to fund the retirement benefits in accordance with the rules of the pension scheme. In addition, we maintain other social insurance for our staff in China as required by the local government according to applicable laws and regulations, including medical, unemployment and job-related injury insurance. We also contribute to housing funds maintained for employees of our PRC subsidiaries.

We maintain an employee pension fund, which is managed by Unibanco AIG Seguros & Previdencia, for our employees in Brazil. We also provide life insurance, health care, dental care and pension benefits to our employees in Brazil.

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During the Track Record Period and as of the Latest Practicable Date, the Directors confirm that the Group has complied in all material aspects with the relevant labor and social welfare laws and regulations in all the jurisdictions where the Group operates, and made the relevant contributions in accordance with these laws and regulations.

Health and Safety

We have a health and safety policy designed to ensure high standards of health and safety throughout the Group.

Our Bahia Specialty Cellulose mill is currently implementing a major review of its health and safety standards, focusing on work permits, critical procedures, management safety committee, revision to the procedure for managing safety statistics and formal safety inspections. At our Sateri Jiangxi mill, we have established management policy in relation to health and safety. In addition, we have implemented safety inspection and correction procedures and have established a system to identify potential sources of accidents in our operations and have established emergency rescue procedures. Furthermore, we closely monitor the number of accidents and have established an accident prevention and post-accident improvement system.

During the Track Record Period, as our Bahia Specialty Cellulose mill and Sateri Jiangxi mill implemented expansion plans and built new production lines, the frequency of accidents was higher than in our normal business operations. There was one fatality of a third party construction worker during the expansion of our Bahia Specialty Cellulose mill in 2007 and one fatality of a third party contract worker at our Sateri Jiangxi mill in each of 2007, 2008 and 2010. The relevant PRC authorities determined that the Group was not liable for the fatality at our Sateri Jiangxi mill in 2008. Payments were made in respect of the two fatalities in 2007 and the one fatality in 2010, the amounts of which were immaterial to our business, financial condition and results of operations.

In addition to the accidents referred to above, there was a traffic accident in Brazil in 2009 caused by one of our third party contractors, in which one of our employees was killed and 13 other employees were injured. We may be liable as employer for this accident, as the employees were traveling to work at our Bahia Specialty Cellulose mill at the time of the accident. We have notified our insurer of this accident and, in the event that a claim is made against us, we will be able to claim in turn under our coverage for employee deaths and injuries. As of the Latest Practicable Date, no claims had arisen in respect of this accident and we do not expect any potential claims to exceed US\$0.5 million in aggregate.

Our Directors do not consider the actual or potential liabilities in respect of the accidents disclosed above to be material and are of the view that adequate provision has been made in the Group's financial statements relating to the potential liabilities arising from these accidents. Further, our Directors are not aware of any other actual or potential liabilities in respect of accidents that would have a material adverse effect on the business, financial condition or results of operations of the Group as a whole.

INSURANCE

We believe we maintain insurance that is prudent and customary for companies in our industries. Each of our operating subsidiaries maintains property-related insurance, including all-risk insurance and marine cargo and inland transit insurance, business interruption insurance, product liability insurance and other insurance for specific business activities, such as employee safety insurance. We do not maintain insurance for our wood plantations, as we believe the multiple plots of non-contiguous wood plantation land that we own effectively minimize the risk that any single fire or disease could destroy all of our wood plantation resources.

On December 11, 2009, there was a fire at a building under construction at our Sateri Jiangxi mill, which was part of our expansion project. The fire destroyed some equipment and one person was injured. We have recognized an impairment loss of approximately US\$20 million for the loss caused by the fire. The assets destroyed by the fire are covered by a project insurance policy. The insurer is currently processing our insurance claim of US\$20 million and we received an advance payment of approximately RMB9.9 million

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(US\$1.5 million) in June 2010. We currently expect to receive the remaining of the insurance claim in the first quarter of 2011. The fire accident has resulted in an increase in premium for the subsequent insurance we obtained. However, such increase of premium will not have any material adverse effect on our production cost.

In response to this fire, Sateri Jiangxi engaged a contractor for project safety management in respect of further construction on the expansion project. A team has been designated by the contractor to assist Sateri Jiangxi in the preparation and implementation of a series of work safety guidelines, including rules for fire prevention, emergency rescue, accident reporting and investigation and the proper management of toxic chemicals.

On October 26, 2009, there was a failure in a turbine generator used to produce electricity at our Bahia Specialty Cellulose mill. As of the Latest Practicable Date, our insurer was still in the process of assessing any potential claim and the value of this claim has not yet been defined, but we do not believe it will exceed US\$5 million.

Save for the claims referred to above, as of June 30, 2010, the total value of all of our outstanding insurance claims did not exceed US\$1 million, and no single claim exceeded US\$0.5 million, nor is any material insurance claim known to our Directors to be pending. See the section headed “Risk Factors — Risks Relating to Our Business and Industry — Our insurance may be insufficient to cover the risks or losses related to our operations and we may incur losses for risks associated with our wood plantations” in this prospectus for further details. Our Directors are of the view that our insurance coverage is adequate and in line with industry practice. Our insurance coverage is reviewed and assessed annually by professional insurance brokers that we engage to control and manage insurance risks and optimize our insurance coverage in line with industry practice.

ENVIRONMENTAL MATTERS

We are committed to conducting our operations in a manner that aims to comply with the applicable environmental laws and regulations in each jurisdiction in which we operate. We take steps to ensure that waste products produced as a result of our operations are properly disposed of so as to minimize adverse effects to the environment. We have installed waste treatment facilities and implement waste treatment procedures at our production facilities to treat waste discharged during the production process and have engaged Cetrel to treat the liquid effluents produced by our Bahia Specialty Cellulose mill. Both our Sateri Jiangxi mill and our Bahia Specialty Cellulose mill have been certified under ISO 14001 for the environmental management systems implemented at our mills. Our mills have not received any formal complaints from local residents and non-governmental organizations alleging environmental issues during the Track Record Period. There was no delay or disruption in our operations caused by any non-governmental groups or individuals in respect of environmental matters during the Track Record Period. So far as we are aware, none of our third party suppliers of dissolving wood pulp has been subject to any criminal conviction or civil judgment in relation to illegal logging activities during the Track Record Period.

Bahia Specialty Cellulose and Copener

Bahia Specialty Cellulose and Copener are subject to extensive Brazilian environmental laws and regulations relating to air emissions, effluent discharges, solid wastes, odor and forestry management. Under Brazilian law, the authority to enact laws and issue regulations with respect to environmental protection is exercised concurrently by the federal government, the states, the federal district and the municipalities. Please see the section headed “Regulation — Brazil” as set out in Appendix VI to this prospectus for further details.

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We maintain all of the environmental licenses that are required for the operation of Copener and our Bahia Specialty Cellulose mill. Bahia Specialty Cellulose and Copener are currently in the process of complying with the mandatory minimum legal reserve (*Reserva Legal*) requirements as well as the requirements in respect of permanent preservation areas (*Área de Proteção Permanente*) and expect to be in full compliance with these restrictions in the near future. Otherwise, Bahia Specialty Cellulose and Copener are currently in compliance with all the relevant Brazilian environmental laws in all material respects.

The planting and harvesting operations of Bahia Specialty Cellulose and Copener can only be conducted in accordance with a sustainable suppression plan, based on an estimate of the annual wood requirements of our Bahia Specialty Cellulose mill and the age profile of trees on our plantation lands, which must be submitted annually for approval by IMA. Once this plan is approved, a forestry suppression authorization is issued by IMA.

Our forestry management and harvesting teams follow the approved sustainable suppression plan in order to ensure that our annual harvesting volume is within the relevant limits by maintaining an annual wood supply plan for harvesting and wood transportation activities which corresponds to the relevant annual limits and a reporting process that enables us to continually monitor the amount of wood harvested. In the event that our harvesting needs during the year deviate from the previously submitted suppression plan, we are required to submit an updated plan to IMA. If we were to fail to provide this information to IMA, whether by failing to submit the annual sustainable suppression plan or by failing to submit any necessary updates, we could be subject to the suspension of our wood plantation activities until all of our reporting obligations have been fulfilled. In the event that we were to exceed the maximum limits set out in our licenses for conducting wood plantation activities, we could be subject to administrative penalties as well as criminal and civil liabilities, the amount of which may vary depending on factors including the scale and seriousness of the violation and any history of previous violations. The planting and harvesting activities of Bahia Specialty Cellulose and Copener did not exceed any of the applicable limits under the relevant approved sustainable suppression plans during the Track Record Period.

Bahia Specialty Cellulose has engaged Cetrel since 1995 to process and dispose of the liquid waste and solid residue generated as part of the production processes at its mill. Cetrel's principal business is treating and disposing of industrial waste generated by companies in the Camaçari industrial complex, and it offers waste treatment, disposal and environmental monitoring services. Its largest shareholder is Braskem S.A., and a number of the companies that use its services hold minority stakes, including Bahia Specialty Cellulose. Cetrel is certified under ISO 14001 and ISO 9001. Because it is currently the only company in the Camaçari industrial complex that is capable of providing the necessary waste treatment and disposal services, Bahia Specialty Cellulose is required to use Cetrel for these services under the terms and conditions of its environmental license.

Bahia Specialty Cellulose engages Cetrel under an effluents treatment service agreement. This agreement was entered into with effect from March 19, 2007, and will remain in force for each renewed period of Cetrel's operational license, with an automatic renewal for the period of any further operational license granted to Cetrel. We understand that the validity period of Cetrel's operational license is currently in the process of being renewed by the IMA. As of the Latest Practicable Date, we were not aware that the IMA had given any indication to Cetrel as to when this renewal will be finalized. Once finalized, we anticipate that, consistent with previous license periods, Cetrel's license will be renewed for a further period of five years. Cetrel's license remains in force during this renewal process. This does not affect Cetrel's ongoing obligations under our effluents treatment service agreement and Cetrel has continued to provide services to the Group. Under this agreement, Cetrel is paid on a monthly basis for the volume of waste it treats each month, measured in either kilograms or cubic meters depending on the type of waste, with higher rates being payable for the treatment and disposal of waste above certain monthly levels, as stipulated in the agreement. The total amounts paid by us to Cetrel under the effluents treatment services agreement for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010 were approximately R\$8 million (US\$4.4 million), R\$6.3 million (US\$3.5 million), R\$23.9 million (US\$13.3 million) and R\$9.6 million (US\$5.3 million), respectively. The increasing amount paid to Cetrel during the Track Record Period was primarily attributable to the expansion of our production capacity through the construction of the second production line at our Bahia Specialty Cellulose mill.

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Either party may terminate the agreement on giving 12 months' notice in writing and, in the event of such a termination, Bahia Specialty Cellulose would be required to prepare an alternative plan for the treatment of its waste and submit this to the Bahia state environmental agency for approval. It is an IMA requirement that every business producing liquid effluent waste located in the Camaçari industrial complex must maintain a connection to Cetrel's waste treatment infrastructure, and currently no alternative providers of such waste treatment services are approved by the IMA. Consequently, we currently do not have an alternative plan for waste treatment in the event that the arrangement with Cetrel were to be terminated. In order to ensure the continued operation of the Camaçari industrial complex, we anticipate that the local government and the companies in the complex that use Cetrel waste treatment services would arrange for alternative waste treatment in the event that Cetrel is unable to continue providing such services.

To facilitate the expansion of Cetrel's waste treatment capacity in order to accommodate the extra waste produced by the second production line at its mill, Bahia Specialty Cellulose also entered into a capital investment agreement with Cetrel in March 2007. Under this agreement Bahia Specialty Cellulose agreed to subscribe and pay for an approximately 5.57% interest in the common shares of Cetrel for R\$41.7 million per month, payable over a period of five years in 60 monthly installments, the last of which is due to be paid in August 2012. As a result of the expansion of our production capacity through the construction of the second production line at our Bahia Specialty Cellulose mill, we increased our investment in Cetrel in order to fund its expansion corresponding to our increased usage of Cetrel's services. Accordingly, Bahia Specialty Cellulose acquired an additional 0.13% interest in Cetrel from some minority shareholders in 2007 and 2008 for a total consideration of approximately R\$218,000 (US\$121,000), which increased its total interest in Cetrel to 5.7%. Each common share in Cetrel carries one vote at shareholder meetings but, other than this right, Bahia Specialty Cellulose does not have any day-to-day control or influence in the management of Cetrel or any appointed representative on Cetrel's board of directors. The common shares of Cetrel carry pre-emption rights and Bahia Specialty Cellulose could choose to invest further in the equity of Cetrel by exercising these rights in the event that Cetrel issues new shares. The cost to Bahia Specialty Cellulose of making any further investment in Cetrel would depend on Cetrel's book value per share at the time of such investment.

Sateri Jiangxi

Sateri Jiangxi is subject to PRC national and local environmental laws and regulations. Prior to its establishment, Sateri Jiangxi was required to prepare the appropriate environmental impact assessment report and obtain approval on such report from the relevant PRC environmental protection authorities and pass the examination of construction of environmental protection facilities by the environmental protection authorities. Sateri Jiangxi has obtained, in all material aspects, the necessary environmental impact assessment approvals and passed the examination of construction of environmental protection facilities by the environmental protection authorities. Sateri Jiangxi has also been granted a pollutant discharge permit which prescribes the types of pollutant allowed to be discharged by Sateri Jiangxi. This permit will expire in April 2011 and is renewable upon application. We are not aware of there being any legal impediment to us renewing this permit.

Sateri Jiangxi has installed advanced waste gas processors that reduce the discharge of carbon disulfide, hydrogen sulfide and other air pollutants. Sateri Jiangxi's recovery boiler is equipped with electrostatic precipitators that are used to reduce particles in the waste gas to levels in compliance with the standards prescribed by PRC regulations.

We have also installed an effluent treatment system at Sateri Jiangxi that uses physicochemical and biochemical methods to treat our alkali, acid and zinc waste waters. We typically test the waste water before discharge to ensure that it meets the requirement stipulated in our waste discharge permit. The residue sludge produced during the effluent treatment is processed at a waste treatment facility after dewatering. Certain of our solid waste, such as coal, ash and cinder, can be sold as construction materials.

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CORPORATE SOCIAL RESPONSIBILITY

We make active efforts to be socially responsible, as evidenced by our cooperative relationship with the local communities where our operations are located, which allows us to maintain and foster relationships with the local residents, local government institutions and non-governmental organizations in those communities.

We have established programs to provide opportunities for the local communities, such as our community planting programs under which we provide seedlings, fertilizer and technical assistance to farmers near our plantations in Brazil and trees are grown for sale back to us. In Brazil, we set aside apicultural fields for the installation of beehives, and have established projects creating a new income source for local people by teaching them to produce local craft from palm fiber.

We have established financial aid programs for elementary school students from economically disadvantaged families in Jiangxi, China. Sateri Jiangxi was honored as one of “the Most Responsible Enterprises” by the Jiangxi Survey Office of China’s National Bureau of Statistics in 2008.

We also have other programs and initiatives in place to improve road infrastructure, to support education and to encourage local entrepreneurship. These efforts demonstrate our commitment to the local communities and, in return, earn their support for our presence in the areas where our facilities are located.

LEGAL COMPLIANCE

We are subject to extensive environmental, health and safety regulations in Brazil and China that govern our air emissions, disposal of effluents, use, handling, discharge and disposal of solid waste and hazardous materials and forestry practices. We are required to obtain various permits from the relevant governmental authorities in connection with our operations in Brazil and China. Our Directors, our PRC legal advisor and our Brazilian legal advisor (as the case may be) confirm that, to the best of their knowledge, we are in compliance in all material respects with the relevant laws and regulations in relation to our business operations in Brazil and China and have obtained all necessary approvals, permits and licenses in Brazil and China, the absence of which would have a material adverse effect on our business, financial conditions and results of operations as a whole. Our Directors also confirm that, to the best of their knowledge, we have obtained all necessary approvals, permits and licenses elsewhere in the world, the absence of which would have a material adverse effect on our business, financial conditions and results of operations as a whole.

Future changes in environmental, health and safety, water use and electric power laws and regulations in Brazil and China may impose more stringent requirements on our operations. As a result, we may incur increased costs in order to comply with such new laws and regulations or to obtain or renew the required permits for our operations, and this could have a material adverse effect on our business, financial condition and results of operations. Please refer to the section headed “Risk Factors — Risks Relating to Our Business and Industry — We are subject to extensive environmental, health, safety, water use and electric power regulations in Brazil and China and may be adversely affected by the imposition and enforcement of more stringent regulations” in this prospectus for further details.

When we acquired Bahia Specialty Cellulose and Copener, we inherited certain legacy issues from previous owners such as those in relation to non-compliance with the requirements for the creation and maintenance of legal reserve and permanent preservation areas with respect to our rural properties. For example, the relevant regulation requires preservation areas to be specifically identified by way of aerial photos and/or mapping but, prior to their acquisition, Bahia Specialty Cellulose and Copener did not identify such areas in the required manner.

Since the acquisition of Bahia Specialty Cellulose and Copener, we have been engaged with the Bahia State Public Prosecutors Office on this issue. On July 14, 2009, Bahia Specialty Cellulose and Copener entered into a settlement (*Termo de Ajustamento de Conduta*) (TAC) with the Bahia State Public Prosecutor’s Office. In accordance with the TAC, Bahia Specialty Cellulose and Copener were required to pay a sum of R\$1.12 million (US\$0.6 million) as environmental compensation and adopt environmental adjustment measures in order to (i) comply with the 20% of legal reserve requirement in accordance with the applicable

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environmental law; (ii) preserve and maintain permanent preservation areas; and (iii) create an additional specific land reserve (*Reserva Particular de Patrimônio Natural*). Following adoption of these measures, the areas indicated by us are required to be inspected and approved by the IMA and we must then register these areas with the competent real estate registries.

As of the Latest Practicable Date, we had fulfilled the major obligations under the TAC. The remaining outstanding obligations relate to the completion of the IMA's inspection, approval and registration of the preserved areas with the competent real estate registries. We have already submitted all the documents initially required for such inspection and approval to the authorities. As the real estate properties involved in the TAC are located in approximately 25 municipalities, we expect the IMA to take a considerable amount of time to conclude its inspection and approval procedures and that the different competent real estate registry offices will also take a considerable amount of time to make the applicable registrations. Based on our knowledge of the time periods normally taken by the authorities to carry out these procedural formalities, we expect that the full inspection, approval and registration process will be completed within three to four years.

Subject to us fulfilling all the obligations under the TAC, we do not expect any further civil investigatory procedures with respect to our non-compliance with the requirements for the creation and maintenance of legal reserve and permanent preservation areas, either before or after completion of the approval and registration process. However, if we fail to comply with any obligation under the TAC, we may be subject to a pecuniary penalty of R\$100,000 (US\$55,555) for every 30 days of non-compliance. It is possible that such a penalty may be imposed during the period when completion of full approval from the IMA and registration with the real estate registries is pending; however, based on advice given by our Brazilian legal counsel, we believe that this penalty is unlikely to be imposed where obligations are outstanding only due to the necessary formalities of the authorities.

Our Group's legal department has seven in-house legal counsels comprising the head of our Group's legal department, two in-house PRC legal counsels and four in-house Brazilian legal counsels responsible for monitoring our business activities for compliance with local laws and regulations, reporting to and advising our Directors and senior management on how to deal with local regulatory issues. The head of our Group's legal department, who is also the secretary of our Company, has over 16 years of experience as a solicitor qualified in Hong Kong and England and Wales. Please see the section headed "Directors and Senior Management — Company Secretary" in this prospectus. Our Brazilian legal counsels, who are all qualified in Brazil, are led by a Brazilian lawyer who has approximately 20 years of professional experience. Our in-house PRC legal counsels are all qualified lawyers in the PRC. Our legal professionals work closely with our external legal counsel in lawsuits filed by or against us and update our Directors and senior management in a timely manner on the status of the lawsuits so that any remedial actions or recommended adjustments to our operations activities can be carried out as early as possible. We have also established an internal communication policy to ensure that information relating to legal compliance is reported to our Directors and senior management in a timely fashion. In addition, we have adopted a corporate governance manual which was prepared by our company secretary and approved by the Board to cover the policies and procedures in respect of compliance with our continuing obligations under the Listing Rules, which, from a corporate governance perspective, would improve our legal compliance in the jurisdictions where we operate.

RISK MANAGEMENT POLICIES

We have an active program of risk management in our operating subsidiaries in Brazil and China to address and to reduce exposure to property damage and business interruption. All production and sales and marketing units are subjected to regular risk assessments, the results of which receive the attention of senior management. The risk assessment and mitigation programs are coordinated at the Group level in order to achieve a harmonization of methodology and standardization of approach.

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With respect to the risks to our business and operations identified in the section headed “Risk Factors” in this prospectus, we have analyzed each of these risks and the potential implications for our business, and where appropriate we have taken measures in order to mitigate and reduce certain of these risks. In particular, we have taken measures intended to manage the following risks to our business:

- **Access to sufficient wood for our expansion plans:** we currently plan to plant approximately 13,000 hectares of land each year going forward as well as acquire additional plantation land close to our Bahia Specialty Cellulose mill and continue to expand our community tree farming program with local farmers. In addition, through our ongoing research and development activities we aim to improve the yield of the trees in our plantations in terms of volume of wood and content of fiber.
- **Access to sufficient raw materials and increases in the prices of raw materials:** we regularly review our suppliers and the market prices of alternative suppliers to manage our raw materials costs. We maintain key supply relationships with several suppliers but are not currently dependent on any particular suppliers for any of our raw materials and have alternative suppliers available, which allows us to negotiate better prices. In addition, we have entered into long-term agreements with certain suppliers, which helps us to manage cost fluctuations. Going forward, we intend to enter into discussions with our existing suppliers with respect to the provision of raw materials to meet our increased needs, as well as seeking further alternative suppliers.
- **Access to sufficient water supplies:** at our Sateri Jiangxi mill, which obtains all of its water requirements from Poyang Lake, China’s largest freshwater lake, we believe we will have sufficient water to meet our requirements. At our Bahia Specialty Cellulose mill, which obtains all of its water requirements from deep wells, it is currently our practice to save water by suspending the use of certain wells during the day. We are looking at digging deeper wells in the area of the mill and have also started searching for potential alternative sources of water, including wells located within 5 kilometers to 12 kilometers of the mill, superficial water from water barriers within the region, through the implementation of water recycling projects and through the integrated management of our water needs with those of other water users in the Camaçari industrial complex. Additionally, at both our Bahia Specialty Cellulose and Sateri Jiangxi mills, we continue to introduce new technology and implement process improvements to reduce the amount of water required in our production processes.
- **Compliance with environmental, health and safety regulations in Brazil and China:** our Group’s legal department has seven in-house counsels responsible for monitoring our business activities for compliance with local laws and regulations. In Brazil, our management team ensures that all our activities, from planting seedlings to pulp production, are in compliance with quality, environmental and health and safety standards. Bahia Specialty Cellulose’s facilities have been certified under ISO 9001:1994 since 1998, and under ISO 9001:2000 since 2003, while its environmental management system has been certified under ISO 14001:2004 since 2005. We maintain all of the environmental licenses that are required for our operations in Brazil, and have an annual supply plan for our wood harvesting and transportation activities that enables us to comply with all relevant harvesting limits imposed under our sustainable forestry management licenses. In China, we have obtained in all material respects the necessary environmental approvals and received all necessary permits for our Sateri Jiangxi mill. The environmental management system at our Sateri Jiangxi mill is certified under ISO 14001:2004.
- **Legal proceedings brought against us in the ordinary course of our business operations:** the seven in-house counsels at our Group’s legal department are also responsible for managing our legal proceedings, including working closely with external legal advisors that we instruct in lawsuits filed by or against us and updating our Directors and senior management in a timely manner on the status of lawsuits so that appropriate remedial actions or adjustments to our operations can be carried out as early as possible. Our management and legal personnel are able to deal with all of our current legal proceedings as part of normal business operations.

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- **Compliance with tax laws and regulations, including transfer pricing rules, in the relevant jurisdictions:** we believe we comply in all material respects with the relevant tax regimes in the jurisdictions in which we operate including Brazil, China, Macau and Switzerland. We have operations in various geographical locations including Brazil, China, Macau and Switzerland, and our cross-border transactions are governed by the local transfer pricing regulations in each respective jurisdiction. The Company has tax teams in China and Brazil to deal with tax and transfer pricing related issues. They report to their respective local financial controllers and ultimately to our chief accountant. To ensure compliance with the relevant tax regimes and transfer pricing rules, our management also engages external legal and tax advisors from time to time. During the Track Record Period, we made all required tax filings under the relevant tax laws and regulations in the respective jurisdictions in which we operate, paid all outstanding tax liabilities and were not subject to any material dispute or potential dispute with the tax authorities other than as disclosed in the section headed “— Legal Proceedings” below. For further details, see the sections headed “Financial Information — Key Factors Affecting our Results of Operations and Financial Condition” in this prospectus and “Taxation” set out in Appendix VII to this prospectus.
- **Employee and labor matters:** we have management personnel in Brazil and China who deal with issues relating to employees and benefits. In addition, our legal teams in both Brazil and China are responsible for liaising with our management personnel and ensuring that we are in compliance with all applicable labor-related laws and regulations.

LEGAL PROCEEDINGS

We are party to a number of legal actions arising from our normal business activities, including general civil, tax and labor litigation, adverse possession disputes and claims over property rights in Brazil, and administrative and environmental proceedings. As of June 30, 2010, we were involved in approximately 565 claims with an aggregate value of approximately US\$36.8 million in which our Brazilian legal advisors, based on the reports and assessments made by our legal counsels, have evaluated our risk of loss as probable or possible. As of June 30, 2010, of the 565 claims mentioned above, we were involved in approximately 290 claims with an aggregate value of approximately US\$9.4 million in which our risk of loss has been evaluated as probable. We have made a provision in respect of this amount. As of June 30, 2010, of the 565 claims mentioned above, we were also involved in approximately 275 claims with an aggregate value of approximately US\$27.4 million in which our risk of loss has been evaluated as possible but not probable, but have made no provision in respect of this amount. All of the claims in respect of which our risk of loss has been evaluated as probable or possible are in respect of proceedings in Brazil. See note 33 to the Accountants’ Report set out in Appendix I to this prospectus for further information. We set out below details of those significant claims for which we have made a provision based on the evaluation of our risk of loss, as well as details of those claims where we have not made any provision due to the lower risk of loss, but which nonetheless would not have a material adverse effect on our financial position or results of operations.

Our management and legal personnel are able to manage all of these claims as part of our normal business operations, and we do not believe that a negative outcome in these disputes, individually or in the aggregate, will have a material adverse effect on our financial position or operations as a whole.

Proceedings in Brazil Evaluated as Probable Loss

We are a party to a number of labor, tax and civil disputes in Brazil in which our Brazilian legal advisors, based on the reports and assessments made by our legal counsels, have evaluated our risk of loss as probable. We are currently involved in a total of approximately 243 disputes in Brazil involving potential labor liabilities classified as probable loss. The single largest of these disputes involves a total potential liability of approximately R\$2.3 million (US\$1.3 million), and none of the others involves a potential liability in excess of approximately R\$863,000 (US\$479,000). These labor claims mainly relate to joint and secondary liabilities in relation to our third party contractors. There were no material losses caused to the Group by any labor dispute during the Track Record Period.

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We are also currently party to a total of four proceedings relating to potential Brazilian tax liabilities classified as probable loss. These proceedings relate to disputes on the collection of federal taxes on rural property and disputes as to amounts eligible for offsetting in respect of certain tax credits. The single largest of these disputes involves a total potential liability of approximately R\$1.3 million (US\$722,000) and none of the others individually involves a potential liability in excess of approximately R\$227,000 (US\$126,000). Further we are also party to a total of three civil lawsuits in Brazil classified as probable loss, and the single largest of these disputes involves a total potential liability of approximately R\$256,000 (US\$142,000) in respect of a sales contract entered into by Copener in its ordinary course of business. None of the other disputes involves a potential liability in excess of approximately R\$14,000 (US\$8,000). We are party to one claim involving potential environmental liability classified as probable loss with a potential liability of approximately R\$514,000 (US\$286,000) in relation to an environmental dispute involving Copener in respect of natural reserves, which existed before we acquired Copener in 2003.

There are a number of possessory disputes classified as probable loss relating to our plantation land in Brazil. There are currently a total of 26 possessory actions filed by us against unauthorized occupiers of our land relating to approximately 6% of our total plantation land. In the event that we are not successful in such actions, we may not necessarily lose the right of possession, but we would not hold full title to such properties and, therefore, would not be able to sell, dispose of or grant mortgages over them. In addition, there are currently a total of 14 possessory actions filed against us with respect to less than 2% of our total plantation land. In the event that we fail to successfully defend these claims, we may lose the right of possession of the plantation land. However, we do not believe that a negative outcome in these proceedings would have a material adverse effect on our financial position and operations as a whole, as given the nature of these proceedings, they are not expected to result in the payment of any compensation by us other than court fees and counsel's costs.

Proceedings in Brazil Evaluated as Possible Loss

We are a party to a number of labor, tax and civil disputes in Brazil in which our Brazilian legal advisors, based on the reports and assessments made by our legal counsels, have evaluated our risk of loss as possible but not probable. We are currently involved in a total of 225 disputes in Brazil involving potential labor liabilities classified as possible loss. The single largest of these claims involves an estimated amount of approximately R\$10 million (US\$5.6 million) and is made by SINDICELPA, the labor union representing some of the employees of Bahia Specialty Cellulose, for the payment of alleged legally required risk premiums on workers' wages at our Bahia Specialty Cellulose mill. The other labor claims classified as possible loss mainly relate to joint and secondary liabilities in relation to our third party contractors. None of these claims involves a potential liability in excess of approximately R\$3.0 million (US\$1.7 million).

We are also currently party to a total of 23 proceedings relating to potential Brazilian tax liabilities classified as possible loss. These proceedings relate to disputes on the collection of federal taxes, as well as on the collection of goods and services taxes charged by Brazilian states. The single largest of these disputes involves a total potential liability of approximately R\$4,000 (US\$2,200) and none of the others individually involves a potential liability in excess of approximately R\$2,000 (US\$1,100). Further we are also party to a total of 26 civil lawsuits classified as possible loss, including an arbitration in Brazil. The single largest of these disputes involves a total potential liability of approximately R\$7.2 million (US\$4.0 million) relating to compensatory and moral damages for an alleged breach of contract. None of the other disputes involves a potential liability in excess of approximately R\$1.2 million (US\$667,000).

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Proceedings Relating to Kuitu Oy

In February 2003, we acquired 100% of the shares in Kuitu Oy, a manufacturer of viscose staple fibers based in Finland with an annual production capacity of 60,000 metric tons, targeting mainly the European and US markets and its day-to-day operations and sales were managed from Finland and Switzerland. Subsequently, as part of our strategy to focus on Chinese markets, we reorganized our European viscose staple fibers subsidiaries, including Kuitu Oy, under Goodwood Venture and disposed of a 70% interest in Goodwood Venture to an independent third party for approximately US\$3.7 million in January 2007. This consideration was determined on the basis of commercial negotiations between us and the independent party and was based on the consolidated net asset value of Goodwood Venture and its subsidiaries at that time. Please see the section headed “History and Reorganization” for further details on our acquisition and subsequent disposal of Kuitu Oy.

Kuitu Oy filed for bankruptcy in December 2008 owing to its inability to meet its creditor obligations as a result of the global financial crisis, and a Finnish liquidator was appointed to execute liquidation proceedings in respect of its assets and liabilities. As we considered it unlikely that we would be able to realize any return on our remaining 30% interest in Kuitu Oy’s holding company, Goodwood Venture, or collect any of the outstanding amounts due to us from Kuitu Oy and Goodwood Venture’s subsidiaries, we wrote off approximately US\$10 million in respect of the remaining investment cost and the outstanding balances due to us in 2008. In August 2009, we disposed of our remaining 30% interest in Goodwood Venture to a company controlled by our Ultimate Controlling Shareholder for a nominal consideration of US\$1.00. Apart from the write off of approximately US\$10 million, the bankruptcy of Kuitu Oy did not have a material impact on the Group’s operations or financial condition, as our interest in Kuitu Oy represented a minority holding in a non-core area of our business, and we had no further liability towards Kuitu Oy’s other creditors as a holder of fully paid up shares.

In October 2009, the bankruptcy estate of Kuitu Oy filed two actions in Finland, one action against Sateri Singapore and one action against Sateri International. The action against Sateri Singapore was also filed in Singapore and the action against Sateri International was also filed in Switzerland.

The action against Sateri Singapore seeks to set aside the 2003 purchase of a 30% interest in Sateri Jiangxi by Kuitu Oy from Sateri Singapore on the allegation that the purchase agreement in respect of the 30% interest in Sateri Jiangxi was a gift-like arrangement, under which Kuitu Oy was not conferred, in return, any economic benefits for its investment in Sateri Jiangxi (the “**First Claim**”). Accordingly, the First Claim seeks to have Kuitu Oy’s existing 18.9% interest in Sateri Jiangxi transferred back to Sateri Singapore and for Sateri Singapore to refund approximately EUR18.2 million (US\$22.4 million) and interest costs from the disbursement of each installment of the consideration paid for the Sateri Jiangxi shares since April 2003. In Finland, Sateri Singapore has filed a procedural plea in the Finnish court claiming that the court is not competent to hear the First Claim. In Singapore, Sateri Singapore has filed a defense stating that there is no basis for the First Claim and that the First Claim is time barred under Singapore law and, accordingly, it should be struck out. Kuitu Oy has also filed an application for a stay of the legal proceedings in Singapore so that the Finnish courts can decide if they have jurisdiction in the matter. As a result, legal proceedings in Singapore have been postponed until the earlier of the date of the first instance judgment of the Finnish court on the issue of jurisdiction or December 6, 2010.

The action against Sateri International, which is also against SISA, a company formerly owned by Sateri International, alleges that the transfer of the VISIL patent and trademark from Kuitu Oy to SISA as well as the purported transfer of the sales and marketing functions of Kuitu Oy to SISA in 2005 was not based on fair and commercial terms and was conducted at an undervalue (the “**Second Claim**”). Accordingly, the Second Claim seeks to claim approximately EUR41.5 million (US\$51.0 million), being the difference between the consideration paid and the value alleged by the claimant. The Second Claim has also been similarly filed in Switzerland. In the Swiss courts, both Sateri International and SISA have filed an objection to the competency of the liquidator of Kuitu Oy in bringing the action. The defendants contend that the liquidator of Kuitu Oy must first register the bankruptcy of Kuitu Oy in the Swiss courts. This has been done and a Swiss liquidator has been appointed. We are currently awaiting the decision of the Swiss liquidator as to whether to proceed with the Second Claim or not.

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In connection with the Second Claim, the bankruptcy estate of Kuitu Oy is also making a joint claim against SISA and Sateri International for the amount of EUR9.0 million (US\$11.1 million) which it has alleged is the amount of profit earned by SISA from 2005 to 2008 that is attributable to profits that Kuitu Oy could have made had the transfer of its sales function to SISA not taken place (the “**Third Claim**”). It is further alleged that SISA distributed this amount of profit to Sateri International.

Having considered the advice given by our legal advisors in relation to the above legal proceedings, we believe that both Sateri Singapore and Sateri International have high chances of success in defending against each of the First Claim, the Second Claim and the Third Claim brought by the bankruptcy estate of Kuitu Oy and that our risk of loss in each of these claims is remote, and consequently we have not made any provision in respect of these claims. Even if we are ultimately unsuccessful in defending the claims against Sateri Singapore and Sateri International, we believe that the outcome of these proceedings would not have a material adverse effect on our financial position and results of operations. If Sateri Singapore is unsuccessful in defending the First Claim, Kuitu Oy will transfer its 18.9% interest in Sateri Jiangxi to Sateri Singapore upon payment of the amount claimed, which represents the approximate current book value of this interest. In addition, our resulting ability to consolidate 100% of Sateri Jiangxi’s financial results in the future should further help to offset any impact to us of losing the claim against Sateri Singapore. The aggregate amounts claimed under the Second Claim and the Third Claim against Sateri International represent less than 5% of Sateri International’s equity as of June 30, 2010. We would have sufficient cash resources to settle these claims if our defense of these claims were to be unsuccessful.

Although the bankruptcy estate of Kuitu Oy can exercise Kuitu Oy’s 18.9% interest in Sateri Jiangxi, this will have no material effect on our business operations and financial position since we remain in control of a majority interest of over two-thirds in Sateri Jiangxi (which is above the voting level needed in matters requiring shareholder approval under PRC law) and all the existing directors of Sateri Jiangxi were appointed by us. Apart from certain exceptional items, such as changes to registered capital or amending the articles of association that require the unanimous approval of all directors, one of whom Kuitu Oy is entitled to appoint, we are able to continue to make all operational decisions and carry out our current expansion plans in respect of Sateri Jiangxi by two-thirds majority board approval.

Our Directors confirm that, save for the matters disclosed above, the Group will not assume any further liabilities (either actual or contingent) as a result of the bankruptcy of Kuitu Oy.

Gold Silk, our immediate Controlling Shareholder, has entered into the Deed of Indemnity with the Company (for ourselves and as trustee for each of our subsidiaries) pursuant to which it has agreed to indemnify each member of the Group against all losses, liabilities, costs and expenses suffered or incurred by it arising out of or in connection with the Second Claim and the Third Claim. Gold Silk has not given any indemnity in respect of (a) the First Claim on the basis that, if Sateri Singapore is unsuccessful in defending the First Claim, Kuitu Oy will transfer its 18.9% interest in Sateri Jiangxi to Sateri Singapore upon payment of the amount claimed and (b) the legal proceedings in Brazil on the basis that all of such legal proceedings arose from our normal business activities as opposed to the legal proceedings relating to Kuitu Oy which arose in connection with the strategic reorganization of our European viscose staple fibers subsidiaries as described above.

Save as disclosed in this section, as of the Latest Practicable Date no member of the Group was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against the Group, that would have a material adverse effect on its business, financial condition or results of operations.

FINANCIAL INFORMATION

You should read the following discussion and analysis together with our combined financial statements, including the related notes, contained in the Accountants' Report set out in Appendix I to this prospectus. Certain information contained in the discussion and analysis set forth below and elsewhere in this prospectus includes forward-looking statements that involve risks and uncertainties. See the section headed "Risk Factors" in this prospectus for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in this prospectus.

SELECTED COMBINED FINANCIAL DATA

The table below summarizes our combined statements of comprehensive income for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	(unaudited)				
	(US\$ in thousands)				
Revenue	272,167	382,259	551,998	180,982	440,862
Cost of sales	(165,616)	(303,966)	(341,891)	(154,511)	(198,208)
Gross profit	106,551	78,293	210,107	26,471	242,654
Increase (decrease) in fair value of forestation and reforestation assets	—	—	23,246	—	(524)
Other income and gains (losses)	9,889	32,880	(1,995)	(3,955)	1,947
Impairment loss on amounts due from subsidiaries of an associate	—	(4,945)	—	—	—
Changes in fair value of derivative financial instruments . .	13,572	(21,223)	1,832	10,426	233
Gain on settlement of derivative financial instruments . . .	42,546	4,290	18,391	891	49
Selling and distribution expenses	(13,669)	(28,486)	(43,776)	(20,570)	(26,342)
Administrative expenses	(43,315)	(44,573)	(41,209)	(21,342)	(28,184)
Impairment loss recognized in respect of property, plant and equipment	—	—	(20,013)	—	—
Share of result of an associate	4,025	(5,421)	—	—	—
Finance costs	(11,895)	(22,808)	(36,414)	(18,576)	(12,327)
Imputed interest on advance from a related party	—	—	(5,755)	(2,877)	(2,877)
Profit (loss) before tax	107,704	(11,993)	104,414	(29,532)	174,629
Income tax (expense) credit	(4,205)	2,532	3,016	15,432	(8,065)
Profit (loss) for the year/period	<u>103,499</u>	<u>(9,461)</u>	<u>107,430</u>	<u>(14,100)</u>	<u>166,564</u>
Other comprehensive income (expense)					
Exchange differences arising on translation	7,548	8,806	(172)	394	541
Share of exchange difference of an associate	148	—	—	—	—
Other comprehensive income (expense) for the year/period.	<u>7,696</u>	<u>8,806</u>	<u>(172)</u>	<u>394</u>	<u>541</u>
Total comprehensive income (expense) for the year/period .	<u>111,195</u>	<u>(655)</u>	<u>107,258</u>	<u>(13,706)</u>	<u>167,105</u>

FINANCIAL INFORMATION

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	(unaudited)				
	(US\$ in thousands)				
Profit (loss) for the year/period attributable to:					
Owners of the Company	94,966	(3,979)	106,867	(14,597)	165,064
Non-controlling interests	8,533	(5,482)	563	497	1,500
	<u>103,499</u>	<u>(9,461)</u>	<u>107,430</u>	<u>(14,100)</u>	<u>166,564</u>
Total comprehensive income (expense) attributable to:					
Owners of the Company	101,044	4,729	105,883	(12,973)	165,484
Non-controlling interests	10,151	(5,384)	1,375	(733)	1,621
	<u>111,195</u>	<u>(655)</u>	<u>107,258</u>	<u>(13,706)</u>	<u>167,105</u>
Earnings (loss) per Share					
- basic (US\$)	<u>0.03</u>	<u>(0.00)</u>	<u>0.04</u>	<u>(0.01)</u>	<u>0.06</u>

Set forth below are the sales volumes, revenue and average selling prices for each segment and the businesses engaged in the sale of cellulose products, namely Bahia Specialty Cellulose and DP Macao, for the periods indicated. Unless stated otherwise, throughout this section, all amounts are excluding intercompany sales.

Segments/Business	Year ended December 31,									Six months ended June 30,					
	2007			2008			2009			2009			2010		
	Sales volume	Revenue	Average selling price ⁽¹⁾	Sales volume	Revenue	Average selling price ⁽¹⁾	Sales volume	Revenue	Average selling price ⁽¹⁾	Sales volume	Revenue	Average selling price ⁽¹⁾	Sales volume	Revenue	Average selling price ⁽¹⁾
	(unaudited)														
	(metric tons)	(US\$ in thousands)	(US\$ per metric ton)	(metric tons)	(US\$ in thousands)	(US\$ per metric ton)	(metric tons)	(US\$ in thousands)	(US\$ per metric ton)	(metric tons)	(US\$ in thousands)	(US\$ per metric ton)	(metric tons)	(US\$ in thousands)	(US\$ per metric ton)
Cellulose products ⁽²⁾															
Bahia Specialty Cellulose ⁽²⁾⁽³⁾	79,109	93,593	1,183	121,178	117,915	973	354,368	314,124	886	135,691	94,300	695	192,820	276,750	1,435
DP Macao ⁽⁴⁾⁽⁵⁾															
Dissolving wood pulp ⁽⁶⁾	9,038	13,271	1,468	52,087	55,262	1,061	43,899	42,528	969	—	—	—	53,265	74,227	1,394
Other pulp products ⁽⁷⁾	—	—	—	141,497	84,178	595	142,163	67,740	476	79,032	31,419	398	22,409	14,494	647
Subtotal DP Macao	9,038	13,271	1,468	193,584	139,440	720	186,062	110,268	593	79,032	31,419	398	75,674	88,721	1,172
Total cellulose products	88,147	106,864	1,212	314,762	257,355	818	540,430	424,392	785	214,723	125,719	585	268,494	365,471	1,361
Viscose staple fibers	72,782	165,303	2,271	60,766	124,904	2,055	67,273	127,606	1,897	34,577	55,263	1,598	30,801	75,391	2,448
Total	<u>272,167</u>	<u>635,530</u>	<u>2,271</u>	<u>382,259</u>	<u>606,163</u>	<u>2,271</u>	<u>607,703</u>	<u>551,998</u>	<u>2,271</u>	<u>180,982</u>	<u>180,982</u>	<u>180,982</u>	<u>440,862</u>	<u>1,000,000</u>	<u>2,448</u>

Notes:

- (1) Average selling price is calculated by dividing revenue by sales volume.
- (2) Excludes US\$41.1 million, US\$47.6 million, US\$41.6 million, US\$18.5 million and US\$30.8 million of intercompany sales between Bahia Specialty Cellulose and Sateri Jiangxi for 2007, 2008 and 2009, and the six months ended June 30, 2009 and 2010, respectively, which corresponds to approximately 36,600, 44,800, 54,100, 32,900 and 23,300 metric tons of sales volume for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2009 and 2010, respectively.

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- (3) Comprises sales of dissolving wood pulp produced by Bahia Specialty Cellulose to external customers.
- (4) Includes revenue derived from the sale of cellulose products (including dissolving wood pulp and other pulp products) primarily sourced from TPL. The average selling price of the DP Macao business is affected by product mix because of the lower price of other pulp products compared to dissolving wood pulp. The results of the DP Macao business for 2007 reflect one month of operations from December 2007. Excludes nil, US\$1.8 million, US\$4.3 million, US\$1.9 million and US\$3.1 million of intercompany sales between DP Macao and Sateri Jiangxi for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2009 and 2010, respectively.
- (5) Excluding intercompany sales, our DP Macao business sold US\$13.3 million, US\$55.3 million, US\$42.5 million, nil and US\$74.2 million of dissolving wood pulp and nil, US\$84.2 million, US\$67.7 million, US\$31.4 million and US\$14.5 million of other pulp products for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2009 and 2010, respectively.
- (6) Comprises principal trading sales of dissolving wood pulp by DP Macao to external customers that was primarily sourced from TPL.
- (7) Comprises principal trading sales of other pulp products by DP Macao to external customers that were primarily sourced from TPL.

OVERVIEW

We are one of the largest specialty cellulose producers in the world, producing dissolving wood pulp at our mill in Brazil and viscose staple fibers at our mill in China. We also operate our own wood plantations in Brazil which provide us with a secure and stable supply of eucalyptus wood, the principal raw material used in our production of dissolving wood pulp.

Our business model allows us to maintain a cost competitive operating structure and benefit from economies of scale. Our integrated upstream dissolving wood pulp business and downstream viscose staple fibers business allow us to take advantage of market opportunities at multiple points of the value chain, price our products competitively and maximize our profit on a consolidated basis. We participate in every stage of the production process, from research and development and planting of seedlings of eucalyptus trees to the production of dissolving wood pulp and viscose staple fibers. Our plantations have a relatively short harvest cycle and as a result are more productive, which means that the cost of our wood is lower than that produced by many other plantations elsewhere where the harvest cycle is longer. In addition, our mills are strategically located to keep our transportation costs low: our dissolving wood pulp mill at Bahia Specialty Cellulose is only approximately 155 kilometers from our wood sources on average and approximately 50 kilometers from Port of Salvador, a deep water port; and our viscose staple fibers mill at Sateri Jiangxi is located near Poyang Lake, with convenient access to water transportation on the Yangtze River and in close proximity to customers in the textile production centers in China. Moreover, all of our production facilities are located in countries where we are able to access cost competitive labor.

The short harvest cycle of our plantations and low transportation and labor costs, together with the advanced production processes we utilize at our mills using modern equipment, allow us to enhance our cost competitiveness. As a percentage of cost of sales, the cost of wood used as a raw material (which includes tree plantation and maintenance costs, harvesting, transportation, road maintenance as well as depletion charges) was 11.0%, 6.6%, 16.7%, 15.7% and 16.6% for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2009 and 2010, respectively.

We have approximately 150,000 hectares of plantation land, of which approximately 92,000 hectares are covered by our licenses for operating wood plantation activities with the remaining plantation land being either legal reserve or permanent preservation areas under Brazilian law, land used for infrastructure, or land which is not suitable for eucalyptus planting, for example, due to streams or other bodies of water. Of the 92,000 hectares covered by our licenses, approximately 84,000 hectares are productive and/or plantable. Eucalyptus wood is the principal raw material used in our production of dissolving wood pulp.

Our Bahia Specialty Cellulose mill has a design annual production capacity of 465,000 metric tons of dissolving wood pulp across two production lines and produces both rayon grades and specialty grades of pulp. The second production line at this mill, which was completed in 2008, has a design annual production capacity of 350,000 metric tons and is capable of switching production between rayon grades and specialty grades of pulp. For the year ended December 31, 2009 and the six months ended June 30, 2010, the utilization rate at our Bahia Specialty Cellulose mill was approximately 79% and 95%, respectively, based on the design

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annual production capacity during those periods. Our Bahia Specialty Cellulose mill is capable of supplying all of the dissolving wood pulp currently required for our viscose staple fibers production. In addition, we expect to expand the design annual production capacity of this mill to 550,000 metric tons by the end of 2013.

Our Sateri Jiangxi mill had a design annual production capacity of 120,000 metric tons of viscose staple fibers as of the Latest Practicable Date and currently produces regular viscose staple fibers. For the year ended December 31, 2009 and the six months ended June 30, 2010, the utilization rate at this mill was approximately 111% and 118%, respectively, based on the design annual production capacity during those periods. We completed the construction of, and commenced trial production on, one new production line in June 2010 and a second new production line in October 2010. The process of ramp-up and commissioning of the two new lines is expected to be completed by February 2011. Thereafter, we are targeting to further expand the effective annual production capacity of our Sateri Jiangxi mill to 160,000 metric tons by December 2011 through certain process improvements. We intend to commence the production of specialty viscose staple fibers by December 2010. In addition, we are developing a greenfield viscose staple fibers mill with a design annual production capacity of 200,000 metric tons in Putian, Fujian province, China. The project comprises two phases which are expected to commence production in March 2012 and December 2012, respectively. We are currently in the process of obtaining the relevant regulatory approvals and we are not aware of any legal impediment to us obtaining the necessary approvals and licenses for the construction of the Fujian mill.

We estimate that our expansion plans at our Bahia Specialty Cellulose and Fujian mills will require approximately US\$705 million in capital expenditure, of which approximately US\$7 million had been committed or incurred as of June 30, 2010. We intend to finance these capital expenditure with cash generated from our operations, bank borrowings and a portion of the net proceeds from the Global Offering. We expect our expanded production capacity to be a key driver of growth for our revenue and profitability in the future.

By implementing these expansion plans and process improvements, we expect to significantly increase our annual production capacity of our products. We expect to increase the design annual production capacity of dissolving wood pulp at our Bahia Specialty Cellulose mill from 465,000 metric tons to 485,000 metric tons, or an increase of 4.3%, by March 2011 and a further increase from 485,000 metric tons to 550,000 metric tons, or an increase of 13.4%, by December 2013. We also expect to increase the effective annual production capacity of viscose staple fibers at our Sateri Jiangxi from 130,000 metric tons to 160,000 metric tons, or an increase of 23.1%, by the end of 2011 and a further increase from 160,000 metric tons to 360,000 metric tons, or an increase of 125.0%, by December 2012.

We believe we are well placed to implement our expansion plans as we are able to leverage our existing production infrastructure, supplier networks for raw materials and services and sales and marketing offices. Our existing production facilities and the site of our greenfield project are located near well established cities, namely Salvador, Brazil and Jiujiang and Putian, China, where we expect to recruit the additional work force required to support the expansion in our production capacity. We can utilize our current production facilities to train the staff for our new production lines and new mill. We intend to leverage our internal sources and our relationships with our existing suppliers to help meet our increased need for raw materials and also to seek additional suppliers of raw materials as required for our expanded production capacity. We believe we will be able to take advantage of our experience at Sateri Jiangxi to sell and market our Sateri Fujian mill's products through our existing customer networks.

Our results of operations for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010 have been affected, and our results of operations will continue to be affected, by a variety of factors, including:

- demand for and supply of our specialty cellulose products;
- pricing of our specialty cellulose products;
- competition in the industries and markets in which we operate;
- our production capacity expansions and capital expenditure;

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- pricing and consumption of raw materials;
- changes in product mix and production flexibility;
- changes in fair value of forestation and reforestation assets;
- changes in foreign exchange rates;
- effects of level of indebtedness; and
- changes in tax rates.

SIGNIFICANT FACTORS AFFECTING COMPARABILITY OF OUR RESULTS OF OPERATIONS

Recent Economic Situation

Our results of operations and financial performance have been affected by conditions in the capital markets and the economy generally, both in our primary market, China, and elsewhere around the world. The global economic downturn in 2008 and 2009 had a negative impact on our business operations. As a result, China's viscose staple fiber industry and the global demand for downstream products of dissolving wood pulp and viscose staple fibers were negatively affected which resulted in a significant decrease in the average selling price of our products in 2008 and the beginning of 2009, despite our increased sales volume due to the significant expansion of our production capacity.

Since the beginning of 2009, we have experienced a recovery of average selling price and increased sales volume due to increased demand for our products.

The incurrence of net loss and lower gross margin in 2008 was primarily due to the following factors:

- the recent global economic crisis, which was one of the most severe downturns in recent history and negatively affected our business, results of operations, and financial condition in 2008. As a result of the negative impact of the global economic downturn on demand, particularly in China, for viscose staple fibers and dissolving wood pulp, average selling prices declined significantly in 2008. For example, the average selling price of dissolving wood pulp sold by our Bahia Specialty Cellulose business declined by 17.8% from 2007 to 2008 and the average selling price of our viscose staple fibers declined by 9.5% from 2007 to 2008;
- the significant costs associated with the expansion of our Bahia Specialty Cellulose mill that were incurred in 2008; and
- losses relating to write-offs of our investment in Goodwood Venture (approximately US\$10 million) and decrease in fair value of derivative financial instruments (resulting in a decrease in net profit of US\$21.2 million in 2008) as a result of depreciation of the Real against the US dollar from R\$1.77 per US dollar on December 31, 2007 to R\$2.34 per US dollar on December 31, 2008 according to exchange rates published by the Brazilian Central Bank.

See the section headed "Risk Factors — Risks Relating to Our Business and Industry — Global economic conditions, and economic conditions in China and Brazil in particular, could adversely affect the specialty cellulose industry" in this prospectus.

We aim to improve our profit margin and revenue and profit growth going forward through the following:

- increased sales volumes as we continue to expand the design annual production capacity to 550,000 metric tons of dissolving wood pulp at our Bahia Specialty Cellulose mill by December 2013 as well as significantly expanding the effective production capacity of viscose staple fibers at our Sateri Jiangxi mill through full ramp-up of our two new production lines and certain process improvements in 2011;

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- our cost advantages due to having our own wood supply in Brazil and our strategic locations in Brazil and China with low production cost structures compared to our competitors and improved economies of scale; and
- our ability to switch production at our Bahia Specialty Cellulose mill between rayon grades of pulp and specialty grades of pulp depending on customer demand and selling prices. This enables us to increase the diversification of customers and geographical markets, as specialty grades of pulp are in higher demand in certain markets, particularly in Europe and the United States.

Divestment of DP Macao and Acquisition of Sateri Marketing International

Since TPL was acquired by a company controlled by our Ultimate Controlling Shareholder, TPL has sold its pulp products for the international market through our trading operations of DP Macao. TPL's commercial rationale for doing so is that its strength is in the production of pulp products, both paper pulp and dissolving wood pulp, and its strategy is to adjust its production of paper pulp and dissolving wood pulp depending on availability of raw materials and market conditions. As such it does not want to enter into the marketing and sale of its products outside Indonesia. In addition, TPL's lack of an international sales presence and uncertain production of dissolving wood pulp impede its competitive ability to sell directly to customers. As a result, TPL has sold its pulp products internationally through DP Macao.

Beginning in December 2007, DP Macao engaged in principal trading activities relating to the international trading of paper pulp and dissolving wood pulp primarily sourced from TPL and hence any sales of TPL's dissolving wood pulp to customers, including Sateri Jiangxi, were contracted and allocated by DP Macao. The revenue from sales of our DP Macao business accounted for approximately 4.9%, 36.5%, 20.0%, 17.4% and 20.1% of our total revenue in 2007, 2008 and 2009 and the six months ended June 30, 2009 and 2010, respectively. The revenue resulting from intercompany sales of our DP Macao business to our Sateri Jiangxi mill amounted to nil, US\$1.8 million, US\$4.3 million, US\$1.9 million and US\$3.1 million in 2007, 2008, 2009 and the six months ended June 30, 2009 and 2010, respectively. For additional information, see the sections headed "Connected Transactions — Non-Exempt Continuing Connected Transactions — Agency Agreement with DP Macao" and "Relationship with Our Controlling Shareholders — Business Retained By Our Controlling Shareholders" in this prospectus. Except where otherwise noted, the following discussion and analysis in this section headed "Financial Information" in this prospectus includes the results of DP Macao in our combined results of operations and financial position.

Pursuant to the Reorganization, we disposed of our entire shareholding interest in DP Macao to Blue Dot, a company controlled by our Ultimate Controlling Shareholder. Our Company's strategy following the Listing is to focus on producing and selling our own dissolving wood pulp and viscose staple fibers, and not to engage in the trading of paper pulp and dissolving wood pulp produced by other parties as principal, so as to avoid trading risks which could potentially affect our overall profitability. DP Macao's principal business is not in line with this strategy.

For the foregoing reasons and in order to minimize disruptions to our operations and DP Macao's existing paper pulp customers and operations and to allow us to concentrate on our core strategy, we disposed of our entire shareholding interest in DP Macao. Following this disposal, we now sell DP Macao's dissolving wood pulp outside Indonesia as DP Macao's agent through our newly acquired subsidiary, SC International Macao, and earn a fixed commission of 2% on these sales. However, we retained DP Macao's international sales team for dissolving wood pulp, which we have moved to SC International Macao.

As a result of our disposal of DP Macao, our combined results of operations during the Track Record Period may not be indicative of our future performance.

Currently, we believe that no change is anticipated for the principal business activities of DP Macao as it will continue its principal trading operations involving the purchase and sale of TPL's pulp products following the disposal to Blue Dot. The principal trading operations of DP Macao have never been questioned by any tax authorities and we are not aware of such sales giving rise to any tax issue.

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For further details, see the sections headed “History and Reorganization — Our Corporate Reorganization” and “Connected Transactions — Non-Exempt Continuing Connected Transactions — Agency Agreement with DP Macao” in this prospectus. DP Macao is included in our combined financial statements set out in the Accountants’ Report set out in Appendix I to this prospectus.

On September 13, 2010, we acquired the entire issued share capital of Sateri Marketing International, an investment holding company incorporated in the Cayman Islands and a special purpose vehicle formed for the acquisition of SC International Macao, for a nominal consideration of US\$1.00, which represents the net book value of Sateri Marketing International, from Hibiscus Bay, a company controlled by our Ultimate Controlling Shareholder. Prior to such acquisition, Sateri Marketing International acquired the entire issued share capital of SC International Macao from an independent third party on September 2, 2010. SC International Macao ceased its original trading activities following its acquisition by Sateri Marketing International. SC International Macao has certain tax incentives (being the exemption from income tax, industrial tax and stamp duty in Macau) granted to it as a “Macau Commercial Offshore” company. The Macau government discontinued these tax incentives for companies incorporated in Macau intending to engage in overseas selling activities after June 2005, so a newly incorporated entity in Macau would not benefit from these tax incentives. Our acquisition of SC International Macao enables us to continue to take advantage of these tax incentives. In connection with the acquisition of SC International Macao by Sateri Marketing International, Hibiscus Bay agreed to indemnify us in connection with certain liabilities incurred by SC International Macao prior to the acquisition.

Going forward, SC International Macao will act as DP Macao’s agent for the sale of the dissolving wood pulp produced by TPL outside Indonesia pursuant to the terms of the Agency Agreement and will also coordinate all the sales of dissolving wood pulp for our Group, including the allocation of dissolving wood pulp to be sold to customers (which includes intercompany sales to Sateri Jiangxi), depending on the market demand and supply.

As Sateri Marketing International is a newly incorporated company, it has not recorded any revenue or profits and has no assets and liabilities other than its shareholding interest in SC International Macao as of the Latest Practicable Date and has not prepared any historical financial statements.

As of and for the period from the date of incorporation of SC International Macao on November 22, 2007 until December 31, 2008, based on the audited statutory financial statements of SC International Macao, the total assets, total liabilities, revenue and loss after tax of SC International Macao were US\$3.0 million, US\$3.1 million, US\$3.0 million and US\$0.1 million, representing 0.2%, 0.2%, 0.8% and 0.7%, respectively, of those of the Group for the year ended December 31, 2008. As of and for the year ended December 31, 2009, based on the audited statutory financial statements of SC International Macao, the total assets, total liabilities, revenue and profit after tax of SC International Macao were US\$0.3 million, US\$0.3 million, US\$0.3 million and US\$0.1 million, representing less than 0.1%, 0.1%, 0.1% and 0.1%, respectively, of those of the Group.

The disposal of DP Macao and the Agency Agreement between DP Macao and SC International Macao will affect the comparability of our combined financial statements and results of operations during the Track Record Period. We expect that this change to an agency arrangement will result in significantly less revenue and cost of sales generated by SC International Macao as compared to revenue and cost of sales generated by DP Macao during the Track Record Period. The commission income earned by SC International Macao will be recorded under other income and gains (losses) in our combined statements of comprehensive income.

For further details, see the section headed “History and Reorganization — Our Corporate Reorganization — Acquisition of Sateri Marketing International” in this prospectus.

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KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following are the key factors that affect our results of operations and financial condition:

Demand for and Supply of Our Specialty Cellulose Products

Our revenue is largely driven by global market demand for and supply of dissolving wood pulp and viscose staple fibers. Global consumption of specialty cellulose products has fluctuated significantly in recent years due to changing macroeconomic conditions and demographics worldwide, particularly in emerging markets, the development of new downstream applications and increasing environmental awareness.

The global market demand for dissolving wood pulp is primarily driven by the demand for downstream products. For example, the demand for rayon grades of pulp is primarily driven by the demand for viscose staple fibers, which, in turn, is affected by the demand for textiles and non-woven products globally. Population growth worldwide and the increase of personal incomes in emerging markets, particularly in China and India, have increased demand for viscose staple fibers. An increase in the price of competing fabrics also caused increased demand for viscose staple fibers. The continuing development of new applications for specialty grades of pulp, such as liquid crystal display screens, run-flat tires and disposable wipes, has led to demand for dissolving wood pulp in a broader range of industries. In addition, increasing awareness of the environmental impact is shifting consumers' preference away from petroleum-based synthetic products to specialty cellulose-based products, because dissolving wood pulp and viscose staple fiber end-products are fully biodegradable. Furthermore, the market supply and price of substitutes for our products, such as cotton and polyester, also affect the demand for our products.

We expect that changing economic conditions in China, in particular, will have a significant impact on demand for our dissolving wood pulp and viscose staple fibers. Sales to customers in China represented 86.1% and 76.6% of our revenue during the year ended December 31, 2009 and the six months ended June 30, 2010, respectively.

The market supply of dissolving wood pulp and viscose staple fibers depends on global capacity and capacity utilization rate. The production capacities for dissolving wood pulp and viscose staple fibers grew from the early 2000s through 2008. In 2008 and 2009, three large dissolving wood pulp mills ceased production and constrained the global production capacity. Between 2008 and 2009, demand began to rebound and supply incrementally increased. According to PCI Fibres, the market supply of dissolving wood pulp may increase through 2012 as existing producers expand production capacity and new producers enter the market. See the section headed "Industry Overview — Consumption of Dissolving Wood Pulp and Cotton Linter Pulp in China" in this prospectus. To the extent that market supply increases and the increased supply is not taken up, our prices may decrease, in which case our business and results of operations would be adversely affected.

Pricing of Our Specialty Cellulose Products

Our specialty cellulose products are priced according to the supply and demand dynamics of the specialty cellulose industry. Our dissolving wood pulp and viscose staple fibers products are priced by taking into account prevailing market conditions, the quality of our products, our in-hand orders, our inventory levels, prices of raw materials and trends in our downstream industries. The average selling price per metric ton of our cellulose products was US\$1,212, US\$818 and US\$785 in 2007, 2008 and 2009, respectively, and US\$585 and US\$1,361 for the six months ended June 30, 2009 and 2010, respectively. The average selling price per metric ton of our viscose staple fibers was US\$2,271, US\$2,055 and US\$1,897 in 2007, 2008 and 2009, respectively, and US\$1,598 and US\$2,448 for the six months ended June 30, 2009 and 2010, respectively. The market prices for our products fluctuated significantly in the past few years, primarily as a result of the global financial crisis that affected demand for and supply of downstream products manufactured by our customers. In China, our primary market, prices for our products decreased in late 2008 and early 2009, but have increased significantly since the third quarter of 2009. This increase was partially due to the closure of three large dissolving wood pulp mills in 2008 and 2009, which constrained the supply of dissolving wood pulp and supported higher market prices as demand recovered.

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Our market review committee, consisting of our chief executive officer, our director of sales and marketing and our business controller, establish our price ranges on a quarterly basis, and more frequently based on changes in market conditions. Based on this range, our sales team at each subsidiary negotiates prices with our customers for dissolving wood pulp and viscose staple fibers. We primarily sell our rayon grades of pulp and viscose staple fibers through spot sales, short-term sales contracts and monthly and quarterly purchase orders. As we expand our sales of specialty grades of pulp, we plan to enter into contracts for terms of one to three years, consistent with industry practice.

Competition

Our sales and results of operations are also affected by competition in the industries and markets in which we operate.

The dissolving wood pulp market is highly competitive. We are the third largest dissolving wood pulp producer worldwide in terms of design production capacity, according to PCI Fibres. There are 17 major dissolving wood pulp producers currently operating 21 mills worldwide. According to PCI Fibres, the five largest producers, Sappi Saiccor, Sateri, Rayonier, Birla (including AV Group) and Lenzing accounted for approximately 65% of global dissolving wood pulp production capacity in 2009. During 2008 and 2009, three large dissolving wood pulp mills ceased production and constrained the global production capacity. Competition in the rayon grades of pulp segment, which comprises the large majority of our dissolving wood pulp production, is largely based on price and, to a lesser extent, on alpha-cellulose content and quality.

The viscose staple fibers market is also highly competitive. China is currently the largest producer and consumer for viscose staple fibers, representing over 50% of the global market in terms of production output in 2009, according to CCF. There are approximately 40 viscose staple fibers producers in China, five of which had an annual production capacity of above 100,000 metric tons as of June 30, 2010. China's total annual viscose staple fiber production capacity has now reached 1,946,000 metric tons. We currently compete with other viscose staple fiber producers in China, including Shandong Helon from Shandong province, Tangshan Sanyou from Hebei province, Jiangsu Aoyang from Jiangsu province and Fulida from Zhejiang province.

For further details, see the sections headed "Industry Overview" and "Business — Competition" in this prospectus.

We expect competition to further intensify principally due to the entry of new companies and the expansion of production by existing companies of dissolving wood pulp and viscose staple fibers. As a result, we may be required to reduce our prices in response to our competitors' pricing policies. Our ability to maintain or further increase our profitability will primarily depend on our ability to compete by leveraging our market position, product quality and experienced management.

Our Production Capacity Expansions and Capital Expenditure

We recently expanded our production capacity, and we intend to continue expanding our capacity through removing production bottlenecks in our existing operations, organic growth including constructing further production lines and acquisitions to meet continuing growing demand for our products. We believe that our expanded production capacity and the corresponding increase in sales volume will be the key drivers for revenue growth in the future.

We measure our production capacity in terms of the annual metric tons of products that our mills can produce. We also seek to maintain a high capacity utilization rate at all of our production facilities. We seek to operate continuously, safely and efficiently while maintaining low raw material and operating costs. However, if demand for our cellulose products decreases, our capacity utilization rate may decrease, in which case our revenue and profitability would be adversely affected. Our results of operations have been significantly influenced by the expansion and utilization rates of both our Bahia Specialty Cellulose mill and our Sateri Jiangxi mill.

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We completed the expansion of our Bahia Specialty Cellulose mill in Brazil in June 2008, which added a second line of production to the facility. The second line has a design annual production capacity of 350,000 metric tons of dissolving wood pulp. This increased production capacity contributed to a 53.2% increase in sales volume of products from our Bahia Specialty Cellulose business from 2007 to 2008 and a 192.4% increase in such sales volume from 2008 to 2009. These increases were primarily due to the commissioning of the second production line at the facility in October 2008 and the progressive ramp-up to full production on the new production line at that mill, which was partially offset by our determination to cease production for four months at the beginning of 2009 on the first line at that mill in order to allow our personnel to focus on optimizing production on the newly completed expansion.

We expect to further expand the design annual production capacity of our Bahia Specialty Cellulose mill from 465,000 metric tons to 550,000 metric tons by December 2013. As part of this expansion, we intend to further increase the design annual production capacity at our Bahia Specialty Cellulose mill by 20,000 metric tons of dissolving wood pulp by adding equipment that would remove production bottlenecks at the existing line at the mill to increase our production efficiency.

In November 2010, we entered into a US\$470 million syndicated loan which was arranged by internationally recognized financial institutions. Bahia Specialty Cellulose and DPPI are the guarantors and SC International Macao is the borrower of such syndicated loan. This syndicated loan contains certain financial and other covenants, including, among other things, the maintenance of certain financial measures, such as the debt service coverage ratio and debt to EBITDA ratio, and the security package includes a pledge over Bahia Specialty Cellulose's equipment and other moveable assets, a pledge over the wood supply agreement between Bahia Specialty Cellulose and Copener and a second priority mortgage over the real property owned by Bahia Specialty Cellulose in the Camaçari industrial complex. As of June 30, 2010, the net book value of assets pledged in connection with this syndicated loan was US\$1,074.9 million. The net proceeds from this syndicated loan were used to refinance the funding provided for the expansion of our Bahia Specialty Cellulose mill completed in 2008 as follows: (a) approximately US\$193.6 million was used to repay early the existing project finance loan; and (b) approximately US\$263.4 million was used to redeem a portion of the outstanding class 1 preference shares and all of the outstanding class 2 preference shares in the capital of Sateri International owned by Gold Silk, further details of which are set out in the section headed "History and Reorganization — Our Corporate Reorganization" in this prospectus.

The capital expenditure incurred for the second line of production at our Bahia Specialty Cellulose mill was approximately US\$1.0 billion and was financed by a combination of a US\$320 million project finance loan arranged by WestLB, interest-free shareholder loans provided by one of our Controlling Shareholders and cash generated from operations. For further details, see note 38 to our combined financial statements included in the Accountants' Report set out in Appendix I to this prospectus.

We are currently implementing an expansion plan to increase our Sateri Jiangxi mill's effective annual production capacity for viscose staple fibers to up to 160,000 metric tons by December 2011 through certain process improvements.

Pricing and Consumption of Raw Materials

Our results of operations, including our gross margins and net profit/ (loss), were affected by the pricing and consumption of raw materials during the Track Record Period. Changes in the market prices of raw materials, particularly the chemicals used in our production processes, contributed to lower gross margins in 2008 and higher gross margins in 2009.

Raw materials, which comprise wood, chemicals and pulp products, accounted for approximately 52.0% of our cost of sales in 2009 and 53.9% of our cost of sales for the six months ended June 30, 2010. Accordingly, our results of operations are affected by the availability and prices of raw materials. The major raw materials used in our production of dissolving wood pulp are wood and chemicals, while the major raw materials used in our production of viscose staple fibers are dissolving wood pulp and chemicals. Any shortage in the supply of such raw materials will increase their prices, thereby increasing our cost of sales. Although we have our own supply of wood and internally source the majority of our dissolving wood pulp

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requirements, we are highly dependent on certain chemicals in our dissolving wood pulp and viscose staple fiber production process, including carbon disulfide, sulfuric acid, hydrogen peroxide and sodium hydroxide, among others. During 2008 and 2009, the prices of certain chemicals, particularly carbon disulfide and sulfuric acid, fluctuated significantly. In 2008, the prices of certain chemicals we use in our production of dissolving wood pulp increased, including sodium hydroxide, sulfuric acid and carbon disulfide, as demand for certain commodities significantly increased particularly during the first half of 2008. Due to the global economic downturn, prices for these chemicals decreased significantly in 2009, particularly in China where prices of certain chemicals declined at faster rates in 2009 than in Brazil due to an oversupply of certain chemicals due to decreased demand and new suppliers. These fluctuations in market prices and our raw material costs during the Track Record Period resulted in an elevated cost of sales during 2008 which contributed to our net loss while lower raw material prices contributed positively to our gross profit in 2009. As a percentage of cost of sales, the cost of wood used as a raw material was 11.0%, 6.6%, 16.7%, 15.7% and 16.6% in 2007, 2008, 2009 and the six months ended June 30, 2009 and 2010, respectively. The aggregate cost of chemicals used as a raw material at both our Bahia Specialty Cellulose mill and our Sateri Jiangxi mill was 13.7%, 11.8%, 10.9%, 13.6% and 14.3% of our cost of sales in 2007, 2008, 2009 and the six months ended June 30, 2009 and 2010, respectively.

The table below sets forth our average purchase prices for certain chemicals by our Bahia Specialty Cellulose and Sateri Jiangxi mills for the periods indicated. The amounts below are expressed in terms of the applicable currency of the purchase per metric ton of each chemical.

	Year ended December 31,			Six months ended June 30,
	2007	2008	2009	2010
	(per metric ton)			
Bahia Specialty Cellulose				
Sodium hydroxide	US\$467	US\$715	US\$501	US\$311
Sulfuric acid	US\$56	US\$287	US\$115	US\$146
Hydrogen peroxide	US\$447	US\$447	US\$470	US\$445
Sateri Jiangxi				
Sodium hydroxide	RMB1,950	RMB1,970	RMB1,645	RMB1,654
Sulfuric acid	RMB345	RMB1,199	RMB163	RMB388
Carbon disulfide	RMB2,807	RMB6,386	RMB3,157	RMB3,389

For our Bahia Specialty Cellulose mill, we maintain key supply relationships with several suppliers, a number of which are conveniently located within the Camaçari industrial complex where our Bahia Specialty Cellulose mill is located. In addition, our Bahia Specialty Cellulose mill recovers approximately 95% of the chemicals used in its production process, which helps us manage our raw material costs. We currently source all of our wood requirements from our plantations in Brazil, which comprise approximately 84,000 hectares of plantations. See the section headed “Business — Our Wood Plantations” in this prospectus for further details.

Our Sateri Jiangxi mill currently sources the majority of its dissolving wood pulp requirements from our Bahia Specialty Cellulose mill at arm’s length prices. It also sources dissolving wood pulp from TPL via DP Macao, for which historically Sateri Jiangxi has paid arm’s length prices to DP Macao while DP Macao has paid prices to TPL determined by reference to an index of paper pulp prices. Other raw materials are sourced locally from suppliers in China. Our Bahia Specialty Cellulose mill is capable of supplying all of the dissolving wood pulp requirements of our Sateri Jiangxi mill if needed. We currently do not anticipate any material shortage of supply of raw materials for our production in the foreseeable future. However, if these costs increase, our gross margin will be reduced, as we may not be able to pass on the entire amount of these increased costs to our customers by increasing the price of our products.

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Changes in Product Mix and Production Flexibility

Our results of operations have been affected by our product mix during the Track Record Period. Our gross margin and net profit have been positively impacted by our increase in the volume of dissolving wood pulp sold after the expansion of our Bahia Specialty Cellulose mill, which typically has a higher gross margin than the sales of our viscose staple fibers. We derive revenue from the sale of specialty cellulose products, which include dissolving wood pulp and viscose staple fibers. Following the completion of the expansion of our Bahia Specialty Cellulose mill, the majority of our revenue comprised sales of dissolving wood pulp. During the Track Record Period, revenue generated from the sale of dissolving wood pulp from our Bahia Specialty Cellulose business amounted to US\$93.6 million, US\$117.9 million, US\$314.1 million, US\$94.3 million and US\$276.8 million, or 34.4%, 30.8%, 56.9%, 52.1% and 62.8% of our total revenue, in 2007, 2008, 2009 and the six months ended June 30, 2009 and 2010, respectively.

Our dissolving wood pulp includes rayon grades of pulp and, following the expansion of our Bahia Specialty Cellulose mill in 2008, specialty grades of pulp. However, during the Track Record Period, the large majority of our dissolving wood pulp production consisted of rayon grades of pulp, with specialty grades of pulp accounting for less than 7% of total dissolving wood pulp sales. In our viscose staple fibers segment, we currently produce regular viscose staple fibers and, following the expansion of our Sateri Jiangxi mill in 2010, we will be able to produce and sell specialty viscose staple fibers. Further, we are able to utilize the rayon grades of pulp produced at our Bahia Specialty Cellulose mill in the production of viscose staple fibers at our Sateri Jiangxi mill. Although we historically have not produced a significant amount of specialty grades of pulp, we intend to produce an increasing amount of specialty grades of pulp in the medium term.

At our Bahia Specialty Cellulose mill, we currently primarily produce rayon grades of pulp due to high customer demand for these products. However, switching production to specialty grades of pulp does not require significant down time. Our ability to switch between producing rayon and specialty grades of pulp allows us to adjust our production of dissolving wood pulp according to macroeconomic changes and customer demand, which we believe will diversify our revenue streams to mitigate the risks related to a decreased demand or oversupply of any one particular product type. We will also be able to quickly adjust production for and focus marketing efforts on products that have higher profit margins.

Changes in Fair Value of Forestation and Reforestation Assets

A significant factor affecting our financial results for the year ended December 31, 2009 was changes in fair value of our forestation and reforestation assets. For the year ended December 31, 2009 and the six months ended June 30, 2010, changes in fair value of our forestation and reforestation assets resulted in an increase of US\$23.2 million and a decrease of US\$0.5 million, respectively. See the section headed “— Critical Accounting Policies — Forestation and Reforestation Assets” below.

Until 2009, we applied a cost basis methodology for determining the value of our forestation and reforestation assets since we could not reliably determine wood reference prices due to an inactive wood market in the region. Consequently, no fair value adjustment was made. These assets are stated at cost less decrease due to harvest which amounted to US\$104.4 million and US\$138.5 million as of December 31, 2007 and 2008, respectively. However, in 2009, we determined it was appropriate to change our application of IAS 41 (Agriculture) from a cost basis to a fair value methodology based on the contracts we entered into with local farmers for wood used in our cellulose production. These market prices provided reliable inputs for the estimate of the fair value of our forestation and reforestation assets and, accordingly, the forestation and reforestation assets are stated at fair value less costs to sell.

In 2007 and 2008, no external valuation was performed by independent qualified professional valuers on the forestation and reforestation assets as no active market existed for the eucalyptus wood grown in the plantations around Bahia, Brazil. In the absence of an active local community market for wood in the region in Bahia, Brazil, where our plantation land is situated, and absence of other reliable input measures of fair value, our management is of the opinion that the fair value of the forestation and reforestation assets could not be measured reliably and hence such assets are stated at cost less decrease due to harvest at January 1, 2007, December 31, 2007 and 2008.

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No external valuation was performed by independent qualified professional valuers in 2009 and in the six months ended June 30, 2010 for the purposes of preparing the Company's audited financial statements. As of December 31, 2009, we determined that the reference market price for locally sourced wood in the region in Brazil in which our plantation land is situated could be reliably obtained from the prices agreed in the contracts we had entered into with local farmers. Our management believes that such reference market prices obtained in this manner provide reliable inputs for the estimate of the fair value and, accordingly, the forestation and reforestation assets are stated at fair value less costs to sell of approximately US\$177.7 million, with the resulting change in fair value of approximately US\$23.2 million recognized in profit for the year ended December 31, 2009. As of June 30, 2010, the forestation and reforestation assets are stated at fair value less costs to sell of approximately US\$177.7 million, with a decrease in fair value of approximately US\$0.5 million recognized as loss for such six month period.

As of December 31, 2007, 2008 and 2009 and June 30, 2010, on the basis of the valuation methodologies described above, the (i) cost less decrease due to harvest or (ii) fair value, as applicable, of our forestation and reforestation assets was US\$104.4 million, US\$138.5 million, US\$177.7 million and US\$177.7 million, respectively.

For further details on the applicable accounting policies, detailed valuation methodology and the applicable assumptions, see the section headed "— Critical Accounting Policies — Forestation and Reforestation Assets" below and notes 3, 4 and 16 to the Accountants' Report set out in Appendix I to this prospectus.

Changes in Foreign Exchange Rates

Our results of operations, including our gross margins and net profit/(loss), were affected by changes in foreign exchange rates during the Track Record Period, particularly with respect to changes in the exchange rate of the Real to US dollar. Changes in foreign exchange rates affect our revenue and cost of sales as well as our determination of the fair value of forestation and reforestation assets and our derivative financial instruments. The following table sets forth our revenue and cost of sales (excluding intercompany sales) denominated by currency for the periods indicated.

Revenue and Cost of Sales by Currency	Year ended December 31,						Six months ended June 30,			
	2007		2008		2009		2009		2010	
	(US\$ in thousands)	% of revenue and cost of sales, respectively	(US\$ in thousands)	% of revenue and cost of sales, respectively	(US\$ in thousands)	% of revenue and cost of sales, respectively	(US\$ in thousands)	% of revenue and cost of sales, respectively	(US\$ in thousands)	% of revenue and cost of sales, respectively
	(unaudited)									
Revenue										
RMB denominated	90,556	33.3	88,599	23.2	102,233	18.5	46,094	25.5	58,278	13.2
US\$ denominated	134,083	49.3	272,465	71.3	425,594	77.1	126,626	70.0	370,735	84.1
Real denominated	47,528	17.4	21,195	5.5	24,171	4.4	8,262	4.5	11,849	2.7
Total	<u>272,167</u>	<u>100.0</u>	<u>382,259</u>	<u>100.0</u>	<u>551,998</u>	<u>100.0</u>	<u>180,982</u>	<u>100.0</u>	<u>440,862</u>	<u>100.0</u>
Cost of Sales										
RMB denominated	50,809	30.7	56,222	18.5	47,383	13.9	23,229	15.0	23,391	11.8
US\$ denominated	41,421	25.0	167,554	55.1	125,168	36.6	43,806	28.4	66,956	33.8
Real denominated	73,386	44.3	80,190	26.4	169,340	49.5	87,476	56.6	107,861	54.4
Total	<u>165,616</u>	<u>100.0</u>	<u>303,966</u>	<u>100.0</u>	<u>341,891</u>	<u>100.0</u>	<u>154,511</u>	<u>100.0</u>	<u>198,208</u>	<u>100.0</u>

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Our reporting currency is the US dollar. While a portion of the costs of operations at our Bahia Specialty Cellulose mill and our plantations in Brazil are denominated in Real, the majority of our revenue from sales of our dissolving wood pulp are denominated in US dollars. The revenue from sales of viscose staple fibers from our Sateri Jiangxi mill, and most of its costs, are denominated in Renminbi.

As a result, changes in the rates of exchange between the Renminbi and the US dollar and between the Real and the US dollar affect our gross and operating profit margins and result in foreign exchange gains or losses. In addition, foreign exchange fluctuations could result in foreign exchange gains or losses in respect of our assets and liabilities denominated in foreign currencies. The Real appreciated in value against the US dollar by 17.2% in 2007, depreciated by 32.2% against the US dollar in 2008, appreciated 25.6% against the US dollar in 2009 and depreciated against the US dollar by 3.4% in the six months ended June 30, 2010. See the section headed “— Liquidity and Capital Resources — Cash Flows and Working Capital” below.

The majority of our foreign exchange exposure is related to the Real. The revenue of Bahia Specialty Cellulose accounted for 34.4%, 30.8%, 56.9%, 52.1% and 62.8% of our revenue in 2007, 2008, 2009 and for the six months ended June 30, 2009 and 2010, respectively. The cost of sales of Bahia Specialty Cellulose denominated in Real accounted for 44.3%, 26.4%, 49.5%, 56.6% and 54.4% of our cost of sales in 2007, 2008, 2009 and for the six months ended June 30, 2009 and 2010, respectively. An appreciation of the Real against the US dollar causes, among other things, our costs of sales to increase in US dollars, which has a negative effect on our US dollar-denominated results of operations. A depreciation of the Real against the US dollar has converse effects. During the Track Record Period, the exchange rate of Real per US dollar was R\$1.77, R\$2.34, R\$1.74 and R\$1.80 as of December 31, 2007, 2008 and 2009 and June 30, 2010, respectively, according to the exchange rates published by the Brazilian Central Bank. In addition, we record foreign exchange gains or losses with respect to our monetary assets and liabilities that are denominated in Real.

To mitigate the impact of changes in foreign exchange rates on our financial performance, we hedge our projected foreign exchange exposure. Our hedging activities are primarily related to managing our foreign exchange exposure to the Real. To manage our exchange rate exposure to the Real during the Track Record Period, we used currency derivatives to hedge significant future transactions and cash flows and entered into forward foreign exchange contracts and options. As of September 30, 2010, we had outstanding forward foreign exchange contracts to buy US\$175.3 million equivalent of Real to hedge a majority of our anticipated currency exposures in 2010 and 2011. The nature of our foreign exchange exposure changed during the Track Record Period. During 2007, our exposure to the Real primarily related to the significant expenditure costs relating to the expansion of our Bahia Specialty Cellulose mill and ongoing operation costs. In the second half of 2008 and 2009 through the six months ended June 30, 2010, our exposure to the Real shifted to ongoing operation costs relating to the increased production volume of our expanded Bahia Specialty Cellulose mill. For the six months ended June 30, 2010, we recorded a gain of US\$0.2 million in changes of fair value of derivative financial instruments, compared to a gain of US\$10.4 million for the corresponding period in 2009. We incurred these gains primarily due to the significant appreciation of the Real against the US dollar in 2009.

We intend to continue to use forward foreign exchange contracts and options to hedge our foreign exchange risks with respect to the Real. Our future results of operations and financial condition will be affected by exchange rate fluctuations and the cost and success of any hedging activities that we pursue.

In China, since both of the sales and expenses of Sateri Jiangxi are generally denominated in Renminbi, we believe that our currency exposure to Renminbi is not significant.

Level of Indebtedness

As of June 30, 2010, our total outstanding bank borrowings were US\$427.5 million and our indebtedness owed to related parties was US\$145.7 million. Our loans from related parties generally do not bear any interest. The level of our indebtedness results in significant finance costs that are reflected in our combined statements of comprehensive income. Finance costs mainly consist of interest expense on bank borrowings. The interest rates that we pay depend on a variety of factors including the prevailing Brazilian,

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Chinese and international interest rates and the risk assessments conducted by potential lenders of our Company, our industry and the Brazilian and Chinese economies. As of June 30, 2010, 73.3% of our outstanding indebtedness accrued interest at floating rates and the remainder of our outstanding indebtedness was subject to fixed interest rates ranging from 5.31% to 12.0%.

We generally seek to hedge our exposure to fluctuations in interest rates for long-term borrowings by entering into interest rate swaps. Under these derivative contracts, we typically swap floating rates for fixed rates in respect of a notional amount of indebtedness that our management considers appropriate in light of our hedging policies. Accordingly, fluctuations in interest rates generate gains and losses in our combined income statement related to changes in the fair value of our derivatives instruments and the settlement of these instruments.

Income Tax Expenses/Credits

Our financial conditions are affected by the tax exemptions, preferential tax treatment and transfer pricing rules to which we are subject. We are subject to income taxes in a number of jurisdictions as we do business internationally and our future profits will be affected by changes in tax rates in the various jurisdictions where we do business. In particular, our profitability is susceptible to changes in the applicable tax rates in Brazil and China as we carry out a significant amount of our business there. We have operations in various geographical locations including Brazil, China, Macau and Switzerland, and our cross-border transactions are governed by the local transfer pricing regulations in each respective jurisdiction. For further details, see the section headed "Taxation" in Appendix VII to this prospectus.

Our effective income tax rate based on our profit (loss) before taxation for the year ended December 31, 2007 and for the six months ended June 30, 2010 was approximately 3.9% and 4.6%, respectively. For the years ended December 31, 2008 and 2009 and for the six months ended June 30, 2009, there was no effective tax rate imposed on us because we had income tax credits of approximately US\$2.5 million, US\$3.0 million and US\$15.4 million, respectively. For further details, see note 11 to the Accountants' Report set out in Appendix I to this prospectus.

Our operations in the PRC, Brazil and Macau are subject to varying statutory tax rates of 25%, 34% and 12%, respectively. The fluctuations in profit and loss, the different tax rates among different jurisdictions and the amount of non-taxable income during the Track Record Period contributed to the significant fluctuations in our effective income tax rate.

For the year ended December 31, 2007, our effective tax rate was lower than the applicable statutory tax rates primarily due to the preferential tax treatment enjoyed by DP Macao and Sateri Jiangxi. In addition, two of our Brazilian subsidiaries incurred operating losses for that year and, therefore, there was no income tax provision made for these two subsidiaries.

For the year ended December 31, 2008, our loss before taxation resulted in a tax credit of US\$2.5 million. The statutory tax rate charged on profits generated by our Bahia Specialty Cellulose business was offset by losses before tax from the viscose staple fibers segment and other operating expenses.

For the year ended December 31, 2009, we had a tax credit of US\$3.0 million primarily due to tax losses brought forward from prior years to set off against the profit generated from Sateri Jiangxi and our Bahia Specialty Cellulose business for that year, as well as certain unutilized tax losses that were recognized as deferred tax assets.

For the six months ended June 30, 2010, our effective tax rate was lower than the applicable statutory tax rates primarily due to the preferential tax treatment enjoyed by Bahia Specialty Cellulose and Copener, Sateri Jiangxi and DP Macao in Brazil, China and Macau, respectively.

The authorities granting the preferential tax treatment to Bahia Specialty Cellulose, Copener, DP Macao and Sateri Jiangxi and tax exemption to Bahia Specialty Cellulose, Copener and Sateri Jiangxi are the appropriate competent authorities in Brazil, Macau and the PRC as applicable.

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Our income tax expense and net profit were affected by the tax effect of non-taxable income for the Track Record Period of approximately US\$50 million. This tax effect consists of a number of non-taxable gains derived by the Group, primarily including interest income from a related party, gains on settlement of derivative financial instruments and unrealized exchange gains, which collectively total US\$88.1 million, US\$23.1 million, US\$33.2 million and US\$7.4 million for each of the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, respectively. Specifically the more significant non-taxable items are as follows:

- interest income from a related party of US\$24 million, US\$22 million, US\$13 million and US\$7.4 million for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, respectively, which were non-taxable;
- gains on settlement of derivative financial instruments of US\$42.5 million, US\$4.3 million, US\$18.4 million and US\$0.05 million for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, respectively;
- change in fair value of derivative financial instruments of US\$13.6 million, negative US\$21.2 million, US\$1.8 million and US\$0.2 million for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, respectively; and
- unrealized foreign exchange gain of US\$8 million and US\$18 million was recorded by Bahia Specialty Cellulose for the years ended December 31, 2007 and 2008, respectively, and was non-taxable under local tax laws in which the local statutory tax rate would have been 34%.

During the Track Record Period, we made all required tax filings under the relevant tax laws and regulations in the respective jurisdictions in which we operate, paid all outstanding tax liabilities and were not subject to any material dispute or potential dispute with the tax authorities other than as disclosed in the section headed “Business — Legal Proceedings” in this prospectus.

PRINCIPAL COMPONENTS OF RESULTS OF OPERATIONS

Revenue

Our revenue represents sales of goods to customers, net of sales returns and allowances. Our revenue is principally derived from sales of cellulose products and viscose staple fibers to our customers. During the Track Record Period, we mostly sold rayon grades of pulp and regular viscose staple fibers. Intercompany sales of dissolving wood pulp to our Sateri Jiangxi mill are eliminated upon consolidation and therefore are not reflected in our combined revenue. In the years ended December 31, 2007, 2008 and 2009, sales by our cellulose products segment accounted for 39.3%, 67.3% and 76.9% of our revenue, respectively, and sales by our viscose staple fibers segment accounted for 60.7%, 32.7% and 23.1% of our revenue, respectively. For the six months ended June 30, 2009 and 2010, sales by our cellulose products segment accounted for 69.5% and 82.9% of our revenue, respectively, and sales by our viscose staple fibers segment accounted for 30.5% and 17.1% of our revenue, respectively. Our revenue is affected by our production capacity, sales volume and the prices of our products, which depend largely on the overall demand for and supply of, and global market prices for, dissolving wood pulp and viscose staple fibers.

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Revenue by Segment

We are organized into two operating segments: (i) cellulose products; and (ii) viscose staple fibers. During the Track Record Period, our cellulose products segment comprised sales from two businesses, sales of dissolving wood pulp by our Bahia Specialty Cellulose business and sales of dissolving wood pulp and other pulp products by our DP Macao business. During the Track Record Period, the dissolving wood pulp produced by our Bahia Specialty Cellulose mill consisted primarily of rayon grades of pulp, with specialty grades of pulp amounting to less than 7% of total sales. The following table shows our revenue and percentage of total revenue for each segment, as well as the businesses comprising our cellulose products segment, for the periods indicated.

Segments/Businesses	Year ended December 31,						Six months ended June 30,				
	2007		2008		2009		2009		2010		
	Revenue	% of Total	Revenue	% of Total	Revenue	% of Total	Revenue	% of Total	Revenue	% of Total	
	(unaudited)										
	(US\$ in thousands except the percentages)										
Cellulose products ⁽¹⁾											
<i>Bahia Specialty Cellulose</i> ⁽¹⁾⁽²⁾	93,593	34.4	117,915	30.8	314,124	56.9	94,300	52.1	276,750	62.8	
<i>DP Macao</i> ⁽³⁾⁽⁴⁾	13,271	4.9	139,440	36.5	110,268	20.0	31,419	17.4	88,721	20.1	
Total cellulose products	106,864	39.3	257,355	67.3	424,392	76.9	125,719	69.5	365,471	82.9	
Viscose staple fibers	165,303	60.7	124,904	32.7	127,606	23.1	55,263	30.5	75,391	17.1	
Total revenue	272,167	100.0	382,259	100.0	551,998	100.0	180,982	100.0	440,862	100.0	

Notes:

- (1) Excludes US\$41.1 million, US\$47.6 million, US\$41.6 million, US\$18.5 million and US\$30.8 million of intercompany sales between Bahia Specialty Cellulose and Sateri Jiangxi for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2009 and 2010, respectively.
- (2) Comprises sales of dissolving wood pulp produced by Bahia Specialty Cellulose to external customers. During the Track Record Period, sales of cellulose products by our Bahia Specialty Cellulose business consisted entirely of dissolving wood pulp. This dissolving wood pulp consisted primarily of rayon grades of pulp, with specialty grades of pulp amounting to less than 7% of our Bahia Specialty Cellulose business's total sales.
- (3) Includes revenue derived from the sale of cellulose products (including dissolving wood pulp and other pulp products) primarily sourced from TPL. The results of our DP Macao business for the year ended December 31, 2007 reflect one month of operations from December 2007. Excludes nil, US\$1.8 million, US\$4.3 million, US\$1.9 million and US\$3.1 million of intercompany sales between DP Macao and Sateri Jiangxi for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2009 and 2010, respectively.
- (4) Excluding intercompany sales, our DP Macao business sold US\$13.3 million, US\$55.3 million, US\$42.5 million, nil and US\$74.2 million of dissolving wood pulp and nil, US\$84.2 million, US\$67.7 million, US\$31.4 million and US\$14.5 million of other pulp products for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2009 and 2010, respectively.

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Revenue by Geographic Market

We categorize our revenue by geographic market based on the geographic location of our end-customers. During the Track Record Period, the large majority of revenue generated by both our cellulose products segment and our viscose staple fibers segment was derived from our sales in China. We expect that the majority of our revenue for both dissolving wood pulp and viscose staple fibers will be derived from sales in China for the near to medium term. Our strategy is to increase sales outside of China as we expand our production of specialty grades of pulp and specialty viscose staple fibers. The following table shows our revenue by geographic markets for the periods indicated.

Geographic Markets	Year ended December 31,						Six months ended June 30,			
	2007		2008		2009		2009		2010	
	Revenue	% of Total	Revenue	% of Total	Revenue	% of Total	Revenue	% of Total	Revenue	% of Total
(unaudited)										
(US\$ in thousands except the percentages)										
China	196,114	72.0	316,382	82.8	475,094	86.1	159,514	88.1	337,742	76.6
Europe ⁽¹⁾	24,911	9.2	29,740	7.8	35,510	6.4	7,746	4.3	56,614	12.9
Americas ⁽²⁾	51,142	18.8	18,062	4.7	28,522	5.2	12,715	7.0	26,595	6.0
Asia (ex-China) ⁽³⁾	—	—	18,075	4.7	12,872	2.3	1,007	0.6	19,911	4.5
Total revenue	<u>272,167</u>	<u>100.0</u>	<u>382,259</u>	<u>100.0</u>	<u>551,998</u>	<u>100.0</u>	<u>180,982</u>	<u>100.0</u>	<u>440,862</u>	<u>100.0</u>

Notes:

- (1) Primarily consists of revenue derived from sales in Austria, Germany and the United Kingdom.
- (2) Primarily consists of revenue derived from sales in Brazil and the United States.
- (3) Primarily consists of revenue derived from sales in Taiwan.

Cost of Sales

Cost of sales primarily consists of the cost of planting and harvesting our wood, dissolving wood pulp purchased from third parties for our viscose staple fiber business, chemicals, energy and other raw materials. We primarily source wood from our plantations for our dissolving wood pulp production.

The following table sets forth the breakdown of our cost of sales by category for the periods indicated.

Cost of Sales	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	(unaudited)				
(US\$ in thousands)					
Wood	18,178	20,155	57,216	24,281	32,805
Pulp products ⁽¹⁾	43,375	145,575	83,319	30,819	45,692
Chemicals	22,635	35,729	37,292	20,953	28,354
Conversion ⁽²⁾	54,829	61,728	81,894	40,694	46,473
Labor costs	5,698	10,477	18,181	7,370	11,421
Depreciation	13,743	26,117	60,118	27,866	31,767
Others ⁽³⁾	7,158	4,185	3,871	2,528	1,696
	<u>165,616</u>	<u>303,966</u>	<u>341,891</u>	<u>154,511</u>	<u>198,208</u>

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Notes:

- (1) Pulp products includes dissolving wood pulp used by Sateri Jiangxi as a raw material as well as dissolving wood pulp and other pulp products purchased by DP Macao as part of its trading operations during the Track Record Period. The purchases of DP Macao are recorded as cost of sales of the Company.
- (2) Conversion costs include overhead costs, energy and coal costs, and utilities.
- (3) Others includes miscellaneous spare parts, warehouse rental, certain taxes and fees and waste removal.

The following table sets forth our cost of sales and unit cost of production per metric ton for each segment, as well as the businesses comprising our cellulose products segment, for the periods indicated.

Segment/ Businesses	Year ended December 31,						Six months ended June 30,			
	2007		2008		2009		2009		2010	
	Cost of sales	Unit Cost ⁽³⁾	Cost of sales	Unit Cost ⁽³⁾	Cost of sales	Unit Cost ⁽³⁾	Cost of sales	Unit Cost ⁽³⁾	Cost of sales	Unit Cost ⁽³⁾
	(US\$ in thousands)	(US\$ per metric ton)	(US\$ in thousands)	(US\$ per metric ton)	(US\$ in thousands)	(US\$ per metric ton)	(US\$ in thousands)	(US\$ per metric ton)	(US\$ in thousands)	(US\$ per metric ton)
	(unaudited)									
Cellulose products ⁽¹⁾										
<i>Bahia Specialty Cellulose</i> ⁽¹⁾	30,318	383	54,886	453	176,172	497	81,938	604	99,135	514
<i>DP Macao</i> ⁽²⁾	5,875	650	110,199	569	67,894	365	24,859	315	40,342	533
Total cellulose products	36,193	411	165,085	524	244,066	452	106,797	497	139,477	519
Viscose staple fibers ⁽⁴⁾	129,423	1,778	138,881	2,286	97,825	1,454	47,714	1,380	58,731	1,907
Total cost of sales	<u>165,616</u>	<u>1,029</u>	<u>303,966</u>	<u>809</u>	<u>341,891</u>	<u>563</u>	<u>154,511</u>	<u>620</u>	<u>198,208</u>	<u>662</u>

Notes:

- (1) Excludes US\$41.1 million, US\$47.3 million, US\$35.0 million, US\$18.2 million and US\$30.0 million of intercompany cost of sales between Bahia Specialty Cellulose and Sateri Jiangxi for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2009 and 2010, respectively.
- (2) Includes cost of sales incurred from the sale of cellulose products (including dissolving wood pulp and other pulp products) primarily sourced from TPL. The results of our DP Macao business for the year ended December 31, 2007 reflect one month of operations from December 2007. Excludes nil, US\$1.8 million, US\$4.0 million, US\$1.9 million and US\$3.1 million of intercompany cost of sales between DP Macao and Sateri Jiangxi for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2009 and 2010, respectively.
- (3) The unit cost per metric ton may not provide comparable information across our segments and businesses. During the Track Record Period, our cellulose products segment comprised (i) revenue derived from the sale of dissolving wood pulp produced by our Bahia Specialty Cellulose mill and (ii) revenue derived from the sale of dissolving wood pulp and other pulp products by DP Macao pursuant to its principal trading operations, which were primarily sourced from TPL.
- (4) Includes the cost of dissolving wood pulp purchased by Sateri Jiangxi from Bahia Specialty Cellulose at arm's length prices. In order to present our viscose staple fibers segment's costs to reflect the actual arm's length prices at which our Sateri Jiangxi business purchases its dissolving wood pulp requirements from Bahia Specialty Cellulose and third parties, all margin and costs for intercompany sales were eliminated from our Bahia Specialty Cellulose business.

Dissolving wood pulp is the principal raw material used in viscose staple fiber production. Our Sateri Jiangxi mill sources dissolving wood pulp at arm's length prices from our Bahia Specialty Cellulose mill, as well as from other dissolving wood pulp suppliers around the world. We typically source chemicals locally from the countries in which our Bahia Specialty Cellulose and Sateri Jiangxi mills operate. We determine our cost of inventories using the weighted average cost method.

Our plantation costs, which include the cost to purchase seedlings, land preparation expenses and plantations maintenance expenses, are recorded at cost and capitalized on our balance sheet as forestation and reforestation assets. We record a depletion charge every year for forestation and reforestation assets based on the wood we harvest during the year. Such depletion charge is included in our costs of raw materials and our cost of sales.

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Other costs of sales also include depreciation and amortization of assets directly used in our production operations and the salaries and benefits of personnel directly involved in manufacturing activities. We expect our aggregate cost of sales to increase due to our recent and planned expansions of our production capacity.

The changes in our cost of sales during the Track Record Period primarily reflected the operation of our expanded production capacity beginning in the second half of 2008 and the first half of 2009 as well as increased depreciation costs relating to our expanded Bahia Specialty Cellulose mill. In addition, our raw material costs, particularly chemicals, were higher in 2008 due to increases in market prices.

Gross Profit (Loss) by Segment

Gross profit (loss) for each segment represents revenue minus cost of sales. In order to provide a breakdown of our gross profit (loss) and gross margin by segment that illustrates our sales to external customers, we have eliminated intercompany profit, which is the profit attributable to intercompany sales of dissolving wood pulp produced by Bahia Specialty Cellulose to Sateri Jiangxi. The following table summarizes our gross profit (loss) by segment and segment gross margin, as well as the gross profit (loss) and gross margin for the businesses comprising our cellulose products segment and our total gross profit and margin for the periods indicated.

Segments/Businesses	Year ended December 31,						Six months ended June 30,			
	2007		2008		2009		2009		2010	
	Gross profit (loss) by segment	Gross margin by segment	Gross profit (loss) by segment	Gross margin by segment	Gross profit (loss) by segment	Gross margin by segment	Gross profit (loss) by segment	Gross margin by segment	Gross profit (loss) by segment	Gross margin by segment
	(unaudited)									
	(US\$ in thousands except the percentages)									
Cellulose products ⁽¹⁾										
<i>Bahia Specialty Cellulose</i> ⁽¹⁾⁽³⁾	63,275	67.6%	63,029	53.5%	137,952	43.9%	12,362	13.1%	177,615	64.2%
<i>DP Macao</i> ⁽⁴⁾	7,396	55.7%	29,241	21.0%	42,374	38.4%	6,560	20.9%	48,379	54.5%
Total cellulose products	70,671	66.1%	92,270	35.9%	180,326	42.5%	18,922	15.1%	225,994	61.8%
Viscose staple fibers ⁽²⁾	35,880	21.7%	(13,977)	(11.2)%	29,781	23.3%	7,549	13.7%	16,660	22.1%
Total gross profit	106,551	39.1%	78,293	20.5%	210,107	38.1%	26,471	14.6%	242,654	55.0%

Notes:

- (1) Excludes intercompany profit of nil, US\$275,000, US\$6.5 million, US\$318,000 and US\$812,000 for 2007, 2008 and 2009, and the six months ended June 30, 2009 and 2010, respectively.
- (2) Includes the cost of dissolving wood pulp purchased by Sateri Jiangxi from Bahia Specialty Cellulose at arm's length prices. In order to present our viscose staple fibers segment's costs to reflect the actual arm's length prices at which our Sateri Jiangxi business purchases its dissolving wood pulp requirements from Bahia Specialty Cellulose and third parties, all margin and costs for intercompany sales were eliminated from our Bahia Specialty Cellulose business.
- (3) Represents gross profit and gross margin of dissolving wood pulp produced by Bahia Specialty Cellulose and sold to external customers.
- (4) Represents gross profit and gross margin derived from the sale of cellulose products (including dissolving wood pulp and other pulp products) primarily sourced from TPL. The results of the DP Macao business for 2007 reflect one month of operations from December 2007.

Gross margins of our Bahia Specialty Cellulose business were generally higher than gross margins of our DP Macao business during the Track Record Period (except for the six months ended June 30, 2009), primarily because a significant portion of the products sold by DP Macao were other pulp products, which generally had a lower profit margin. During the six months ended June 30, 2009, our DP Macao business had a higher profit margin than our Bahia Specialty Cellulose business due to the increased costs related to our Bahia Specialty Cellulose mill including charges related to the temporary shutdown of the first production line to allow for the ramp-up of our expanded production line, while DP Macao sold primarily other pulp products which had a different profit margin during such period. Gross margins for DP Macao in

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2008 and the six months ended June 30, 2009, were low primarily due to the comparatively lower profit margin for other pulp products which, as demand for dissolving wood pulp decreased significantly due to the global economic downturn, comprised a higher percentage of sales in 2008 and the six months ended June 30, 2009.

Increase/(Decrease) in Fair Value of Forestation and Reforestation Assets

Our forestation and reforestation assets are subject to changes in fair value valuation each year and changes in the fair value are recorded as a gain or loss in our combined statement of comprehensive income. In 2009, due to a change in our valuation method, we recognized a gain of US\$23.2 million in our combined statement of comprehensive income. For the six months ended June 30, 2010, we recognized a decrease in fair value of forestation and reforestation assets of US\$0.5 million.

For further details, see the sections headed “— Key Factors Affecting Our Results of Operations and Financial Condition — Changes in Fair Value of Forestation and Reforestation Assets” above and “— Critical Accounting Policies — Forestation and Reforestation Assets” below.

Other Income and Gains (Losses)

Other income and gains (losses) primarily consist of rental income and bank interest income, interest income and service income from a related party, foreign currency exchange gain (loss), and impairment loss in respect of intangible assets and claim receivables (other long-term assets). Interest income from a related party is related to loans advanced to Pinnacle for the purpose of its acquisition of TPL in December 2007. During the Track Record Period, we recognized interest income from these loans, which were fully repaid in October 2009. See note 44(b) to our combined financial statements included in the Accountants’ Report set out in Appendix I to this prospectus.

Set forth below is a detailed breakdown of our other income and gains (losses) for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	(US\$ in thousands)				
	(unaudited)				
Rental income and bank interest income	2,509	1,471	456	224	227
Interest income from a related party	—	12,610	3,556	2,725	—
Service income from a related party	—	—	1,484	532	750
Foreign currency exchange gain (loss).	8,084	18,197	(8,511)	(7,450)	1,064
Impairment loss in respect of intangible assets and claim receivables (other long-term assets)	(2,704)	(441)	—	—	—
Others ⁽¹⁾	2,000	1,043	1,020	14	(94)
Total	<u>9,889</u>	<u>32,880</u>	<u>(1,995)</u>	<u>(3,955)</u>	<u>1,947</u>

Note:

(1) Others includes gain on divestment of subsidiaries and gain/(loss) on disposal of property, plant and equipment.

Impairment Loss on Amounts Due from Subsidiaries of an Associate

In 2008, we recorded an impairment loss on amounts due from subsidiaries of an associate, Goodwood Venture, of US\$4.9 million relating to a probable loss resulting from the winding up of a subsidiary of Goodwood Venture during 2008. We did not record any other impairment losses on amounts due from subsidiaries of an associate during the Track Record Period. For further details, see note 20 and 44(f) to our combined financial statements included in the Accountants’ Report set out in Appendix I to this prospectus.

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Selling and Distribution Expenses

Our selling and distribution expenses primarily consist of transportation costs related to delivering our products to the port prior to shipping and shipping costs, agency fees, the operating costs of our overseas sales and marketing office and salaries of our sales and distribution personnel and others.

Set forth below is a detailed breakdown of our selling and distribution expenses for the periods indicated:

Selling and Distribution Expenses	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
				(unaudited)	
				(US\$ in thousands)	
Transportation of goods	11,871	25,720	40,899	19,289	24,762
Agency fees	110	451	329	216	322
Staff costs	1,432	2,045	2,186	951	1,007
Traveling and entertainment	126	122	86	47	182
Others	130	148	276	67	69
Total	<u>13,669</u>	<u>28,486</u>	<u>43,776</u>	<u>20,570</u>	<u>26,342</u>

The increase in our selling and distribution expenses during the Track Record Period was primarily related to significant increases in the cost of transportation of goods due to the expansion, ramp-up of production and increase in sales volume at our Bahia Specialty Cellulose mill in 2008 and 2009.

Administrative Expenses

Administrative expenses primarily comprise staff salaries, welfare and other benefits, mill expansion expenses, legal and professional fees, impairment and provisions, utilities and general office expenses and charges, depreciation of property, plant and equipment and other operating expenses of our facilities for the relevant periods. We expect our administrative expenses to increase as we expand our business and as a result of additional legal and compliance related costs following the completion of the Global Offering.

Set forth below is a detailed breakdown of our administrative expenses for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
				(unaudited)	
				(US\$ in thousands)	
Salaries, welfare and other benefits	10,460	13,524	16,756	5,687	10,048
Mill expansion expenses	15,105	11,400	—	—	—
Legal and professional fees	2,301	6,346	8,557	2,551	5,248
Impairment and provisions	6,621	4,845	5,501	5,183	3,199
Utilities and general office expenses and charges	4,341	2,498	4,156	4,964	3,687
Depreciation of property, plant and equipment	1,821	2,171	2,624	950	1,026
Other	2,666	3,789	3,615	2,007	4,976
Total	<u>43,315</u>	<u>44,573</u>	<u>41,209</u>	<u>21,342</u>	<u>28,184</u>

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The changes in our administrative expenses during the Track Record Period were primarily affected by decreases in mill expansion expenses in 2007 and 2008 relating to the expansion of our Bahia Specialty Cellulose mill and increases in salary and benefits relating to the operation of our expanded production capacity beginning in the second half of 2008 and the first half of 2009.

Share of Results of Associate

Share of results of associate represents our 30% share of the profit or loss of Goodwood Venture, which is accounted for using the equity accounting method following our sale of a 70% equity interest in Goodwood Venture in February 2007. We disposed of our remaining 30% interest of Goodwood Venture in August 2009. For further details of this disposal, see notes 20, 39 and 44(f) to our combined financial statements included in the Accountants' Report set out in Appendix I to this prospectus.

Finance Costs

Finance costs primarily consist of interest on bank loans and, to a lesser extent, consideration payable on acquisitions of our subsidiaries, advances from related parties, discounted note receivables and interest on outstanding payables. Our finance costs do not include interest accrued on bank loans and other borrowings in connection with the construction of our facilities, which are capitalized until completion of the project. Our finance costs are expected to increase as we expand our business, including as a result of the cost of new acquisitions and new and existing debt financings for our capacity expansions. Beginning in October 2008, interest on our US\$320 million syndicated project finance loan arranged by WestLB ceased being capitalized and became an interest expense reflected in our combined statements of comprehensive income.

Imputed Interest on Advance from a Related Party

Imputed interest is calculated using the effective interest rate method for advances from our Controlling Shareholders in December 2008. It is calculated for accounting purposes only and is not a cash charge.

Segment Profit (Loss)

The segment profit (loss) for each segment represents revenue from each segment minus its cost of sales and the selling and distribution expenses, administrative expenses and certain finance costs that are allocated to the segments, and does not include unallocated corporate income and expenses, certain finance costs and income tax. In order to illustrate our segment profit related to our sales to external customers, we eliminate intercompany profit related to the sale of dissolving wood pulp produced by Bahia Specialty Cellulose to Sateri Jiangxi during the Track Record Period. For a further description of our segment results, including unallocated income and expenses, see note 8 to our combined financial statements included in the Accountants' Report set out in Appendix I to this prospectus.

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The following table summarizes our segment profit (loss) and segment margin, as well as the segment profit (loss) by business and segment margin for the businesses comprising our cellulose products segment and total profit (loss) before tax for the periods indicated.

Segments/Businesses	Year ended December 31,						Six months ended June 30,			
	2007		2008		2009		2009		2010	
	Segment profit (loss)	Segment margin	Segment profit (loss)	Segment margin	Segment profit (loss)	Segment margin	Segment profit (loss)	Segment margin	Segment profit (loss)	Segment margin
	(unaudited)									
	(US\$ in thousands except the percentages)									
Cellulose products ⁽¹⁾										
<i>Bahia Specialty Cellulose</i> ⁽¹⁾⁽⁴⁾	24,575	26.3%	13,671	11.6%	51,180	16.3%	(45,848)	(48.6)%	124,660	45.0%
<i>DP Macao</i> ⁽⁵⁾	7,222	54.4%	22,851	16.4%	35,211	31.9%	2,669	8.5%	43,862	49.4%
Total cellulose products	31,797	29.8%	36,523	14.2%	86,391	20.4%	(43,179)	(34.3)%	168,522	46.1%
Viscose staple fibers ⁽²⁾	33,042	20.0%	(21,374)	(17.1)%	20,786	16.3%	3,304	6.0%	9,075	12.0%
Segment profit	64,839		15,149		107,177		(39,875)		177,597	
Unallocated items ⁽³⁾	42,865		(27,142)		(2,763)		10,343		(2,968)	
Total profit (loss) before tax	107,704	39.6%	(11,993)	(3.1)%	104,414	18.9%	(29,532)	(16.3)%	174,629	39.6%

Notes:

- (1) Excludes intercompany profit of nil, US\$275,000, US\$6.5 million, US\$318,000 and US\$812,000 for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2009 and 2010, respectively, and includes the US\$23.2 million increase and US\$524,000 decrease in fair value of forestation and reforestation assets in 2009 and the six months ended June 30, 2010, respectively.
- (2) Includes the cost of dissolving wood pulp purchased by Sateri Jiangxi from Bahia Specialty Cellulose at arm's length prices. In order to present our viscose staple fibers segment's costs to reflect the actual arm's length prices at which our Sateri Jiangxi business purchases its dissolving wood pulp requirements from Bahia Specialty Cellulose and third parties, all margin and costs for intercompany sales were eliminated from our Bahia Specialty Cellulose business.
- (3) Comprises unallocated items (including, but not limited to, expenses incurred in relation to mill expansion, impairment loss on amounts due from subsidiaries of an associate, changes in fair value and gains on settlement of derivative financial instruments, imputed interest on advance from a related party, share of results of an associate, an impairment loss recognized in respect of property, plant and equipment and certain finance costs) as specified in note 8 of the Accountants' Report set out in Appendix I to this prospectus.
- (4) Represents segment profit and segment margin of dissolving wood pulp produced by Bahia Specialty Cellulose and sold to external customers.
- (5) Represents segment profit and segment margin derived from the sale of cellulose products (including dissolving wood pulp and other pulp products) primarily sourced from TPL. The results of the DP Macao business for the year ended December 31, 2007 reflect one month of operations from December 2007.

Income Taxes

Income taxes primarily consist of income taxes payable in China and Brazil in 2007, 2008 and 2009 and the six months ended June 30, 2009 and 2010 by our operating subsidiaries.

Bermuda

Because we operate as an overseas company for Bermuda regulatory purposes, we are not subject to Bermuda income tax.

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China

The PRC EIT Law, effective since January 1, 2008, imposes a uniform EIT rate of 25% on all foreign-invested enterprises and domestic enterprises unless they qualify under certain limited exceptions. Under the PRC EIT Law and its implementation rules and the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax, enterprises that were established and already enjoyed preferential tax treatment pursuant to laws or regulations of the central government before March 16, 2007 will continue to enjoy such preferential tax treatment as follows: (i) in the case of preferential tax rates, be subject to a progressive increase in the applicable tax rate up to 25% over a transitional period of five years from January 1, 2008, or (ii) in the case of preferential tax exemption or reduction for a specified term, continue to enjoy such exemption or reduction until the expiration of such term, which shall have started no later than January 1, 2008. Sateri Jiangxi is a foreign-invested enterprise engaged in a manufacturing business and, as such, is eligible for the full exemption from PRC EIT, for two years beginning from its first profit-making year and a 50% reduction in its EIT rate during the following three years. The first profit-making year is defined as the first year for which an enterprise is required to pay income tax after offsetting its profit for that year against any loss carried forward. Sateri Jiangxi enjoyed full exemption from EIT for 2007, its first profit-making year, and for 2008. For 2009, 2010 and 2011, Sateri Jiangxi is eligible for a 50% reduction from its applicable EIT rate.

Under the PRC EIT Law and the tax treaty between Singapore and China, dividends distributed to us by our Chinese subsidiaries are subject to a 5% withholding tax, provided that (a) we are determined by the relevant PRC tax authorities to be a “non-resident enterprise” under the PRC EIT Law, (b) Sateri International (Singapore) Pte. Ltd. is deemed as a beneficial owner of the dividends, and (c) approval by the relevant tax authorities is granted.

We may be considered a PRC tax resident company under the PRC EIT Law, which could result in our worldwide income being subject to PRC income tax. See the sections headed “Risk Factors — Risks Relating to China — We may be treated as a PRC tax resident enterprise under the PRC EIT Law, which may subject us to PRC income taxes on our worldwide income” and “Risk Factors — Risks Relating to China — Any dividends or capital gain received by our non-PRC Shareholders in respect of the Shares they hold may be subject to PRC income tax” in this prospectus.

Brazil

The Brazilian corporate income taxes (“**BCIT**”) consist of income tax (“**IRPJ**”) and social contributions on net profits (“**CSLL**”), which are calculated at a rate of approximately 25% and 9% on the Brazilian taxable profit, respectively. Pursuant to the SUDENE Report 0258/02 and 0182/02, the IRPJ on Copener’s profit from forest operations is entitled to a 25% reduction from January 1, 2004 to December 31, 2008 and a 12.5% reduction from January 1, 2009 to December 31, 2013. The IRPJ on Copener’s profit from wood log processing is entitled to a 75% reduction up to December 12, 2011. In addition, pursuant to relevant regulations, the IRPJ on Bahia Specialty Cellulose’s profit, which is derived from the development and production of dissolving wood pulp, was fully exempted up to December 31, 2007 and is entitled to a reduction of 75% from 2008 through 2019. Dividends paid by a Brazilian corporation, including stock dividends and other dividends paid to a non-resident holder of shares, are currently not subject to withholding income tax in Brazil to the extent that such amounts are related to profits generated after January 1, 1996.

Non-controlling Interests

Non-controlling interests represents the interest of minority shareholders in certain operating subsidiaries that are not 100% owned by us. An approximate 18.9% interest in Sateri Jiangxi and an approximate 1.6% interest in Bahia Specialty Cellulose are owned by minority shareholders. Net profit (loss) attributable to non-controlling interests amounted to a net profit of US\$8.5 million, a net loss of US\$5.5 million, a net profit of US\$0.6 million, a net profit of US\$0.5 million and a net profit of US\$1.5 million in 2007, 2008, 2009 and the six months ended June 30, 2009 and 2010, respectively. During the Track Record Period, the net profit (loss) attributable to non-controlling interests fluctuated to a greater degree than net profit (loss) attributable to owners of our Company due to the higher percentage of non-controlling interests

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in Sateri Jiangxi. During the Track Record Period, Kuitu Oy held 18.9% of Sateri Jiangxi while non-controlling interests held only 1.6% of Bahia Specialty Cellulose. For the reasons discussed below, Sateri Jiangxi experienced a loss in 2008 and lower profits in 2009 as compared to our cellulose products segment. This disparity resulted in the fluctuations in net profit (loss) attributable to non-controlling interests during the Track Record Period.

BASIS OF PRESENTATION

Our Company was incorporated in Bermuda on June 8, 2010. As part of the Reorganization, we have acquired the entire shareholding interest in Sateri International from Gold Silk and has become the holding company of Sateri International and its subsidiaries.

Our combined statements of comprehensive income, combined statements of cash flows and combined statements of changes in equity are prepared as if the current group structure (including DP Macao but excluding SC International Macao) had been in existence throughout the Track Record Period, or since their respective dates of incorporation or establishment, where this is a shorter period. The combined statements of financial position as of December 31, 2007, 2008 and 2009 and June 30, 2010 present the assets and liabilities of the companies now comprising our group which had been incorporated as of those dates as if the current group structure had been in existence at those dates.

CRITICAL ACCOUNTING POLICIES

Our combined financial information has been prepared in accordance with IFRS, which requires us to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, and revenue and expenses in the financial statements and accompanying notes. We continually evaluate these judgments and estimates based on our own historical experience, knowledge and assessment of current business and other conditions, our expectations regarding the future based on available information and reasonable assumptions, which together form our basis for making judgments about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from those estimates. Some of our accounting policies require a higher degree of judgment than others in their application. When reviewing our financial statements, you should consider (i) our selection of critical accounting policies, (ii) the judgment and other uncertainties affecting the application of those policies and (iii) the sensitivity of reported results to changes in conditions and assumptions. We believe that the following accounting policies involve the most significant judgment and estimates used in the preparation of our financial statements.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of estimated customer returns, discounts, sales related taxes and other similar allowances.

Revenue from sale of goods is recognized when the goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the amount of principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Rental income, including rentals invoiced in advance, from investment properties let under operating leases is recognized as profit or loss on a straight-line basis over the period of the respective leases.

Forestation and Reforestation Assets

Forestation and reforestation assets comprise the plantation land in Brazil. These biological assets comprise plantations and seedling stocks. The Group's plantations comprise trees planted for the production of wood for use in the Group's specialty cellulose production process.

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Plantation expenditure on forestation and reforestation includes land preparation expense and the cost of seedlings transferred for planting are capitalized as costs for forestation and reforestation assets. Expenditure on seedling stocks includes other direct expenses incurred during the cultivation period of the seedling stock. This expenditure on seedling stocks is deferred and transferred to plantation once they are planted.

Forestation and reforestation assets are stated at fair value less costs to sell at the end of the reporting period. On initial recognition where market-determined prices or values are not available and alternative estimates of fair value are determined to be clearly unreliable, the biological assets are measured at the end of the reporting period at their cost less any accumulated depreciation and accumulated impairment losses. Once the fair value of such a biological asset becomes reliably measurable, we measured it at its fair value less costs to sell.

At the time a tree is harvested, the agricultural produce is measured at its fair value less estimated costs to sell at the point of harvest. It is then taken out of forestation and reforestation assets (non-current assets) and accounted for under inventories (current assets). Depletion of forestation and reforestation assets is calculated based on the rate corresponding to the volume of wood actually harvested and the total estimated wood volume of the plantation. Our management estimates the volume of forest harvested and recoverable based on the statistical information and data obtained from physical measurements and other information gathering techniques.

When there is an active market, the quoted price in the market is the appropriate basis for determining the fair value. When an active market does not exist in the region in Brazil where our plantations are located, we consider our more recent market transaction prices or the market price of similar assets, with adjustments to reflect any difference, in determining fair value. In circumstances where market-determined prices or values may not be available for a biological asset in its present condition, the present value of expected net cash flows from the assets discounted at the appropriate discount rate is used in determining fair value. Our management use their judgment in selecting an appropriate valuation technique for forestation and reforestation assets.

Until 2009, we applied a cost basis methodology for determining the value of our forestation and reforestation assets since we could not reliably determine wood reference prices due to an inactive wood market in the region. Consequently, no fair value adjustment was made. These assets are stated at cost less decrease due to harvest which amounted to US\$104.4 million and US\$138.5 million as of December 31, 2007 and 2008, respectively. However, in 2009, we determined it was appropriate to change our application of IAS 41 (Agriculture) from a cost basis to a fair value methodology based on the prices agreed in the contracts we entered into with local farmers for wood used in our cellulose production. The market prices obtained in this manner provided reliable inputs for the estimate of the fair value of our forestation and reforestation assets and, accordingly, the forestation and reforestation assets are stated at fair value less costs to sell.

In 2007 and 2008, no external valuation was performed by independent qualified professional valuers on the forestation and reforestation assets as there was no active market of sufficient size for the eucalyptus wood grown in the plantations around Bahia, Brazil. In the absence of an active local community market for wood in Bahia, Brazil where our plantation land is situated, and of other reliable input measures of fair value, our management is of the opinion that the fair value of the forestation and reforestation assets could not be measured reliably and hence such assets are stated at cost less decrease due to harvest at January 1, 2007, December 31, 2007 and 2008. We are the only significant producer and consumer of eucalyptus wood in the areas in Brazil in which we operate, i.e. the north eastern part of the State of Bahia. While there are active markets for eucalyptus wood in other regions in Brazil, including the States of São Paulo and Minas Gerais (which are more than 2,000 kilometers away from our Bahia Specialty Cellulose mill) as well as neighboring countries such as Uruguay and Chile, we concluded that these regional market prices for eucalyptus wood would not be a fair representation for the reference price for eucalyptus wood for the Group, as it does not reflect the supply and demand situation in the areas in which the Group operates.

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No external valuation was performed by independent qualified professional valuers in 2009 or the six months ended June 30, 2010 for the purposes of preparing our audited financial statements. As of December 31, 2009, we determined that the reference market price for locally sourced wood in the region in Brazil in which our plantation land is situated had become available, as a result of the contracts we had entered into with local farmers. As of December 31, 2007, 2008 and 2009, we had entered into 32, 78 and 85, respectively, agreements with local farmers covering approximately 2,600, 5,200 and 5,600 hectares of land, respectively. Our management believes that such reference market prices provide reliable inputs for the estimate of the fair value and, accordingly, the forestation and reforestation assets are stated at fair value less costs to sell of approximately US\$177.7 million, with the resulting change in fair value of approximately US\$23.2 million recognized in profit for the year ended December 31, 2009. As of June 30, 2010, the forestation and reforestation assets are stated at fair value less costs to sell of approximately US\$177.7 million, with a decrease in fair value of approximately US\$0.5 million recognized in loss for the period.

Our contracts with local farmers are part of our community planting program. Certain contracts under this program involve payment of a predetermined price to the landowner for the harvested wood. Although these contracts have been entered into since 2007, given the six to seven year harvest cycle of our eucalyptus trees, we expect that there will be no wood harvested under any of such community planting program contracts until 2013 or 2014 at the earliest. These contracts covered approximately 7.1% of the wood plantation total available planting area in 2009. The only payments made to farmers under these contracts to date have been in respect of land use fees and advance payments on harvested wood income in accordance with the terms of the contracts. During 2007 and 2008, we considered using these contracts with local farmers as wood reference prices for purposes of determining the fair value of the Company's forestation and reforestation assets. However, we concluded that the limited volume of contracts with the farmers during those years rendered such contracts an inappropriate source of wood reference prices. In 2009, we concluded that such contracts had reached sufficient volume and consistency to serve as an appropriate source of our wood reference prices. As such, since 2009, contractual wood prices under the community planting program agreements have been used as the basis for the fair value analysis of our forestation assets, as we believe the price contained in such agreements offer the best valuation metric for us in the absence of an active market for eucalyptus wood in the areas where we operate in Brazil.

As of December 31, 2007, 2008 and 2009 and June 30, 2010, on the basis of the valuation methodologies described above, the (i) cost less decrease due to harvest or (ii) the fair value, as applicable, of our forestation and reforestation assets was US\$104.4 million, US\$138.5 million, US\$177.7 million and US\$177.7 million, respectively.

Fair value of forestation and reforestation assets has been estimated using the discounted cash flow model with reference to estimates in growth, harvest, sales prices and costs. The volume of forest harvested and recoverable as estimated by the Group is based on statistical information and data obtained from physical measurements and other information gathering techniques. Such information gathered and data used requires, to a certain extent, estimates and judgments in determining the amount of forest harvested and recoverable. If the expectation differs from the original estimate, such difference will impact the carrying amount of forestation and reforestation assets by which such estimates are changed.

The determination of the fair value of the Company's forestation and reforestation assets is conducted by the Company's finance director, who has more than 18 years of experience in the finance industry, the Company's chief accountant, who has more than 14 years of experience in finance, and the financial controller of Bahia Specialty Cellulose, who has more than 17 years of experience in finance in various multinational corporations and as a research analyst in financial institutions. All of these personnel are experienced with the preparation and applications of a discounted cash flow and other valuation methodologies.

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The principal valuation methodology and assumptions adopted are as follows:

- the discounted cash flow valuation model assuming a six-year harvest cycle of the trees;
- the weighted average capital cost of planting of 10% determined with reference to the market rates;
- the reference wood price of R\$29 (equivalent to US\$16.67 and US\$16.11) per cubic meter, based on the contracts entered into with local farmers during the year ended December 31, 2009 and for the six months ended June 30, 2010;
- the wood production rate calculated based on the planting programs during the period from 2004 to 2009;
- the wood consumption rate calculated based on the actual and estimated annual production capacity of the mills, which is 465,000 metric tons per year for 2010 and an estimated 500,000 metric tons per year from 2011 to 2016, respectively;
- the forestry maintenance costs calculated based on the average historical expenses;
- the overhead expenses calculated based on the latest budget, that is R\$12 million (US\$6.67 million) for 2010 and projected for 2011 to 2016 in a proportional manner to the estimated annual planting volume; and
- an exchange rate between US dollars and Reais (at US\$1.00 = R\$1.74 as of December 31, 2009 and at US\$1.00 = R\$1.80 as of June 30, 2010) which is determined as of the end of the respective reporting periods conducting the valuation based on exchange rates published by the Brazilian Central Bank.

Harvest cycle: We adopted the assumption of a six-year harvest cycle of the trees based on the harvesting rate and regional growth rates we have experienced in wood plantations in Brazil. For further details on the harvest cycle, see the Independent Technical Report prepared by AMEC set out in Appendix V to this prospectus.

Wood production volume: Our wood production volume is calculated by (i) planted hectares multiplied by (ii) average increment of trees per year, or MAI multiplied by (iii) six years. Planted hectares is based on the amount of our planting program executed in the last six years according to company registers. For further details on wood production, see the Independent Technical Report prepared by AMEC set out in Appendix V to this prospectus.

MAI is based on historical MAI obtained in our plantation lands in the past and expected MAI for current planted hectares. The average MAI for the harvest cycle that ended in 2009 was 30.5 and 37.5 for Copener and Bahia Specialty Cellulose, respectively.

Wood consumption rate: Our wood consumption rate is based on the actual and estimated annual production of dissolving wood pulp at our Bahia Specialty Cellulose mill, which is 465,000 metric tons per year for 2010 and is estimated to be 500,000 metric tons per year from 2011 to 2016. The wood consumption rate in cubic meters is the production volume of dissolving wood pulp in metric tons multiplied by the technical consumption rate of 5.12 cubic meters of wood per ton of dissolving wood pulp. The wood per dissolving pulp consumption rate of 5.12 is a standard rate based on the past experience of our Bahia Specialty Cellulose mill. For further details on the wood consumption rate, see the Independent Technical Report prepared by AMEC set out in Appendix V to this prospectus.

Maintenance costs: Our estimate of maintenance costs is based on the average historical maintenance expenses of our Company and the expected cost of maintaining our hectares of eucalyptus forests, per hectare and per year in R\$.

Overhead expenses: Our estimate of overhead expenses is based on the annual overhead expense budget for our Bahia Specialty Cellulose mill. For 2009, our overhead expense estimate was R\$12.0 million.

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Weighted average capital cost (“WACC”). We used a reasonable weighted average capital cost of 10%, as this represented the cost of capital of our assets of Bahia Specialty Cellulose as determined by our management. We discussed the method for determining our weighted average cost of capital with reference to comparable market rates of companies in other regions of Brazil with the Reporting Accountants.

The tables below sets out a sensitivity analysis of the key assumptions underlying our determination of the fair value of our forestation and reforestation assets prepared by our management as of December 31, 2009 and June 30, 2010. The primary material change in assumptions from December 31, 2009 compared to June 30, 2010 was the Real to US dollar exchange rate which changed from R\$1.74 to R\$1.80.

As of December 31, 2009

	US\$ in thousands		
	(5)%	Base	5%
WACC	26,549	23,246	20,051
Wood Price	13,135	23,246	33,358
Wood Production/Consumption	16,830	23,246	29,662
Maintenance Costs & Overhead	24,953	23,246	21,540
Foreign Currency	32,094	23,246	15,242

As of June 30, 2010

	US\$ in thousands		
	(5)%	Base	5%
WACC	2,210	(524)	(3,174)
Wood Price	(8,398)	(524)	7,351
Wood Production/Consumption	(6,785)	(524)	5,744
Maintenance Costs & Overhead	1,250	(524)	(2,297)
Foreign Currency	7,699	(524)	(7,963)

Depletion of forestation and reforestation assets (or decrease due to harvest) is calculated based on the total costs incurred divided by the total estimated volume of wood and multiplied by the volume of wood harvested and sold. The depletion charge for the year is taken out of forestation and reforestation assets and accounted for under inventories and recognized in the cost of goods sold upon sales. The depletion amounts were US\$7.2 million, US\$7.3 million, US\$8.5 million and US\$13.7 million as of December 31, 2007, 2008, 2009 and as of June 30, 2010.

Fair Value of Derivatives and Other Financial Instruments

Derivatives are classified as financial assets or liabilities held for trading and are initially recognized at fair value at the date a derivative contract is entered into. The contracts are subsequently remeasured at their fair value at the end of the reporting period. The resulting gain or loss is recognized in profit or loss immediately.

We use our judgment in selecting an appropriate valuation technique for derivative financial instruments. We do not enter into hedging transactions for speculative purposes. Valuation techniques commonly used by market practitioners are applied. Fair values of the forward foreign exchange contracts have been arrived at using the forward rates of similar instruments as of the end of the reporting period. Fair value of interest rate swaps have been arrived at on the basis of using valuations provided by the banks as of each reporting period with reference to market data such as settlement prices and interest rates. Actual results may differ when the assumptions and selections of valuation techniques change.

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To mitigate the impact of changes in foreign exchange rates with respect to the Real per US dollar on our financial performance, we hedge our projected foreign exchange exposure. We have adopted various internal control procedures to control and monitor the risks of the financial instruments used in our hedging program. For further details, see the section headed “— Market Risks, Derivative Financial Instruments and Hedging Activities — Internal Controls” below.

Property, Plant and Equipment

Property, plant and equipment, including land and buildings held for use in the production or supply of goods or services, or for administrative purposes (other than freehold land and construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual values, using the straight line method.

Freehold land is stated at cost less identified impairment losses. No depreciation is provided for freehold land.

Construction in progress represents property, plant and equipment in the course of construction for production purpose or for its own use. Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is reclassified as property, plant and equipment when completed and ready for its intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the relevant lease.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the period in which the item is derecognized.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the combined statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Our liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where we are able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which we expect, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case the deferred tax is also recognized in other comprehensive income or directly in equity respectively.

Impairment Losses

At each balance sheet date, we review the carrying amounts of our tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is immediately recognized as income.

Provisions

Provisions are recognized when we have a present obligation as a result of a past event, and it is probable that we will be required to settle that obligation. Provisions are measured at our best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effects are material).

INTERNAL CONTROL OVER FINANCIAL REPORTING

Certain of our finance, accounting, human resources and IT functions are provided by Averis, a company that is controlled by our Ultimate Controlling Shareholder. During 2008 and 2009, certain transaction processing functions related to our China and Macau operations were provided by Averis and Averis will continue to do so for the entire Group, including Bahia Specialty Cellulose, in the future. As a result, we rely on Averis to perform certain required functions of our business that are necessary to the integrity of our financial results. If we fail to maintain adequate monitoring control on the outsourced functions, we may be unable to accurately report our financial results or prevent fraud and investor confidence and the market price of the Shares may therefore be adversely affected. We have implemented measures to improve our internal controls, and we intend to continue to monitor and enhance our internal controls after the Listing. We have established an internal audit process and have established a risk management function to continually anticipate and assess business and financial risks to be addressed. For further details, see the sections headed “Risk Factors — Risks Relating to Our Business and Industry — If we fail to maintain effective controls over our outsourced functions, we may be unable to meet our business targets or report our results in an accurate or timely manner” and “Connected Transactions — Exempt Continuing Connected Transactions — Support Services Agreements with Averis” in this prospectus.

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RESULTS OF OPERATIONS

Six Months Ended June 30, 2010 Compared with Six Months Ended June 30, 2009

Revenue

Our revenue increased by 143.6% to US\$440.9 million for the six months ended June 30 from US\$181.0 million for the corresponding period in 2009. This increase was primarily due to an 102.9% increase in average selling price and a 20.1% increase in sales volume compared to the six months ended June 30, 2009 reflecting the significant recovery in demand for our products due to improved macroeconomic conditions.

Cellulose Products

Our revenue from the cellulose products segment increased by 190.7% to US\$365.5 million for the six months ended June 30, 2010 from US\$125.7 million for the corresponding period in 2009.

Revenue from our Bahia Specialty Cellulose business increased by 193.5% to US\$276.8 million for the six months ended June 30, 2010 from US\$94.3 million for the corresponding period in 2009. This increase primarily reflected a 106.5% increase in average selling price as well as a 42.1% increase in sales volume due to improved economic conditions and our improved utilization of our production capacity from a full year of operations of our expanded production capacity at our Bahia Specialty Cellulose mill. The proportion of revenue from our dissolving wood pulp sold by Bahia Specialty Cellulose to external customers increased to 90.0% for the six months ended June 30, 2010 from 83.6% for the corresponding period in 2009.

Revenue from our DP Macao business increased by 182.4% to US\$88.7 million for the six months ended June 30, 2010 from US\$31.4 million for the corresponding period in 2009. This increase was primarily due to an 194.5% increase in average selling price due to the product mix of our DP Macao sales as demand for dissolving wood pulp, which has a higher average selling price, recovered due to improved macroeconomic conditions.

Viscose Staple Fibers

Revenue from our viscose staple fibers segment increased by 36.4% to US\$75.4 million for the six months ended June 30, 2010 from US\$55.3 million for the corresponding period in 2009. The increase was primarily attributable to a 53.2% increase in average selling price due to improved macroeconomic conditions resulting in increased demand for viscose staple fibers.

Cost of Sales

Our cost of sales increased by 28.3% to US\$198.2 million for the six months ended June 30, 2010 from US\$154.5 million for the corresponding period in 2009.

This increase was primarily due to an increase in conversion costs which was partially offset by a decrease in raw material costs relating to dissolving wood pulp. The cost of sales for our cellulose products segment increased to US\$139.5 million for the six months ended June 30, 2010 from US\$106.8 million for the same period in 2009. Such an increase was primarily due to an increase in the change in product mix sold by DP Macao which sold more dissolving wood pulp, which is of higher value, compared to other pulp products. However, this increase was offset by a decrease of the cost of production per metric ton of dissolving wood pulp produced by our Bahia Specialty Cellulose mill to US\$514 from US\$604 as a result of the improved operational efficiency of our expanded operations.

The cost of sales for our viscose staple fibers segment increased to US\$58.7 million in the six months ended June 30, 2010 from US\$47.7 million in the same period in 2009. Our cost of production per metric ton of viscose staple fibers produced by our Sateri Jiangxi mill increased to US\$1,907 in the six months ended June 30, 2010 from US\$1,380 in the six months ended June 30, 2009 primarily due to the increased

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market price of dissolving wood pulp, which began to increase in the second half of 2009. As a percentage of revenue, our cost of sales decreased to 45.0% for the six months ended June 30, 2010 compared to 85.4% for the corresponding period in 2009 due to the significant increase in revenue, as a result of higher average selling prices, outpacing the increase in cost of sales.

Gross Profit and Gross Margin

Our gross profit increased to US\$242.7 million for the six months ended June 30, 2010 from US\$26.5 million for the corresponding period in 2009. Our gross margin increased to 55.0% for the six months ended June 30, 2010 compared to 14.6% for the corresponding period in 2009, primarily due to the market recovery in average selling price as well as the increase in sales volume and the slight decrease in raw material costs. Our gross profit by segment excludes intercompany profit, which was US\$318,000 and US\$812,000 for the six months ended June 30, 2009 and 2010, respectively.

Cellulose Products

Our gross profit for our cellulose products segment increased to US\$226.0 million for the six months ended June 30, 2010 from US\$18.9 million for the corresponding period in 2009. The gross margin for the cellulose products segment improved to 61.8% for the six months ended June 30, 2010 compared to 15.1% for the corresponding period in 2009.

Our gross profit for our Bahia Specialty Cellulose business increased to US\$177.6 million for the six months ended June 30, 2010 from US\$12.4 million for the corresponding period in 2009. The gross margin for our Bahia Specialty Cellulose business increased to 64.2% for the six months ended June 30, 2010 compared to 13.1% for the corresponding period in 2009. This increase was due primarily to the market recovery in demand and 106.5% increase in average selling price of dissolving wood pulp.

Our gross profit for our DP Macao business increased to US\$48.4 million for the six months ended June 30, 2010 from US\$6.6 million for the corresponding period in 2009. The gross margin for our DP Macao business increased to 54.5% for the six months ended June 30, 2010 compared to 20.9% for the corresponding period in 2009. This increase was primarily due to the recovery in demand for dissolving wood pulp which allowed us to improve our product mix in our DP Macao business by selling more dissolving wood pulp which earned higher margins during this period while cost of sales increased at a lower rate.

Viscose Staple Fibers

Our gross profit for our viscose staple fibers segment increased to US\$16.7 million for the six months ended June 30, 2010 from US\$7.5 million for the corresponding period in 2009. Our gross margin improved to 22.1% for the six months ended June 30, 2010 compared to a gross margin of 13.7% for the corresponding period in 2009. This increase was primarily due to the market recovery in demand for viscose staple fibers and the 36.4% increase in revenue outpacing the 23.1% increase in cost of sales.

Decrease in Fair Value of Forestation and Reforestation Assets

For the first six months ended June 30, 2010, we recognized a decrease in fair value of forestation and reforestation assets of US\$0.5 million. As discussed above, we began applying a different valuation methodology for our forestation and reforestation assets in the second half of 2009 and so did not make a fair value determination of our forestation and reforestation assets for the six months ended June 30, 2009.

Other Income and Gains (Losses)

Other income increased to a gain of US\$1.9 million for the six months ended June 30, 2010 from a loss of US\$4.0 million for the corresponding period in 2009. This increase was primarily due to foreign currency exchange gains of US\$1.1 million in the first half of 2010 compared to a loss of US\$7.5 million in the

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corresponding period of 2009 due to the appreciation of the Real against the US dollar. The increase was partially offset as a result of interest income from a related party loan to Pinnacle, a company controlled by our Ultimate Controlling Shareholder, of US\$2.7 million in the six months ended June 30, 2009, which we did not receive in 2010, since the loan was repaid in full in 2009.

Changes in Fair Value of Derivative Financial Instruments and Gains on Settlement of Derivative Financial Instruments

We recorded a gain of US\$0.2 million in changes of fair value of derivative financial instruments for the six months ended June 30, 2010, compared to a gain of US\$10.4 million for the corresponding period in 2009. We incurred these gains in the six months ended June 30, 2010 primarily due to a 3.4% depreciation of the Real against US dollars (from R\$1.74 to US\$1.00 to R\$1.80 to US\$1.00) and in the six months ended June 30, 2009 due to the significant appreciation of the Real against US dollars.

We recorded a gain of US\$0.05 million from the settlement of derivative instruments for the six months ended June 30, 2010, compared to a gain of US\$0.9 million for the corresponding period in 2009. The gain for the six months ended June 30, 2009 was primarily a result of the appreciation of the Real against the US dollar while there was no material change in the same period in 2010.

For further details on our derivative financial instruments, see note 28 to our combined financial statements included in the Accountants' Report set out in Appendix I to this prospectus.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 28.1% to US\$26.3 million for the six months ended June 30, 2010 from US\$20.6 million for the corresponding period in 2009. This increase was primarily as a result of our transportation charges which increased to US\$24.8 million for the six months ended June 30, 2010 from US\$19.3 million for the corresponding period in 2009, mainly due to increased sales from our Bahia Specialty Cellulose mill. As a percentage of our revenue, our selling and distribution expenses decreased to 6.0% for the six months ended June 30, 2010 from 11.4% for the corresponding period in 2009 primarily due to increased revenue as a result of increased selling prices and sales volume for the six months ended June 30, 2010.

Administrative Expenses

Our administrative expenses increased by 32.0% to US\$28.2 million for the six months ended June 30, 2010 from US\$21.3 million for the corresponding period in 2009. This increase was primarily due to a US\$4.4 million increase in salary, welfare and other benefits as well as a US\$2.7 million increase in legal and professional fees. As a percentage of revenue, our administrative expenses decreased to 6.4% for the six months ended June 30, 2010 from 11.8% for the corresponding period in 2009 primarily due to the increase in revenue primarily as a result of increased average sales prices as well as increased sales volume significantly outpacing the increase in administrative expenses.

Finance Costs

Our finance costs decreased by 33.6% to US\$12.3 million for the six months ended June 30, 2010 from US\$18.6 million for the corresponding period in 2009. This decrease was mainly attributable to a decrease in finance charges incurred on short-term financing from our bills discounted and a decrease in our bank borrowings repayable within five years.

Segment Profit (Loss) and Segment Margin

Set forth below are our segment results and segment margin comparison for the six months ended June 30, 2010 as compared to the six months ended June 30, 2009. Our segment profit (loss) and segment margin excludes intercompany profit, which was US\$318,000 and US\$812,000 for the six months ended June 30, 2009 and 2010, respectively.

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Cellulose Products

Our segment profit for our cellulose products segment increased to US\$168.5 million for the six months ended June 30, 2010 from a segment loss of US\$43.2 million for the corresponding period in 2009. The segment margin for the cellulose products segment improved to 46.1% for the six months ended June 30, 2010 compared to a loss for the corresponding period in 2009.

Our segment profit for our Bahia Specialty Cellulose business increased to US\$124.7 million for the six months ended June 30, 2010 from a loss of US\$45.8 million for the corresponding period in 2009 primarily due to increased average selling prices from US\$695 per metric ton during the six months ended June 30, 2009 to US\$1,435 per metric ton for the corresponding period in 2010. This increase was also due to increased sales volume. The segment margin for our Bahia Specialty Cellulose business increased to 45.0% for the six months ended June 30, 2010 from a loss for the corresponding period in 2009 primarily due to increased average selling prices and therefore revenue increasing significantly faster than cost of sales, selling and distribution expenses and administrative expenses.

Our segment profit for our DP Macao business increased to US\$43.9 million for the six months ended June 30, 2010 from US\$2.7 million for the corresponding period in 2009 due to increase average selling prices. The segment margin for our DP Macao business increased to 49.4% for the six months ended June 30, 2010 compared to 8.5% for the corresponding period in 2009 in line with the increase in gross margin from this business.

Viscose Staple Fibers

Our segment profit for our viscose staple fibers segment was US\$9.1 million for the six months ended June 30, 2010 compared to US\$3.3 million for the corresponding period in 2009 primarily due to increased average selling prices as a result of increased demand in downstream business due to the improved economic outlook. The segment margin for the viscose staple fibers segment was 12.0% for the six months ended June 30, 2010 compared to 6.0% during the corresponding period in 2009, as a result of the increased demand and improved macroeconomic outlook.

Profit (Loss) Before Taxes

We recorded profit before taxes of US\$174.6 million for the six months ended June 30, 2010, compared to a loss of US\$29.5 million for the corresponding period in 2009. This increase was due to the general economic recovery and significantly increased average selling prices.

Income Tax Expense (Credit)

Our income tax expense was US\$8.1 million for the six months ended June 30, 2010 compared to an income tax credit of US\$15.4 million for the corresponding period in 2009. Current income tax increased to US\$8.2 million in the six months ended June 30, 2010 from US\$0.3 million for the corresponding period in 2009. This increase was due to our profit before tax for the six months ended June 30, 2010 compared to our loss before taxes for the corresponding period in 2009. Our effective tax rate (being our income tax expense divided by profit before tax) in the six months ended June 30, 2010 was 4.6%.

Net Profit (Loss) for the Period

For the reasons set forth above, our net profit was US\$166.6 million for the six months ended June 30, 2010 compared to a net loss of US\$14.1 million for the corresponding period in 2009. Our net profit margin increased to 37.8% for the six months ended June 30, 2010 compared to a net loss in the corresponding period in 2009 primarily due to significant increases in the average selling prices of our products as the market demand recovered.

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Year ended December 31, 2009 Compared with Year ended December 31, 2008

Revenue

Our revenue increased by 44.4% to US\$552.0 million in 2009 from US\$382.3 million in 2008. This increase was primarily due to an increase in sales volume resulting from the completion of the expansion of our Bahia Specialty Cellulose mill in the middle of 2008, which significantly expanded the design annual production capacity for dissolving wood pulp at our Bahia Specialty Cellulose mill to 465,000 metric tons. Our increased production capacity resulted in a significant increase in sales volume for dissolving wood pulp from our Bahia Specialty Cellulose mill to approximately 354,000 metric tons in 2009 from approximately 121,000 metric tons in 2008. We also had a 10.7% increase in the sales volume by metric tons of viscose staple fibers over the same period. The increase in sales volume was partially offset by a 8.9% decrease in our average selling price for dissolving wood pulp in 2009 from 2008 and a 7.7% decrease in our average selling price for viscose staple fibers over the same period. However, the average selling prices for both dissolving wood pulp and viscose staple fibers recovered significantly in the second half of 2009 due to tight supply conditions after some of our competitors closed their mills and a general recovery in market prices.

Cellulose Products

Our revenue from the cellulose products segment increased by 64.9% to US\$424.4 million in 2009 from US\$257.4 million in 2008.

Revenue from our Bahia Specialty Cellulose business increased by 166.4% to US\$314.1 million in 2009 from US\$117.9 million in 2008. This increase primarily reflected the 192.4% increase in sales volume of dissolving wood pulp relating to the impact of operating our expanded Bahia Specialty Cellulose mill for an entire year following the completion of its expansion in the middle of 2008. In 2009, there was a shift in the demand for and supply of dissolving wood pulp. Supply of dissolving wood pulp was constrained in early 2009 following the closure of three large dissolving wood pulp mills by our competitors. In the second half of 2009, demand increased due to the recovery of the global economy. These dynamics in conjunction with our significantly expanded production capacity led to a substantial increase in our sales volume in 2009 compared to 2008. The proportion of revenue from our dissolving wood pulp sold by Bahia Specialty Cellulose to external customers increased to 88.3% in 2009 compared to 71.3% in 2008. Despite our increased sales volumes, we experienced a 8.9% decline in average selling prices in 2009 compared to 2008. Although prices began to improve during the second half of 2009, they did not reach the levels of early 2008.

Revenue from our DP Macao business decreased by 20.9% to US\$110.3 million in 2009 from US\$139.4 million in 2008. This decrease was primarily due to a 17.6% decrease in the average selling prices of DP Macao's dissolving wood pulp and other pulp sales in 2009 compared to 2008 as well as a 3.9% decrease in sales volume in 2009 compared to 2008.

Viscose Staple Fibers

Revenue from our viscose staple fibers segment increased by 2.2% to US\$127.6 million in 2009 from US\$124.9 million in 2008. The increase was primarily attributable to a 10.7% increase in sales volume in 2009 compared to 2008 as demand for viscose staple fibers recovered after the global financial crisis, particularly in the second half of 2009. However, the increase in revenue was partially offset by a 7.7% decrease in the average selling price of viscose staple fibers in 2009 due to market conditions.

Cost of Sales

Our cost of sales increased by 12.5% to US\$341.9 million in 2009 from US\$304.0 million in 2008.

This increase was primarily due to the significant increase in the sales volume of dissolving wood pulp from our Bahia Specialty Cellulose mill, a US\$34.0 million increase in depreciation costs relating to our Bahia Specialty Cellulose mill and a US\$20.2 million increase in conversion costs, as well as an increase in compensation paid to additional employees hired to meet the increase in production at the expanded mill,

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which was partially offset by a significant decrease in the average price paid for our raw materials in 2009. We were also able to achieve economies of scale and secure lower prices for our raw materials. The cost of sales for our cellulose products segment increased to US\$244.1 million in 2009 from US\$165.1 million in 2008 primarily due to the increased operations of our expanded Bahia Specialty Cellulose mill. Our cost of production per metric ton of dissolving wood pulp produced by our Bahia Specialty Cellulose mill increased to US\$497 in 2009 from US\$453 in 2008 primarily due to higher conversion costs and depreciation charges related to our expanded production facility. The cost of sales for our viscose staple fibers segment decreased to US\$97.8 million in 2009 from US\$138.9 million in 2008 primarily due to a decrease in our cost of production per metric ton of viscose staple fibers produced at our Sateri Jiangxi mill. Our cost of production per metric ton of viscose staple fibers produced at our Sateri Jiangxi mill decreased to US\$1,454 in 2009 from US\$2,286 in 2008 primarily due to decreased raw material costs as the market prices of dissolving wood pulp and chemicals declined in 2009. We also had a 29.6% decrease in our cost of sales for our viscose staple fibers primarily related to decreased average selling prices in dissolving wood pulp as well as the decreased cost of certain chemicals in 2009 compared to 2008. As a result, as a percentage of revenue, our cost of sales decreased to 61.9% in 2009 compared to 79.5% in 2008.

Gross Profit (Loss) and Gross Margin

Our gross profit increased by 168.4% to US\$210.1 million in 2009 from US\$78.3 million in 2008. Our gross margin increased to 38.1% in 2009 from 20.5% in 2008, primarily due to lower average costs for raw materials, as well as a full year of operations of the second line at our Bahia Specialty Cellulose mill. Our gross profit (loss) and gross margin by segment excludes intercompany profit, which was US\$275,000 and US\$6.5 million in 2008 and 2009, respectively.

Cellulose Products

Our gross profit for our cellulose products segment increased by 95.4% to US\$180.3 million in 2009 from US\$92.3 million in 2008. The gross margin for the cellulose products segment improved to 42.5% in 2009 compared to 35.9% in 2008.

Our gross profit for our Bahia Specialty Cellulose business increased by 118.9% to US\$138.0 million in 2009 from US\$63.0 million in 2008. The gross margin for our Bahia Specialty Cellulose business decreased to 43.9% in 2009 compared to 53.5% in 2008. This decrease was due primarily to a 8.9% decline in the average selling price of dissolving wood pulp from our Bahia Specialty Cellulose business in 2009 as compared to 2008, as well as the increase in cost of sales related to production at our expanded Bahia Specialty Cellulose mill, which was offset by the significant increase in our revenue derived from the sale of increased volumes of dissolving wood pulp from our Bahia Specialty Cellulose business.

Our gross profit for our DP Macao business increased by 44.9% to US\$42.4 million in 2009 from US\$29.2 million in 2008. The gross margin for our DP Macao business increased to 38.4% in 2009 compared to 21.0% in 2008, but was still significantly lower than the gross margin for our Bahia Specialty Cellulose business as DP Macao typically has a lower average selling price depending on its product mix of dissolving wood pulp and other pulp products, while our Bahia Specialty Cellulose business only sells dissolving wood pulp, which typically has a higher average selling price than other pulp products. This increase was primarily due to cost of sales decreasing by 38.4%, which was partially offset by a 17.6% decrease in the average selling price of dissolving wood pulp and other pulp products sold by DP Macao in 2009 compared to 2008.

Viscose Staple Fibers

Our gross profit for our viscose staple fibers segment increased to US\$29.8 million in 2009 from a gross loss of US\$14.0 million in 2008. Our sales volume of viscose staple fibers increased approximately 10.7% in 2009 from 2008. In 2008, the average selling price of and demand for viscose staple fibers declined faster than related costs, primarily for dissolving wood pulp, while the cost of certain chemicals increased during

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2008, which resulted in a gross loss. The gross margin for our viscose staple fibers segment improved to 23.3% in 2009 compared to a loss in 2008. This was primarily due to a 29.6% decrease in cost of sales as the cost of the dissolving wood pulp and chemicals declined in early 2009, although the cost increased in the second half of 2009.

Increase in Fair Value of Forestation and Reforestation Assets

In 2009, we recognized an increase in fair value of forestation and reforestation of US\$23.2 million when we revalued these assets at their fair value rather than at their historical cost, as we did in 2008 and 2007. For further details about our valuation methods, see the section headed “— Critical Accounting Policies — Forestation and Reforestation Assets” above.

Other Income and Gains (Losses)

Other income decreased to a loss of US\$2.0 million in 2009 from a gain of US\$32.9 million in 2008. This decrease was primarily due to a net exchange loss of US\$8.5 million in 2009 primarily relating to our Real-denominated working capital loans in Brazil as compared to a net exchange gain of US\$18.2 million in 2008 as the Real appreciated 25.6% against the US dollar in 2009 compared to a 32.2% depreciation against the US dollar in 2008. This decrease in other income was also attributable to a significant decrease in interest income from a related party loan to Pinnacle, a company controlled by our Ultimate Controlling Shareholder, of US\$3.6 million in 2009 from US\$12.6 million in 2008, as the amount of outstanding principal and the applicable interest rate decreased in 2009 compared to 2008.

Changes in Fair Value of Derivative Financial Instruments and Gains on Settlement of Derivative Financial Instruments

We recorded a gain of US\$1.8 million in changes of fair value of derivative financial instruments in 2009, compared to a loss of US\$21.2 million in 2008. The gain in 2009 was mainly attributable to the mark-to-market gains of US\$5.2 million on outstanding forward foreign exchange contracts at the end of 2009, which was reduced by a mark-to-market loss of US\$3.4 million in interest rate swap instruments in 2009. The loss in 2008 was primarily due to the mark-to-market losses in interest rate swaps resulting from a decline in three-month LIBOR, which decreased from 4.70% at December 31, 2007 to 1.43% at December 31, 2008.

We recorded a gain of US\$18.4 million from the settlement of derivative instruments in 2009, compared to a gain of US\$4.3 million in 2008. The gain of US\$18.4 million in 2009 was primarily a result of a US\$18.6 million gain on the settlement of forward foreign exchange contracts, reduced by a US\$0.2 million loss on the settlement of interest rate swap instruments. The US\$4.3 million gain in 2008 was primarily a result of a US\$5.8 million gain on the settlement of forward foreign exchange contracts, partially offset by a US\$1.5 million loss on settlement of the interest rate swap instruments. The significant increase in gains in 2009 was mainly attributable to the strengthening of the Real against the US dollar throughout 2009 as our forward foreign exchange contracts hedged our exposure to the Real by shorting US dollars. The exchange rate strengthened from R\$2.34 per US dollar at December 31, 2008 to R\$1.74 per US dollar at December 31, 2009.

For further details on our derivative financial instruments, see note 28 to our combined financial statements included in the Accountants' Report set out in Appendix I to this prospectus.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 53.7% to US\$43.8 million in 2009 from US\$28.5 million in 2008, primarily as a result of the significant increase in sales volume from our Bahia Specialty Cellulose mill, which resulted in additional transportation expenses. These transportation expenses increased to US\$40.9 million in 2009 from US\$25.7 million in 2008. As a percentage of our revenue, our selling and distribution expenses remained relatively stable (7.9% in 2009 compared to 7.5% in 2008).

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Administrative Expenses

Our administrative expenses decreased by 7.5% to US\$41.2 million in 2009 from US\$44.6 million in 2008. This decrease was primarily due to higher administrative expenses in 2008, which included US\$11.4 million of expenses associated with the Bahia Specialty Cellulose mill expansion incurred from additional labor and training costs to prepare for the needs of expanded production capacity at our Bahia Specialty Cellulose mill. As a percentage of revenue, our administrative expenses decreased to 7.5% in 2009 from 11.7% in 2008.

Impairment Loss Recognized in Respect of Property, Plant and Equipment

In 2009, we recognized an impairment loss in respect of property, plant and equipment in the amount of US\$20.0 million relating to a building that was damaged by fire. In December 2009, there was a fire in the area of the expansion project at our Sateri Jiangxi mill that was still under construction. This fire damaged certain infrastructure and equipment of the expansion project, which has a total carrying amount (before impairment) of approximately US\$20.0 million. The existing operations of Sateri Jiangxi and equipment in operation were not affected by the fire but it led to delays in our expansion plans for approximately six months. The expansion project at our Sateri Jiangxi mill is covered by a construction-all-risk insurance with a reputable insurance company in China; however, we did not recognize the insurance claim in our June 30, 2010 financial statements as the insurance claim was ongoing. As the insurance claim process is not within our control, we do not know how long the claim process will take. As of June 30, 2010, we had received an initial payment of RMB9.9 million from the insurance company as an installment of prepayments being made pending the final decision on our claim. For a further description of the impairment loss recognized in respect of property, plant and equipment, see note 17 to our combined financial statements included in the Accountants' Report set out in Appendix I to this prospectus.

Share of Results of Associates

We disposed of our remaining interest in Goodwood Venture during 2009. Therefore, we did not recognize any gains or losses resulting from our share of results of associates in 2009. However, in 2008, we recognized an impairment loss on share of results of associates of US\$5.4 million due to the bankruptcy of a subsidiary of Goodwood Venture. For further details of this disposal, see notes 20 and 44(d) to our combined financial statements included in the Accountants' Report set out in Appendix I to this prospectus.

Finance Costs

Our finance costs increased by 59.7% to US\$36.4 million in 2009 from US\$22.8 million in 2008. This increase was primarily due to interest expenses of US\$13.4 million paid in 2009 pursuant to our syndicated project finance loan arranged by WestLB to finance the expansion of our Bahia Specialty Cellulose mill. The interest expense on the project finance loan arranged by WestLB in 2008 was US\$5.1 million while none of the project finance loan interest was capitalized in 2009. The increase in finance costs in 2009 was also attributable to the finance charges incurred on short-term financing from our bills discounted and increases in working capital loans.

Segment Profit (Loss) and Segment Margin

Set forth below are our segment results and segment margin comparison for the year ended December 31, 2009 as compared to the year ended December 31, 2008. Our segment profit (loss) and segment margin excludes intercompany profit, which was US\$275,000 and US\$6.5 million in 2008 and 2009, respectively.

Cellulose Products

Our segment profit for our cellulose products segment increased by 136.5% to US\$86.4 million in 2009 from US\$36.5 million in 2008. The segment margin for the cellulose products segment improved to 20.4% in 2009 compared to 14.2% in 2008.

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Our segment profit for our Bahia Specialty Cellulose business increased by 274.4% to US\$51.2 million in 2009 from US\$13.7 million in 2008 primarily due to the significant increases in sales volume in 2009 following completion of the production capacity expansion of our Bahia Specialty Cellulose mill in June 2008. This increase was also due to the US\$23.2 million increase in fair value of forestation and reforestation assets in 2009. The segment margin for our Bahia Specialty Cellulose business increased to 16.3% in 2009 compared to 11.6% in 2008.

Our segment profit for our DP Macao business increased by 54.1% to US\$35.2 million in 2009 from US\$22.9 million in 2008. The segment margin for our DP Macao business increased to 31.9% in 2009 compared to 16.4% in 2008 in line with the increase in gross margin from this business.

Viscose Staple Fibers

Our segment results for our viscose staple fibers segment increased by US\$42.2 million to a segment profit of US\$20.8 million in 2009 from a segment loss of US\$21.4 million in 2008 primarily due to the higher gross profit from this segment in 2009, which was partially offset by minor increases in operating expenses. The segment margin for the viscose staple fibers segment increased to 16.3% in 2009 compared to a loss in 2008 primarily due to gains in gross margin resulting from the recovery in demand for viscose staple fibers, particularly in the second half of 2009.

Profit (Loss) Before Taxes

We recorded profit before taxes of US\$104.4 million in 2009, compared to a loss of US\$12.0 million in 2008. This increase was due to the significant growth in gross profit and gains on settlement of derivative financial instruments as well as the increase in fair value of forestation and reforestation assets, which largely offset increases in selling and distribution expenses and finance costs and the impairment loss on property, plant and equipment in 2009.

Income Tax Expense (Credit)

Income tax credit increased by US\$0.5 million to US\$3.0 million in 2009 from US\$2.5 million in 2008. Current income tax increased to US\$7.7 million in 2009 from US\$1.7 million in 2008. This increase was due to the significant increase in our profit before taxes in 2009 compared to our loss before taxes 2008. However, we largely offset current tax with deferred taxation of US\$10.8 million in 2009, compared to US\$4.3 million in 2008.

Net Profit (Loss) for the Year

For the reasons set forth above, our net profit increased to US\$107.4 million in 2009 from a net loss of US\$9.5 million in 2008. Our net profit margin increased to 19.5% for the year ended December 31, 2009 compared to a net loss in 2008 primarily due to the significant increase in sales volume resulting from the significant expansion of production capacity at our Bahia Specialty Cellulose mill combined with improved market demand for our products, particularly in the second half of 2009.

Year ended December 31, 2008 compared with Year ended December 31, 2007

Revenue

Our revenue increased by 40.5% to US\$382.3 million in 2008 from US\$272.2 million in 2007.

This increase is primarily a result of a 53.2% increase in dissolving wood pulp sales volume to approximately 121,000 metric tons in 2008 from approximately 79,000 metric tons in 2007 from our Bahia Specialty Cellulose mill due to the completion of our new production line in mid-2008. This increase in sales volume was partially offset by a 17.8% decrease in average selling prices of dissolving wood pulp from our

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Bahia Specialty Cellulose business and a 16.5% decrease in the sales volume of viscose staple fibers in 2008 as compared to 2007, each due to reduced demand resulting from the global economic crisis. In addition, the sales volume of DP Macao increased in 2008, as DP Macao contributed a full year of trading activities in 2008, compared to one month of trading activities in 2007 when it began operations.

Cellulose Products

Revenue from our cellulose products segment increased by 140.8% to US\$257.4 million in 2008 from US\$106.9 million in 2007.

Revenue from our Bahia Specialty Cellulose business increased by 26.0% to US\$117.9 million in 2008 from US\$93.6 million in 2007. This increase was related to the 53.2% increase in sales volume of dissolving wood pulp primarily relating to the ramp-up in capacity utilization at our Bahia Specialty Cellulose mill during the second half of 2008, which was partially offset by lower average selling prices for dissolving wood pulp in 2008 as compared to 2007 due to overall reduced demand resulting from the global economic crisis.

Revenue from our DP Macao business increased by US\$126.2 million to US\$139.4 million in 2008 from US\$13.3 million in 2007. This increase was due to DP Macao completing its first full year of operations in 2008, compared to one month in 2007.

Viscose Staple Fibers

Revenue from our viscose staple fibers segment decreased by 24.4% to US\$124.9 million in 2008 from US\$165.3 million in 2007. The decrease was primarily attributable to a 16.5% decrease in sales volume as demand for our viscose staple fibers fell as a result of the global economic crisis which adversely affected the downstream businesses that require viscose staple fibers, as well as a 9.5% decrease in the average selling price of our viscose staple fibers.

Cost of Sales

Our cost of sales increased by 83.5% to US\$304.0 million in 2008 from US\$165.6 million in 2007.

This increase in cost of sales was largely attributable to the cost of sales of DP Macao, which increased to US\$110.2 million as it reflected a full year of its trading operations in 2008 instead of one month in 2007. Further, there was a significant increase in costs of production at our Bahia Specialty Cellulose mill during the ramp-up of the new production line during the second half of 2008 as well as a US\$12.4 million increase in depreciation related to our Bahia Specialty Cellulose mill. Also, prices of certain chemicals we use in our production process increased significantly due to shortages. The aggregate cost of chemicals increased to US\$35.7 million from US\$22.6 million. The cost of sales for our cellulose products segment increased to US\$165.1 million in 2008 from US\$36.2 million in 2007 primarily due to DP Macao's commencement of its principal trading operations in December 2007, as well as increased operations at our Bahia Specialty Cellulose mill following its expansion in the second half of 2008. Our cost of production per metric ton of dissolving wood pulp produced by our Bahia Specialty Cellulose mill increased to US\$453 in 2008 from US\$383 in 2007 primarily due to higher chemical costs, conversion costs and depreciation charges related to our expanded production facility. The cost of sales for our viscose staple fibers segment increased to US\$138.9 million in 2008 from US\$129.4 million in 2007 primarily due to an increase in our cost of production per metric ton of viscose staple fibers produced at our Sateri Jiangxi mill. Our cost of production per metric ton of viscose staple fibers produced at our Sateri Jiangxi mill increased to US\$2,286 in 2008 from US\$1,778 in 2007 primarily due to increased raw material costs, including increased market prices for dissolving wood pulp in the first half of 2008 and chemicals in the second half of 2008. As a percentage of revenue, our cost of sales increased to 79.5% in 2008 from 60.9% in 2007, as cost of sales increased at a faster rate than revenue due to the reduced average selling prices for our products.

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Gross Profit and Gross Margin

Our gross profit decreased by 26.5% to US\$78.3 million in 2008 from US\$106.6 million in 2007. Our gross margin decreased to 20.5% in 2008 from 39.1% in 2007 primarily due to the decline in average selling prices for our products in 2008 and the increase in our cost of sales. Our gross profit and gross margin by segment excludes intercompany profit, which was nil and US\$275,000 in 2007 and 2008, respectively.

Cellulose Products

Our gross profit for the cellulose products segment increased by 30.6% to US\$92.3 million in 2008 from US\$70.7 million in 2007. The gross margin for the cellulose products segment declined to 35.9% in 2008 from 66.1% in 2007.

Our gross profit for our Bahia Specialty Cellulose business slightly decreased to US\$63.0 million in 2008 from US\$63.3 million in 2007. The gross margin for this business declined to 53.5% in 2008 compared to 67.6% in 2007. However, this was significantly higher than the gross margin for DP Macao's sales as dissolving wood pulp, the sole product sold by our Bahia Specialty Cellulose business, has a higher average selling price than other pulp products, which made up a higher proportion of DP Macao's sales in 2008. The decrease in gross profit and gross margin was due primarily to decreased demand for our dissolving wood pulp due to the global economic downturn in late 2008, as well as an increased cost of chemicals and the lower average selling price for dissolving wood pulp during 2008 compared to 2007.

Our gross profit for our DP Macao business increased by US\$21.8 million to US\$29.2 million in 2008 from US\$7.4 million in 2007. This increase was primarily due to the operation of DP Macao for an entire year as it recorded only one month of sales in 2007 following the commencement of its operations. The gross margin for our DP Macao business declined to 21.0% in 2008 compared to 55.7% in 2007. The decrease in gross margin reflected DP Macao's increased proportion of sales of other pulp products in 2008, which have a significantly lower margin than dissolving wood pulp.

Viscose Staple Fibers

Our gross profit for the viscose staple fibers segment decreased by US\$49.9 million, to a gross loss of US\$14.0 million in 2008 from a gross profit of US\$35.9 million in 2007. The gross margin for the viscose staple fibers segment declined to a negative gross margin in 2008 compared to a gross margin of 21.7% in 2007. This was primarily due to the lower average selling price of viscose staple fibers as well as a 7.3% increase in cost of sales in 2008 as compared to 2007 due to higher costs for chemicals and coal, partially offset by lower cost for dissolving wood pulp over the same period.

Other Income and Gains (Losses)

Other income increased by 232.5% to US\$32.9 million in 2008 from US\$9.9 million in 2007. This increase was primarily due to a net exchange gain of US\$18.2 million in 2008 as the Real depreciated by 32.2% against the US dollar (compared to a net exchange gain of US\$8.1 million in 2007 as the Real appreciated 17.2% against the US dollar). This increase in other income was also attributable to interest income from the loan to Pinnacle, a company controlled by our Ultimate Controlling Shareholder, of US\$12.6 million in 2008, which we did not have in 2007.

Impairment Loss on Amounts Due from Subsidiaries of an Associate

In 2008, we recorded an impairment loss on amounts due from subsidiaries of Goodwood Venture, an associated company, of US\$4.9 million. The bankruptcy of one of the major subsidiaries of Goodwood Venture during 2008 made it unlikely that the amounts would be recovered.

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Changes in Fair Value of Derivative Financial Instruments and Gains on Settlement of Derivative Financial Instruments

We recorded a net loss of US\$21.2 million in changes of fair value of derivative financial instruments in 2008, compared to a net gain of US\$13.6 million in 2007. The loss in 2008 was primarily due to the mark-to-market losses on interest rate swap instruments due to a significant decline in three-month LIBOR as of December 31, 2008 compared to December 31, 2007 resulting from the global financial crisis. The gain of US\$13.6 million in 2007 was attributable primarily to the gain of US\$21.2 million on forward foreign exchange contracts, which was partially offset by a US\$7.6 million loss on interest rate swaps. The significant gain in 2007 on forward foreign exchange contracts was primarily due to our entry into additional derivative instruments to hedge the currency risk for the expansion project at Bahia Specialty Cellulose, given a significant portion of the project expenditure was denominated in Real and taking into account the strengthening of the Real against the US dollar in 2007. The exchange rate was R\$2.34 per US dollar at December 31, 2008, compared to R\$1.77 per US dollar at December 31, 2007. Three-month LIBOR was 1.43% at December 31, 2008, compared to 4.70% at December 31, 2007.

We recorded a gain of US\$4.3 million from the settlement of derivative instruments in 2008, compared to a gain of US\$42.5 million in 2007. The significant gains we recorded in 2007 were primarily due to US\$49.9 million in gains from the settlement of forward foreign exchange contracts and US\$7.4 million in losses from the settlement of interest rate swaps. As explained above, the significant gains in 2007 were primarily due to our entry into additional derivative instruments to hedge the currency risk relating to the construction costs incurred for the expansion project at our Bahia Specialty Cellulose mill.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 108.4% to US\$28.5 million in 2008 from US\$13.7 million in 2007, primarily as a result of a significant increase in our sales volume of cellulose products in 2008 due to the expanded capacity at our Bahia Specialty Cellulose mill, which entailed increased transportation expenses (US\$25.7 million in 2008 as compared to US\$11.9 million in 2007) as well as smaller increases in staff costs. The lower percentage increase of these expenses as compared to the percentage increase in our sales volume was primarily due to the lower selling and distribution expenses incurred by DP Macao given the trading nature of its business. As a percentage of revenue, our selling and distribution expenses increased to 7.5% in 2008 from 5.0% in 2007, as discussed above.

Administrative Expenses

Administrative expenses increased by 3.0% to US\$44.6 million in 2008 from US\$43.3 million in 2007. Our administrative expenses included salaries, welfare and other benefits (which increased to US\$13.5 million in 2008 from US\$10.5 million in 2007) as well as US\$11.4 million in expenses associated with the Bahia Specialty Cellulose mill expansion in 2008 (compared to US\$15.1 million in mill expansion expenses in 2007) related to expansion-related overhead incurred on additional labor and training costs, to prepare for the needs of the expanded production capacity at our Bahia Specialty Cellulose mill. We also incurred increased consultancy and professional fees (which increased to US\$6.3 million in 2008 from US\$2.3 million in 2007) as a result of the expanded operations in 2008 compared to 2007. As a percentage of revenue, our administrative expenses decreased to 11.7% in 2008 from 15.9% in 2007.

Share of Results of Associate

We recorded a loss in our share of results of associates of US\$5.4 million in 2008 compared to the gain of US\$4.0 million in 2007 due to the bankruptcy of one of the major subsidiaries of Goodwood Venture, an associated company.

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Finance Costs

Our finance costs increased by 91.6% to US\$22.8 million in 2008 from US\$11.9 million in 2007. This increase was primarily due to a US\$9.2 million decrease in the amount of interest capitalized under our syndicated project finance loan to US\$16.1 million in capitalized interest in 2008 from US\$25.3 million in capitalized interest in 2007. Under IFRS, we were no longer able to capitalize interest on our project finance loan after the commissioning of the new production line at our Bahia Specialty Cellulose mill in October 2008. As a result, interest in the amount of US\$5.1 million was recognized as an interest expense in 2008 out of the total project finance loan interest of US\$21.2 million. For further details, see note 10 to our combined financial statements included in the Accountants' Report set out in Appendix I to this prospectus.

Segment Profit (Loss) and Segment Margin

Set forth below are our operating profit (loss) and operating margin by segment and for our businesses for the year ended December 31, 2008 compared to the year ended December 31, 2007. Our segment profit (loss) and segment margin exclude intercompany profit, which was nil and US\$275,000 in 2007 and 2008, respectively.

Cellulose Products

Our segment profit for our cellulose products segment increased by 14.9% to US\$36.5 million in 2008 from US\$31.8 million in 2007. The segment margin for the cellulose products segment declined from 29.8% in 2007 compared to 14.2% in 2008.

Our segment profit for our Bahia Specialty Cellulose business decreased by 44.4% to US\$13.7 million in 2008 from US\$24.6 million in 2007. The segment margin for our Bahia Specialty Cellulose business declined to 11.6% in 2008 compared to 26.3% in 2007 primarily due to the decrease in gross margin, as well as an increase in operating costs to US\$49.4 million in 2008 compared to US\$38.7 million in 2007 largely due to the increase in finance costs relating to the financing of our expansion project.

Our segment profit for our DP Macao business increased to US\$22.9 million in 2008 from US\$7.2 million in 2007. The increase in segment profit was due to the impact of operating DP Macao for a full year in 2008 after beginning operations in late 2007. The segment margin for our DP Macao business decreased to 16.4% in 2008 compared to 54.4% in 2007 primarily due to the decreased gross margins as well as increased operating expenses.

Viscose Staple Fibers

Our segment profit for the viscose staple fibers segment decreased by US\$54.4 million, to segment loss of US\$21.4 million in 2008 from a segment profit of US\$33.0 million in 2007, primarily due to the gross loss from this segment and increased operating expenses at our Sateri Jiangxi mill. The segment margin for the viscose staple fibers segment decreased to a loss in 2008 compared to 20.0% in 2007 primarily due to a segment loss in 2008 as a result of the global economic crisis and decreased demand for our products.

Profit (Loss) Before Taxes

For the reasons set forth above, we recorded a loss before taxes of US\$12.0 million in 2008, compared to profit of US\$107.7 million in 2007.

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Income Tax Expense (Credit)

We recorded an income tax credit of US\$2.5 million in 2008, compared to an income tax expense of US\$4.2 million in 2007. Current income tax decreased by US\$3.6 million to US\$1.7 million in 2008 from US\$5.3 million in 2007 due to the decline in our taxable profit. In addition, we had US\$8.4 million of income tax under provision in 2007. This taxable amount was partially offset by deferred taxation, which decreased by US\$5.2 million to US\$4.3 million in 2008 from US\$9.5 million in 2007. Our effective tax rate in 2007 was 3.9%.

Net Profit (Loss)

For the reasons set forth above, our net profit (loss) decreased to a net loss of US\$9.5 million in 2008 from a net profit of US\$103.5 million in 2007. Our net margin decreased to a loss for the year ended December 31, 2008 compared to a net profit margin of 38.0% in 2007 primarily due to the significant decrease in average sales prices of our products resulting from the global economic downturn, particularly in the second half of 2008, combined with an increased cost of sales, selling and distribution expenses and administrative expenses primarily related to the significant expansion of capacity at our Bahia Specialty Cellulose mill, which was partially offset by increased sales volume from our cellulose products segment produced by the completed expansion during 2008.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows and Working Capital

Our business requires intensive capital investment. Our primary sources of liquidity have historically been cash flows from operating activities, short-term and long-term borrowings and equity contributions and loans from our Controlling Shareholders. We have historically relied on short-term debt in order to take advantage of the lower interest rates on short-term debt, which in turn lowers our financing costs. In general, long-term debt is more difficult to obtain in Brazil and China than short-term debt. This is also consistent with our historical approach to finance working capital.

Our cash requirements primarily include the following:

- working capital;
- the servicing of our indebtedness; and
- capital expenditure.

As of June 30, 2010, our cash and cash equivalents (which exclude available for sale securities, unrealized gains from interest rate swaps and pledged deposits for bank loans) was US\$58.0 million.

Our Directors are of the opinion that our current cash and cash equivalents, cash generated from our operating activities, net proceeds from the Global Offering and present available banking facilities will be sufficient to meet our anticipated cash needs, including our cash needs for working capital, such as purchases of raw materials, and capital expenditures, such as those committed or authorized for our expansions plans, for at least the next 12 months from the date of this prospectus.

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The following table sets forth selected cash flow data for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	(unaudited)				
	(US\$ in thousands)				
Net cash from operating activities	85,038	120,486	136,784	6,561	268,682
Net cash (used in) from investing activities	(676,397)	(355,534)	32,234	78,609	(229,646)
Net cash from (used in) financing activities	597,638	204,835	(129,943)	(53,105)	(39,020)
Net increase (decrease) in cash and cash equivalents	6,279	(30,213)	39,075	32,065	16
Effect of foreign exchange rate changes	2,196	(689)	(166)	(2,452)	(1,444)
Cash and cash equivalents at beginning of year/period	42,906	51,381	20,479	20,479	59,388
Cash and cash equivalents at end of year/period . .	<u>51,381</u>	<u>20,479</u>	<u>59,388</u>	<u>50,092</u>	<u>57,960</u>

Cash Flows From Operating Activities

Cash generated from operating activities was US\$268.7 million for the six months ended June 30, 2010, which was primarily due to a profit before income tax of US\$174.6 million, positive adjustments for depreciation of property, plant and equipment of US\$32.8 million, US\$13.7 million of decrease due to harvest and finance costs of US\$12.3 million relating to financing activities and a net decrease in working capital of US\$33.7 million. The decrease in working capital was primarily due to a US\$30.2 million decrease in trade and other receivables as a result of the improved turnaround of trade receivables, a US\$12.2 million increase in trade and other payables and a US\$2.4 million increase in provisions partially offset by a US\$15.2 million increase in inventories.

Cash generated from operating activities was US\$136.8 million in 2009, which was primarily due to a profit before income tax of US\$104.4 million, resulting from increased sales volume in connection with our expansion at our Bahia Specialty Cellulose mill, positive adjustments for depreciation of property, plant and equipment of US\$62.7 million relating to our increased depreciable asset base following the expansion, an impairment loss recognized as a provision in respect of property, plant and equipment of US\$20.0 million relating to fire damage to a section of the expansion project in Sateri Jiangxi in December 2009, finance costs of US\$36.4 million relating to financing activities and US\$8.5 million of decrease due to harvest. These amounts were partially offset by negative adjustments for a gain on the settlement of derivative financial instruments of US\$18.4 million, changes in fair value of forestation and reforestation assets of US\$23.2 million and a net increase in working capital of US\$53.7 million. The increase in working capital was primarily due to a US\$29.7 million increase in trade and other receivables related to an increase in sales volume in 2009, a US\$25.0 million decrease in our trade and other payables due to payment of contractors for our Bahia Specialty Cellulose expansion and a US\$14.4 million increase in VAT tax recoverable included in other long-term assets. The increase in working capital was partially offset by a US\$15.8 million decrease in inventories due to our increase in sales.

Cash generated from operating activities was US\$120.5 million in 2008, which was primarily due to positive adjustments for depreciation of property, plant and equipment of US\$28.5 million, changes in fair value of derivative instruments of US\$21.2 million, finance costs of US\$22.8 million described above and US\$7.3 million of decrease due to harvest and a net decrease in working capital of US\$60.6 million and partially offset by a loss before income tax of US\$12.0 million. The decrease in working capital was primarily due to a US\$40.7 million decrease in trade and other receivables in connection with lower sales volume due to slower demand as a result of the global economic crisis, a US\$15.0 million increase in trade

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and other payables due to payables relating to the expansion of our Bahia Specialty Cellulose mill and a US\$23.9 million decrease in derivative financial instruments relating to mark to market losses, which were partially offset by a US\$26.5 million increase in inventories due to lower sales volume related to the global economic crisis.

Cash generated from operating activities was US\$85.0 million in 2007, which was primarily due to our profit before income tax of US\$107.7 million and a positive adjustment for depreciation of property, plant and equipment of US\$16.4 million related to our Bahia Specialty Cellulose mill, finance costs of US\$11.9 million, a US\$15.6 million decrease in amounts due from related parties and US\$7.2 million of decrease due to harvest, which was partially offset by negative adjustments for a US\$42.5 million gain on the settlement of derivative financial instruments, comprising forward foreign exchange and interest rate swaps, and changes in fair value of derivative financial instruments, comprising forward foreign exchange and interest rate swaps, of US\$13.6 million. There was a US\$4.1 million decrease of working capital in 2007 due to a US\$64.0 million increase in trade and other receivables in connection with increases in our sales prices, a US\$16.6 million increase in inventories in 2007 and a US\$9.6 million increase in VAT tax recoverable included in other long-term assets, which were offset by a US\$24.7 million increase in trade and other payables, a US\$15.6 million increase in amounts due from related parties and a US\$52.7 million change in derivative financial instruments.

Cash Flows Used in/From Investing Activities

Net cash used in investing activities was US\$229.6 million for the six months ended June 30, 2010, which primarily consisted of US\$164.4 million in advances to a related party, US\$40.9 million used for the purchase of property, plant and equipment primarily at our Sateri Jiangxi mill, US\$14.2 million increase in forestation and reforestation assets and a US\$11.0 million increase in cash pledged as we accrued more cash as a result of increased sales.

Net cash from investing activities was US\$32.2 million in 2009, which primarily consisted of US\$171.1 million received as full repayment of a loan to Pinnacle, relating to advances in connection with its acquisition of TPL, a decrease of US\$5.1 million in cash pledged at banks and US\$3.8 million in interest received, which was partially offset by US\$120.8 million used for the purchase of property, plant and equipment primarily at our Bahia Specialty Cellulose mill, US\$24.4 million of expenditure on forestation and reforestation and US\$3.0 million in investments in Cetrel.

Net cash used in investing activities was US\$355.5 million in 2008, which primarily consisted of US\$298.9 million expended on property, plant and equipment in connection with the expansion of our Bahia Specialty Cellulose mill, US\$42.8 million in cash pledged at banks as more cash accrued to our bank accounts as a result of increased sales volume after the expansion of our Bahia Specialty Cellulose mill, US\$41.5 million of expenditure on forestation and reforestation, US\$4.1 million in investments in Cetrel and US\$1.3 million in interest received. We also had cash flow of US\$30.1 million of partial repayments from Pinnacle.

Net cash used in investing activities was US\$676.4 million in 2007, which primarily consisted of US\$495.8 million expended on property, plant and equipment in connection with the expansion of our Bahia Specialty Cellulose mill, US\$188.6 million advanced to Pinnacle in connection with its acquisition of TPL, US\$39.5 million of expenditure on forestation and reforestation, all of which was partially offset by a US\$43.9 million decrease in cash pledged at banks as our suppliers drew down on our letters of credit to pay contractors, in accordance with the terms of contracts with contractors in Brazil, for the expansion of our Bahia Specialty Cellulose mill.

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Cash Flows Used in/from Financing Activities

Net cash used in financing activities was US\$39.0 million for the six months ended June 30, 2010, which was primarily due to US\$113.4 million in repayments of bank borrowings in connection with the loans we incurred to finance the expansion of our Bahia Specialty Cellulose mill and working capital loans and US\$12.3 million in interest payments, which was partially offset by US\$87.9 million of new bank borrowings primarily for refinancing our existing bank borrowings and meeting a portion of our working capital requirements.

Net cash used in financing activities was US\$129.9 million in 2009, which was primarily due to US\$204.7 million in repayments of bank borrowings in connection with the loans we incurred to finance the expansion of our Bahia Specialty Cellulose mill and working capital loans, US\$76.2 million in repayments to parties related to our Controlling Shareholders, US\$41.0 million in interest payments and US\$3.4 million in repayments of obligations under finance leases, which were partially offset by US\$195.3 million of new bank borrowings primarily for refinancing existing bank borrowings and meeting a portion of our working capital requirements.

Net cash from financing activities was US\$204.8 million in 2008, which primarily consisted of US\$237.2 million in new loans received from our Controlling Shareholders to finance the expansion of our Bahia Specialty Cellulose mill and US\$210.0 million in new bank borrowings primarily for working capital purposes at our Bahia Specialty Cellulose and Sateri Jiangxi mills, which were partially offset by US\$146.6 million in repayments of bank borrowings, US\$51.7 million in repayments to related parties, US\$38.9 million in payments of interest and US\$4.3 million in repayments of obligations under finance leases.

Net cash from financing activities was US\$597.6 million in 2007, which primarily consisted of US\$521.0 million in new loans received from our Controlling Shareholders to finance the expansion of our Bahia Specialty Cellulose mill and US\$219.2 million in new bank borrowings primarily for working capital purposes, which were partially offset by US\$61.8 million in repayments of bank borrowings, US\$42.0 million in repayments to related parties and US\$37.2 million in interest payments.

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Net Current Assets and Liabilities

The table below sets forth our current assets, current liabilities and net current assets as of the date indicated.

	As of December 31,			As of June 30,	As of September 30,
	2007	2008	2009	2010	2010
	(US\$ in thousands)				
<i>Current assets</i>					
Inventories	42,434	68,935	53,177	68,417	99,722
Trade and other receivables	111,164	73,027	102,709	65,192	120,020
Bills receivables discounted.	2,206	59,223	132,231	94,174	26,373
Derivative financial instruments.	22,651	—	5,273	4,194	13,629
Amounts due from related parties	201,201	177,573	4,693	165,283	179,622
Prepaid lease payments — current portion.	19	20	20	20	151
Pledged bank deposits	8,663	54,477	49,419	60,434	44,153
Bank balances and cash	51,381	20,479	59,388	57,960	42,460
Total current assets	<u>439,719</u>	<u>453,734</u>	<u>406,910</u>	<u>515,674</u>	<u>526,130</u>
<i>Current liabilities</i>					
Trade and other payables	89,417	109,813	65,841	65,885	93,533
Amounts due to related parties	37,866	13,033	4,538	1,318	1,090
Advance drawn on bills receivables discounted.	2,206	59,223	132,231	94,174	26,373
Provisions	5,039	4,152	6,935	9,384	7,995
Derivative financial instruments.	8,362	26,560	15,134	13,094	10,377
Tax payable	18,409	19,655	27,354	25,859	26,330
Bank borrowings — due within one year.	82,167	153,480	177,119	194,818	201,630
Obligations under finance leases — due within one year	3,603	3,608	2,268	2,596	2,371
Consideration payables on acquisition of subsidiaries — due within one year	878	—	—	—	—
Total current liabilities	<u>247,947</u>	<u>389,524</u>	<u>431,420</u>	<u>407,128</u>	<u>369,699</u>
Net current assets (liabilities)	<u>191,772</u>	<u>64,210</u>	<u>(24,510)</u>	<u>108,546</u>	<u>156,431</u>

We had net current assets of US\$191.8 million and US\$64.2 million as of December 31, 2007 and 2008, respectively. We had net current liabilities of US\$24.5 million as of December 31, 2009. As of June 30 and September 30, 2010, we had net current assets of US\$108.5 million and US\$156.4 million, respectively.

The net current liabilities position as of December 31, 2009 was primarily due to (i) cash outflow in relation to the early repayment of loans from related parties under non-current liabilities, (ii) a reduction of amounts due from related parties under current assets, (iii) increased short-term working capital loans to support our increased production capacity in 2009 and (iv) the conversion in 2009 of approximately RMB20 million (US\$2.9 million) of a RMB320 million (US\$47.2 million) project finance loan with Bank of China (the “**Bank of China project finance loan**”) in relation to our expansion at our Sateri Jiangxi mill from

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non-current to current liabilities due to principal repayments. We have not experienced difficulties in meeting our obligations and historically have been able to repay or refinance our bank borrowings as and when they fall due. See the section headed “Risk Factors — Risk Relating to Our Business and Industry — We had net current liabilities as of December 31, 2009” in this prospectus.

The net current assets position as of June 30, 2010 and September 30, 2010 was primarily due to the changes of pledged bank deposits and cash resulting from cash generated from operations as a result of the improved economic environment during 2009 and 2010. We believe that the expansion of our Bahia Specialty Cellulose mill and the forthcoming expansion of our Sateri Jiangxi mill have strengthened our business operations and our competitive position and will drive our continued revenue growth. The increased cash generated from our operations has resulted in a shift from net current liabilities position of US\$24.5 million as of December 31, 2009 to a net current assets position of US\$108.5 million and US\$156.4 million as of June 30, 2010 and September 30, 2010, respectively. In addition, we are exploring options to secure long-term borrowings to further improve our net current assets position.

CERTAIN INFORMATION ON OUR COMBINED STATEMENTS OF FINANCIAL POSITION

Inventories

Our inventories increased from US\$42.4 million as of December 31, 2007 to US\$68.9 million as of December 31, 2008, decreased to US\$53.2 million as of December 31, 2009 and then increased to US\$68.4 million as of June 30, 2010. The increase in inventories as of June 30, 2010 was primarily due to a US\$7.9 million increase in raw materials due to increased production and a US\$9.2 million increase in finished goods reflecting requests from our customers to increase the amount of our available stock in warehouses. The decrease in inventories as of December 31, 2009 was primarily a result of high inventory turnover as demand for cellulose products recovered in the second half of 2009, particularly in China, with finished goods decreasing by US\$27.6 million from December 31, 2008, which was partially offset by a US\$10.6 million increase in inventories of raw materials. The increase in inventories as of December 31, 2008 was primarily due to the increased production volume of our Bahia Specialty Cellulose mill. The expansion of our Bahia Specialty Cellulose mill which was completed in mid-2008 and the slowdown in demand for our products due to the global economic downturn resulted in an increase of US\$30.1 million in finished goods from US\$3.7 million as of December 31, 2007 to US\$33.8 million as of December 31, 2008 as our production ramped up towards the end of 2008. During the global financial crisis, our customers also had difficulty securing sufficient letters of credit in order to place orders, which also contributed to an increase in our inventory of finished goods at the end of 2008. However, we were able to sell this surplus inventory in 2009 as the global economy recovered.

The following table sets forth our inventory position as of the dates indicated.

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	(US\$ in thousands)			
Raw materials	37,459	34,498	45,102	52,980
Work-in-progress	1,264	676	1,940	100
Finished goods	3,711	33,761	6,135	15,337
Total	42,434	68,935	53,177	68,417

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Our average inventory turnover days were 74, 67 and 65 days for the years ended December 31, 2007, 2008 and 2009, respectively and 56 days for the six months ended June 30, 2010. Inventory turnover days equals average inventory divided by costs of sales and multiplied by the number of days in the period. Average inventory equals inventories at the beginning of the period plus inventories at the end of the period divided by two. Our average inventory turnover days decreased during the Track Record Period primarily because of improved operational logistics and improved demand for our products in 2009 which allowed us to reduce the level of finished goods to offset the increased amount of raw materials reflecting our expanded production. As of September 30, 2010, all of our work-in-progress and finished goods and 100% of our raw materials outstanding as of June 30, 2010 had been used or sold.

Trade and Other Receivables

Our trade receivables primarily relate to our sales of dissolving wood pulp and viscose staple fibers to our customers. Our trade receivables decreased from US\$70.8 million as of December 31, 2007 to US\$33.8 million as of December 31, 2008 primarily because of lower sales volume due to the global economic downturn in 2008. Our trade receivables increased from US\$33.8 million as of December 31, 2008 to US\$69.1 million as of December 31, 2009 primarily due to high sales volumes in the fourth quarter of 2009 as demand for specialty cellulose products recovered. Our trade receivables decreased from US\$69.1 million as of December 31, 2009 to US\$40.5 million as of June 30, 2010, primarily due to an improved process of discounting bills resulting in improved cash position and liquidity.

Our other receivables include prepayments, deposits paid, advance to suppliers, VAT tax recoverable and others. Advance to suppliers mainly related to progressive payments paid in advance to our suppliers for our expansion activities relating to coal and equipment purchases, which is customary industry practice in relation to coal and fixed equipment purchases. VAT tax recoverable primarily related to the amount of VAT arising from our purchase of equipment in China and Brazil relating to our expansion projects described above, which could be used to offset against VAT payable on our sales. The VAT tax recoverable is reduced in the ordinary course of business by offsetting against output VAT of increasing sales due to our expanded production capacity. We actively seek to reduce our VAT tax recoverable and expect to significantly reduce it in the medium term.

As of mid-October 2010, all of the trade receivables outstanding as of June 30, 2010 had been fully settled and we have also settled approximately US\$16.0 million of our VAT tax recoverable.

During the Track Record Period, we primarily made impairments of doubtful debts relating to an impairment loss of US\$4.9 million made to the amounts due from Goodwood Venture because Kuitu Oy was undergoing a provisional winding-up proceeding.

The following table sets forth an aging analysis of our trade receivables as of the dates indicated.

	As of December 31,			As of
	2007	2008	2009	June 30, 2010
	(US\$ in thousands)			
0-60 days	63,732	32,082	68,504	39,654
61-90 days	6,808	1,579	571	365
91-180 days	284	132	—	220
Over 180 days	—	—	—	219
Total	<u>70,824</u>	<u>33,793</u>	<u>69,075</u>	<u>40,458</u>

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Our average trade receivables turnover days were 66, 50 and 34 days for the years ended December 31, 2007, 2008 and 2009, respectively, and 23 days for the six months ended June 30, 2010. Average trade receivable turnover days were relatively high in 2007 because of higher sales towards the year end and in 2008 due to negotiated delays in receivables with our customers due to the global economic downturn. Our average trade receivables turnover days were lower in 2009 as DP Macao sales decreased as a proportion of our total sales and decreased further for the six months ended June 30, 2010 due to the improved process of bill discounting. Following the Reorganization, we expect our average trade receivables turnover days to remain stable at approximately 30 days. Turnover days of trade receivables equal average trade receivables divided by revenue and multiplied by the number of days in the period. Average trade receivables equal trade receivables at the beginning of the period plus trade receivables at the end of the period divided by two.

We generally invoice our customers at the time of delivery of our products to our transportation providers. We provide trade credit to our customers for periods of 30 to 90 days from the invoice date, depending on several factors, including the product sold, the length of time the customer has done business with us, the nature of the customer's business and the customer's payment history.

Trade and Other Payables

Our trade payables include both trade and bill payables generated from the purchase of raw materials. Our trade payables increased from US\$19.9 million as of December 31, 2007 to US\$48.8 million as of December 31, 2008, primarily due to the extended terms we negotiated to allow us to delay payments during the global economic downturn. Our trade payables decreased from US\$48.8 million as of December 31, 2008 to US\$13.4 million as of December 31, 2009, primarily due to the recovering demand for our products particularly in the second half of 2009. Our trade payables increased from US\$13.4 million as of December 31, 2009 to US\$21.3 million as of June 30, 2010, primarily due to credit terms from suppliers and discounts given to shorter credit periods in light of our cash position. As of September 30, 2010, 100% of our trade payables outstanding as of June 30, 2010 had been fully settled.

The following table sets forth an aging analysis of our trade payables as of the dates indicated.

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	(US\$ in thousands)			
0-90 days	19,855	48,838	12,300	20,799
91-180 days	—	—	1,084	82
181-365 days	—	—	—	428
Over 365 days	—	—	—	—
Total	19,855	48,838	13,384	21,309

Our average trade payables turnover days were 36, 41 and 33 days for the years ended December 31, 2007, 2008 and 2009, respectively and 16 days for the six months ended June 30, 2010. Our average trade payables turnover days were relatively high in 2008 due to the extended terms we negotiated to allow delay in payments due to the global economic downturn. Average trade payables turnover days were significantly lower for the six months ended June 30, 2010 primarily due to the settlement of certain suppliers which offered discounts for early settlement and prepaying for certain raw material supplies which are in demand such as coal. Turnover days of trade payables equal average trade payables divided by cost of sales and multiplied by the number of days in the period. Average trade payables equal trade payables at the beginning of the period plus trade payables at the end of the period divided by two.

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We generally receive invoices from our suppliers at the time of delivery of the raw materials and equipment we purchase and are typically given 30 to 60 days of credit by our suppliers.

Other payables

Our other payables mainly include both trade and bill payables generated from the purchase of equipment and accruals. Our other payables were US\$69.6 million, US\$61.0 million and US\$52.5 million as of December 31, 2007, 2008 and 2009, respectively, and were US\$44.6 million as of June 30, 2010. The decrease was primarily due to a reduction in construction payable due to the completion of the expansion of our Bahia Specialty Cellulose mill in 2008, the lower construction payables relating to the Sateri Jiangxi mill expansion in 2009 and for the six months ended June 30, 2010 as well as lower accrual of freight charges over the same period.

Amounts Due to and from Related Parties

Our amounts due to related parties primarily comprise amounts owed to companies that are controlled by our Ultimate Controlling Shareholder. We had amounts due to related companies of US\$37.9 million, US\$13.0 million and US\$4.5 million as of December 31, 2007, 2008 and 2009, respectively, and US\$2.1 million as of June 30, 2010. As of June 30, 2010, the amounts due to related parties consisted primarily of US\$1.1 million in service fees payable to Averis, a company controlled by our Ultimate Controlling Shareholder. Historically, being part of the Ultimate Controlling Shareholder's business group, we leveraged on our related companies' credit facilities to enter into derivative contracts to cover our foreign exchange and interest rate exposures arising from our operations because the larger group provided better rates and trading limits. We now have established direct credit facilities appropriate for our operations and, since January 2010, all new derivative contracts entered into by the Group have been entered into directly with third party financial institutions. The Group has ceased entering into any new derivative contracts through its related parties going forward.

The amounts due from RGE Inc., a company controlled by our Ultimate Controlling Shareholder, relate to cash advances from us. These amounts due from RGE Inc. have been partially offset against our non-trade balances with General Rank in October 2010 and used to redeem a portion of the outstanding class 1 preference shares and all of the class 2 preference shares in the capital of Sateri International held by Gold Silk as part of the Reorganization. All amounts due from related parties had been settled as of the Latest Practicable Date.

Loans From Related Parties

The following table sets the details of our loans from related parties as of the dates indicated.

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	(US\$ in thousands)			
General Rank Limited	—	207,131	142,784	145,661
Terry Investments Worldwide Limited	—	6,000	—	—
Total	—	213,131	142,784	145,661

Our loans from related parties primarily comprise shareholder loans from General Rank Limited, a company controlled by our Ultimate Controlling Shareholder. Our loans from related parties decreased from US\$213.1 million as of December 31, 2008 to US\$142.8 million as of December 31, 2009, primarily due to the repayment of amounts owed to General Rank Limited and increased slightly to US\$145.7 million as of June 30, 2010, primarily due to the accrual of imputed interest. The loans from related parties were provided to fund capital expenditure relating to the expansion of our Bahia Specialty Cellulose mill, which was

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financed by a syndicated US\$320 million project finance loan and the remainder comprised interest-free shareholder loans provided by a company controlled by our Ultimate Controlling Shareholder as well as cash generated from operations. During the year ended December 31, 2007, approximately US\$469.8 million of the shareholder loans provided by a company controlled by our Ultimate Controlling Shareholder was capitalized into 28,810,101 class 1 preference shares of US\$1.00 each and 4,410,067 class 2 preference shares issued at a premium of US\$99.00 each of Sateri International. These preference shares, after 22,800,000 class 1 preference shares and all of the class 2 preference shares were redeemed on November 22, 2010 as part of the Reorganization, has been exchanged for 2,863,494,750 Shares. For further details, see note 38 to our combined financial statements included in the Accountants' Report set out in Appendix I to this prospectus and the section headed "History and Reorganization — Our Corporate Reorganization" in this prospectus.

The loans from related parties are unsecured, non-interest bearing and repayable on or after June 30, 2011. We recorded a charge for the imputed interest rate of the loans at a rate of 4.5% for the year ended December 31, 2009. The loans from related parties had been settled in October 2010.

CAPITAL EXPENDITURE

The following table sets forth our capital expenditure for the periods indicated.

	Year ended December 31,			Six months ended June 30,
	2007	2008	2009	2010
	(US\$ in thousands)			
Property, plant and equipment	545,459	316,750	108,560	30,850
Forestation and reforestation ⁽¹⁾	39,542	41,452	24,444	14,244
Intangible assets	441	—	—	—
Total	585,442	358,202	132,764	45,094

Note:

(1) Primarily relates to planting expenditures.

In the years ended December 31, 2007, 2008 and 2009 and in the six months ended June 30, 2010, our capital expenditure amounted to US\$585.4 million, US\$358.2 million, US\$132.8 million and US\$45.1 million, respectively. Capital expenditure during these periods related primarily to the expansion of our Bahia Specialty Cellulose and Sateri Jiangxi mills and planting expenditures at our plantations in Brazil. Capital expenditure during the six months ended June 30, 2010 related primarily to seasonal factors affecting planting as well as the expansion of our Sateri Jiangxi mill. We expect our capital expenditure to increase in the foreseeable future as we continue to implement our expansion plans.

We anticipate that our total capital expenditure in 2010 and 2011 will be approximately US\$245 million and US\$420 million, respectively, which will primarily relate to the acquisition of plantation land, plantation activities, the expansion of our Bahia Specialty Cellulose mill, the expansion of our Sateri Jiangxi mill and the development of our greenfield project in Fujian, as well as other capital expenditure for required maintenance. We intend to finance our capital expenditure through cash generated from our operations, bank borrowings and a portion of the net proceeds from the Global Offering.

The total capital expenditure for the ongoing expansion plan for the 60,000 metric tons of additional capacity at our Sateri Jiangxi mill is approximately RMB1.0 billion and is financed by a combination of RMB620 million project finance loans from commercial banks, cash generated from operations and an equity contribution from our shareholder. As part of this expansion, a third production line at our Sateri Jiangxi mill commenced trial production in June 2010 and a fourth production line at our Sateri Jiangxi commenced trial production in October 2010, which together added 60,000 metric tons of design annual production capacity.

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INDEBTEDNESS

We use debt financing to fund a portion of our cash requirements for working capital and investing activities. Historically, we have used bank borrowings and advances from related parties for these purposes.

The following table summarizes the outstanding bank borrowings and the maturity profile of our outstanding bank borrowings as of the dates indicated.

	As of December 31,			As of June 30,	As of September 30,
	2007	2008	2009	2010	2010
(US\$ in thousands)					
Bank borrowings:					
Secured	348,066	391,602	373,409	371,480	373,462
Unsecured	<u>50,424</u>	<u>72,680</u>	<u>81,487</u>	<u>56,009</u>	<u>67,100</u>
	<u>398,490</u>	<u>464,282</u>	<u>454,896</u>	<u>427,489</u>	<u>440,562</u>
Fixed rate	5,000	93,303	92,991	113,994	139,610
Variable rate	<u>393,490</u>	<u>370,979</u>	<u>361,905</u>	<u>313,495</u>	<u>300,952</u>
	<u>398,490</u>	<u>464,282</u>	<u>454,896</u>	<u>427,489</u>	<u>440,562</u>
Carrying amount repayable:					
On demand or within one year . . .	82,167	153,480	177,119	194,818	201,630
More than one year but not more than two years	56,178	75,146	86,089	90,069	90,190
More than two years but not more than five years	194,032	225,408	165,018	121,739	129,542
More than five years	<u>66,113</u>	<u>10,248</u>	<u>26,670</u>	<u>20,863</u>	<u>19,200</u>
	398,490	464,282	454,896	427,489	440,562
Less: Amount due within one year shown under current liabilities .	<u>(82,167)</u>	<u>(153,480)</u>	<u>(177,119)</u>	<u>(194,818)</u>	<u>(201,630)</u>
Amount due after one year	<u>316,323</u>	<u>310,802</u>	<u>277,777</u>	<u>232,671</u>	<u>238,932</u>

Due to the significant expansion of our Bahia Specialty Cellulose mill and our increased production operations following its completion during the Track Record Period, we have relied on both long-term and short-term bank borrowings to fund a portion of our working capital requirements, and expect to continue to do so in the future. Our bank borrowings increased from US\$398.5 million as of December 31, 2007 to US\$464.3 million as of December 31, 2008. Our bank borrowings decreased to US\$454.9 million and US\$427.5 million as of December 31, 2009 and June 30, 2010, respectively. As a result, our net gearing ratio (which is calculated by dividing (i) long-term and short-term borrowings minus pledged bank deposits, bank balances and cash by (ii) total equity (including minority interests)) increased from 31.4% in 2007 to 36.1% in 2008, then decreased to 29.2% in 2009 and further decreased to 22.9% as of June 30, 2010. During the Track Record Period, our gearing ratio increased from 2007 to 2008 due to our bank borrowings increasing while total equity remained stable and our gearing ratio decreased from December 31, 2008 to June 30, 2010 as our bank borrowings decreased while our total equity increased. The decrease in bank borrowings was primarily related to our beginning principal repayment in October 2008 on our project finance loan relating to our Bahia Specialty Cellulose mill expansion. We also began principal repayment on our Bank of China project finance loan relating to our Sateri Jiangxi mill in December 2009.

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As of June 30, 2010, approximately 86.9% of our bank borrowings were secured. The short-term bank borrowings outstanding as of June 30, 2010 bore interest rates ranging from 3.31% to 22.8% per year. As of June 30, 2010, our borrowings denominated in Reais represented 2.4% of our bank borrowings and Reais denominated loans typically bear a higher rate of interest compared to our US dollar and RMB denominated loans. The short-term bank borrowings have maturity terms ranging within one year from the date of the reporting period and are for working capital purposes.

In November 2005, DPMI entered into a syndicated US\$320 million project finance loan, with WestLB, an independent third party, as lead arranger and which was guaranteed by Bahia Specialty Cellulose, to finance the expansion of our Bahia Specialty Cellulose mill. WestLB is an independent third party commercial bank with operations primarily in Europe, Asia and the Americas which has entered into commercial financing arrangements with members of our Group and related parties in the ordinary course of business. Our subsidiaries, DPMI and Bahia Specialty Cellulose, pledged their interest in collateral under this facility that includes certain property, plant and equipment, bank deposits, receivables and contractual rights and claims under products' purchase and sale contracts. DPMI and Bahia Specialty Cellulose are subject to certain financial and other covenants under this debt facility, which include restrictions on additional borrowings, certain limitations on liens and the maintenance of certain financial ratios, including a net debt to EBITDA ratio that may not exceed (i) 4.00 to 1.00 as of June 30, 2010, (ii) 3.00 to 1.00 as of June 30, 2011 and 2012 and (iii) 2.50 to 1.00 as of each June 30 thereafter. As of June 30, 2010, DPMI and Bahia Specialty Cellulose were in compliance with the applicable restrictive covenants and financial ratios.

This facility had three tranches with five, seven and ten-year maturities, which we started repaying in October 2008 in quarterly installments and will become due in January 2013, January 2016 and June 2016, respectively. The interest rate on the loan was based on LIBOR plus an applicable margin. We hedged a portion of this loan with interest rate swaps, exchanging variable rate interest for fixed rate interest.

The amounts outstanding under this debt facility were US\$315.4 million, US\$302.0 million, US\$246.4 million and US\$219.8 million as of December 31, 2007, 2008 and 2009 and June 30, 2010, respectively, net of loan-raising costs. Repayment commenced in 2008 with quarterly installments. On November 10, 2010, we repaid all outstanding amounts under this project finance loan arranged by WestLB from the proceeds of the new syndicated loan facility described below.

As of June 30, 2010, our remaining loans comprise secured loans of US\$151.7 million and unsecured loans of US\$56.0 million, primarily consisting of project finance loans relating to the expansion of our Sateri Jiangxi mill and short-term working capital loans with commercial banks in Brazil and China. These remaining loans are payable within one year except for loans of US\$70.6 million primarily relating to the Sateri Jiangxi project finance loans described below. Certain of these secured loans contain restrictive covenants regarding the declaration of dividends and provision of security. As of June 30, 2010, the applicable subsidiaries were in compliance with the applicable restrictive covenants.

In February 2008, Sateri Jiangxi entered into the Bank of China project finance loan and in February 2009 entered into another RMB300 million (US\$44.2 million) project finance loan with Industrial and Commercial Bank of China (the "**ICBC project finance loan**") to finance the expansion of our Sateri Jiangxi mill. Our subsidiary, Sateri Jiangxi, pledged as collateral under the Bank of China project loan and the ICBC project finance loan its interest in certain property, plant and equipment, bank deposits, receivables and contractual rights and claims under products' purchase and sale contracts. Sateri Jiangxi is subject to certain prohibitions on declaring dividends before the Bank of China project finance loan and the ICBC project finance loan are fully paid. The amounts outstanding under the Bank of China project finance loan and the ICBC project finance loan facility were nil, RMB320 million (US\$47.2 million), RMB600 million (US\$88.5 million) and RMB580 million (US\$85.5 million) as of December 31, 2007, 2008 and 2009 and June 30, 2010, respectively, net of loan-raising costs. Repayment of the project finance loan from Bank of China commenced

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in December 2009 in quarterly installments of RMB20 million (US\$2.9 million). Sateri Jiangxi is subject to certain restrictive covenants regarding the declaration of dividends and providing security under the Bank of China project finance loan and the ICBC project finance loan. As of June 30, 2010, Sateri Jiangxi was in compliance with the applicable restrictive covenants.

We had pledged property, plant and equipment, trade receivables, bills receivables discounted with recourse, bank deposits and prepaid lease payment with a total book value of US\$767.5 million, US\$743.1 million and US\$724.3 million to secure our bank loans as of December 31, 2009, June 30, 2010 and September 30, 2010, respectively.

The weighted average effective interest rates on our bank loans were 8.4%, 8.0% and 6.5% in 2007, 2008 and 2009, respectively and 6.6% in the six months ended June 30, 2010.

We have historically received cash advances from related parties for working capital and capital expenditure requirements. As of December 31, 2008 and 2009 and June 30, 2010, our loans from related parties amounted to US\$213.1 million, US\$142.8 million and US\$145.7 million, respectively. The loans from General Rank Limited, and were primarily related to shareholder loans for purposes of financing the expansion of our Bahia Specialty Cellulose mill. The loan due to Terry Investments Worldwide Limited was settled in February 2010 and the loan from General Rank Limited was settled in October 2010.

As of September 30, 2010, we had aggregate banking facilities of US\$752.7 million available to us, of which US\$267.1 million had not been utilized. Of our total borrowings as of September 30, 2010, US\$201.6 million was due within one year and US\$238.9 million was due within a period of more than one year. With respect to our US\$320 million project finance loan with WestLB, we have repaid approximately US\$42.1 million in 2010 as of September 30, 2010 and, of the remaining portion of outstanding amounts due within one year, we intend to refinance our short-term working capital loans in the ordinary course of business, repay our project finance loan with West LB and repay amounts owing under our other project finance loans as they come due through cash generated from operations. During the Track Record Period, we have not experienced any difficulty in raising funds with our principal banks or in rolling over short-term loans borrowed from various banks, experienced any material withdrawals of credit lines or received any requests for additional security in connection with our secured borrowings.

In November 2010, we entered into a US\$470 million syndicated loan which was arranged by internationally recognized financial institutions. Bahia Specialty Cellulose and DPMI are the guarantors and SC International Macao is the borrower of such syndicated loan. This syndicated loan contains certain financial and other covenants, including, among other things, the maintenance of certain financial measures, such as the debt service coverage ratio and debt to EBITDA ratio, and the security package includes a pledge over Bahia Specialty Cellulose's equipment and other moveable assets, a pledge over the wood supply agreement between Bahia Specialty Cellulose and Copener and a second priority mortgage over the real property owned by Bahia Specialty Cellulose in the Camaçari industrial complex. As of June 30, 2010, the net book value of assets pledged in connection with this syndicated loan was US\$1,074.9 million. The net proceeds from this syndicated loan were used to refinance the funding provided for the expansion of our Bahia Specialty Cellulose mill completed in 2008 as follows: (a) approximately US\$193.6 million was used to repay early the existing project finance loan; and (b) approximately US\$263.4 million was used to redeem a portion of the outstanding class 1 preference shares and all of the outstanding class 2 preference shares in the capital of Sateri International owned by Gold Silk, further details of which are set out in the section headed "History and Reorganization — Our Corporate Reorganization" in this prospectus.

Our Directors confirm that as of the Latest Practicable Date there had not been any delay or default in repayment of bank and other borrowings and there has not been any breach of financial and other covenants under our bank and other borrowings during the Track Record Period.

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At the close of business on September 30, 2010, being the latest practicable date for determining this indebtedness information, we had the following indebtedness:

(a) Borrowings

At the close of business on September 30, 2010, the Group had carrying amount of outstanding loans from related parties of approximately US\$147.1 million, advance drawn on bills receivables discounted of US\$26.4 million and bank borrowings of approximately US\$440.6 million (of which US\$373.5 million was secured by fixed charges on certain of the Group's assets, including property, plant and equipment, prepaid lease payments, trade receivables, bills receivables discounted with recourse and bank deposits).

In addition, the Group had outstanding at that date obligations under finance leases of approximately US\$3.9 million.

(b) Pledge of assets

At the close of business on September 30, 2010, the Group had pledged its bank deposits, prepaid lease payments, property, plant and equipment, trade receivables and bills receivables discounted with recourse with the carrying value of approximately US\$44.2 million, US\$0.9 million, US\$635.7 million, US\$39.1 million and US\$4.4 million, respectively, for credit facilities granted to the Group.

(c) Contingent liabilities

At the close of business on September 30, 2010, the Group's fair value of contingent liabilities in respect of certain lawsuits and administrative proceedings amounted to approximately US\$33.5 million.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, at the close of business on September 30, 2010, the Group did not have outstanding any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

Except as described above, there has not been a material change in our indebtedness position as of the Latest Practicable Date.

CONTRACTUAL OBLIGATIONS

Capital Expenditure Commitments

We had the following capital expenditure commitments as of the dates indicated.

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	(US\$ in thousands)			
Contracted but not provided for:				
Acquisition of property, plant and equipment . . .	151,955	81,707	32,644	36,466
Capital injections in unlisted investment	15,478	9,172	8,875	6,918
Total	167,433	90,879	41,519	43,384

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We had total capital expenditure commitments in connection with the acquisition of property, plant and equipment and capital injections in unlisted investment in Cetrel in the amount of US\$167.4 million, US\$90.9 million, US\$41.5 million and US\$43.4 million as of December 31, 2007, 2008, 2009 and June 30, 2010, respectively. Total capital expenditure commitments were significantly higher as of December 31, 2007 and 2008 compared to as of December 31, 2009 and June 30, 2010 primarily due to the significant expenditure incurred to acquire property, plant and equipment relating to the expansion of our Bahia Specialty Cellulose mill in 2007 and 2008. The amount of total capital expenditure commitments as of December 31, 2009 and June 30, 2010 remained stable due to ongoing capital expenditure commitments relating to our Sateri Jiangxi mill as well as increased investments in Cetrel, as described below, due to increased operations at our Bahia Specialty Cellulose mill.

As of June 30, 2010, we had capital expenditure commitments of US\$43.4 million, which was primarily related to purchases of property, plant and equipment for the expansion of our Sateri Jiangxi mill in the amount of US\$19.2 million and in the amount of US\$11.5 million mainly for the removal of production bottlenecks at our Bahia Specialty Cellulose mill and our commitment to purchase shares in Cetrel in the amount of US\$14.5 million plus interest, payable in 60 monthly installments from September 2007. As a result of the expansion of the second production line at our Bahia Specialty Cellulose mill, we decided to increase our investment in Cetrel in order to fund the expansion of Cetrel corresponding to our increased usage of Cetrel's services. We will finance these capital expenditure commitments with bank loans, cash generated from operations and part of the net proceeds from the Global Offering. See the section headed "Business — Environmental Matters" in this prospectus for further information.

Operating Lease Arrangements and Commitments

We lease a number of properties under non-cancelable operating leases. Our operating lease arrangements primarily represent rental payments for office space and staff quarters. These arrangements are typically negotiated for terms ranging from one to three years. As a lessee, we had the following outstanding commitments under non-cancelable operating leases as of the dates indicated.

	As of December 31,			As of
	2007	2008	2009	June 30, 2010
	(US\$ in thousands)			
Within one year	32	16	32	29
Within the second through the fifth year	16	—	—	18
Total	<u>48</u>	<u>16</u>	<u>32</u>	<u>47</u>

Our operating lease receipts represent rental income receivable for certain office properties in Shanghai. These lease arrangements typically carry terms of one to three years. As a lessor, we had contracted with tenants for the following future minimum lease receipts.

	As of December 31,			As of
	2007	2008	2009	June 30, 2010
	(US\$ in thousands)			
Within one year	158	152	114	148
Within the second through the fifth year	162	—	28	54
Total	<u>320</u>	<u>152</u>	<u>142</u>	<u>202</u>

Other than the obligations set forth above, we did not have any long-term debt obligations, capital lease obligations, operating lease obligations, purchase obligations or other long-term liabilities as of June 30, 2010.

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OFF-BALANCE SHEET ARRANGEMENTS

As of June 30, 2010 and except for the contingent liabilities discussed below, we did not have any material off-balance sheet arrangements.

CONTINGENT LIABILITIES

We have contingent liabilities in respect of legal claims arising in the ordinary course of business. Our management has made certain estimates for potential litigation costs based upon consultation with legal counsel and considered that no significant loss will be incurred beyond the amounts provided as of June 30, 2010. Actual results could differ from these estimates; however, in the opinion of management, it is not anticipated that any material liabilities will arise from our contingent liabilities. See the section headed “Business — Legal Proceedings” in this prospectus for further details.

Save as disclosed above, we did not have any outstanding bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, debentures, mortgages, charges, hire purchase agreements, guarantees or other material contingent liabilities as of the Latest Practicable Date.

TRANSFER PRICING

In the ordinary course of operating our business, we are subject to transfer pricing rules, particularly through our operations in Brazil, China and Switzerland. There are no applicable transfer pricing rules in Macau. Generally, a transfer price or intercompany price is the price set by a taxpayer when dealing with a related person in the areas of tangible, intangible, service and financing transactions. The applicability of relevant transfer pricing laws affects our income tax expenses (or credits) during the Track Record Period. As of the Latest Practicable Date, we had not been questioned by the relevant tax authorities in respect of our compliance with the applicable transfer pricing rules.

Brazil

Cross-border transactions involving import and export of goods, services and rights, as well as loans, carried out between related parties and transactions with parties located in low tax jurisdictions (“LTJ”) or privileged tax regimes, are subject to Brazilian transfer pricing rules. Pursuant to the Brazilian transfer pricing rules, the positive difference between the price effectively adopted by the affiliate and the parameter price determined based on one of the methods provided by law will be either considered as a non-deductible expense (in connection with import transactions) or will be added to the company taxable revenues (in connection with export transactions).

As DPMI is considered to be an entity located in the LTJ under applicable Brazilian law, the export sales made by Bahia Specialty Cellulose to DPMI would be subject to transfer pricing rules in Brazil. Bahia Specialty Cellulose has complied with Brazilian transfer pricing laws in all material respects. Bahia Specialty Cellulose has prepared documentation in accordance with the transfer pricing requirements, included transfer pricing adjustments calculated in accordance with transfer pricing law and filed its corporate income tax and social contribution taxes. Therefore, we expect that no penalties or interest will be imposed by relevant tax authorities in Brazil and that we are in compliance with the Brazilian transfer pricing regulations.

In Brazil, the tax authorities can conduct reviews of a company’s tax position (including transfer pricing) within an enforcement period of five to six years after the end of the financial year when the transactions took place. Our Brazilian legal advisor on Brazilian tax matters, Pinheiro Neto Advogados, is of the view that we are in compliance with the Brazilian transfer pricing regulations.

For further details, see the section headed “Taxation — Brazil Taxation — Transfer Pricing” set out in Appendix VII to this prospectus.

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China

We are subject to the applicable transfer pricing rules in China in connection with our Sateri Jiangxi business. In accordance with the Administrative Regulations for Special Tax Adjustments (for Trial Implementation) (特別納稅調整實施辦法(試行)) (“**STA Rules**”), which took effect beginning in 2008 and set out the regulations in relation to transfer pricing, contemporaneous documentation, disclosure and compliance of intercompany transactions, our Group and external consultants prepared transfer pricing contemporaneous documentation for Sateri Jiangxi for 2008 and 2009 in the form of two respective reports. The reports concluded that Sateri Jiangxi’s related party transactions were conducted on an arm’s length basis, in accordance with the STA Rules. Such transfer pricing contemporaneous documentation was not required under Chinese tax rules and regulations prior to 2008. We and our external tax consultants intend to continue to prepare and file the appropriate transfer pricing contemporaneous documentation in future years.

As Sateri Shanghai did not exceed the exemption threshold for transfer pricing contemporaneous documentation in the relevant tax years, it was not required to prepare any transfer pricing contemporaneous documentation under the STA Rules. However, we believe that the cost plus 10% transfer price adopted by Sateri Shanghai is generally considered to be a reasonable mark-up for the type of back office services provided by Sateri Shanghai.

Our PRC legal advisor, King & Wood, has advised that based on the confirmation letter issued by Jiujiang tax authority, as of April 30, 2010, Sateri Jiangxi has made the payment of the taxes due pursuant to the applicable PRC laws and regulations and the competent tax authority has no knowledge of any tax deficiency which might be assessed against Sateri Jiangxi. For further details see the section headed “Taxation — PRC Taxation — Transfer Pricing” set out in Appendix VII to this prospectus.

Switzerland

Our operations in Switzerland through Sateri Marketing SA are subject to transfer pricing rules that for tax purposes require all related party transactions to be carried out on an arm’s length basis. We have obtained a tax ruling from the competent cantonal tax authorities determining that Sateri Marketing SA, as a service provider, should earn service income calculated at cost plus 5% in order to meet the arm’s length principle for income tax purposes. We have implemented our transfer prices for Sateri Marketing SA in accordance with the calculation set out in this tax ruling. When obtaining the tax ruling, Sateri Marketing SA relied on the practice of the Swiss Federal tax authorities who typically defer to the competent cantonal tax authorities with regard to the assessment of transfer pricing, and therefore, did not obtain an additional tax ruling covering Swiss Federal withholding tax aspects of transfer pricing from the competent Swiss Federal tax authorities.

The tax ruling is binding on the cantonal tax authorities, and with respect to cantonal and Federal income taxes, provided that among other things, the terms of the ruling are complied with, the relevant facts and applicable laws, regulations and administrative practice remain unchanged and full disclosure of the relevant facts and circumstances has been made to the cantonal tax authorities, which Sateri Marketing SA believes to be the case.

For further details, see the section headed “Taxation — Other Jurisdictions — Transfer Pricing — Switzerland” set out in Appendix VII to this prospectus.

MARKET RISKS, DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

We address certain financial risks through a program of risk management that includes the use of derivative financial instruments, including forward foreign exchange contracts and interest rate swaps. We primarily enter into interest rate swaps to manage the effects of fluctuating interest rates and enter into forward foreign exchange contracts to manage our cash flow exposures. We categorize these instruments as economic hedging instruments but hedge accounting under IAS 39 is not applied and the changes in fair values thereof have been recognized as profit or loss in our combined statement of comprehensive income.

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In order for us to be qualified to apply hedge accounting under IAS 39, the following is required:

- formal documentation (hedging relationship and risk management objectives and strategy);
- the hedge is expected to be highly effective;
- effectiveness of the hedge can be measured and is assessed on an ongoing basis throughout the financial reporting period; and
- forecasted hedged transactions must be highly probable and must present an exposure to variations in cash flows that ultimately affect reported net profit or loss.

We do not apply hedge accounting because we do not maintain the required documentation and monitoring methods as required by the applicable accounting standards to qualify for hedge accounting. Our current accounting policy and treatment of derivative financial instruments, as permitted under the applicable accounting standards, is consistent with the approach taken by companies using similar derivative financial instruments. Therefore, we continue to recognize changes in fair value of our derivative financial instruments as profit or loss in our financial statements. For further details, see note 28 to the Accountants' Report included as Appendix I to this prospectus.

As of September 30, 2010, the latest practicable date for determining such information, we had a notional amount of US\$175.3 million in forward foreign exchange contracts outstanding and US\$200 million in interest rate swaps with the interest differential settled every three months and expiring on October 15, 2011. For further details, see note 28 to the Accountants' Report set out in Appendix I to this prospectus.

The following table sets forth our realized and unrealized gains and losses on derivative financial instruments for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	(US\$ in thousands)				
	(unaudited)				
Changes in Fair Value of Derivative Financial Instruments					
Non-deliverable Forward Foreign Currency					
Contracts	21,155	(8,570)	5,273	12,281	3,041
Interest Rate Swaps	(7,583)	(12,653)	(3,441)	(1,855)	(2,808)
	13,572	(21,223)	1,832	10,426	233
Gain/(Loss) on Settlement of Derivative Financial Instruments					
Non-deliverable Forward Foreign Currency					
Contracts	42,736	5,748	18,565	(108)	56
Interest Rate Swaps	190	(1,458)	(174)	999	(7)
	42,926	4,290	18,391	891	49
Total	56,498	(16,933)	20,223	11,317	283

For the years ended December 31, 2007, 2008 and 2009, changes in fair value of our outstanding derivatives are estimated to be a net gain of approximately US\$13.6 million, a net loss of US\$21.2 million and a net gain of US\$1.8 million, respectively. For the six months ended June 30, 2010, the change in fair value of our outstanding derivatives is estimated to be a net gain of approximately US\$0.2 million. For the nine months ended September 30, 2010, the change in fair value of our outstanding derivative financial instruments is estimated to be a net gain of approximately US\$11.1 million.

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For further details, see notes 28 and 44 to the Accountants' Report set out in Appendix I to this prospectus.

Hedging Policies

Our treasury manager and business units may from time to time enter into forward foreign currency hedges, non-deliverable forwards contracts, interest rate swaps and commodity hedges subject to an approved limit. As a general guideline, the treasury team may hedge up to a hedging limit determined by senior finance officers in consultation with our treasury manager.

As a matter of policy, complex and illiquid instruments are not to be used and should have no embedded or leverage features. At all times, outstanding hedging contracts must not exceed the notional amount of underlying exposures. In addition, our treasury is not permitted to sell options.

The maximum hedging period is limited to 12 months forward. Hedging periods beyond 12 months are subject to approval by our chief executive officer, in consultation with our senior finance officers. Hedge contracts are held to maturity unless otherwise recommended by our treasury manager and approved by our senior finance officers.

Internal Controls

We have adopted various internal control procedures to control and monitor the risks of the financial instruments used in our hedging program, including the following:

- we have a group policy on hedging and our senior finance officers and treasury manager are responsible for monitoring the policy and our hedging transactions;
- we only use generic financial instruments, principally plain vanilla non-deliverable forward currency contracts and currently have one interest rate swap. We do not use complex and illiquid financial instruments;
- these financial instruments are only entered into for foreign currencies and interest rates to which the Group is exposed for hedging purposes. Speculative trades are strictly not permitted;
- hedging limits on notional amounts, tenure, counterparties and rates are set according to the business requirements of the Group and these are reviewed from time to time amongst our chief executive officer, senior finance officers and treasury manager; and
- the Group's overall exposure to these financial instruments is monitored on a monthly basis and periodic analysis is performed to assess our overall outstanding exposure and potential cash impact arising from the marked to market hedges. Results are reviewed by our senior finance officers and appropriate adjustments are made to the hedging program where necessary.

Interest Rate Risk

We are exposed to interest rate risk resulting from changes in interest rates on our short-term and long-term debts. Any increase in interest rates will increase our expenses on outstanding borrowings and the cost of new borrowings, and therefore could have a material adverse effect on our financial results. Most of our borrowings are entered into on a short-term basis by our local operating subsidiaries and bore interest rates ranging from 5.31% to 22.8% as of June 30, 2010. Our long-term borrowings bore interest rates ranging from 3.31% to 18.2% as of June 30, 2010.

We are exposed to interest rate risk in relation to variable-rate bank borrowings and advance drawn on bills receivables discounted. As of June 30, 2010, we had an outstanding bank borrowings of US\$427.5 million, of which approximately 26.7% bore interest at fixed rates and approximately 73.3% bore interest at variable rates. In order to maintain certain long-term borrowings at fixed rates of interest, we have entered into interest rate swaps to hedge against our exposure to changes in fair values of those borrowings. These interest rate swaps are regarded as economic hedging instruments but hedge accounting is not applied.

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We also have exposure to interest rate risk due to the fluctuation of the prevailing market interest rate on bank deposits and bank balances. However, our management believes that our exposure on bank deposits and bank balances to interest rate risk is not significant as our management does not anticipate significant fluctuations in interest rates on bank deposits.

Under our interest rate swap contracts, we agree to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable us to mitigate the risk of changing interest rates on the cash flow exposures on the issued variable rate debt. The fair value of interest rate swaps at the end of the reporting period is determined by discounting the future cash flows using the interest rate curves at the end of the reporting period, and terms are disclosed in note 28 to our combined financial statements included in the Accountants' Report set out in Appendix I to this prospectus.

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivatives and non-derivative instruments. The analysis is prepared assuming the borrowings outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis point higher and all other variables were held constant, the potential effect on profit/loss as of the dates indicated is as follows:

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	(US\$ in thousands)			
Increase in post-tax profit for the year/period . . .	4,214	—	956	838
Decrease in post-tax loss for the year/period	—	2,121	—	—

If interest rates had been 50 basis points lower and all other variables were held constant, there would be an equal and opposite impact on the profit/loss.

This is mainly attributable to our exposure to cash flow interest rate risk on variable rate borrowings and change in fair value of the outstanding interest rate swaps. For additional details, see note 6 to our combined financial statements included in the Accountants' Report set out in Appendix I to this prospectus.

Foreign Exchange Risk

Our principal foreign exchange risk involves changes in the value of the Renminbi and the Real relative to the US dollar. Our reporting currency is the US dollar, while our global operations are primarily denominated in the Renminbi and the Real, the local currencies of our operating subsidiaries located in China and Brazil, respectively. We also enter into certain purchase or sales contracts denominated in US dollars. As a result, fluctuations in the exchange rates or any restrictions on the exchange of Renminbi or Real for US dollars could have a material adverse impact on our profit margins, financial condition and results of operations.

We have entered into forward foreign exchange contracts to manage our cash flow exposures. As of September 30, 2010, we had outstanding forward foreign exchange contracts to buy US\$175.3 million notional amount equivalent of Real to hedge a majority of our anticipated currency exposures in 2010 and 2011.

Our Chinese operating subsidiary, Sateri Jiangxi, has significant Renminbi-denominated sales to customers in China, some sales denominated in US dollars and most of its expenses denominated in Renminbi. Accordingly, we believe that currently our currency exposure to Renminbi is not significant. Our future results of operations and financial condition will be affected by exchange rate fluctuations and the cost and success of any hedging activities that we pursue.

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For the forward foreign exchange contracts, the sensitivity analysis has been estimated based on the contracts outstanding at the end of respective reporting period. If the market bid and ask forward exchange rate of the US dollar strengthens against the Real by 5%, the potential effect on profit/loss for the year, as a result of the changes in the market ask foreign currency forward exchange rate of the US dollar against the Real is as follows:

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	US\$ in thousands			
Decrease in post-tax profit for the year /period. . .	9,671	—	7,116	6,392
Increase in post-tax loss for the year /period	—	15	—	—

For a 5% weakening of the US dollar against the Real, there would be an equal and opposite impact on the profit/loss.

The following table details our sensitivity to a 5% increase in the functional currency of relevant group entity against the Real and the US dollar. 5% is the sensitivity rate used when reporting foreign currency risk internally to our management and represents our management's assessment of the possible change in foreign exchange rates. The sensitivity analysis below includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates. A 5% strengthening of US dollar and Renminbi (functional currencies) against the Real and US dollar (foreign currencies) respectively will give rise to the following impact to post-tax profit/loss for the year. For a 5% weakening of US dollar and Renminbi, there would be an equal and opposite impact.

	US dollar impact Year ended December 31,			Six months ended June 30,	Real impact Year ended December 31,			Six months ended June 30,
	2007	2008	2009	2010	2007	2008	2009	2010
	US\$ in thousands				US\$ in thousands			
Increase (decrease) in post-tax profit for the year /period. . .	(955)	—	169	411	1,456	—	660	(125)
Increase (decrease) in post-tax loss for the year/period . . .	—	562	—	—	—	(1,820)	—	—

This US dollar impact is mainly attributable to the exposure outstanding on US dollars denominated bank balances, receivables, payables and borrowings at the period end.

This Real impact is mainly attributable to the exposure outstanding on Real denominated other long-term assets, trade and other receivables, bank balances, payables, obligation under finance leases and bank borrowings at the period end.

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Credit Risk

At the end of each reporting period, our maximum exposure to credit risk which will cause a financial loss to us due to failure to perform an obligation by a counterparty arises from the carrying amount of the respective recognized financial assets as stated in our combined statements of financial position. We have no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

In order to minimize the credit risk, our management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. Most of our sales are made through letters of credit issued by the banks of our customers. For some sales to customers on credit terms, we have also had credit insurance to manage the credit risk. In addition, we review the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, our management considers that our credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

We have a concentration of potential credit risk, as our top three major customers in aggregate accounted for 26%, 39%, 41% and 27% of our total trade receivables as of December 31, 2007, 2008 and 2009 and June 30, 2010, respectively. The credit period granted to the top three customers ranged from 30 to 90 days.

We are exposed to the concentration of credit risk on the amounts due from related parties as a significant amount is due from a single related party. For further details, see note 29 to the Accountants' Report set out in Appendix I to this prospectus.

Liquidity Risk

To manage our liquidity risk, we monitor and maintain a level of cash and cash equivalents deemed by us to be adequate to finance our operations and mitigate the effects of fluctuations in cash flows. We also monitor the utilization of borrowings.

The following tables detail our remaining contractual maturity for our non-derivative financial liabilities based on the agreed repayment terms. The tables have been based on the undiscounted cash flows of financial liabilities based on the earliest dates on which we can be required to pay. The tables include both interest and principal cash flows. In addition, the following tables detail our liquidity analysis for our derivative financial instruments. The tables have been based on the undiscounted contractual net cash outflows on derivative instruments settled on a net basis. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period. The liquidity analysis for our derivative financial instruments are prepared on the basis of using valuations provided by the banks at the end of each reporting period.

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	Contractual interest rate	0-90 days	91-365 days	1-2 years	2-3 years	Over 3 years	Total undiscounted cash flows	Carrying amount
	%	(US\$ in thousands)						
As of December 31, 2007								
Non-derivative financial liabilities								
Trade and other payables	—	59,695	—	—	—	—	59,695	59,695
Consideration payable on acquisition of subsidiaries	8.0	895	—	—	—	—	895	878
Advance drawn on bills receivables discounted	5.0	2,233	—	—	—	—	2,233	2,206
Amounts due to related parties	—	8,068	—	—	—	—	8,068	8,068
Amounts due to related parties	7.4	30,342	—	—	—	—	30,342	29,798
Bank and other borrowings								
- Fixed rate	7.3	5,090	—	—	—	—	5,090	5,000
- Variable rate	8.6	37,615	71,594	83,382	88,549	216,335	491,475	393,490
Obligations under finance leases	15.5	1,008	3,145	3,551	—	—	7,704	6,675
		<u>144,946</u>	<u>74,739</u>	<u>86,933</u>	<u>88,549</u>	<u>216,235</u>	<u>611,502</u>	<u>505,810</u>
Derivatives financial liabilities, settled net								
Foreign currency option		1	778	—	—	—	779	779
Interest rate swaps		814	1,730	1,961	1,961	1,681	8,147	7,583
		<u>815</u>	<u>2,508</u>	<u>1,961</u>	<u>1,961</u>	<u>1,681</u>	<u>8,926</u>	<u>8,362</u>
As of December 31, 2008								
Non-derivative financial liabilities								
Trade and other payables	—	88,591	—	—	—	—	88,591	88,591
Amounts due to related parties	—	10,414	—	—	—	—	10,414	10,414
Amounts due to related parties	7.4	2,668	—	—	—	—	2,667	2,619
Loans from related parties	—	—	—	—	207,131	—	207,131	207,131
Loans from related parties	7.4	—	—	—	7,332	—	7,332	6,000
Advance drawn on bills receivables discounted	5.0	59,593	—	—	—	—	59,593	59,223
Bank borrowings								
- Fixed rate	7.8	1,794	83,786	11,170	390	5,780	102,920	93,303
- Variable rate	8.0	40,363	62,502	88,811	89,378	175,011	456,065	370,979
Obligations under finance leases	15.1	1,067	3,204	781	—	—	5,052	4,255
		<u>204,849</u>	<u>149,492</u>	<u>100,762</u>	<u>304,231</u>	<u>180,791</u>	<u>940,125</u>	<u>842,515</u>
Derivative financial liabilities, settled net								
Forward foreign exchange contracts		5,273	3,549	—	—	—	8,822	8,570
Interest rate swaps		1,600	4,958	12,826	—	—	19,384	17,990
		<u>6,873</u>	<u>8,507</u>	<u>12,826</u>	<u>—</u>	<u>—</u>	<u>28,206</u>	<u>26,560</u>

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	Contractual interest rate	0-90 days	91-365 days	1-2 years	2-3 years	Over 3 years	Total undiscounted cash flows	Carrying amount
	%	(US\$ in thousands)						
As of December 31, 2009								
Non-derivative financial liabilities								
Trade and other payables	—	34,146	—	—	—	—	34,146	34,146
Amounts due to related parties	—	1,950	—	—	—	—	1,950	1,950
Amounts due to related parties	7.4	2,600	—	—	—	—	2,600	2,553
Loans from related parties	—	—	—	145,661	—	—	145,661	142,784
Advance drawn on bills receivables discounted	4.0	133,535	—	—	—	—	133,535	132,231
Bank borrowings								
- Fixed rate	7.8	1,788	88,456	10,780	—	—	104,024	92,991
- Variable rate	6.2	5,533	111,033	92,691	98,095	113,672	421,024	361,905
Obligation under finance leases	17.4	591	1,851	1,024	—	—	3,466	3,043
		<u>180,143</u>	<u>201,340</u>	<u>250,156</u>	<u>98,095</u>	<u>113,672</u>	<u>843,406</u>	<u>771,603</u>
Derivative financial liabilities, settled net								
Interest rate swaps		<u>2,474</u>	<u>7,174</u>	<u>6,034</u>	<u>—</u>	<u>—</u>	<u>15,682</u>	<u>15,134</u>
	Weighted average effective interest rate	0-90 days	91-365 days	1-2 years	2-3 years	Over 3 years	Total undiscounted cash flows	Carrying amount
	%	(US\$ in thousands)						
As of June 30, 2010								
Non-derivative financial liabilities								
Trade and other payables	—	26,843	475	35	—	—	27,353	27,353
Amounts due to related parties	—	1,318	—	—	—	—	1,318	1,318
Loans from related parties	—	—	—	145,661	—	—	145,661	145,661
Advance drawn on bills receivables discounted	4.2	95,149	—	—	—	—	95,149	94,174
Bank borrowings								
- Fixed rate	7.8	2,192	120,278	447	—	—	122,917	113,994
- Variable rate	6.2	4,793	95,883	104,054	78,218	79,059	362,007	313,495
Obligations under finance leases	12.9	658	2,093	1,536	—	—	4,287	3,877
		<u>130,953</u>	<u>218,729</u>	<u>251,733</u>	<u>78,218</u>	<u>79,059</u>	<u>758,692</u>	<u>699,872</u>
Derivative financial liabilities, settled net								
Interest rate swaps		<u>2,337</u>	<u>6,718</u>	<u>4,182</u>	<u>—</u>	<u>—</u>	<u>13,237</u>	<u>13,094</u>

Inflation

Inflation may increase our costs relating to fixed costs and our supplies, which may adversely affect our margins.

China

Inflation in China has not materially impacted our results of operations in recent years. According to the National Bureau of Statistics of China, the consumer price index in China increased by 4.8% and 5.9% in 2007 and 2008, respectively, and decreased by 0.7% in 2009.

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Brazil

Inflation in Brazil has not materially impacted our results of operations in recent years. According to IGP-M, the general market price index published by FGV, the inflation rate was 7.7% and 9.8% in 2007 and 2008, respectively, and the deflation rate was 1.71% in 2009.

RECENT ACCOUNTING PRONOUNCEMENTS

See note 2 to our combined financial statements included in the Accountants' Report set out in Appendix I to this prospectus.

PROFIT FORECAST FOR THE YEAR ENDING DECEMBER 31, 2010

On the bases and assumptions set out in the section headed "Profit Forecast" in Appendix III to this prospectus and, in the absence of unforeseen circumstances, certain profit forecast data of the Group for the year ending December 31, 2010 are set out below:

Forecast profit attributable to the owners of our Company
for the year ending December 31, 2010⁽¹⁾⁽²⁾Not less than US\$302 million
Unaudited forecast earnings per Share on a pro forma basis⁽³⁾Not less than US\$0.09

Notes:

- (1) The bases and assumptions on which the above profit forecast has been prepared are summarized in the section headed "Profit Forecast" in Appendix III to this prospectus. The Directors have prepared the forecast profit attributable to the owners of our Company for the year ending December 31, 2010 based on the audited combined results of the Group for the six months ended June 30, 2010, the unaudited results based on the management accounts of the Group for the two months ended August 31, 2010 and a forecast of the results of the Group for the remaining four months ending December 31, 2010. The forecast has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by the Group as set out in note 3 of section A of the Accountants' Report, the text of which is set out in Appendix I to this prospectus.
- (2) In determining the forecast profit attributable to the owners of our Company for the year ending December 31, 2010, our estimates of sales volume and average selling prices of our products, based on legally binding contracts and sales orders as of October 31, 2010, accounted for approximately 75% of the forecasted sales volume for the period from September 1, 2010 through the end of 2010. We disposed of DP Macao effective as of September 30, 2010 to a subsidiary of our Ultimate Controlling Shareholder. The results of operations of DP Macao of US\$61.5 million are included in the forecast profit attributable to the owners of our Company.
- (3) The unaudited forecast earnings per Share on a pro forma basis is calculated by dividing the forecast profit attributable to the owners of our Company for the year ending December 31, 2010 by 3,368,826,750 Shares as if such Shares had been in issue on January 1, 2010. The number of Shares used in this calculation includes the Shares in issue as of the date of this prospectus and the Shares to be issued pursuant to the Global Offering but excludes any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which may be granted pursuant to the Share Option Scheme or upon the vesting of any RSUs granted or to be granted pursuant to the RSU Schemes.

DIVIDEND POLICY

We will evaluate our dividend policy and dividends declared in any particular year in light of our financial position, the prevailing economic climate and expectations about the future macroeconomic environment and business performance. The determination to pay dividends will be made at the discretion of the Board and will be based upon our earnings, cash flow, financial condition, capital and other reserve requirements and any other conditions which the Board deems relevant. The payment of dividends may also be limited by legal restrictions and by financing agreements that we may enter into in the future. We did not declare any dividends during the Track Record Period.

Our ability to declare and pay dividends on our Shares is also subject to the requirements of Bermuda law. Moreover, we are a holding company which is dependent upon the operations of our subsidiaries for cash. Certain of our subsidiaries' debt agreements, particularly the project finance loans entered into in connection with the expansion of our production facilities in China and the syndicated loan entered into to

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refinance the funding provided for expansion of our Bahia Specialty Cellulose mill, limit the ability of Sateri Jiangxi, SC International Macao, DPMI and Bahia Specialty Cellulose to make dividends or other distributions to us. Therefore, unless and until we pay cash dividends on our Shares, any gains from your investment in our Shares must come from an increase in the market price of such Shares.

As per the provisions of the Brazilian Corporate Law n° 6.404/76, the right to participate in the profits of a corporation is considered an essential right of the shareholder, and, therefore, it cannot be annulled by the bye-laws or by a general shareholders' meeting. In case the bye-laws of a corporation do not establish the amount of mandatory dividends, the Brazilian Corporate Law sets forth a mandatory dividend of 50% of the net profits of the corporation in each given year, adjusted according to the legal parameters. If the bye-laws do not set forth any rules on the payment of dividends, the shareholders' meeting which amends the bye-laws by establishing the amount of mandatory dividend cannot provide for a mandatory dividend which is lower than 25% of the net profits, adjusted in accordance with the legal parameters, of the corporation in each fiscal year.

The bye-laws of Bahia Specialty Cellulose and Norcell both provide for a minimum mandatory dividend of 25% of the net profit, adjusted according to the legal parameters. The articles of association of Copener do not include mandatory dividends provisions, instead permitting Copener's quotaholders (currently Norcell and Sateri Copener Limited) to decide the amount of dividends to be paid. As a general rule, dividends are distributed at the end of each fiscal year, provided there are net profits, although in certain cases a company is allowed to distribute dividends in a shorter period of time, provided that legal requirements are observed. Furthermore, Brazilian companies may only remit dividends abroad if the underlying foreign investment is duly registered with the Brazilian Central Bank. We are also subject to certain restrictions and conditions regarding the distribution of dividends provided for in our US\$470 million syndicated loan entered into to refinance funding provided for the expansion of our production facilities in Brazil. These restrictions require, among other things, Bahia Specialty Cellulose and SC International Macao to have, in aggregate, at least US\$60.0 million of cash equivalents on their balance sheets after the payment of dividends by either of these companies.

A substantial portion of our operations are conducted through Sateri Jiangxi, our operating subsidiary in China, and the ability of this subsidiary to make dividend and other payments to us may be restricted by a number of factors, including the applicable foreign exchange and other laws and regulations. In particular, under PRC law, our PRC subsidiaries are required to allocate at least 10% of net profit after tax to a "reserve fund" until the balance of such fund has reached 50% of their respective registered capital as determined in accordance with PRC GAAP. When the reserve fund reaches and is maintained at or above 50% of our PRC subsidiary's registered capital, no further allocations to this reserve fund will be required. Following the completion of the Global Offering, dividends from Sateri Jiangxi may only be paid out of distributable profits as determined under PRC GAAP or IFRS, whichever is lower. Any distributable profits that are not distributed in any given year will be retained and become available for distribution in subsequent years. In addition, Sateri Jiangxi is subject to certain restrictive covenants including prohibitions on declaring dividends before the Bank of China project finance loan and the ICBC project finance loan are fully paid. As we derive a significant proportion of our revenue from Sateri Jiangxi, we may not have the necessary funds to pay dividends on our Shares for the foreseeable future.

DISTRIBUTABLE RESERVES

As of June 30, 2010, our Company had no reserves available for distribution to our equity holders. For further details, see the section headed "History and Reorganization — Our Corporate Reorganization" in this prospectus.

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DISCLOSURE UNDER THE LISTING RULES

We confirm that, as of the Latest Practicable Date, we are not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.11 to 13.19 of the Listing Rules.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma data relating to our net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the Global Offering on our net tangible assets as of June 30, 2010 as if the Global Offering had taken place on June 30, 2010.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of the Group attributable to the owners of our Company as of June 30, 2010 or as of any subsequent dates, including following the Global Offering.

	Unadjusted audited combined net tangible assets of the Group attributable to the owners of our Company as of June 30, 2010 ⁽¹⁾	Estimated net proceeds to our Company from the Global Offering ⁽²⁾	Unaudited pro forma adjusted net tangible assets of the Group attributable to the owners of our Company ⁽³⁾	Unaudited pro forma adjusted net tangible assets per Share ⁽⁴⁾	
	US\$ (in millions)	US\$ (in millions)	US\$ (in millions)	US\$	HK\$
Based on an Offer Price of HK\$6.60 per Offer Share	1,319	400	1,719	0.51	3.98
Based on an Offer Price of HK\$9.20 per Offer Share	1,319	562	1,881	0.56	4.35

Notes:

- (1) The unadjusted audited combined net tangible assets of the Group attributable to the owners of our Company as of June 30, 2010 is extracted from the Accountants' Report set out in Appendix I to this prospectus, which is based on the audited combined net assets of the Group attributable to the owners of our Company of US\$1,319,841,000 with an adjustment for intangible assets of US\$825,000.
- (2) The estimated net proceeds to our Company from the Global Offering are based on the indicative Offer Prices of HK\$6.60 and HK\$9.20 per Offer Share, respectively, after deduction of underwriting fees and commissions and other related expenses payable by our Company and take no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option. Our Company may, at our sole discretion, pay to the Joint Bookrunners for themselves only a discretionary incentive fee of up to 1.0% of the Offer Price per Offer Share. If we decide to pay such additional fee, the net proceeds from the Global Offering and the unaudited pro forma adjusted net tangible assets per Share will decrease.
- (3) The unaudited pro forma adjusted net tangible assets of the Group attributable to the owners of the Company do not include the redemption consideration paid to Gold Silk, our immediate Controlling Shareholder, for the redemption of 22,800,000 class 1 preference shares with a redemption price of US\$1.00 per share and 4,410,067 class 2 preference shares with a redemption price of US\$100.00 per share in the capital of Sateri International in November 2010, amounting to an aggregate redemption amount of US\$463,806,700. Details of these are set out in Appendix I to this prospectus.
- (4) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in note (2) above and on the basis that 3,368,826,750 Shares were in issue assuming that the Reorganization and the Global Offering had been completed on June 30, 2010 and without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which may be granted pursuant to the Share Option Scheme or upon the vesting of any RSUs granted or to be granted pursuant to the RSU Schemes. Our Company's unaudited pro forma adjusted net tangible assets per Share are converted into Hong Kong dollars at an exchange rate of US\$1.00 to HK\$7.79.

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- (5) As of September 30, 2010, the Group's property interests were valued by CBRE, an independent property valuer, and the property valuation report is set out in Appendix IV to this prospectus. The surplus arising on the revaluation, representing the excess of market value of the property interests over their corresponding book value shown in investment properties, prepaid lease payments and certain property, plant and equipment, is approximately US\$279.5 million. This amount has not taken into account of the associated deferred tax charge relating to this revaluation surplus, which will cause a material reduction in this revaluation surplus. The revaluation surplus has not been included in the Group's audited combined financial information as of June 30, 2010 and will not be included in the Group's financial statements for the year ending December 31, 2010. The above adjustment does not take into account the revaluation surplus.
- (6) No adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to June 30, 2010.

PROPERTY INTERESTS AND VALUATION OF PROPERTIES

In connection with the Listing, our properties were valued at US\$454.3 million as of September 30, 2010 by CBRE, an independent property valuer. Details of valuation of our property interest as of September 30, 2010 are set out in Appendix IV to this prospectus.

A reconciliation of the net book value of the relevant land use rights and properties as of June 30, 2010 to their fair value as stated in the property valuation report set out in Appendix IV to this prospectus is as follows:

Valuation of properties as of September 30, 2010 as set out in the property valuation report set out in Appendix IV to this prospectus	US\$454.3 million
Net book value of properties as of June 30, 2010 as set out in the Accountants' Report set out in Appendix I to this prospectus ⁽¹⁾	<u>US\$174.8 million</u>
Valuation surplus as of September 30, 2010	<u><u>US\$279.5 million</u></u>

(1) The net book value of properties as of June 30, 2010 includes approximately US\$31.3 million in construction in progress primarily in Jiangxi.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the financial or trading position or prospects of the Group since June 30, 2010.

SHARE-BASED COMPENSATION

On November 8, 2010, our sole Shareholder conditionally approved and adopted the Pre-IPO RSU Scheme, the Post-IPO RSU Scheme and the Share Option Scheme. The purpose of these share-based compensation schemes is to attract skilled and experienced personnel, to incentivize them to remain with the Group and to motivate them to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in our Company. The principal terms of these share-based compensation schemes are described in the sections headed "Statutory and General Information — Pre-IPO RSU Scheme", "Statutory and General Information — Post-IPO RSU Scheme" and "Statutory and General Information — Share Option Scheme" in Appendix IX to this prospectus.

As of the date of this prospectus, RSUs in respect of an aggregate of 8,165,026 Shares, representing approximately 0.2% of the Shares in issue on the Listing Date but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option had been granted to 18 grantees. Please refer to the section headed "Statutory and General Information — Pre-IPO RSU Scheme — Outstanding RSUs Granted" in Appendix IX to this prospectus for further details. As of the Latest Practicable Date, no RSU or option had been granted or agreed to be granted by our Company pursuant to the Post-IPO RSU Scheme and the Share Option Scheme, respectively. As we intend to continue to grant share-based awards under the Post-IPO RSU

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Scheme and the Share Option Scheme in order to, among others, motivate and incentivize our directors and employees to remain with the Group, we expect our share-based compensation expenses will increase significantly in future periods, particularly given that we did not grant share-based awards during the Track Record Period.

We will account for the RSUs granted pursuant to the RSU Schemes and the options granted pursuant to the Share Option Scheme using the fair value based method of accounting. The fair value of the RSUs and the options granted is recognized as an expense in profit or loss over the vesting or exercise period (as the case may be) with a corresponding amount recorded in equity. The total amount to be expensed over the vesting or exercise period (as the case may be) is determined by reference to the fair value of the RSUs or options granted as of the grant date with reference to the vesting or exercise period (as the case may be). At the end of each period, we will revise our estimates of the number of RSUs and/or options that are expected to be granted or vest or become exercisable. We will recognize the impact of the revision to original estimates, if any, in profit or loss with a corresponding adjustment to equity. However, no subsequent adjustment to total equity is made after the vesting or exercise date (as the case may be).

The RSUs granted pursuant to the Pre-IPO RSU Scheme are subject to vesting conditions and will vest over a period of three years or five years. For further details, please refer to the section headed “Statutory and General Information — Pre-IPO RSU Scheme” in Appendix IX to this prospectus.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Immediately following the completion of the Global Offering, Gold Silk will own approximately 85% of our issued share capital (assuming the Over-allotment Option is not exercised and without taking into account any Shares which may be issued pursuant to the exercise of any options which may be granted pursuant to the Share Option Scheme or upon the vesting of any RSUs granted or to be granted pursuant to the RSU Schemes) and approximately 83.1% of our issued share capital (assuming the Over-allotment Option is exercised in full but without taking into account any Shares which may be issued pursuant to the exercise of any options which may be granted pursuant to the Share Option Scheme or upon the vesting of any RSUs granted or to be granted pursuant to the RSU Schemes). Gold Silk is an investment holding company which is wholly owned by the Trustee, as the trustee of a discretionary trust established by Mr. Sukanto Tanoto as settlor and whose beneficiaries include the Tanoto Family. Accordingly, Gold Silk, the Trustee and Mr. Sukanto Tanoto are our Controlling Shareholders.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Independence of Our Board and Our Senior Management from Our Controlling Shareholders

Our Board consists of a total of nine Directors, comprising two executive Directors, four non-executive Directors and three independent non-executive Directors.

The following table illustrates the degree to which certain of our non-executive Directors will have continuing roles in companies controlled by our Controlling Shareholders following the Listing Date.

	<u>Directors of the Company</u>	<u>Directors with continuing roles in companies controlled by our Controlling Shareholders</u>
Executive Directors	2	—
Non-executive Directors	4	3 ⁽¹⁾
Independent non-executive Directors	<u>3</u>	<u>—</u>
Total.	<u>9</u>	<u>3</u>

Note:

- (1) Mr. Loh Meng See is engaged as a human resources consultant by RGE and advises RGE in the areas of human resources and organizational development. Mr. Loh is also a member of the board of directors of APRIL which oversees all aspects of APRIL's business. Mr. John Gin Chung Seto is a member of the board of directors of PEAML which oversees all aspects of PEAML's business, and is also an advisor to and member of the investment committee of PEAML. Mr. Tey Wei Lin is the executive vice president of RGE, where he currently has overall management responsibility for all corporate functions of the RGE group of companies, including corporate finance, treasury and banking, corporate control, legal affairs and human resources. Mr. Tey is a member of the board of directors of PEAML, which oversees all aspects of PEAML's business, and has also been appointed as a responsible officer of PEAML pursuant to the SFO. Mr. Tey is also a member of the board of directors of APRIL, which oversees all aspects of APRIL's business. RGE and PEAML are companies controlled by our Ultimate Controlling Shareholder while APRIL is a company ultimately controlled by the Tanoto Family.

Our non-executive Directors with continuing roles in companies controlled by our Controlling Shareholders have confirmed that they will allocate sufficient time to discharge their duties and responsibilities as non-executive Directors of our Company.

Other than their roles in the Group, none of the members of our senior management hold other roles in companies controlled by our Controlling Shareholders.

Our Ultimate Controlling Shareholder is not, and has never been, a director of the Company or any of our subsidiaries and has not been involved in the day-to-day operational decisions of the Group since the beginning of the Track Record Period. The Group is managed by our Directors and senior management and our Ultimate Controlling Shareholder's involvement in the Group throughout the Track Record Period has been limited to consultation on high level strategic decisions relating to the Group in his capacity as a

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controlling shareholder of the Group, such as the appointment of senior management, major expansion plans of the Group, acquisitions by the Group and the introduction of new product lines by the Group. Following the Listing, the Group will be independently managed by our Directors and senior management and our Ultimate Controlling Shareholder's involvement will be limited to that of our other Shareholders, namely, to consider and, if thought fit, approve any resolutions put to the Shareholders. We consider that this will provide a proper segregation of our Group's ownership and management.

Our Directors are of the view that we are able to operate independently from our Controlling Shareholders and that any conflicts of interest between our Controlling Shareholders or the companies controlled by them (including TPL) and our Group which may arise from time to time will be properly managed for the following reasons:

- (a) Six of the nine Directors on our Board are free from common directorship as between our Company and the companies controlled by our Controlling Shareholders. None of our Directors is a director or a member of the management of TPL and vice versa. Following the Listing, our Company will ensure that a majority of the Directors on our Board will be free from common directorship as between our Company and the companies controlled by our Controlling Shareholders and that no person who is a director or a member of the management of TPL will be appointed as a director of our Group.
- (b) Our day-to-day operations are managed by our executive Directors and our senior management as set out in the section headed "Directors and Senior Management" in this prospectus, all of whom are independent from our Controlling Shareholders and none of them has any role (whether as a director or otherwise) in the companies controlled by our Controlling Shareholders, including TPL.
- (c) Pursuant to our Bye-laws, a Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with our Company shall declare the nature of his interest at the meeting of our Board at which the question of entering into the contract or arrangement is first considered, if he knows his interest then exists, or in any other case at the first meeting of our Board after he knows that he is or has become so interested. However, a Director shall not vote (nor be counted in the quorum) on any resolution of our Board approving any contract or arrangement or any other proposal in which he or any of his associates is materially interested, except in certain prescribed circumstances, details of which are set out in the section headed "Summary of the Constitution of Our Company and Bermuda Company Law" in Appendix VIII to this prospectus.

Whether a Director has a conflict of interest in respect of a matter under consideration by our Board depends on the particular circumstances of such matter. The fact that a Director is also a director of a company or companies controlled by our Controlling Shareholders will not create a conflict of interest for such Director unless the matter under consideration involves his personal interests or those of the relevant company or companies controlled by our Controlling Shareholders as well as our Group. In all other circumstances, a Director would be able to act without being conflicted.

To further strengthen our corporate governance in relation to any conflicts of interest which may arise in respect of any matter relating to TPL, our Directors who hold common directorships as between our Company and the companies controlled by our Controlling Shareholders will not vote (nor be counted in the quorum) on any resolution of our Board approving any matter relating to TPL.

Our Bye-laws and the measures described above ensure that any conflict of interest which may arise from time to time will be properly managed in line with accepted corporate governance practices in order to protect the interests of our Company and our Shareholders (including the minority Shareholders) as a whole.

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- (d) Our Board has three independent non-executive Directors with extensive corporate governance and financial experience to review, enhance and implement measures to manage any conflicts of interest between our Controlling Shareholders or the companies controlled by them (including TPL) and our Group which may arise from time to time in order to protect the interests of our Company and our Shareholders (including the minority Shareholders) as a whole. Our independent non-executive Directors will review any proposed connected transaction and will advise Shareholders as to whether the terms of such connected transaction are fair and reasonable and in the interests of our Company and our Shareholders as a whole. In particular, our independent non-executive Directors will (i) review any decision made by our senior management not to exercise any right of first refusal to sell TPL's dissolving wood pulp pursuant to the Agency Agreement and (ii) review the compliance by our Controlling Shareholders and Pinnacle with the terms of the Non-Competition Deed and will confirm such compliance in our annual report. For further details, please refer to the sections headed “— Business Retained by Our Controlling Shareholders” and “— Non-Competition Deed” below.

Based on the above, our Directors are satisfied that our Board as a whole together with our senior management team are able to perform the managerial role in our Group independently.

Operational Independence

We are not operationally dependent on our Controlling Shareholders, having independent access to sources of raw materials and independent production and operation capabilities.

Our Directors and senior management are responsible for the conduct of our business. We have established our own organizational structure made up of functional departments, each with specific areas of responsibility. We have also established a set of internal controls to facilitate the effective operation of our business. Transactions with companies controlled by our Controlling Shareholders are governed by agreements entered into in the ordinary course of our business and on normal commercial terms. These transactions include the provision of certain IT and administrative services to the Group, the sale by DP Macao of dissolving wood pulp produced by TPL to Sateri Jiangxi and, in the future, to Sateri Fujian and the agency arrangement between DP Macao and SC International Macao. In respect of these transactions, Sateri Jiangxi incurred nil, US\$1.8 million, US\$4.3 million and US\$3.1 million for the purchase of dissolving wood pulp from DP Macao, and we incurred nil, US\$1.4 million, US\$1.3 million and US\$0.8 million for the provision of certain IT and administrative services to the Group by Averis for the three years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, respectively. For details of these transactions, please refer to the section headed “Connected Transactions” in this prospectus. We consider that alternative suppliers and service providers for the goods and services we receive under these agreements are readily available and, in the event that the transactions can no longer be carried out on normal commercial terms, we will be able to select a third party who can provide such products or services upon comparable terms.

Based on the above, our Directors are satisfied that we have been operating independently from our Controlling Shareholders during the Track Record Period and will continue to operate independently.

Financial Independence

Save for any trade balances relating to the Agency Agreement and the Sales Framework Agreement, all the amounts due to and from our Controlling Shareholders and their associates, including any security, guarantees or indemnities provided for the benefit of the Group (other than the Deed of Indemnity), will be fully settled prior to the Listing Date. We are capable of obtaining financing from third parties without reliance on our Controlling Shareholders. We have our own internal control and financing systems with an internal accounting and finance department independent from our Controlling Shareholders. Our treasury operations are handled by our treasury department which operates independently from our Controlling Shareholders.

Based on the above, our Directors believe that we are able to maintain financial independence from our Controlling Shareholders.

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BUSINESS RETAINED BY OUR CONTROLLING SHAREHOLDERS

TPL

As of the Latest Practicable Date, Pinnacle, a company which is controlled by our Ultimate Controlling Shareholder, held approximately 90.6% of the issued share capital of TPL, a company which is listed on the Indonesia Stock Exchange. The remaining issued share capital of TPL is held by public shareholders.

Pinnacle acquired a controlling interest in TPL on December 17, 2007. Under Indonesian laws and regulations, Pinnacle currently has neither the right nor the obligation to compulsorily acquire all of the shares in TPL held by the public shareholders. TPL's board of directors and management team are separate and distinct from those of the Group and, as an Indonesian listed company, TPL has independent commissioners who perform a role similar to that of independent non-executive directors in Hong Kong listed companies.

On December 23, 2007, the Group entered into a sale and purchase agreement to acquire Pinnacle, the immediate holding company of TPL. However, due to a change in our business strategy to focus on our business operations in Brazil and China, in July 2008, the sale and purchase transaction was rescinded by mutual agreement of the parties to the transaction. The Group has not suffered any losses or incurred contingent liabilities resulting from the sale and purchase of Pinnacle and the subsequent rescission of the sale and purchase transaction in 2008. Please refer to the section below headed “— Reasons for Excluding TPL from the Group” for further information.

Scope and Size of TPL's Business

As of December 31, 2009, TPL owned approximately 41,000 hectares of planted forestry land in Indonesia and operated a mill located in Porsea, North Sumatra, Indonesia, which can switch production between paper pulp and rayon grades of pulp. In the past, TPL has produced both paper pulp and rayon grades of pulp. TPL is not currently able to produce specialty grades of pulp or viscose staple fibers.

During the Track Record Period, TPL produced both paper pulp and rayon grades of pulp. For the period from December 17, 2007 (when Pinnacle acquired a controlling interest in TPL) to December 31, 2009, the majority of the pulp produced by TPL was paper pulp.

TPL's current maximum annual production capacity for dissolving wood pulp is 165,000 metric tons. In November 2009, TPL announced that it planned to expand its annual production capacity of dissolving wood pulp to 300,000 metric tons to be completed in phases over a 24 month timeframe. In June 2010, TPL announced that it would continue to switch its production between paper pulp and dissolving wood pulp depending on, amongst others, market conditions and the availability of raw materials.

During the period from December 17, 2007 to December 31, 2009, TPL sold all of its rayon grades of pulp outside Indonesia to DP Macao, which in turn sold such rayon grades of pulp to customers in the international market, mainly China, including Sateri Jiangxi. DP Macao sold rayon grades of pulp sourced from TPL to Sateri Jiangxi for use in its production of viscose staple fibers with an aggregate value of nil, US\$1.8 million, US\$4.3 million, US\$1.9 million and US\$3.1 million in the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2009 and 2010, respectively. Following the Listing Date, we expect that the amount of rayon grades of pulp sourced from TPL that we purchase from DP Macao pursuant to the Sales Framework Agreement will reflect factors including a reduction in supply on the open market, the expansion of production capacity at our Sateri Jiangxi and Sateri Fujian mills and the level of dissolving wood pulp produced by TPL. Please refer to the section headed “Connected Transactions — Non-Exempt Continuing Connected Transactions — Sales Framework Agreement with DP Macao” in this prospectus for further details of the sales of rayon grades of pulp by DP Macao to Sateri Jiangxi.

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The following table sets out a summary comparison of our Group and TPL:

	Our Group	TPL
Types of products	Rayon grades of pulp	Paper pulp
	Specialty grades of pulp	Rayon grades of pulp
	Regular viscose staple fibers	
	Specialty viscose staple fibers	
Location of production facilities . . .	Brazil, China	Indonesia
Annual production capacity	Dissolving wood pulp: 465,000 metric tons	Dissolving wood pulp: 165,000 metric tons ⁽¹⁾
	Viscose staple fibers: 120,000 metric tons	Viscose staple fibers: nil
Sales and marketing	Maintains an international sales and marketing team	Relies on our Group's international sales and marketing team for sales of its rayon grades of pulp outside of Indonesia

Note:

(1) TPL's mill is a switch mill capable of producing both paper pulp and rayon grades of pulp. The total annual production capacity for rayon grades of pulp at TPL's mill is 165,000 metric tons assuming that TPL only produces rayon grades of pulp for the entire year and does not produce paper pulp. When TPL produces paper pulp, the annual production volume of rayon grades of pulp will correspondingly be reduced.

The audited turnover and net assets of TPL for each of the three years ended December 31, 2009 prepared in accordance with Indonesian accounting standards and extracted from TPL's annual reports are set out below:

	Year ended December 31,		
	2007	2008	2009
	(in US\$ million)		
Turnover	137.6	115.5	78.8
Net assets	129.1	131.2	125.7
Net profits (loss)	11.8	2.0	(5.5)

Reasons for Excluding TPL from the Group

TPL has been excluded from the Group for the following reasons.

Although TPL is able to produce both paper pulp and rayon grades of pulp, during the period from December 17, 2007 (when Pinnacle acquired a controlling interest in TPL) until the Latest Practicable Date, TPL was mainly engaged in the production of paper pulp. Paper pulp customers are distinct from dissolving wood pulp customers. TPL can currently only produce rayon grades of pulp with a lower alpha-cellulose content than those produced by us. The timing and amount of the rayon grades of pulp that TPL produces are determined by its own management team based on various factors, including the prevailing market conditions and the availability of raw materials. Given TPL's historical record of producing mainly paper

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pulp, it does not have its own international sales, marketing or technical service team, international customer relationships or international distribution network necessary for a sustainable rayon grades of pulp business, and has instead relied on the Group's sales, marketing and technical service resources to market, sell and provide technical services to its customers outside Indonesia.

Our core business is in the manufacturing, marketing and sale of, and the provision of technical services for the use of, dissolving wood pulp and viscose staple fibers. Given our focus on the dissolving wood pulp business, we have made significant investments in expanding and upgrading our Bahia Specialty Cellulose mill and have established our own international sales, marketing and technical service network. We have no plans to produce paper pulp in the future and, as such, we have a different strategic focus from TPL.

In addition, between 1999 and 2003, TPL had to cease operations owing to protests by local residents alleging environmental issues at its mill and the general economic, political and social disruptions resulting from the Asian economic crisis at that time. There are potential risks and uncertainties posed by TPL's listed company status, its compliance with Indonesian laws and regulations and possible recurrence of the issues which resulted in TPL ceasing its operations previously.

Our business operations and production facilities are located in Brazil and China while TPL's business operations and production facilities are located in Indonesia. We do not have any business in Indonesia and currently do not have any plans to have any operations or production facilities in Indonesia.

Our Controlling Shareholders and Pinnacle do not have any current intention of injecting part or all of Pinnacle's shareholding interest in TPL into the Group in the future.

Because we are able to source dissolving wood pulp from our Bahia Specialty Cellulose mill and other third party suppliers in the open market, and because TPL and DP Macao are also involved in the production and marketing of paper pulp, respectively, to third party customers unrelated to our Group, we do not consider that our Group and DP Macao and TPL are dependent upon one another for our respective continuing businesses.

The Nature and Degree of Potential Competition with TPL

Our Directors are of the view that TPL is unlikely to become a material competitor of our business for the following reasons.

- **Different business focus:** TPL can currently only produce rayon grades of pulp with a lower alpha-cellulose content than those produced by us. The timing and amount of the rayon grades of pulp that TPL produces are determined by its own management team based on various factors, including the prevailing market conditions and the availability of raw materials. TPL's current maximum annual production capacity for dissolving wood pulp is 165,000 metric tons, which is approximately one third of our annual production capacity. We believe that TPL has not made any significant investments during the three years ended December 31, 2009 in its dissolving wood pulp operations, such as in the improvement of product quality, enhancement of operational management or expansion of production capacity. We therefore consider that our rayon grades of pulp are of a higher quality and are technically superior to those produced by TPL. As TPL is currently not able to produce specialty grades of pulp or viscose staple fibers, there is currently no competition between TPL and us in relation to those products.

In addition, we and TPL do not compete with each other in Indonesia or in the paper pulp business. TPL conducts its own sales in Indonesia and we did not make any sales to customers in Indonesia during the Track Record Period. TPL's international sales were historically conducted by us to our customers via TPL's sales to DP Macao. Our revenue from the paper pulp business was all derived from the sale by DP Macao of paper pulp produced by TPL, which amounted to nil, US\$84.2 million, US\$67.7 million and US\$17.7 million for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, respectively. We did not produce paper pulp during the Track Record Period and do not intend to produce paper pulp in the future. Dissolving wood pulp and paper pulp have different applications. Paper pulp is

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mainly used in the production of tissue and board products while dissolving wood pulp is used in the production of a wider range of products, including but not limited to textile, non-woven products and tire cord. Accordingly, dissolving wood pulp and paper pulp businesses each have an entirely different spectrum of customers.

- **Lack of international sales and marketing:** TPL does not have its own marketing network and sales team for its rayon grades of pulp and does not provide related customer services such as technical support. Unlike TPL, we have a developed sales team and a broad marketing network covering, Europe, North America and Asia, in particular China, to which we have committed, and will continue to commit, resources. During the period from December 17, 2007 (when Pinnacle acquired a controlling interest in TPL) until December 31, 2007 and the two years ended December 31, 2009, TPL sold all of its rayon grades of pulp outside Indonesia to DP Macao, which in turn sold such rayon grades of pulp as principal to the Group's customers in the international markets, mainly China, including Sateri Jiangxi. Accordingly, our Group and TPL do not have any common customers. Following the completion of the Reorganization, this arrangement will continue through SC International Macao under the Agency Agreement.
- **Reliance on our sales, marketing and technical service resources:** As TPL switches between the production of paper pulp and rayon grades of pulp, we do not consider that TPL has been or will be viewed by customers of rayon grades of pulp as being a consistent and reliable supplier. TPL does not have its own international sales, marketing or technical service team, international customer relationships or international distribution network for dissolving wood pulp. Before the Reorganization, DP Macao had been engaged in the trading of paper pulp and dissolving wood pulp produced by TPL. After the disposal of DP Macao, we retained DP Macao's international sales team for dissolving wood pulp within the Group. As such, it would be more efficient and effective for TPL and DP Macao to rely on our international sales, marketing and technical service resources for TPL's rayon grades of pulp rather than to establish their own sales, marketing and technical service teams.
- **Agent for sale of TPL's rayon grades of pulp:** Pursuant to the Agency Agreement dated November 3, 2010, DP Macao has appointed SC International Macao, our subsidiary, as its agent for the sale of TPL's dissolving wood pulp which it acquires from TPL outside Indonesia and has granted SC International Macao a right of first refusal to sell such dissolving wood pulp. The Agency Agreement will enable us to manage the sale of TPL's rayon grades of pulp and, therefore, eliminate to a certain extent any potential for competition from TPL. An independent committee of our Board comprising the then serving independent non-executive Directors (the "**Independent Board Committee**") who do not have, and are not deemed to have, a material interest in the relevant matter will, every quarter, review any decision made by our senior management not to exercise such right of first refusal. Please refer to the section headed "Connected Transactions — Non-Exempt Continuing Connected Transactions — Agency Agreement with DP Macao" in this prospectus for further details of the Agency Agreement.
- **Sales to Sateri Jiangxi and Sateri Fujian:** Sateri Jiangxi has in the past purchased rayon grades of pulp produced by TPL for use in its production of viscose staple fibers with the volume purchased in each of the three years ended December 31, 2009 and the six months ended June 30, 2010, being zero, 3,175, 6,040 and 2,034 metric tons, respectively. On November 3, 2010, Sateri Jiangxi and Sateri Fujian entered into the Sales Framework Agreement with DP Macao for the future purchase of dissolving wood pulp produced by TPL. For further details, please see the section headed "Connected Transactions — Non-Exempt Continuing Connected Transactions — Sales Framework Agreement with DP Macao" in this prospectus. As Sateri Jiangxi and Sateri Fujian expect to use the rayon grades of pulp produced by TPL for their own production processes, if TPL produces rayon grades of pulp, Sateri Jiangxi and Sateri Fujian would be able to absorb a major proportion of such rayon grades of pulp and, therefore, eliminate to a certain extent any potential for competition from TPL.

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Furthermore, pursuant to the Non-Competition Deed, in addition to certain undertakings not to engage in any business which competes with our business, each of our Controlling Shareholders and Pinnacle have also agreed, among other things, that it or he will, to the extent permitted under applicable Indonesian laws and regulations and rules of the Indonesia capital market, to exercise all the rights that it or he may have such that TPL will continue to sell all of its dissolving wood pulp outside Indonesia through DP Macao and to procure that DP Macao purchases from TPL all of the dissolving wood pulp produced by TPL for sale outside Indonesia and sells such dissolving wood pulp pursuant to the terms of the Agency Agreement. Please see the section headed “— Non-Competition Deed” below for further details of the Non-Competition Deed.

NON-COMPETITION DEED

We entered into the Non-Competition Deed with each of our Controlling Shareholders and Pinnacle on November 19, 2010 so as to maintain a clear delineation of the respective businesses of our Group and those of our Controlling Shareholders and Pinnacle with effect from the Listing Date and to formalize the principles for the management of potential conflicts between them and to enhance our corporate governance in connection with the Listing.

Pursuant to the Non-Competition Deed, each of our Controlling Shareholders and Pinnacle has irrevocably undertaken to us (for ourselves and on behalf of each other member of the Group) that, provided that our Ultimate Controlling Shareholder and/or his associates (as defined below for the purposes of the Non-Competition Deed) controls, directly or indirectly, not less than 50% of the issued share capital of TPL or controls the composition of a majority of the board of directors of TPL, it or he will:

- (a) to the extent permitted by applicable Indonesian laws and regulations and the rules of the Indonesia capital market, exercise all the rights that it or he may have such that TPL will (i) continue to sell all of its dissolving wood pulp for sale outside Indonesia through DP Macao and, other than for such sales, will not, directly or indirectly, compete with the business of the Group outside Indonesia and (ii) only sell its dissolving wood pulp within Indonesia to end customers, provided that nothing herein shall prohibit Pinnacle from providing any support (financial or otherwise) to TPL as a shareholder so long as such support does not contradict the undertaking given in this paragraph (a); and
- (b) procure that DP Macao will purchase from TPL all of the dissolving wood pulp produced by TPL for sale outside Indonesia and will sell such dissolving wood pulp pursuant to the terms of the Agency Agreement.

Our Controlling Shareholders and Pinnacle have confirmed to the Company that, based on the applicable Indonesian laws and regulations and the rules of the Indonesia capital market existing as of the date of the Non-Competition Deed, they do not foresee any difficulties in complying with the above undertakings.

Pursuant to the Non-Competition Deed, each of our Controlling Shareholders and Pinnacle has further irrevocably undertaken to us (for ourselves and on behalf of each other member of the Group) that it or he will not, and will procure that none of its or his associates (other than TPL) will, solely or jointly, without our prior written consent (based on an affirmative vote of a majority of the members of the Independent Board Committee who do not have, and are not deemed to have, a material interest in the relevant matter):

- (i) directly or indirectly, own, operate, participate, invest in or carry on any Competing Business or have any interest, equity or otherwise, in any company, entity or firm which is engaged in any Competing Business; or
- (ii) otherwise, directly or indirectly, provide any assistance or support, financial or otherwise, to any Competing Business.

For the purpose of the Non-Competition Deed, (a) “**Competing Business**” is defined to mean any business which, directly or indirectly and whether solely or jointly, engages, participates, invests or has an economic interest in the production, marketing and/or sale of dissolving wood pulp and/or viscose staple

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fibers which competes or is likely to compete with the core business of the Group (that is, the production, marketing and sale of dissolving wood pulp and viscose staple fibers) anywhere in the world and (b) the associates of each of the Controlling Shareholders and Pinnacle shall be determined by applying the definition of “associates” in the Listing Rules but disregarding the Group or the interests of the Group.

Notwithstanding the above, it has been agreed that each of our Controlling Shareholders and Pinnacle and/or any of its or his associates may:

- (A) hold and/or be interested in, directly or indirectly, any shares or other securities or interest in (I) the Company or, through the Company, in any shares or other securities or interest in any other member of the Group, (II) DP Macao or any other entity which carries on business activities which are similar to those carried on by DP Macao or (III) TPL or, through TPL, in any shares or other securities or interest in any of TPL’s subsidiaries;
- (B) perform any of the obligations or receive any of the benefits provided under (I) the Agency Agreement, (II) the Sales Framework Agreement, (III) the services agreements entered into by members of the Group with Averis, (IV) the property license agreement entered into by Sateri (Hong Kong) Management Limited with ARDL and (V) such other similar on-going agreements or any amendments thereto which may be entered into between any member of the Group and any of our Controlling Shareholders and/or any of its or his associates from time to time;
- (C) hold and/or be interested in, directly or indirectly, any shares or other securities in any company which engages or is involved in, directly or indirectly, any Competing Business, provided that (I) such company is listed on a recognized stock exchange, (II) such shares or securities do not exceed 10% of such company’s issued share capital and (III) none of our Controlling Shareholders, Pinnacle and/or any of its or his associates is entitled to appoint a majority of the directors of such company;
- (D) make any investment, directly or indirectly, in any professionally managed investment fund or collective investment scheme which has or may acquire an interest in any Competing Business, provided that such investment fund or collective investment scheme is managed by professional investment managers who are independent of the Controlling Shareholders, Pinnacle and/or any of their respective associates; and
- (E) directly or indirectly, own, operate, participate, invest in or carry on any Competing Business or have any interest, equity or otherwise, in any company, entity or firm which is engaged in any Competing Business where the Group does not pursue the business opportunity relating to such Competing Business as further described below.

Pursuant to the Non-Competition Deed, each of our Controlling Shareholders and Pinnacle has further irrevocably undertaken to us (for ourselves and on behalf of each other member of the Group) that if it or he or any of its or his associates (other than TPL) (the “**Offeror**”) becomes aware of any business opportunity relating to any Competing Business (the “**Opportunity**”), the Offeror will give a written notice (the “**Offer Notice**”) to us of the Opportunity as soon as practicable after the Offeror becomes aware of it and will provide or procure the provision of all information and documents possessed by the Offeror or its associates in respect of the Opportunity to enable us to evaluate the Opportunity.

If we are interested in pursuing the Opportunity, we will give a written notice (the “**Notice of Interest**”) to the Offeror within 15 business days of receipt of the Offer Notice indicating our interest in the Opportunity and the Offeror will use all reasonable endeavors to procure that the Opportunity will remain available for pursuit by us on terms and conditions which are not less favorable than those offered or made available to the Offeror for at least 30 business days from the date of the Notice of Interest.

In considering whether we will pursue an Opportunity, the Board will take into account whether the Opportunity would form part of our core business, whether there are any strategic or technological advantages and possible synergies which would result from the Opportunity, whether there are any risks

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relating to the Opportunity, whether the terms of the Opportunity are fair and reasonable and the business strategy and financial condition of the Group at the relevant time. The Board may, if it considers necessary, engage legal, technical and independent financial advisors, at our cost, to advise the Board on the terms of the Opportunity.

The Directors are of the view that the 15 business day period for the Board to consider whether we would be interested in pursuing the Opportunity is a reasonable period of time since, on the one hand, it allows the Board sufficient time to review the information relating to the Opportunity and (where necessary) engage legal, technical and independent financial advisors to advise the Board on the terms of the Opportunity while, on the other hand, it recognizes the need to respond promptly to the Opportunity which may only be available for a limited period of time and minimizes the adverse impact on the Offeror should it subsequently wish to pursue the Opportunity after the Board resolves not to, or does not take steps to, pursue the Opportunity, as further described below.

The Offeror will be free to pursue its interest in the Opportunity and to acquire the interest in the relevant Competing Business if, prior to such pursuit:

- (i) the Offeror has received a notice from us stating that the Board (including a majority of the members of the Independent Board Committee who do not have, and are not deemed to have, a material interest in the relevant matter) has resolved that the Group will not pursue the Opportunity;
- (ii) the Offeror has received a notice from us stating that the Board (including a majority of the members of the Independent Board Committee who do not have, and are not deemed to have, a material interest in the relevant matter) has resolved that the Group is unable to make a decision whether to pursue the Opportunity within the required timeframe but has further resolved that it is nevertheless in the best interests of the Group and the Shareholders as a whole for the Offeror to be permitted to pursue the Opportunity and acquire the interest in the relevant Competing Business, provided that we are granted a call option to acquire such interest from the Offeror on commercially reasonable terms to be agreed between the parties;
- (iii) the Offeror has not received a Notice of Interest within the required timeframe; or
- (iv) the Offeror has received a Notice of Interest within the required timeframe but we have not taken such reasonable steps as are necessary to pursue the Opportunity at the end of the required timeframe.

The call option referred to in paragraph (ii) above will constitute a connected transaction for our Company under the Listing Rules and we will comply with all applicable reporting, announcement and independent shareholders' approval requirements as required under the Listing Rules. The Offeror will provide such assistance to us as may be reasonably required to enable us to comply with the Listing Rules in relation to the grant and exercise of such call option.

The parties to the Non-Competition Deed have agreed that where any Opportunity must be pursued faster than the timeframe specified in the Non-Competition Deed due to time limitations imposed by third parties, the parties will agree to a reasonable timeframe in order to achieve and complete the procedure referred to above to ensure that the Opportunity may be duly pursued.

Each of the Controlling Shareholders and Pinnacle has further undertaken:

- (a) to provide us upon our request with all information in its or his possession or the possession of any of its or his associates relating to any relevant interest, engagement, involvement, participation, investment or support which is permitted under the Non-Competition Deed;
- (b) to provide us as soon as practicable upon our request with a written confirmation in respect of compliance by it or him and its or his associates with the terms of the Non-Competition Deed and their respective consent to the inclusion of such confirmation in our annual report and all such information as may reasonably be requested by us for our review and enforcement of the Non-Competition Deed; and

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (c) that it or he will, and it or he will procure that any of its or his associates holding Shares from time to time will, excuse itself or himself from, abstain from voting and not be counted as part of the quorum at any meetings of the Shareholders held for the consideration and approval of, and will not approve any written resolution concerning, any matters referred to in the Non-Competition Deed which have given, or may give rise to actual or potential conflicts of interest.

The Independent Board Committee will, based on the information and confirmation provided by each of the Controlling Shareholders and Pinnacle referred to above, review on an annual basis the compliance by each of the Controlling Shareholders and Pinnacle with the terms of the Non-Competition Deed and will confirm such compliance in our annual report. We will also disclose in our annual report the types of matters reviewed by the Independent Board Committee in relation to compliance and enforcement of the Non-Competition Deed.

The undertakings given by each of our Controlling Shareholders and Pinnacle in the Non-Competition Deed are effective from the Listing Date and will terminate on the earlier of (1) the date on which our Controlling Shareholders and/or their associates cease to be our controlling shareholders and (2) the date on which the Shares cease to be listed on the Stock Exchange.

CONNECTED TRANSACTIONS

We have entered into certain transactions with parties who are our connected persons (as defined in the Listing Rules) and these transactions will continue following the Listing Date, thereby constituting continuing connected transactions under the Listing Rules.

EXEMPT CONTINUING CONNECTED TRANSACTIONS

Following the Listing Date, the following transactions will be regarded as continuing connected transactions exempt from the reporting, announcement, annual review and independent shareholders' approval requirements under Rule 14A.33 of the Listing Rules.

Support Services Agreements with Averis

On July 15, 2010, we, through each of our subsidiaries DPPI, Sateri Jiangxi and Sateri Shanghai, entered into three support services agreements with Averis, a company established to provide administrative services and which is controlled by our Ultimate Controlling Shareholder. On August 16, 2010 and September 8, 2010 respectively, we entered into two further support services agreements with Averis through our subsidiaries Sateri Marketing SA and SC Marketing. Pursuant to these agreements, which have a term of not more than three years each, Averis provides outsourced business process and administrative services to support the finance and accounting, human resources and IT functions of our contracting subsidiaries including general accounting, accounts payable and receivable, management reporting, payroll processing, personnel data administration, recruitment, IT management, helpdesk and application support services. The fees payable for these services are based on the lower of (i) a fixed monthly cost per transaction undertaken for finance and accounting services and per employee covered for human resources and IT services and (ii) the total fixed and variable costs, including costs of third party service providers and related capital expenditure incurred by Averis and attributable to the services provided. Pursuant to these agreements, we also sub-license the software used for our finance and accounting functions from Averis. We entered into these agreements because Averis, as a dedicated provider of outsourced administrative and support services, is able to provide us with a high quality level of service at a competitive cost, and represents a more cost-effective solution to us than performing these administrative services ourselves. We also expect to enter into further agreements of the same nature with Averis through certain of our other subsidiaries, including Bahia Specialty Cellulose and Copener, following the Listing Date.

We intend to continue obtaining support services from Averis in the future, provided that Averis continues to offer terms that are competitive compared with those offered by other providers of similar support services. We will carry out regular benchmarking of Averis against other service providers and evaluate our relationship on an ongoing basis.

The value of fees paid by us to Averis for these support services for the three years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010 was nil, US\$1.4 million, US\$1.3 million and US\$0.8 million, respectively.

These agreements were entered into, and (in the case of those agreements to be entered into following the Listing Date) will be entered into, in the ordinary and usual course of our business and are, or will be, on normal commercial terms. These agreements constitute the provision of shared administrative services on a cost basis, and the fees payable for these services are, or will be, shared at a cost that is identifiable and allocated to the parties involved on a fair and equitable basis. Accordingly, these agreements, and any further agreements of the same nature that we may enter into with Averis following the Listing Date, constitute continuing connected transactions exempt from the reporting, announcement, annual review and independent shareholders' approval requirements under Rule 14A.33(2) of the Listing Rules.

CONNECTED TRANSACTIONS

License for Hong Kong Office Premises from ARDL

On November 3, 2010, we, through our subsidiary Sateri (Hong Kong) Management Limited, entered into an agreement with ARDL, an investment holding company which is controlled by our Ultimate Controlling Shareholder. Pursuant to this agreement, ARDL granted a license to us for the use of a portion of the floor space in the office premises in Hong Kong that it leases from The Hongkong Land Property Company Limited, an independent third party. The license will expire on July 31, 2012, the expiry date of the tenancy agreement between ARDL and the landlord.

This agreement was entered into in the ordinary and usual course of our business and is on normal commercial terms, as the monthly fees payable under the agreement represent a portion of the rent, management fee and government rates payable by ARDL to The Hongkong Land Property Company Limited under the main office premises lease that is directly proportional to our share of these premises.

As this agreement is a new agreement between us and ARDL, there is no historical value information available for this agreement during the Track Record Period.

It is anticipated that the total annual value of this agreement for the years ended December 31, 2010, 2011 and 2012 will not exceed US\$256,000 and, as a result, the highest applicable percentage ratio under the Listing Rules will be, on an annual basis, less than 0.1%. Accordingly, this agreement constitutes a *de minimis* continuing connected transaction exempt from the reporting, announcement, annual review and independent shareholders' approval requirements under Rule 14A.33(3) of the Listing Rules.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Agency Agreement with DP Macao

On November 3, 2010, we, through our subsidiary, SC International Macao, entered into the Agency Agreement with DP Macao, a dissolving wood pulp and paper pulp trading company which was our subsidiary until September 30, 2010 and which is now controlled by our Ultimate Controlling Shareholder. Pursuant to the Agency Agreement, SC International Macao acts as the agent of DP Macao outside Indonesia with a right of first offer for the sale of dissolving wood pulp produced by TPL and acquired by DP Macao. DP Macao pays SC International Macao on a quarterly basis a commission of 2% of the actual amount it receives for dissolving wood pulp sales attributable to SC International Macao. All expenses incurred by SC International Macao in connection with the Agency Agreement are for its own account. Please see the section headed "Relationship with our Controlling Shareholders — Business Retained By Our Controlling Shareholders" in this prospectus for further details of TPL, DP Macao and the Agency Agreement.

The Agency Agreement was entered into by us in the ordinary and usual course of our business and is on normal commercial terms, as the 2% commission payable to SC International Macao by DP Macao is comparable to (or is more favorable to us than) that payable under similar agreements between independent third parties.

As the Agency Agreement is a new agreement between us and DP Macao, there is no historical value information available for this agreement during the Track Record Period.

The Agency Agreement will be effective until December 31, 2012, and may be renewed thereafter for successive three year periods, subject always to the parties complying with the then applicable provisions of the Listing Rules in respect of any such renewal.

It is anticipated that the annual value of commission payable to us by DP Macao under the Agency Agreement for the years ending December 31, 2010, 2011 and 2012 will not exceed US\$5,610,000 and, therefore, the highest applicable percentage ratio under the Listing Rules will be, on an annual basis, more than 0.1% and less than 5%. Accordingly, the Agency Agreement will constitute a continuing connected transaction subject to the reporting, announcement and annual review requirements, but exempt from the independent shareholders' approval requirement under Rule 14A.34(1) of the Listing Rules.

CONNECTED TRANSACTIONS

Annual Caps

Pursuant to Rule 14A.35(2) of the Listing Rules, we have set annual caps for the maximum amount of commission fees payable to us by DP Macao under the Agency Agreement for the three years ending December 31, 2010, 2011 and 2012 as follows:

	Annual Cap for Year Ending December 31		
	2010	2011	2012
Agency Agreement.	US\$825,000	US\$5,280,000	US\$5,610,000

The annual caps above have been estimated on the basis of (a) an expected sale price per metric ton of dissolving wood pulp of US\$1,600, US\$1,600 and US\$1,700 respectively during each of the three years ending December 31, 2012, by reference to the forecast of future market prices for dissolving wood pulp prepared by PCI Fibres and set out in the section headed “Industry Overview” in this prospectus and (b) the maximum volume of dissolving wood pulp that TPL will be capable of producing at its mill, and which SC International Macao would therefore have the right of first offer to sell under the Agency Agreement, in each year (based on an annual production capacity of 165,000 metric tons). The cap for the year ending December 31, 2010 has been adjusted to reflect the fact that the Agency Agreement was only entered into on November 3, 2010.

Sales Framework Agreement with DP Macao

On November 3, 2010, our subsidiaries, Sateri Jiangxi and Sateri Fujian, entered into the Sales Framework Agreement with DP Macao. The Sales Framework Agreement governs the terms on which dissolving wood pulp produced by TPL and purchased by DP Macao is to be sold to Sateri Jiangxi and Sateri Fujian. Subject to TPL producing sufficient quantities of dissolving wood pulp, we expect that such sales will increase due to increased demand by Sateri Jiangxi and Sateri Fujian for dissolving wood pulp as a result of the tightening of supply in the open market for dissolving wood pulp, the planned expansion of their viscose staple fiber production capacity, and their increased use of DP Macao as a supplier of rayon grades of pulp as Bahia Specialty Cellulose increases its proportion of production in specialty grades of pulp, thereby reducing the volume of rayon grades of pulp that would be sold to Sateri Jiangxi and Sateri Fujian for use in the production of viscose staple fibers. Please see the section headed “Business — Our Production Facilities” in this prospectus for further details on the planned expansion of Sateri Jiangxi’s and Sateri Fujian’s viscose staple fiber production capacity and the section headed “Business — Our Products” in this prospectus for further details on the broadening of our dissolving wood pulp product line. The Sales Framework Agreement sets out certain terms to which all sales to Sateri Jiangxi and Sateri Fujian of dissolving wood pulp by DP Macao will be subject. These terms require all sales transactions for dissolving wood pulp between DP Macao and Sateri Jiangxi and Sateri Fujian to be on normal commercial terms and at a price that is no greater than the open market spot price at the time of the transaction that would be payable in a contract between independent third parties for a comparable quantity and quality of dissolving wood pulp.

The Sales Framework Agreement was entered into in the ordinary and usual course of our business and is on normal commercial terms as the price payable by Sateri Jiangxi and Sateri Fujian to DP Macao in any transaction must be comparable to (or more favorable to us than) that payable under similar agreements between independent third parties.

The value of sales of dissolving wood pulp by DP Macao to Sateri Jiangxi for the three years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010 was nil, US\$1.8 million, US\$4.3 million and US\$3.1 million, respectively.

The Sales Framework Agreement will be effective until December 31, 2012, and may be renewed thereafter for successive three year periods, subject always to the parties complying with the then applicable provisions of the Listing Rules in respect of any such renewal.

CONNECTED TRANSACTIONS

It is anticipated that the annual value of dissolving wood pulp purchased by Sateri Jiangxi and Sateri Fujian from DP Macao under the Sales Framework Agreement for the years ending December 31, 2010, 2011 and 2012 will not exceed US\$175.1 million and, therefore, the highest applicable percentage ratio under the Listing Rules will be, on an annual basis, more than 5%. Accordingly, the Sales Framework Agreement will constitute a continuing connected transaction subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Rule 14A.35 of the Listing Rules.

Annual Caps

Pursuant to Rule 14A.35(2) of the Listing Rules, we have set annual caps for the maximum amount payable by us to DP Macao under the Sales Framework Agreement for the three years ending December 31, 2010, 2011 and 2012 as follows:

		Year Ending December 31		
		2010 ⁽¹⁾	2011	2012
A	Projected annual dissolving wood pulp requirements for Sateri Jiangxi's and Sateri Fujian's viscose staple fiber mills ⁽²⁾ estimated to be sourced from DP Macao ⁽³⁾	6,000 ⁽¹⁾ metric tons	54,796 metric tons	93,730 metric tons
B	Projected annual production volume of dissolving wood pulp produced by TPL and sold by DP Macao ⁽⁴⁾	57,750 metric tons	57,750 metric tons	57,750 metric tons
C	Expected maximum annual volume of dissolving wood pulp purchased from DP Macao (being the lower of A or B)	6,000 metric tons	54,796 metric tons	57,750 metric tons
D	Expected sale price per metric ton of dissolving wood pulp ⁽⁵⁾	US\$1,600 ⁽¹⁾	US\$1,600	US\$1,700
Annual cap for year		US\$9,600,000	US\$87,673,600	US\$98,175,000

Notes:

- (1) The annual cap projections for dissolving wood pulp requirements and sale price per metric ton for the remainder of 2010 are based on the actual dissolving wood pulp sales contracts for this period between Sateri Jiangxi and DP Macao.
- (2) The expected annual dissolving wood pulp requirements of Sateri Jiangxi and Sateri Fujian are based on the current expansion plans as set out in the table below. The estimates in this table are based on a conversion factor of 1.03 metric tons of dissolving wood pulp being required to produce 1 metric ton of viscose staple fibers.
- (3) It is estimated that Sateri Jiangxi and Sateri Fujian will source 35% of their projected annual dissolving wood pulp requirements from DP Macao.
- (4) Expected volume estimated on the basis of 35% of TPL's maximum annual dissolving wood pulp production volume of 165,000 metric tons, since TPL is expected to continue producing both paper pulp and dissolving wood pulp. We expect TPL to allocate no more than approximately 35% of its total annual production capacity to the production of dissolving wood pulp.
- (5) Expected sale price is based on the forecast of future market prices for dissolving wood pulp prepared by PCI Fibres and set out in the section headed "Industry Overview" in this prospectus.

CONNECTED TRANSACTIONS

The increase in the above annual caps between 2010 and 2012 is primarily due to the increase in our estimated annual production capacity of viscose staple fibers (and therefore the increased requirement for dissolving wood pulp as a raw material) at our Sateri Jiangxi and Sateri Fujian mills based on our current expansion plans for each of the years of the agreement as follows:

	Year Ending December 31		
	2010	2011	2012
Expected annual production capacity of Sateri Jiangxi mill	71,000 metric tons ⁽¹⁾	152,000 metric tons ⁽¹⁾⁽²⁾	160,000 metric tons ⁽²⁾
Expected annual production capacity of Sateri Fujian mill	nil	nil	100,000 metric tons ⁽³⁾

Notes:

- (1) Design annual production capacity at our Sateri Jiangxi mill increased to 90,000 metric tons at the end of June 2010 and to 120,000 as of the Latest Practicable Date following the completion of two new production lines with a design annual production capacity of 30,000 metric tons each in June 2010 and October 2010, respectively. The two new lines are currently in trial production and are not expected to fully ramp-up production until February 2011.
- (2) Through certain process improvements we expect to increase the effective annual production capacity at our Sateri Jiangxi mill to 160,000 metric tons during 2011.
- (3) The design annual production capacity of our Sateri Fujian mill will be 200,000 metric tons. Phase I will have a design annual production capacity of 45,000 metric tons and Phase 2 will have a design annual capacity of 155,000 metric tons. We expect to commence full production on Phase I by March 2012, and we expect to commence full production on Phase 2 by December 2012.

The increase is also due to the expected increase in demand from Sateri Jiangxi and Sateri Fujian for dissolving wood pulp sourced from TPL via DP Macao. This is due to the expected tightening of supply in the open market for dissolving wood pulp, as global demand is expected to exceed supply during the period up to December 31, 2012, and the fact that Bahia Specialty Cellulose is not expected to meet all of the additional demand arising from the expansion of Sateri Jiangxi and Sateri Fujian, because (i) its own production capacity is not expected to increase at the same rate during that period, (ii) it wants to continue to be able to sell rayon grades of pulp to third party customers and (iii) it is expected to allocate an increased share of its production capacity to the production of specialty grades of pulp.

The difference in value between the annual caps set out above and the value of purchases of dissolving wood pulp from DP Macao during the year ended December 31, 2009 and the six months ended June 30, 2010 of US\$4.3 million and US\$3.1 million, respectively, is primarily due to (i) the substantial increase in the annual production capacity of our Sateri Jiangxi mill during the second half of 2010 and through 2011 and the commencement of production at our Sateri Fujian mill in 2012, (ii) the fact that the average sale price per metric ton of dissolving wood pulp sold by DP Macao was US\$969 during the 12 months ended December 31, 2009 and US\$1,333 during the six months ended June 30, 2010, as compared to an actual sale price of US\$1,600 for the fourth quarter of 2010 and an expected sale price of US\$1,600 for 2011 and US\$1,700 for 2012 and (iii) the expected increase in demand from Sateri Jiangxi and Sateri Fujian for dissolving wood pulp sourced from TPL via DP Macao as described above.

WAIVER APPLICATION FOR NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

In respect of the Agency Agreement described above, as the highest applicable percentage ratio as set out in the Listing Rules is, on an annual basis, expected to be more than 0.1% but less than 5%, this transaction is exempt from the independent shareholders' approval requirement but subject to the reporting and announcement requirements as set out in Rules 14A.45 to 14A.47 of the Listing Rules and the annual review requirements as set out in Rules 14A.37 to 14A.40 of the Listing Rules.

CONNECTED TRANSACTIONS

In respect of the Sales Framework Agreement described above, as the highest applicable percentage ratio as set out in the Listing Rules is, on an annual basis, expected to be more than 5%, this transaction is subject to the reporting and announcement requirements as set out in Rules 14A.45 to 14A.47 of the Listing Rules, the annual review requirements as set out in Rules 14A.37 to 14A.40 of the Listing Rules and the independent shareholders' approval requirement as set out in Rules 14A.48 to 14A.54 of the Listing Rules.

As described above, we expect these non-exempt continuing connected transactions to be carried out on a continuing basis and to extend over a period of time. The Directors therefore consider that strict compliance with the announcement and independent shareholders' approval requirements under the Listing Rules would be impractical and unduly burdensome and would impose unnecessary administrative costs upon us.

Accordingly, we have applied for, and the Stock Exchange has granted to us, a waiver from strict compliance with the announcement requirement relating to continuing connected transactions under Rule 14A.35 of the Listing Rules in respect of the Agency Agreement, and a waiver from strict compliance with the announcement and independent shareholders' approval requirements under Rule 14A.35 of the Listing Rules in respect of the Sales Framework Agreement.

We will, however, comply at all times with the applicable provisions under Rules 14A.35(1), 14A.35(2), 14A.36, 14A.37, 14A.38, 14A.39 and 14A.40 of the Listing Rules in respect of these non-exempt continuing connected transactions.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those as of the date of this prospectus on the continuing connected transactions referred to in this section, we will take immediate steps to ensure compliance with such new requirements.

Confirmation from Directors

The Directors (including our independent non-executive Directors) are of the view that the continuing connected transactions described in this section have been entered into in the ordinary and usual course of business of our Company and are on normal commercial terms. The Directors (including our independent non-executive Directors) are of the view that the non-exempt continuing connected transactions described in this section have been entered into in the ordinary and usual course of business of our Company, are on normal commercial terms, are fair and reasonable and in the interests of the Shareholders as a whole, and that the proposed annual caps for these transactions referred to in this section are fair and reasonable.

Confirmation from the Joint Sponsors

The Joint Sponsors are of the view that the non-exempt continuing connected transactions described in this section have been entered into in the ordinary and usual course of business of our Company, are on normal commercial terms, are fair and reasonable and in the interests of the Shareholders as a whole, and that the proposed annual caps for these transactions referred to in this section are fair and reasonable and in the interests of the Shareholders as a whole.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Our Board of Directors consists of nine Directors, three of whom are independent non-executive Directors. The following table sets out certain information concerning our Directors.

Name	Age	Position
YING, John Jeffrey	48	Chairman and independent non-executive Director
HOON, Will Wee Teng	47	Executive Director and chief executive officer
BARKER, Craig Edward	50	Executive Director
LOH, Meng See	60	Non-executive Director
SETO, John Gin Chung	62	Non-executive Director
TEY, Wei Lin	39	Non-executive Director
WEERASINGHE, Rohan	60	Non-executive Director
LAM, Jeffrey Kin-fung	59	Independent non-executive Director
YU, David Hon To	62	Independent non-executive Director

Chairman

YING, John Jeffrey, 48, has been the chairman and an independent non-executive Director of our Company since October 2010. He is the founder and managing director of Peak Capital, a private equity firm formed in 1999 that invests in growth and expansion capital transactions in the Greater China region. He has been a director of Mecox Lane Limited, a retail and e-commerce firm in China listed on the US NASDAQ exchange, since 1999, and its vice-chairman since October 2010. He has also been a non-executive director of Tai Ping Carpets International Limited, a global luxury carpet company listed on the Stock Exchange, since 1999. From 2008 to 2009, Mr. Ying concurrently served as a managing director of Arctic Capital Limited, a private equity firm, where he was responsible for managing investments in North Asia. He served as a managing director in Asia of The Carlyle Group, a private global investment firm, in Hong Kong from 1998 to 1999, where he was responsible for managing investments in China and Thailand. He also worked at Merrill Lynch & Co. from 1984 to 1986 and from 1989 to 1998, and his last position held was as a director in investment banking. Mr. Ying sits on the board of several not-for-profit organizations, including as the chairman of The Hong Kong Ballet since 2007 and as a director emeritus and previously a director of the Graduate Executive Board of The Wharton School since 2003. He has also been a trustee of the Hong Kong International School since 2002 and acted as its vice chairman between 2006 and 2009. Mr. Ying received both a master of business administration degree in finance from The Wharton School and a master of arts degree in international studies from the University of Pennsylvania in May 1989. He graduated from the Massachusetts Institute of Technology with a bachelor of science degree in electrical engineering in June 1984. Mr. Ying will receive remuneration from our Company for his role as our chairman and independent non-executive Director.

Executive Directors

HOON, Will Wee Teng, 47, has been a Director and the chief executive officer of our Company since June 2010 and the chief executive officer of Sateri International since 2009. He is responsible for our Group's overall management and performance. He was previously the vice chairman of Sateri International from 2008 to 2009. Prior to joining Sateri International, Mr. Hoon served as a director and senior management officer of several companies. He was previously the president of Eu Yan Sang International Ltd, a traditional Chinese medicine company, in 2007 and was responsible for developing and implementing its strategy and directing and managing its operations. Mr. Hoon was also the executive vice president of Transpac Capital Pte Ltd, a private equity firm, from 2000 to 2007 and was responsible for overseeing its overall portfolio of investments. He was the executive chairman of Foodstar Holdings Pte Ltd, a seasonings company, from 2001 to 2007 and was responsible for overseeing its operations. He was the executive director of Hsu Fu Chi Holdings Ltd., a confectionery company, from 2002 to 2007 and was responsible for directing the entire preparation for its initial public offering. Mr. Hoon was also a managing director and the head of private

DIRECTORS AND SENIOR MANAGEMENT

equity at the Crosby Group, an investment bank, from 1998 to 2000 and was responsible for directing and managing its private equity investments. From 1989 to 1998, he worked at management consulting firms (the last of which being Bain & Company) as a key member in the industrial products industry and was responsible for leading assignments. Mr. Hoon graduated from the Massachusetts Institute of Technology with a bachelor's degree in mathematics with computer science in June 1987. He completed graduate research at the University of Cambridge (Trinity College) in May 1989.

BARKER, Craig Edward, 50, has been a Director since October, 2010. He has been the president of viscose staple fibers of Sateri International since 2006 and is responsible for the management and operations of our Group's viscose staple fibers business. Mr. Barker has more than 20 years of experience in the viscose staple fiber and related industries. Prior to joining Sateri International, he was a director of Liberty Fibers Corporation ("**LFC**"), the successor of the US based viscose staple fiber subsidiary of Lenzing AG, from 2002 to 2005, and was the chief executive officer of LFC from 2003 to 2005. As a director of LFC, Mr. Barker provided his industry expertise in board discussions and decision making in respect of the company's budgeting and operational issues. After being appointed the chief executive officer of LFC, Mr. Barker was mainly responsible for the overall performance of the company's operations, including production, quality control, health, safety and environment, and sales and marketing. From 1989 to 2003, Mr. Barker served various marketing and sales positions with Lenzing AG, initially working as a technical sales manager for polyimide fiber products in Lenzing, Austria. In 1993 he was transferred to the Lenzing AG subsidiary, PT South Pacific Viscose ("**SPV**"), in Indonesia, one of the largest producers of viscose staple fibers in Asia. At SPV, Mr. Barker held various positions and his last position held was president director. Mr. Barker graduated from the University of Colorado in August 1982 with a bachelor's degree in mechanical engineering. He received a master's degree in engineering science and mechanics from Virginia Polytechnic Institute in August 1984 and a master of business administration degree from the University of Hull in the United Kingdom in July 1996.

Mr. Barker was appointed chief executive officer of LFC in 2003 by its majority shareholder, Fabest AG, as part of a final attempt to turn the company around from financial difficulties. LFC was a private company incorporated with limited liability under the laws of Delaware, the United States of America. As LFC's operating results continued to deteriorate, it filed for protection from its creditors under Chapter 11 of Title 11 of the United States Code (Bankruptcy Code) ("**Chapter 11**") on November 24, 2003 (the "**LFC Chapter 11 Proceedings**"). Debts subject to the LFC Chapter 11 Proceedings amounted to approximately US\$26.1 million. In July 2004, LFC's creditors and the U.S. bankruptcy court in Greenville, Tennessee approved the restructuring and sale of LFC's assets and its name to a new investor, Silva Acquisition Corporation ("**Silva**"). Silva subsequently changed its name to Liberty Fibers Corporation ("**New LFC**"). Mr. Barker continued to act as the chief executive officer of New LFC, where he assumed similar job responsibilities when acting as the chief executive officer of LFC. As the operational results of New LFC further deteriorated and creditors lost confidence in its continued operational capabilities, New LFC filed for protection from its creditors under Chapter 11 on September 29, 2005 (the "**New LFC Chapter 11 Proceedings**") and together with the LFC Chapter 11 Proceedings, the "**Chapter 11 Proceedings**"). Debts subject to the New LFC Chapter 11 Proceedings amounted to approximately US\$20 million. After a trustee was appointed to supervise the operation of New LFC in November 2005, Mr. Barker resigned from his position as the chief executive officer of New LFC. The New LFC Chapter 11 Proceedings were converted into proceedings under Chapter 7 of Title 11 of the United States Code (Bankruptcy Code) (the "**Chapter 7 Proceedings**") on November 21, 2005. These proceedings are ongoing.

Mr. Barker has not been, and does not expect to be, implicated or involved in any civil or criminal proceedings relating to LFC or New LFC, given the circumstances in which he was appointed as a director and requested to perform the role of chief executive officer of these companies. The US counsel that represented LFC and New LFC in their Chapter 11 Proceedings and New LFC in its Chapter 7 Proceedings has informed our Company and the Joint Sponsors that the statutory limitation period for any actions by the trustee against Mr. Barker in the bankruptcy court has elapsed, and therefore no action can now be brought against Mr. Barker in these bankruptcy cases.

DIRECTORS AND SENIOR MANAGEMENT

The Directors (including the independent non-executive Directors), having considered publicly available information relating to the Chapter 11 Proceedings and the Chapter 7 Proceedings, the background surrounding Mr. Barker's appointment as a director of LFC and the subsequent bankruptcy of New LFC and the fact that the statutory limitation period for any actions by the trustee against Mr. Barker in the bankruptcy court has elapsed, are of the view that the Chapter 11 Proceedings and the Chapter 7 Proceedings do not have any implications on Mr. Barker's ability and suitability to act as a Director under Rules 3.08 and 3.09 of the Listing Rules.

Non-Executive Directors

LOH, Meng See, 60, has been a non-executive Director since October, 2010. He has been engaged as a human resources management consultant by RGE and has served as a director of APRIL since 2009. RGE is a company controlled by our Ultimate Controlling Shareholder while APRIL is a company ultimately controlled by the Tanoto Family. Mr. Loh has more than 30 years of work experience in the field of human resources management and has served as senior management officer in two companies which are listed on the Stock Exchange of Singapore. From 2000 to 2009, he was the senior vice president of human resources of Singapore Airlines Limited, where he was responsible for human resources management, including succession planning, personnel training and recruitment. From 1975 to 2000, Mr. Loh worked with Keppel Corporation Limited, a Singapore-based investment holding and management company listed on the Mainboard of the Singapore Exchange and served in various executive positions in the company's personnel department. His last position with Keppel Corporation Limited was as group personnel director from 1993 to 2000, where he was responsible for human resources management. Mr. Loh was a member of the parliament of Singapore from 1988 to 2006, representing the Kampong Glam constituency and the Jalan Besar group representation constituency. Mr. Loh graduated from the University of Singapore with a bachelor of arts degree in August 1972 and served full-time national service with the Singapore Armed Forces from 1972 to 1975. Mr. Loh has been a fellow of the Institute of Chartered Secretaries and Administrators since June 1990, a full member of the Singapore Institute of Directors since April 1999 and a fellow member of the Singaporean Human Resources Institute since April 2004.

SETO, John Gin Chung, 62, has been a non-executive Director since October, 2010. He has been a director of PEAML, a company controlled by our Ultimate Controlling Shareholder, since 2006. Mr. Seto serves as an independent non-executive director of three companies listed on the Stock Exchange. He has served as an independent non-executive director of Kowloon Development Company Limited since 2002, of China Everbright Limited since 2003 and of Hop Hing Group Holdings Limited since 2006. Mr. Seto was also a non-executive director of Hong Kong Exchanges and Clearing Limited from 2000 to 2003. He was a council member of the Stock Exchange from 1994 to 2000, during which period of time he acted as its first vice chairman from 1997 to 2000. From 1982 to 2001, Mr. Seto served as the chief executive officer of HSBC Broking Services (Asia) Limited. Mr. Seto graduated from New York University in October 1973 with a master of business administration degree in finance.

TEY, Wei Lin, 39, has been a non-executive Director since June, 2010. He is the executive vice president of RGE, a company controlled by our Ultimate Controlling Shareholder which oversees a group of companies focused on resource-based manufacturing industries (the "**RGE group of companies**"). He has held senior management positions with the RGE group of companies since 2001 and, in his role as executive vice president of RGE, he currently has overall management responsibility for all corporate office functions of the RGE group of companies, including corporate finance, treasury and banking, corporate control, legal affairs and human resources. Since 2006, Mr. Tey has been a director of PEAML, where he has also been appointed as a responsible officer pursuant to the SFO since 2005. He has been a non-executive director of APRIL since 2008. PEAML is a company controlled by our Ultimate Controlling Shareholder while APRIL is a company ultimately controlled by the Tanoto Family. From 1995 to 2000, Mr. Tey worked with GIC Real Estate, the real estate investment arm of the Government of Singapore Investment Corporation, and his last position with GIC Real Estate was vice president. Mr. Tey graduated with a first class honors bachelor of business administration degree from the National University of Singapore in January 1996.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Tey is a director of PO&G Asset Management Limited (“**PO&G**”), an investment holding company incorporated in the Republic of Seychelles. As PO&G does not plan to engage in any business in the future, on December 7, 2009, the sole shareholder of PO&G, on the recommendation of the directors of PO&G, passed a resolution to voluntarily wind-up and dissolve PO&G and a liquidator was appointed for that purpose. The dissolution of PO&G commenced on April 12, 2010 and is still in progress. PO&G does not have any liabilities other than amounts owing to its sole shareholder.

WEERASINGHE, Rohan Seneka, 60, has been a non-executive Director since October, 2010. He is the senior partner of Shearman & Sterling LLP, which has been or may be engaged by the Group, the Controlling Shareholders and other entities associated with the Controlling Shareholders, such as the RGE group of companies and APRIL, to act as their legal advisor from time to time. Mr. Weerasinghe joined Shearman & Sterling LLP as an associate in 1977, was made partner in 1986 and senior partner in 2005. His legal practice focuses on capital markets, corporate governance and other corporate advisory work. He has been involved in many capital markets transactions, including initial public offerings, high-yield debt offerings and a variety of other equity and debt transactions. Mr. Weerasinghe graduated from Harvard University with a bachelor of arts degree in history and science in June 1972 and received a master of business administration degree from Harvard Business School and a juris doctor degree from Harvard Law School in June 1977. He was admitted to the New York Bar in March 1979.

Independent Non-Executive Directors

LAM, Jeffrey Kin-fung, 59, has been an independent non-executive Director since October, 2010. Mr. Lam is an independent non-executive director of a number of companies listed on the Stock Exchange, including China Overseas Grand Oceans Group Limited (stock code: 81) since 2010, Wynn Macau Limited (stock code: 1128) since 2009, Hsin Chong Construction Group Limited (stock code: 404) since 2002 and C C Land Holdings Limited (stock code: 1224) since 1998. Mr. Lam has over 30 years of experience in the toy industry and is currently the managing director of Forward Winsome Industries Limited which is engaged in toy manufacturing. Mr. Lam is a member of the National Committee of the Chinese People’s Political Consultative Conference, a member of the Hong Kong Legislative Council, the chairman of the assessment committee of the Mega Events Fund, a member of the board of the West Kowloon Cultural District Authority and a member of the Hong Kong Independent Commission Against Corruption’s Advisory Committee on Corruption. Mr. Lam is also a council member of the Hong Kong Trade Development Council, a general committee member of the Hong Kong General Chamber of Commerce and the vice chairman of The Hong Kong Shippers’ Council.

Mr. Lam was awarded the Young Industrialist Award of Hong Kong in 1989 and the Outstanding Award — Hong Kong Toy Industry in 1999. In 1996, Mr. Lam was appointed justice of the peace and became a member of the Most Excellent Order of the British Empire. In 2004, he was awarded the Silver Bauhinia Star Award. Mr. Lam was conferred university fellow of Tufts University in the US and Hong Kong Polytechnic University in December 1997 and in 2000, respectively. He received a bachelor’s degree in mechanical engineering from Tufts University in June 1974.

YU, David Hon To, 62, has been an independent non-executive Director since October, 2010. He has over 25 years of experience in corporate finance, auditing and corporate management. Mr. Yu has been the vice chairman of MCL Partners Limited, a Hong Kong-based financial advisory and investment firm, since 1999. Between 1995 and 1998, he was the deputy managing director of Playmates Group, whose principal business was global toy marketing and distribution. Between 1983 and 1995, Mr. Yu was a partner of Coopers & Lybrand, the predecessor of PricewaterhouseCoopers. He has been a fellow member of the Institute of Chartered Accountants in England and Wales since January 1982 and an associate member of the Hong Kong Institute of Certified Public Accountants since March 1983. He serves as an independent non-executive director of the following companies listed on the Stock Exchange:

- Hong Kong Energy (Holdings) Limited (stock code: 987) since 2008;
- Synergis Holdings Limited (stock code: 2340) since 2008;
- Haier Electronics Group Co., Ltd. (stock code: 1169) since 2007;

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- VXL Capital Limited (stock code: 727) since 2007;
- TeleEye Holdings Limited (stock code: 8051) since 2007;
- One Media Group Limited (stock code: 426) since 2005;
- Great China Holdings Limited (stock code: 141) since 1999;
- Media Chinese International Limited (dually listed on the main boards of the Stock Exchange (stock code: 685) and the Bursa Malaysia Securities Bhd. (stock code: 5090)) since 1999; and
- Playmates Holdings Limited (stock code: 635) since 1995.

Over the past three years, Mr. Yu has also served as an independent non-executive director of several other companies listed on the Stock Exchange, including Cinda International Holdings Limited (stock code: 111) from 2006 to 2008, BALtrans Holdings Limited (delisted in April 2008) from 2002 to 2008 and Shun Cheong Holdings Limited (stock code: 650) from 2004 to 2007. Mr. Yu has also served as an independent non-executive director of China Datang Corporation Renewable Power Co., Limited since July 2010.

Mr. Yu has confirmed that he would allocate sufficient time to discharge his duties and responsibilities as an independent non-executive Director, taking into account his experience in acting as independent non-executive director of a number of listed companies and the time he is required to devote to each of these companies in order to fulfill his duties and responsibilities as an independent non-executive director.

Save as disclosed above, there is no other information in respect of our Directors that is discloseable pursuant to Rules 13.51(2)(a) to (v) of the Listing Rules and there is no other matter that needs to be brought to the attention of the Shareholders.

SENIOR MANAGEMENT

Our executive Directors and senior management are responsible for the day-to-day management of our business. The following table sets out certain information concerning our senior management.

Name	Age	Position
ALVES, Ivan	50	Managing director of Bahia Specialty Cellulose
LIU, John Zhong Ze	50	Managing director of Sateri Jiangxi
PASSOS, Cláudio Laert Cotrim.	44	Finance director of Sateri International
CHAVASSIEU, Christian	56	Sales and marketing director of Sateri International
LEITE, Marcelo Moreira	52	Technical director of Bahia Specialty Cellulose
ANG, Eugene Hui Tiong	42	Vice president for corporate finance of Sateri International
PARVIAINEN, Kari.	55	Vice president for sales and marketing of specialty viscose staple fibers for Sateri International
SUN, Yongning	61	Vice president for marketing of rayon grades of pulp and viscose staple fibers for Sateri International
ZEN, Silas	52	Forestry director of Bahia Specialty Cellulose
WU, Heping	43	Production director of Sateri Jiangxi

ALVES, Ivan, 50, has been the managing director of Bahia Specialty Cellulose since 2009, and is responsible for all our Brazilian operations. Prior to joining Bahia Specialty Cellulose, he served as the general manager of LSM Brasil Ltda., a subsidiary of Advanced Metallurgical Group N.V., a Netherlands-based specialty metals company, from 2007 to 2009, where he was responsible for its Brazilian operations. From 2003 to 2007, Mr. Alves served as the director of supply chain, Latin America, of Nalco Company, a water treatment and process chemicals company in Latin America where he was responsible for all Latin American operations including procurement, quality systems and distribution in the Caribbean and Latin American region. From 2000 to 2002, he worked for Grupo Votorantim as the general manager of its subsidiary, Cia. Nitro Quimica Brasileira Ltda., a producer of nitrocellulose, hydrofluoric acid and sulfuric

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acid, in Brazil, where he was responsible for chemical operations of a fluorite mine and a specialty chemicals plant in São Paulo. For the period between 1980 and 2000, Mr. Alves worked for Monsanto Company, a US-based agriculture biotechnology corporation listed on the New York Stock Exchange, in Brazil and the US and his last position was a project director of the company where he was responsible for several aspects including manufacturing, logistics, human resources, strategic and business development. Mr. Alves graduated from Mogi das Cruzes University in Brazil in January 1984 with a bachelor's degree in chemical engineering and from Fundação Getúlio Vargas in Brazil in December 1988 with a master of business administration degree.

LIU, John Zhong Ze, 50, has been the managing director of Sateri Jiangxi since 2009, and is responsible for its business operations. Prior to joining Sateri Jiangxi, Mr. Liu served as the managing director for Asia Pacific of Invensys Control Corporation, a manufacturer of controls and electronic components based in the United States and a subsidiary of Invensys plc which is listed on the London Stock Exchange, and was based in the PRC from 2005 to 2009, where he was responsible for its Asia Pacific operations. He held various positions, including being the vice president for global operations, at Fedders Corporation, a global manufacturer of air-treatment products, in the United States from 1994 to 2005. He also worked for various companies in China, including as a project manager of Konka Group Co. Ltd., a manufacturer of electronics and telecommunication products, from 1989 to 1991, where he was responsible for its import and export business and sales in north China. He was also a commercial representative of Changsha Design and Research Institute of Non-Ferrous Metallurgy from 1982 to 1986, where he was responsible for the procurement of advanced factory and mining equipment. Mr. Liu graduated from the State University of New York at Binghamton in January 1994 with a master of business administration degree and from the Economics Institute of Jinan University in July 1989 with a master degree program certificate in international business.

PASSOS, Cláudio Laert Cotrim, 44, has been the finance director of Sateri International since 2010, and is responsible for managing investor relations, budgeting and aligning group accounting policies between business units. He has more than 18 years of experience in the finance industry. Mr. Passos was the finance director of Bahia Specialty Cellulose from 2004 to 2007, where he was responsible for budgeting, accounting and supervising its legal and IT functions. He was the finance director of Prima Empreendimentos S.A., a real estate developer in Bahia, from 2007 to 2008, where he was responsible for investments, budgeting, accounting and credit analysis. In 2008, Mr. Passos rejoined Bahia Specialty Cellulose and was appointed as finance and administration director. Prior to joining Bahia Specialty Cellulose, Mr. Passos was the financial controller of Griffin do Brasil Ltda., a joint venture of Griffin Corporation and E. I. du Pont de Nemours and Company in the crop protection business from 1997 to 2003, where he was responsible for budgeting, accounting and supervising its IT function. From 1992 to 1997, he worked as a senior auditor at Ernst & Young. Mr. Passos graduated with a bachelor's degree in business administration from the University of Salvador - Unifacs in Brazil in January 1994 and a master of business administration degree in finance from Fundação Getúlio Vargas in Brazil in May 2000. He was a member of the board of directors of the Federation of Industries of the State of Bahia from March 2006 to March 2010.

CHAVASSIEU, Christian, 56, has been the sales and marketing director of Sateri International since 2007. Mr. Chavassieu has extensive experience in the dissolving wood pulp industry and is primarily responsible for Sateri International's marketing and sales of dissolving wood pulp. He worked for Buckeye Technologies Inc., the second largest high purity cellulose producer in the United States, from 1996 to 2006, during which period he was responsible for the company's sales of high purity cellulose and his last position with the company was senior vice president. Mr. Chavassieu was the president of Chavassieu & Cie SA, a pulp and paper trading company based in France from 1990 to 1996. He also held various finance positions at Schlumberger Limited, an oilfield services company listed on the New York Stock Exchange, from 1980 to 1987 and Apple Inc. between 1987 and 1990. Mr. Chavassieu graduated with an undergraduate degree in marketing from Institut Supérieur de Gestion in Paris in June 1978 and a master of business administration degree from Columbia University in New York in January 1980.

LEITE, Marcelo Moreira, 52, has been the technical director of Bahia Specialty Cellulose since 2009, and is primarily responsible for research and development, process and product quality control, laboratory, product development, customer technical services and process optimization. He joined Bahia Specialty

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Cellulose as a process and technology manager in 2006 and was appointed as production director in 2008. Prior to joining Bahia Specialty Cellulose, he served as a process engineer and technology manager with Kvaerner Pulping Ltda., a manufacturer of equipment for the pulp and paper industry, from 1992 to 2006 and was the process engineer and chief of the pulping process department in Jaakko Pöyry Brazil, an engineering and consulting company specializing in the pulp and paper industry, from 1985 to 1992. From 1981 to 1985, Mr. Leite worked with Cia Suzano de Papel e Celulose, a pulp and paper manufacturer, in São Paulo and his last position was process engineer. Mr. Leite graduated from São Paulo University in Brazil in March 1981 with a bachelor's degree in chemical engineering.

ANG, Eugene Hui Tiong, 42, has been the vice president for corporate finance of Sateri International since 2007, and is responsible for corporate finance, including capital markets projects, acquisition projects and accounting. Mr. Ang joined Sateri International as the general manager (finance) in 2004. He has 18 years of experience in finance and related industries. Prior to joining Sateri International, he worked with the investment banking arm of BNP Paribas from 1998 to 2004 in both its Singapore and Hong Kong offices. His last position with BNP Paribas was senior vice president, as which he was responsible for corporate finance of the Financial Institutions Group. From 1992 to 1998, he worked with Ernst & Young in its Singapore and London offices and his last position was assistant manager. Mr. Ang graduated with a bachelor's degree in accountancy from the National University of Singapore in June 1992. He has been an associate member of the Institute of Chartered Accountants in England and Wales since May 1997 and a chartered financial analyst with the CFA Institute since September 2001.

PARVIAINEN, Kari, 55, has been the vice president for sales and marketing of specialty viscose staple fibers for Sateri International since 2010, and is responsible for developing the specialty viscose staple fibers markets. He joined Sateri Jiangxi as the sales and marketing director in 2003. He was appointed the vice president for business planning and development of Sateri International in 2008 and the vice president for marketing in 2008. From 2004 to 2007, Mr. Parviainen served as the managing director of Sateri Oy (Finland) and was responsible for its daily operations. From 2001 to 2002, he was the president and chief executive officer of Suominen Oy, a major non-woven producer in Europe, which he joined in 1998. He worked for Finlayson Oy, a major textile group in Scandinavia, from 1980 to 1998 and his last position with Finlayson Oy was the company's president from 1993 to 1998. Mr. Parviainen graduated from Tampere University of Technology in October 1980 with a master of science degree in engineering.

SUN, Yongning, 61, has been the vice president for marketing of rayon grades of pulp and viscose staple fibers for Sateri International since 2009. He is responsible for the marketing of rayon grades of pulp and viscose staple fibers in China. Mr. Sun joined Sateri Jiangxi as a consultant in the marketing department in 2002. He was appointed as senior manager for sales and customer service for viscose staple fibers in 2007. Before joining our Group, he worked for Jiujiang Chemical Fiber Factory, a cellulosic fiber producer in China, from August 1984 to December 2001 in various positions including operation section chief, head of sales and marketing department and factory operation director and was responsible for the sales and marketing of viscose staple fibers. His last position with Jiujiang Chemical Fiber Factory was as operations director responsible for sales, procurement and logistics. Mr. Sun received a diploma in economics from Beijing Economic Management College in July 1987.

ZEN, Silas, 52, has been the forest manager of Bahia Specialty Cellulose since 2008 and became statutory director in 2009. He is responsible for all forestry operations including research and development, silviculture, harvesting and transportation. He has 26 years of experience working in large multinational pulp and paper and mining companies. From 1996 to 2007, Mr. Zen was a research and development manager and forestry director of Vale do Rio Doce Mine Companhia (Brazil), a mining and pulp company, where he was responsible for developing eucalyptus growth technologies and overall effectiveness of forestry operations. From 1984 to 1996, he was a research and development manager of Suzano Pulp and Paper Cia, a pulp and paper company. Mr. Zen received a degree in forest engineering from São Paulo University in Brazil in February 1984 and a master of business administration degree in business management from Dom Cabral Foundation in October 2007.

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WU, Heping, 43, has been the production director of Sateri Jiangxi since 2008 and is responsible for the supervision and management of the manufacturing operations and the utility facilities in Sateri Jiangxi. He joined Sateri Jiangxi in 2003 and was initially in charge of the electronic meters in the company. He was appointed as assistant to the general manager in 2006, and was promoted to the positions of senior manager in 2007, production director in 2008 and assistant general manager in 2010. Prior to joining Sateri Jiangxi, Mr. Wu worked at Jiujiang Chemical Fiber Factory, a cellulosic fiber producer in China, from 1989 to 2003, where his last position was the vice president of one of its sub-factories. Mr. Wu received an associate's degree from Zhongyuan University of Technology (formerly known as Zhengzhou Textile Institute) in July 1989.

COMPANY SECRETARY

WONG, Sincere, 46, is the vice president, legal of Sateri International and the company secretary of our Company. Mr. Wong joined our Group in July 2010. Prior to joining us, he had over 13 years of in-house legal counsel experience with three listed companies in Hong Kong, namely, the Hutchison Whampoa Group, China Resources Enterprise, Limited and Shui On Construction and Materials Limited. His last position was as chief legal officer of Shui On Construction and Materials Limited. Mr. Wong received a bachelor of social science degree in journalism and communication from The Chinese University of Hong Kong in December 1986 and has been a qualified lawyer in the jurisdictions of Hong Kong and England and Wales since October 1993 and February 1994, respectively.

CERTAIN CHANGES IN DIRECTORS AND SENIOR MANAGEMENT DURING THE TRACK RECORD PERIOD

The core management of our Group comprises our executive Directors and our senior management. As a result of the expansion of our Group's business during the Track Record Period, there were certain changes in the Directors and senior management of our Group who previously formed or now form part of the core management of our Group. Such changes were due either to the recruitment of senior managers with strong industry experience and/or in-depth commercial and management experience, the resignation of senior managers from our Group, changes in the roles and responsibilities of senior managers within our Group or the promotion of other senior managers to the core management team, as further detailed below.

Mr. Will Hoon joined our Group in 2009 as the chief executive officer of Sateri International and he has been an executive Director and the chief executive officer of our Group since 2010. Mr. Ivan Alves and Mr. John Liu joined our Group in 2009 as the managing directors of Bahia Specialty Cellulose and Sateri Jiangxi, respectively. During the Track Record Period, the chief financial officer of our Group resigned to assume a position with a company controlled by our Ultimate Controlling Shareholder and his responsibilities for our Group's financial operations were substantially assumed by the other senior finance managers of our Group, including Mr. Cláudio Cotrim, the finance director of Sateri International, and Mr. Eugene Ang, the vice president for corporate finance of Sateri International. The managing director of the dissolving wood pulp business of Bahia Specialty Cellulose resigned during the Track Record Period to assume a position with a company controlled by our Ultimate Controlling Shareholder and his responsibilities for the dissolving wood pulp operations were assumed by the other senior managers of our Group, including Mr. Marcelo Leite, the technical director of Bahia Specialty Cellulose. During the Track Record Period, the general manager of Sateri Jiangxi who was responsible for the daily operations of viscose staple fibers and the deputy chief financial officer of our Group who was responsible for our Group's financial accounting matters were appointed to other roles within our Group and, given the change in their responsibilities, they are no longer considered to form part of the core management of our Group. In addition, as a result of the greater roles and responsibilities assumed by certain senior managers during the Track Record Period, such as Mr. Marcelo Leite, Mr. Sun Yongning and Mr. Wu Heping, they are considered to form part of the core management of our Group.

DIRECTORS AND SENIOR MANAGEMENT

Notwithstanding certain changes in the composition of the core management of our Group during the Track Record Period, the majority of the key senior managers comprising the core management of our Group with responsibility for the operations, finance and sales and marketing of our Group remained unchanged since the beginning of the Track Record Period. The changes in the composition of the core management of our Group during the Track Record Period have not resulted in any adverse impact on our Group's business and operations.

BOARD COMMITTEES

Audit Committee

We have established a Board audit committee in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise our financial reporting process and internal controls.

The audit committee currently consists of three non-executive Directors, two of whom are independent. The members currently are Mr. David Yu, Mr. Jeffrey Lam and Mr. Wei Lin Tey. It is currently chaired by Mr. David Yu, an independent non-executive Director.

Remuneration Committee

We have established a Board remuneration committee in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee are to make recommendations to the Board on our Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

The remuneration committee currently consists of three non-executive Directors, two of whom are independent. The members currently are Mr. Meng See Loh, Mr. John Ying and Mr. David Yu. It is currently chaired by Mr. Meng See Loh, a non-executive Director.

Nomination Committee

We have established a Board nomination committee in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duties of the nomination committee are to identify individuals suitably qualified to become Board members and make recommendations to the Board on the selection of individuals nominated for directorships.

The nomination committee currently consists of three non-executive Directors. The members currently are Mr. John Seto, Mr. Meng See Loh and Mr. Wei Lin Tey. It is currently chaired by Mr. John Seto, a non-executive Director.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

The aggregate remuneration (including fees, salaries, contributions to pensions schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses) paid to our Directors for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010 were approximately US\$0.2 million, US\$0.3 million, US\$0.7 million and US\$0.5 million, respectively.

The aggregate remuneration (including fees, salaries, contributions to pensions schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses) paid to our Company's five highest paid individuals for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010 were approximately US\$1.1 million, US\$1.4 million, US\$1.6 million and US\$1.3 million, respectively.

DIRECTORS AND SENIOR MANAGEMENT

Save as disclosed above, no other payments have been made or are payable, in respect of the years ended December 31, 2007, 2008 and 2009 or the six months ended June 30, 2010, by any member of the Group to any of the Directors.

Under the arrangements currently in force, we estimate the aggregate remuneration, excluding discretionary bonus, of our Directors for the year ending December 31, 2010 to be approximately US\$0.9 million.

Remuneration Policy

Our remuneration policy is based on position, performance and potential (namely, estimated future performance). Our employee's remuneration consists of base salary, short-term incentive and long-term incentive. Remuneration bands are determined for various positions by benchmarking to those positions in appropriate peer companies, to ensure that we are competitive and can attract and retain talent. A performance review process ("PRP") is conducted each year and is supervised by the PRP committee, which consists of members of our senior management. The PRP committee oversees the setting of performance targets for employees, the rating of an employee's performance, an assessment of an employee's future potential and thereafter an employee's total remuneration.

Following the Listing, the overall remuneration structure and process is expected to remain the same, except that the remuneration committee will oversee the PRP process for all employees and will perform the PRP process for senior management, and the current cash-based long-term incentive scheme will be supplemented by the Post-IPO RSU Scheme and the Share Option Scheme.

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, we must have a sufficient management presence in Hong Kong. This normally means that at least two of the executive Directors must be ordinarily resident in Hong Kong. Our business operations are primarily located in Brazil and China. Our executive Directors are based in China as we believe it is more effective and efficient for our executive Directors to be based in a location where we have significant operations. We therefore do not, and in the foreseeable future will not, have a management presence in Hong Kong.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has agreed to grant, a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules. In order to maintain effective communication with the Stock Exchange, we will put in place the following measures in order to ensure that regular communication is maintained between the Stock Exchange and us:

- (a) we have appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal channel of communication with the Stock Exchange. The two authorized representatives are HOON, Will Wee Teng, an executive Director, and WONG, Sincere, the company secretary of the Company. The authorized representatives will provide their usual contact details to the Stock Exchange and will be readily available for meetings with the Stock Exchange in person, if necessary, and will be readily contactable by the Stock Exchange by telephone, facsimile and email, if necessary, to deal with enquiries from the Stock Exchange from time to time;
- (b) each of the authorized representatives has the means to contact all the Directors (including the independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact the Directors on any matters;
- (c) all the Directors who are not ordinarily resident in Hong Kong have valid travel documents to visit Hong Kong and would be able to come to Hong Kong to meet with the Stock Exchange within a reasonable period of time when required; and
- (d) we have appointed Anglo Chinese Corporate Finance, Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules, who will serve as an alternative channel of communication with the Stock Exchange in addition to our authorized representatives.

DIRECTORS AND SENIOR MANAGEMENT

COMPLIANCE ADVISOR

We have appointed Anglo Chinese Corporate Finance, Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance advisor will provide advice to us when consulted by us in the following circumstances:

- (a) before the publication of any regulatory announcement, circular or financial report;
- (b) if a transaction which might be a notifiable or connected transaction is contemplated, including share issues and share repurchases;
- (c) if we propose to use the net proceeds of the Global Offering in a manner different from that detailed in this prospectus or if our business activities, developments or results deviate from any forecast, estimate or other information in this prospectus; and
- (d) if the Stock Exchange makes an inquiry to us regarding unusual movements in the price or trading volume of our Shares.

The term of this appointment shall commence on the Listing Date and is expected to end on the date on which we distribute our annual report in respect of the financial results for the first full financial year commencing after the Listing Date.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Global Offering (and without taking into account any Shares which may be sold pursuant to the exercise of the Over-allotment Option or which may be issued pursuant to the exercise of any options which may be granted pursuant to the Share Option Scheme or upon the vesting of any RSUs granted or to be granted pursuant to the RSU Schemes), the following persons will have an interest or a short position in the Shares or underlying shares of our Company which will be required to be disclosed to our Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name of Shareholder	Nature of interest and capacity	Immediately following the completion of the Global Offering	
		Number of Shares held	Approximate % of interest
Gold Silk ⁽¹⁾	Legal and beneficial owner	2,863,496,750 (L)	85.0%
The Trustee ⁽¹⁾	Interest in a controlled corporation and trustee of a discretionary trust	2,863,496,750 (L)	85.0%
Mr. Sukanto Tanoto ⁽¹⁾ .	Settlor of a discretionary trust	2,863,496,750 (L)	85.0%

Notes:

(L) Denotes a long position in the Shares

(1) The entire issued share capital of Gold Silk is held by the Trustee, as the trustee of a discretionary trust established by Mr. Sukanto Tanoto as settlor. The beneficiaries of such discretionary trust include the Tanoto Family. Mr. Sukanto Tanoto is deemed to be interested in the 2,863,496,750 Shares held by Gold Silk immediately following the completion of the Global Offering pursuant to Part XV of the SFO.

SHARE CAPITAL

AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately prior to and following the completion of the Global Offering.

<i>Authorized share capital:</i>	US\$
15,000,000,000 Shares	750,000,000
<i>Issued and to be issued, fully paid or credited as fully paid:</i>	
2,863,496,750 Shares in issue as of the date of this prospectus	143,174,837.50
<u>505,330,000</u> Shares to be issued pursuant to the Global Offering	<u>25,266,500.00</u>
<u>3,368,826,750</u> Total	<u>168,441,337.50</u>

ASSUMPTIONS

The above table assumes that the Global Offering becomes unconditional and Shares are issued pursuant to the Global Offering. It takes no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which may be granted pursuant to the Share Option Scheme or upon the vesting of any RSUs granted or to be granted pursuant to the RSU Schemes or any Shares which may be issued or repurchased by us pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below.

RANKING

The Shares are ordinary shares in the share capital of our Company and rank equally with all Shares currently in issue or to be issued and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus.

GENERAL MANDATE TO ISSUE SHARES

Subject to the conditions stated in the section headed “Structure of the Global Offering — Conditions of the Global Offering” in this prospectus, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such convertible securities and to make or grant offers, agreements or options which would or might require the exercise of such powers, provided that the aggregate nominal value of Shares allotted or agreed to be allotted by the Directors other than pursuant to:

- (a) a rights issue;
 - (b) any scrip dividend scheme or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with our Bye-laws;
 - (c) the vesting of RSUs granted pursuant to the RSU Schemes;
 - (d) the exercise of options granted pursuant to the Share Option Scheme; or
 - (e) a specific authority granted by the Shareholders in general meeting,
- shall not exceed the aggregate of:
- (i) 20% of the total nominal value of the share capital of our Company in issue immediately following the completion of the Global Offering (but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option); and

SHARE CAPITAL

- (ii) the total nominal value of the share capital of our Company repurchased by our Company (if any) under the general mandate to repurchase Shares referred to in the section headed “— General Mandate to Repurchase Shares” below.

This general mandate to issue Shares will expire:

- (1) at the conclusion of our next annual general meeting; or
- (2) at the end of the period within which we are required by any applicable law or our Bye-laws to hold our next annual general meeting; or
- (3) when varied or revoked by an ordinary resolution of our Shareholders in general meeting, whichever is the earliest.

For further details of this general mandate, please see the section headed “Statutory and General Information — Further Information About the Group — Resolutions in Writing of the Sole Shareholder of Our Company Passed on November 8, 2010” in Appendix IX to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the conditions stated in the section headed “Structure of the Global Offering — Conditions of the Global Offering”, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total nominal value of not more than 10% of the total nominal value of our share capital in issue immediately following the completion of the Global Offering (but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option).

This general mandate relates only to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognized by the SFC and the Stock Exchange for this purpose), and made in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the section headed “Statutory and General Information — Further Information About the Group — Repurchases by Our Company of Our Own Securities” in Appendix IX to this prospectus.

This general mandate to repurchase Shares will expire:

- (i) at the conclusion of our next annual general meeting; or
- (ii) at the end of the period within which we are required by any applicable law or our Bye-laws to hold our next annual general meeting; or
- (iii) when varied or revoked by an ordinary resolution of our Shareholders in general meeting, whichever is the earliest.

For further details of this general mandate, please see the section headed “Statutory and General Information — Further Information About the Group — Resolutions in Writing of the Sole Shareholder of Our Company Passed on November 8, 2010” in Appendix IX to this prospectus.

SHARE OPTION SCHEME

We have conditionally approved and adopted the Share Option Scheme. The principal terms of the Share Option Scheme are summarized in the section headed “Statutory and General Information — Share Option Scheme” in Appendix IX to this prospectus.

RSU SCHEMES

We have conditionally approved and adopted the Pre-IPO RSU Scheme and the Post-IPO RSU Scheme. The principal terms of the Pre-IPO RSU Scheme and the Post-IPO RSU Scheme are summarized in the sections headed “Statutory and General Information — Pre-IPO RSU Scheme” and “Statutory and General Information — Post-IPO RSU Scheme” in Appendix IX to this prospectus, respectively.

SHARE CAPITAL

PUBLIC FLOAT

Rule 8.08(1)(a) of the Listing Rules requires that at least 25% of an issuer's total issued share capital must at all times be held by the public. We expect to achieve a minimum market capitalization of at least HK\$10 billion upon Listing and we have applied to the Stock Exchange to request the Stock Exchange to exercise, and the Stock Exchange has confirmed that it will exercise, its discretion under Rule 8.08(1)(d) of the Listing Rules to accept a lower public float percentage of 15% of our issued share capital, or such higher percentage as is held by the public upon completion of any exercise of the Over-allotment Option. The above discretion is subject to the condition that we make appropriate disclosure of the lower prescribed percentage of public float in this prospectus and confirm the sufficiency of the public float in our successive annual reports after the Listing. We and the Joint Sponsors will be able to demonstrate compliance with Rules 8.08(2) and 8.08(3) of the Listing Rules.

In addition, we will implement appropriate measures and mechanisms to ensure continual maintenance of a 15% public float (or a higher percentage upon completion of any exercise of the Over-allotment Option). In the event that the public float percentage falls below the minimum percentage prescribed by the Stock Exchange, the Directors and our Controlling Shareholders will take appropriate steps, which may include a further issue of Shares by us and/or the placing of some Shares by our Controlling Shareholders and/or their associates to independent third parties, to ensure the minimum percentage of public float prescribed by the Stock Exchange is complied with.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

See the section headed “Business — Our Strategies” in this prospectus for a detailed description of our future plans.

USE OF PROCEEDS

We estimate that the net proceeds from the Global Offering which we will receive, assuming an Offer Price of HK\$7.90 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), will be approximately HK\$3,747 million, after deduction of underwriting fees and commissions (assuming the full payment of a discretionary incentive fee) and estimated expenses payable by us in connection with the Global Offering and assuming the Over-allotment Option is not exercised.

We currently intend to use such net proceeds from the Global Offering as follows:

- (a) approximately HK\$1,600 million (or approximately 42.7% of the net proceeds) will be used for the further expansion of our operations in Brazil, which will include increasing our wood supply for future mill capacity expansions and increasing the dissolving wood pulp design annual production capacity of our Bahia Specialty Cellulose mill from 465,000 metric tons to 550,000 metric tons by December 2013;
- (b) approximately HK\$1,350 million (or approximately 36.0% of the net proceeds) will be used to build a greenfield viscose staple fiber mill with a design annual production capacity of 200,000 metric tons in Fujian province, China by December 2012;
- (c) approximately HK\$483 million (or approximately 12.9% of the net proceeds) will be used for possible acquisitions of businesses or assets that are complementary to our business operations and which we may identify through our continued monitoring and evaluation of potential acquisition targets and business opportunities and/or for the development of other greenfield projects. We had not identified any potential acquisition targets as of the Latest Practicable Date; and
- (d) the balance of approximately HK\$314 million (or approximately 8.4% of the net proceeds) will be used for our working capital requirements and general corporate purposes.

If the Offer Price is fixed at HK\$6.60 per Offer Share (being the low end of the Offer Price range stated in this prospectus) and assuming the Over-allotment Option is not exercised, the net proceeds we receive will be reduced by approximately HK\$631 million.

If the Offer Price is fixed at HK\$9.20 per Offer Share (being the high end of the Offer Price range stated in this prospectus) and assuming the Over-allotment Option is not exercised, we will receive additional net proceeds of approximately HK\$631 million.

In the event the Over-allotment Option is exercised in full and assuming an Offer Price of HK\$7.90 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), we will receive additional net proceeds of approximately HK\$575 million.

To the extent that the net proceeds from the Global Offering (including the net proceeds from the exercise of the Over-allotment Option) are either more or less than expected, we will adjust our allocation of the net proceeds for the purposes listed in paragraphs (c) and (d) above as follows:

- (i) if the Offer Price is fixed at HK\$6.60 per Offer Share (being the low end of the Offer Price range stated in this prospectus) and assuming the Over-allotment Option is not exercised, no net proceeds will be allocated for the purpose listed in paragraph (c) above and the net proceeds to be allocated for the purpose listed in paragraph (d) above will be reduced accordingly; and
- (ii) in all other cases, we will adjust our allocation of the net proceeds for the purposes listed in paragraphs (c) and (d) proportionately, provided that the amount allocated for the purpose listed in paragraph (d) above will not exceed 10% of the net proceeds from the Global Offering.

To the extent that the net proceeds from the Global Offering are not immediately used for the above purposes, we presently intend to deposit such net proceeds into short-term interest-bearing deposits and/or money market instruments.

UNDERWRITING

HONG KONG UNDERWRITERS

Joint Lead Managers

Credit Suisse (Hong Kong) Limited
Morgan Stanley Asia Limited
BOCI Asia Limited

Co-Lead Managers

CITIC Securities Corporate Finance (HK) Limited
Nomura International (Hong Kong) Limited
CIMB Securities (HK) Limited

Co-Managers

ABCI Securities Company Limited
China Merchants Securities (HK) Co., Limited

UNDERWRITING

The Global Offering comprises the Hong Kong Public Offering of initially 50,533,000 Hong Kong Offer Shares and the International Offering of initially 454,797,000 International Offer Shares, subject, in each case, to reallocation on the basis as described in the section headed “Structure of the Global Offering” in this prospectus as well as to the Over-allotment Option in the case of the International Offering.

This prospectus is published solely in connection with the Hong Kong Public Offering. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis. The International Offering is expected to be fully underwritten by the International Underwriters. If, for any reason, the Offer Price is not agreed between our Company and the Joint Bookrunners (on behalf of the Underwriters), the Global Offering will not proceed and will lapse.

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Public Offering, our Company is offering 50,533,000 Hong Kong Offer Shares (subject to reallocation) for subscription by the public in Hong Kong on, and subject to, the terms and conditions set out in this prospectus and the Application Forms.

Subject to:

- (a) the Listing Committee granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus (subject only to allotment and/or dispatch of Share certificates) and such listing and permission not subsequently being revoked; and
- (b) certain other conditions set out in the Hong Kong Underwriting Agreement (including but not limited to the Offer Price being agreed upon between our Company and the Joint Bookrunners (on behalf of the Underwriters)),

the Hong Kong Underwriters have agreed severally, and not jointly, to subscribe for, or procure subscribers for, their respective applicable proportions of the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering, on the terms and conditions set out in this prospectus, the Application Forms and the Hong Kong Underwriting Agreement. If, for any reason, the Offer Price is not agreed between our Company and the Joint Bookrunners (on behalf of the Underwriters), the Global Offering will not proceed.

UNDERWRITING

The Hong Kong Underwriting Agreement is conditional upon and subject to the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for Termination

The obligations of the Hong Kong Underwriters to subscribe for, or to procure subscribers for, the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement is subject to termination by notice in writing to our Company from the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters) if at or prior to 8:00 a.m. on the Listing Date:

- (a) there has occurred any matter, circumstance or event which results in any of the representations and warranties given by our Company or any of the Controlling Shareholders in the Hong Kong Underwriting Agreement or the International Underwriting Agreement being untrue, incorrect, inaccurate or misleading when given or repeated;
- (b) there has been any material breach on the part of our Company or any of the Controlling Shareholders of any of the provisions of the Hong Kong Underwriting Agreement or the International Underwriting Agreement;
- (c) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus and not been disclosed in this prospectus, constitute a material omission therefrom;
- (d) any statement contained in this prospectus, the Application Forms, the formal notice or any announcements in the agreed form issued by our Company in connection with the Hong Kong Public Offering was or has become or been discovered to be untrue, incorrect or misleading in any material respect;
- (e) there has occurred any event, act or omission which gives or is likely to give rise to any liability of our Company or any of the Controlling Shareholders pursuant to the indemnities referred to in the Hong Kong Underwriting Agreement;
- (f) a valid demand has been made by any creditor for repayment or payment of any indebtedness of any member of the Group or in respect of which any member of the Group is liable prior to its stated maturity which demand has or could reasonably be expected to have a material adverse effect on the condition (financial or otherwise), shareholders' or owners' equity, results of operations, business, properties or prospects of the Group taken as a whole;
- (g) any member of the Group has made any composition or arrangement with its creditors or entered into a scheme of arrangement or any resolution has been passed for the winding-up of any member of the Group or a provisional liquidator, receiver or manager has been appointed over all or part of the assets or undertaking of any member of the Group or anything analogous thereto has occurred in respect of any member of the Group;
- (h) there has occurred any material adverse change or any development involving a material adverse change in the condition, financial or otherwise, or in the earnings, business, trading, results of operations, properties or prospects, trading or otherwise, of the Group, including any litigation, claim or arbitral proceedings of material importance being threatened or instigated against any member of the Group; or
- (i) there has developed, occurred or come into effect any event or series of events, matters or circumstances concerning or relating to:
 - (i) any new law or regulation or any change or development involving a prospective change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the United States, the PRC, Brazil, Bermuda or the European Union (or any member thereof) (collectively, the “**Relevant Jurisdictions**”);

UNDERWRITING

- (ii) any change or development, or any event or series of events likely to result in any change or development, or prospective change or development, in local, regional, national or international financial, political, legal, military, industrial, economic, fiscal, regulatory, currency or market conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets) or equity securities or stock or other financial market conditions or any monetary or trading settlement system (including but not limited to a change in the system under which the value of the Hong Kong currency is linked to that of the United States or a re-valuation of the Renminbi or the Real against any foreign currencies) in or affecting any of the Relevant Jurisdictions;
- (iii) any major disruption or general moratorium in commercial banking or securities settlement, payment or clearing services or procedures in any of the Relevant Jurisdictions;
- (iv) the imposition of any moratorium, suspension, limitation or restriction on trading in securities generally on the Stock Exchange, the New York Stock Exchange or the London Stock Exchange;
- (v) a change, or a development involving a prospective change, in taxation or exchange control (or the implementation of any exchange control) or currency exchange rates in any of the Relevant Jurisdictions; or
- (vi) any event or a series of events, in the nature of force majeure, including but not limited to any act of God, war, riot, public disorder, civil commotion, economic sanctions, fire, flood, earthquake, explosion, epidemic, outbreak of an infectious disease, terrorism (whether or not responsibility has been claimed), labor dispute, strike or lock-out and any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis (whether or not covered by insurance) involving or affecting any of the Relevant Jurisdictions,

which in the sole opinion of the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters):

- (A) is or will be, or is likely to be, materially adverse to or materially or prejudicially affect the condition, financial or otherwise, or the earnings, business, trading, results of operations, properties or prospects, trading or otherwise, of the Group;
- (B) has or will have or is likely to have a material adverse effect on the success of the Global Offering; or
- (C) makes it inadvisable or impracticable to proceed with the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated in this prospectus.

Undertakings to the Stock Exchange Pursuant to the Listing Rules

(A) Undertakings by Our Company

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that we will not issue any further Shares or securities convertible into equity securities (whether or not of a class already listed) or enter into any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the commencement of dealing), except pursuant to the Global Offering or any of the circumstances provided under Rule 10.08 of the Listing Rules.

UNDERWRITING

(B) Undertakings by the Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, each of the Controlling Shareholders has undertaken to the Stock Exchange and to our Company that, except pursuant to any lending of Shares by Gold Silk pursuant to the Stock Borrowing Agreement, he or it will not and will procure that the relevant registered holder(s) will not:

- (a) in the period commencing on the date by reference to which disclosure of his or its shareholding is made in this prospectus and ending on the date which is six months from the date on which dealings in the Shares commence on the Stock Exchange, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which he or it is shown by this prospectus to be the beneficial owner; and
- (b) in the period of six months commencing on the date on which the period referred to in paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he or it would cease to be the controlling shareholder of our Company.

Pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, each of the Controlling Shareholders has undertaken to the Stock Exchange and to our Company that within the period commencing on the date by reference to which disclosure of his or its shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the date on which dealings in the Shares commence on the Stock Exchange, he or it will:

- (i) when he or it pledges or charges any Shares beneficially owned by him or it in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform us of such pledge or charge together with the number of Shares so pledged or charged; and
- (ii) when he or it receives indications, either verbal or written, from the pledgee or chargee of any Shares that any of the pledged or charged Shares will be disposed of, immediately inform us of such indications.

Undertakings Pursuant to the Hong Kong Underwriting Agreement

(A) Undertakings by Our Company

We have undertaken to each of the Joint Bookrunners and the Hong Kong Underwriters that we will not, and each of the Controlling Shareholders has undertaken to each of the Joint Bookrunners and the Hong Kong Underwriters that he or it shall use all reasonable endeavours to procure that our Company will not, without the prior written consent of the Joint Bookrunners (on behalf of the Hong Kong Underwriters) and unless in compliance with the Listing Rules, at any time during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on the date falling six months after the Listing Date (the “**First Six-Month Period**”):

- (a) offer, allot, issue, sell, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, either directly or indirectly, any of the share capital or other securities of our Company or any interest therein (including, but not limited to, any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such capital or securities or any interest therein);
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such capital or securities or any interest therein;
- (c) enter into any transaction with the same economic effect as any transaction described in paragraphs (a) or (b) above; or

UNDERWRITING

- (d) publicly disclose that our Company will or may enter into any such transaction described in paragraphs (a), (b) or (c) above,

whether any such transaction described in paragraphs (a), (b) or (c) above is to be settled by delivery of Shares or other securities, in cash or otherwise, provided that the foregoing restrictions shall not apply to the issue of Shares by our Company pursuant to (i) the Global Offering (including pursuant to the exercise of the Over-allotment Option), (ii) the exercise of any options which may be granted pursuant to the Share Option Scheme or (iii) the vesting of any RSUs granted or to be granted pursuant to the RSU Schemes.

In the event that, during the six-month period immediately following the First Six-Month Period (the “**Second Six-Month Period**”), we enter into any such transactions or agree or contract to, or publicly announce an intention to, enter into any such transactions, we will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

Undertakings by the Controlling Shareholders

Each of the Controlling Shareholders has undertaken to each of our Company, the Joint Bookrunners and the Hong Kong Underwriters that, without the prior written consent of the Joint Bookrunners (on behalf of the Hong Kong Underwriters) and unless in compliance with the Listing Rules:

- (a) save for any lending of Shares by Gold Silk pursuant to the Stock Borrowing Agreement, during the First Six-Month Period, he or it will not:
 - (i) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of the share capital or other securities of our Company or any interest therein (including but not limited to any securities that are convertible into or exchangeable for, or that represent the right to receive, any such capital or securities or any interest therein);
 - (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such capital or securities or any interest therein;
 - (iii) enter into any transaction with the same economic effect as any transaction described in paragraph (i) or (ii) above; or
 - (iv) publicly disclose that he or it will or may enter into any transaction described in paragraph (i), (ii) or (iii) above,

whether any such transaction described in paragraph (i), (ii) or (iii) above is to be settled by delivery of such capital or securities, in cash or otherwise;

- (b) during the Second Six-Month Period, he or it will not enter into any transaction described in paragraphs (a)(i), (a)(ii) or (a)(iii) above or agree or contract to or publicly announce any intention to enter into any such transaction if, immediately following such transaction, any of the Controlling Shareholders would cease to be a controlling shareholder of our Company; and
- (c) until the expiry of the Second Six-Month Period, in the event that he or it enters into any such transactions or agrees or contracts to, or publicly announces an intention to, enter into any such transactions, he or it will take all reasonable steps to ensure that he or it will not create a disorderly or false market in the securities of our Company.

For the avoidance of doubt, the foregoing restrictions shall not prevent any of the Controlling Shareholders from purchasing additional Shares and selling any such additional Shares so purchased, subject to compliance with the requirements of Rule 8.08 of the Listing Rules to maintain an open market in the securities and a sufficient public float.

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Each of the Controlling Shareholders has further undertaken to our Company, the Joint Bookrunners and the Hong Kong Underwriters that, during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on the date falling 12 months after the Listing Date, he or it shall:

- (a) if and when he or it pledges or charges any securities or interests in the securities of our Company beneficially owned by him or it, immediately inform our Company and the Joint Bookrunners in writing of such pledge or charge together with the number of securities so pledged or charged; and
- (b) if and when he or it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of our Company will be disposed of, immediately inform our Company and the Joint Bookrunners in writing of such indications.

We have agreed and undertaken that upon receiving such information in writing from any of the Controlling Shareholders, we shall, as soon as practicable and if required pursuant to the Listing Rules, notify the Stock Exchange and make a public disclosure in relation to such information by way of press announcement.

Hong Kong Underwriters' Interests in Our Company

Save for their obligations under the Hong Kong Underwriting Agreement, as of the Latest Practicable Date, none of the Hong Kong Underwriters was interested legally or beneficially, directly or indirectly in any shares or securities in our Company or any other member of the Group or had any right or option (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, any shares or securities in our Company or any other member of the Group.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

International Offering

International Underwriting Agreement

In connection with the International Offering, our Company and the Controlling Shareholders expect to enter into the International Underwriting Agreement with, among others, the International Underwriters. Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions set out therein, severally agree to purchase the International Offer Shares or procure purchasers for the International Offer Shares initially being offered pursuant to the International Offering. Please refer to the section headed “Structure of the Global Offering — The International Offering” in this prospectus for further details.

Over-allotment Option

Our Company expects to grant to the International Underwriters, exercisable by the Joint Bookrunners (on behalf of the International Underwriters), the Over-allotment Option, which will be exercisable in whole or in part at one or more times from the Listing Date until 30 days after the last day for the lodging of applications under the Hong Kong Public Offering to require our Company to allot and issue up to an aggregate of 75,800,000 additional Shares, representing no more than 15% of the number of Offer Shares initially available under the Global Offering, at the Offer Price, to cover, among other things, over-allocations in the International Offering, if any.

Commissions and Expenses

The Hong Kong Underwriters will receive an underwriting commission of 3.0% of the Offer Price multiplied by the sum of all the Hong Kong Offer Shares initially being offered under the Hong Kong Public Offering minus the number of unsubscribed Hong Kong Offer Shares which are reallocated to the

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International Offering, out of which they will pay any sub-underwriting commissions. Our Company may, at our sole discretion, pay to the Joint Bookrunners for themselves only a discretionary incentive fee of up to 1.0% of the Offer Price multiplied by the sum of all the Hong Kong Offer Shares initially being offered under the Hong Kong Public Offering minus the number of unsubscribed Hong Kong Offer Shares which are reallocated to the International Offering.

For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, if any, the International Underwriters will be paid an underwriting commission at the rate applicable to the International Offering and such commission will not be paid to the Hong Kong Underwriters.

The aggregate commissions and estimated expenses, together with the Stock Exchange listing fee, SFC transaction levy, Stock Exchange trading fee, legal and other professional fees, printing and other fees and expenses relating to the Global Offering, are estimated to amount in aggregate to approximately HK\$245 million (assuming no exercise of the Over-allotment Option and an Offer Price of HK\$7.90 per Share, being the mid-point of the indicative Offer Price range stated in this prospectus) and are payable by our Company. Included in the total are commissions on the offer of the Offer Shares, which are expected to be approximately HK\$160 million (assuming the full payment of a discretionary incentive fee), payable to the Hong Kong Underwriters and the International Underwriters.

Indemnity

We and the Controlling Shareholders have agreed to indemnify the Hong Kong Underwriters for certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by the Company of the Hong Kong Underwriting Agreement.

INDEPENDENCE OF THE JOINT SPONSORS

Each of the Joint Sponsors satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

ACTIVITIES BY SYNDICATE MEMBERS

The underwriters of the Hong Kong Public Offering and the International Offering (together, the “**Syndicate Members**”) and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilizing process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the Shares, those activities could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the Shares, and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the Shares. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the Shares. All such activity could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their underlying securities, whether on the Stock Exchange or on any other stock exchange, the rules of the exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

UNDERWRITING

All such activities may occur both during and after the end of the stabilizing period described in the section headed “Structure of the Global Offering — Stabilizing Action” in this prospectus. Such activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of the price of the Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that, when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- (a) the Syndicate Members (other than the Stabilizing Manager or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

The Global Offering comprises the Hong Kong Public Offering and the International Offering. 505,330,000 Offer Shares will initially be made available under the Global Offering. Of these, 454,797,000 Offer Shares will initially be conditionally placed pursuant to the International Offering and the remaining 50,533,000 Offer Shares will initially be offered to the public in Hong Kong at the Offer Price under the Hong Kong Public Offering (subject, in each case, to reallocation on the basis described below in the section headed “— The Hong Kong Public Offering — Reallocation” below). The Offer Shares in the International Offering will be offered outside the United States in offshore transactions in accordance with Regulation S, and in the United States to QIBs only in reliance on Rule 144A or another available exemption from the registration requirements under the US Securities Act.

Investors may apply for the Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the Shares under the International Offering, but may not do both. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Offering will involve selective marketing of the Shares to professional, institutional, corporate and other investors anticipated to have a sizeable demand for such Shares in Hong Kong and other jurisdictions outside the United States. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Prospective professional, institutional, corporate and other investors will be asked to specify the number of Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to the Price Determination Date.

Allocation of the Shares pursuant to the International Offering will be determined by the Joint Bookrunners and will be based on a number of factors including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares and/or hold or sell the Shares after the Listing. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and the Shareholders as a whole.

Allocation of Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants, although the allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

In connection with the Global Offering, our Company expects to grant the Over-allotment Option to the International Underwriters, exercisable by the Joint Bookrunners (on behalf of the International Underwriters). Further details are set out in the section headed “— The International Offering — Over-allotment Option” below.

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters and the International Offering is expected to be fully underwritten by the International Underwriters, in each case on a several basis, each being subject to the conditions set out the section headed “— Conditions of the Global Offering” below. We entered into the Hong Kong Underwriting Agreement on November 25, 2010, subject to an agreement on the Offer Price between our Company and the Joint Bookrunners (on behalf of the Underwriters), and expect to enter into the International Underwriting Agreement on the Price Determination Date. The Hong Kong Underwriting Agreement and the International Underwriting Agreement are expected to be conditional upon each other.

References in this prospectus to applications, Application Forms, application or subscription monies or the procedure for application relate solely to the Hong Kong Public Offering.

STRUCTURE OF THE GLOBAL OFFERING

PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK\$9.20 and is expected to be not less than HK\$6.60. Applicants under the Hong Kong Public Offering should pay, on application, the maximum price of HK\$9.20 per Share plus the brokerage fee of 1.0%, the SFC transaction levy of 0.003% and the Stock Exchange trading fee of 0.005% thereon, amounting to a total of HK\$4,646.37 for one board lot of 500 Shares.

If the Offer Price, as finally determined in the manner described below, is lower than HK\$9.20, being the maximum price, our Company will refund the respective difference (including the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) to successful applicants, without interest. Further details are set out in the section headed “How to Apply for the Hong Kong Offer Shares” in this prospectus.

DETERMINING THE OFFER PRICE

The Offer Price is expected to be determined by agreement between our Company and the Joint Bookrunners (on behalf of the Underwriters) on or before the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or about Thursday, December 2, 2010 and, in any event, no later than Monday, December 6, 2010.

The Offer Price will not be more than HK\$9.20 per Offer Share and is expected to be not less than HK\$6.60 per Offer Share. The Offer Price will fall within the Offer Price range as stated in this prospectus unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

The Joint Bookrunners, on behalf of the Underwriters, may, where considered appropriate, based on the level of interest expressed by prospective professional, institutional, corporate and other investors during the book-building process, and with the consent of our Company reduce the number of Offer Shares and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the website of the Stock Exchange at www.hkexnews.hk and our Company at www.sateri.com notices of the reduction in the number of Offer Shares and/or the indicative Offer Price range. Upon issue of such a notice, the revised number of Offer Shares and/or Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Joint Bookrunners (on behalf of the Underwriters) and our Company, will be fixed within such revised Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the Global Offering statistics as currently set out in the section headed “Summary” in this prospectus and any other financial information which may change materially as a result of such reduction.

In the absence of any such notice being so published, the number of Offer Shares and the Offer Price, if agreed upon between our Company and the Joint Bookrunners, will under no circumstances be fewer than the number of Offer Shares initially offered under the Global Offering or be set outside the Offer Price range as stated in this prospectus.

In the event of a reduction in the number of Offer Shares, the Joint Bookrunners may, at their discretion, reallocate the number of Offer Shares to be offered in the Hong Kong Public Offering and the International Offering, provided that the number of Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares available under the Global Offering (assuming the

STRUCTURE OF THE GLOBAL OFFERING

Over-allotment Option is not exercised). The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Offering may, in certain circumstances, be reallocated between these offerings at the discretion of the Joint Bookrunners. Further details are set out in the section headed “— The Hong Kong Public Offering — Reallocation” below.

If the Joint Bookrunners (on behalf of the Underwriters) and our Company are unable to reach agreement on the Offer Price, the Global Offering will not become unconditional and will lapse immediately.

The final Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocations of Offer Shares under the Hong Kong Public Offering are expected to be announced on December 7, 2010 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the website of our Company at www.sateri.com and the website of the Stock Exchange at www.hkexnews.hk.

THE HONG KONG PUBLIC OFFERING

Number of Shares Initially Offered

The Hong Kong Public Offering is a fully underwritten public offer (subject to agreement as to pricing and satisfaction or waiver of the other conditions set out in the Hong Kong Underwriting Agreement) for the subscription in Hong Kong of, initially, 50,533,000 Shares at the Offer Price representing 10% of the total number of Shares initially available under the Global Offering. Subject to the reallocation of Shares between the International Offering and the Hong Kong Public Offering, the Hong Kong Offer Shares will represent 1.5% of our Company’s enlarged issued share capital immediately following the completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

Allocation

The total number of Offer Shares available under the Hong Kong Public Offering (after taking account of any reallocation referred to below) is to be divided into two pools for allocation purposes (subject to adjustment of odd lot size): pool A and pool B. The Hong Kong Offer Shares in pool A will consist of 25,266,500 Hong Kong Offer Shares and will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate subscription price of HK\$5,000,000 (excluding the brokerage, the SFC transaction levy and the Stock Exchange trading fee payable) or less. The Hong Kong Offer Shares in pool B will consist of 25,266,500 Hong Kong Offer Shares and will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with an aggregate subscription price of more than HK\$5,000,000 and up to the total value of pool B (excluding the brokerage, the SFC transaction levy and the Stock Exchange trading fee payable). Applicants should be aware that applications in pool A and in pool B may receive different allocation ratios. If the Hong Kong Offer Shares in one (but not both) of the pools are undersubscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that pool and be allocated accordingly. Applicants can only receive an allocation of the Hong Kong Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 50% of the Hong Kong Offer Shares initially included in the Hong Kong Public Offering will be rejected. Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application has not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant’s application will be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or he has been or will be placed or allocated Offer Shares under the International Offering.

STRUCTURE OF THE GLOBAL OFFERING

Reallocation

The allocation of Offer Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering so that the total number of Offer Shares available under the Hong Kong Public Offering will be 151,599,000 Offer Shares, representing 30% of the Offer Shares initially available under the Global Offering. If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 202,132,000 Offer Shares, representing 40% of the Offer Shares initially available under the Global Offering. If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 252,665,000 Offer Shares, representing 50% of the Offer Shares initially available under the Global Offering. In each such case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated equally (subject to adjustment of odd lot size) between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Bookrunners deem appropriate.

In addition, the Joint Bookrunners may at their discretion reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. Conversely, if the Hong Kong Public Offering is not fully subscribed, the Joint Bookrunners will have the authority and discretion (but shall not be under any obligation) to reallocate to the International Offering all or any unsubscribed Hong Kong Offer Shares in such proportion and amounts as they deem appropriate.

THE INTERNATIONAL OFFERING

Number of Offer Shares Initially Offered

The number of Offer Shares to be initially offered for subscription under the International Offering will be 454,797,000 Shares representing in aggregate 90% of the Offer Shares initially available under the Global Offering. The International Offering is subject to the Hong Kong Public Offering being unconditional.

Pursuant to the International Offering, the International Offer Shares will be conditionally placed by the International Underwriters, or through selling agents appointed by them, with professional, institutional, corporate and other investors anticipated to have a sizeable demand for Shares in Hong Kong and other jurisdictions outside the United States in offshore transactions in accordance with Regulation S and in the United States with QIBs in reliance on Rule 144A or another available exemption from the registration requirements under the Securities Act.

The Joint Bookrunners (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Bookrunners so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that such investor is excluded from any application for the Offer Shares under the Hong Kong Public Offering.

STRUCTURE OF THE GLOBAL OFFERING

Over-Allotment Option

Our Company expects to grant to the International Underwriters, exercisable by the Joint Bookrunners (on behalf of the International Underwriters), the Over-allotment Option, which will be exercisable in whole or in part at one or more times from the Listing Date until 30 days after the last day for the lodging of applications under the Hong Kong Public Offering to require our Company to allot and issue up to an aggregate of 75,800,000 Shares, representing not more than 15% of the number of Offer Shares initially available under the Global Offering, at the Offer Price, to, among other things, cover over-allocations in the International Offering, if any. The Joint Bookrunners may also cover such over-allocations by purchasing Shares in the secondary market or by a combination of purchase in the secondary market and a partial exercise of the Over-allotment Option. Any such secondary market purchase will be made in compliance with all applicable laws, rules and regulations. If the Over-allotment Option is exercised in full, the number of Shares being offered in the Global Offering will increase to 581,130,000 Shares, representing approximately 16.9% of our Company's enlarged issued share capital immediately following the completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, a public announcement will be made.

STOCK BORROWING AGREEMENT

In order to facilitate the settlement of over-allocations in connection with the International Offering, the Joint Bookrunners may choose to borrow Shares from Gold Silk under the Stock Borrowing Agreement or acquire Shares from other sources. The Stock Borrowing Agreement will not be subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set out in Rule 10.07(3) are complied with. Furthermore, (i) Shares so borrowed will only be used for settlement of over-allocations in the International Offering prior to the exercise of the Over-allotment Option, (ii) the maximum number of Shares to be borrowed from Gold Silk will be limited to the maximum number of Shares which may be issued by our Company upon full exercise of the Over-allotment Option, which is limited to 75,800,000 Shares or 15% of the Shares initially available under the Global Offering, (iii) the same number of Shares so borrowed must be returned to Gold Silk on or before the third business day following the earlier of (a) the last date on which the Shares may be issued by our Company pursuant to the Over-allotment Option and (b) the day on which the Over-allotment Option is exercised in full, (iv) borrowing of stock pursuant to the Stock Borrowing Agreement will be effected in compliance with all applicable laws and regulatory requirements and (v) no payment will be made to Gold Silk in relation to the Stock Borrowing Agreement.

STABILIZING ACTION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to minimize and, if possible, prevent a decline in the prices of the Shares. In Hong Kong and certain other jurisdictions, activity aimed at reducing the market price is prohibited, and the price at which stabilization is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, Credit Suisse, as the Stabilizing Manager, its affiliates or any person acting for it or them, on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilizing or supporting the market price of the Shares at a level higher than that which might otherwise prevail in the open market for a limited period commencing on the Listing Date. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements including those of Hong Kong. However, there is no obligation on the Stabilizing Manager, its affiliates or any person acting for it to conduct any such stabilizing action. Such stabilization, if commenced, will be conducted at the absolute discretion of the Stabilizing Manager, its affiliates or any person acting for it or them and may be discontinued at any time, and must be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering.

STRUCTURE OF THE GLOBAL OFFERING

Stabilization activities will only be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilization. The Stabilizing Manager, its affiliates or any person acting for it may take all or any of the following stabilization actions permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules, as amended, including:

- (i) over-allocating for the purpose of preventing or minimizing any reduction in the market price of the Shares;
- (ii) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares;
- (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above;
- (iv) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Shares;
- (v) selling or agreeing to sell any Shares in order to liquidate any position established as a result of those purchases; and
- (vi) offering or attempting to do anything as described in paragraph (ii), (iii), (iv) or (v) above.

The Stabilizing Manager, its affiliates or any person acting for it or them, may, in connection with the stabilizing action, maintain a long position in the Shares, and there is no certainty as to the extent to which and the time period for which it will maintain such a position. Investors should be warned of the possible impact of any liquidation of the long position by the Stabilizing Manager, its affiliates or any person acting for it, which may include a decline in the market price of the Shares.

Stabilization cannot be used to support the price of the Shares for longer than the stabilization period, which begins on the day on which dealings in the Shares commence on the Stock Exchange and ends on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for the Shares, and therefore their market price, could fall. A public announcement will be made within seven days after the end of the stabilizing period in accordance with the Securities and Futures (Price Stabilizing) Rules.

Any stabilizing action taken by the Stabilizing Manager, its affiliates or any person acting for it or them, may not necessarily result in the market price of the Shares staying at or above the Offer Price either during or after the stabilization period. Stabilization bids or market purchases effected in the course of the stabilizing action may be made at any price at or below the Offer Price and can, therefore, be done at a price below the price paid by applicants for, or investors in, the Shares.

Following any over-allocation of Shares in connection with the Global Offering resulting in a short position, the Stabilizing Manager, its affiliates or any person acting for it or them may cover such short position by, among other methods, using Shares purchased by the Stabilizing Manager, its affiliates or any person acting for it or them in the secondary market or by exercising the Over-allotment Option in full or in part during the period when stabilization activities are permitted and any such purchases or exercise will be made in accordance with the laws, rules and regulations in place in Hong Kong including, in relation to stabilization, the Securities and Futures (Price Stabilizing) Rules. The covered short position will not exceed the number of Shares which may be issued by our Company upon exercise of the Over-allotment Option, being 75,800,000 Shares, representing 15% of the Offer Shares initially available under the Global Offering.

STRUCTURE OF THE GLOBAL OFFERING

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Offer Shares will be conditional on:

- (a) the Listing Committee granting approval for listing of, and permission to deal in, the Shares in issue, the Shares to be issued pursuant to the Global Offering (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option), the Shares to be issued pursuant to the exercise of the options which may be granted pursuant to the Share Option Scheme and the new Shares underlying the RSUs granted or to be granted pursuant to the RSU Schemes and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;
- (b) the Offer Price having been duly agreed between our Company and the Joint Bookrunners (on behalf of the Underwriters);
- (c) the execution and delivery of the International Underwriting Agreement on or about the Price Determination Date; and
- (d) the obligations of the Underwriters under each of the respective Underwriting Agreements becoming and remaining unconditional (including, if relevant, as a result of the waiver of any conditions by the Joint Bookrunners, on behalf of the Underwriters) and such obligations not being terminated in accordance with the terms of the respective Underwriting Agreements,

in each case, on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than 30 days after the date of this prospectus.

If, for any reason, the Offer Price is not agreed between our Company and the Joint Bookrunners (on behalf of the Underwriters) on or before December 6, 2010, the Global Offering will not proceed and will lapse.

The consummation of the Hong Kong Public Offering is conditional upon, among other things, the International Offering and the Hong Kong Public Offering becoming unconditional and not having been terminated in accordance with their respective terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will as soon as possible publish or cause to be published a notice of the lapse of the Hong Kong Public Offering in the South China Morning Post (in English), the Hong Kong Economic Times (in Chinese) and on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.sateri.com.

In case the Hong Kong Public Offering lapses, we will return all application monies to the applicants, without interest, and on the terms set out under the section headed “How to Apply for the Hong Kong Offer Shares” in this prospectus. In the meantime, all application monies will be held in a separate bank account or separate bank accounts with the receiving banker(s) or other bank(s) licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on December 8, 2010, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:30 a.m. on December 8, 2010. The Shares will be traded on the Main Board in board lots of 500 Shares each.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

There are three channels to make an application for the Hong Kong Offer Shares. You may either (i) use a **WHITE** or **YELLOW** Application Form, (ii) apply online through the designated website of the White Form eIPO Service Provider, referred to herein as the “**White Form eIPO**” service or (iii) give **electronic application instructions** to instruct HKSCC to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf.

Except where you are a nominee and provide the required information in your application, you or your joint applicant(s) may not make more than one application (whether individually or jointly) by applying on a **WHITE** or **YELLOW** Application Form or applying online through **White Form eIPO** service or by giving **electronic application instructions** to HKSCC.

I. HOW TO APPLY FOR HONG KONG OFFER SHARES

1. Who Can Apply for Hong Kong Offer Shares

You can apply for the Hong Kong Offer Shares available for subscription by the public on a **WHITE** or **YELLOW** Application Form if you, and any person(s) for whose benefit you are applying, if any, are an individual, and:

- are 18 years of age or older;
- have a Hong Kong address;
- are not within the United States (within the meaning of Regulation S); and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors).

If you wish to apply for Hong Kong Offer Shares online through the **White Form eIPO** service, in addition to the above you must also:

- have a valid Hong Kong identity card number; and
- be willing to provide a valid e-mail address and a contact telephone number.

If the applicant is a firm, the application must be in the names of the individual members, not the firm’s name. If the applicant is a body corporate, the application form must be signed by a duly authorized officer, who must state his or her representative capacity.

If an application is made by a person duly authorized under a valid power of attorney, our Company and the Joint Bookrunners, as our Company’s agents, may accept it at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of the attorney. Our Company and the Joint Bookrunners, as our Company’s agents, will have full discretion to reject or accept any application, in full or in part, without giving any reason.

You may only apply by means of the White Form eIPO service if you are an individual applicant. Corporations or joint applicants may not apply by means of White Form eIPO.

Our Company, the Joint Bookrunners, the White Form eIPO Service Provider (where applicable) and their respective agents have full discretion to reject or accept any application, in full or in part, without giving any reason.

The Hong Kong Offer Shares are not available to the existing beneficial owner of Shares, the Directors or chief executive or their respective associates or any other connected persons of our Company or persons who will become our Company’s connected persons immediately upon completion of the Global Offering or are within the United States (within the meaning of Regulation S) or persons who do not have a Hong Kong address or legal or natural persons of the PRC (except qualified domestic institutional investors).

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

2. Applying By Using An Application Form

Which Application Form to Use

Use a **WHITE** Application Form if you want the Hong Kong Offer Shares issued in your own name.

Use a **YELLOW** Application Form if you want the Hong Kong Offer Shares issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and this prospectus during normal business hours from 9:00 a.m. on Friday, November 26, 2010 until 12:00 noon on Wednesday, December 1, 2010 from:

Credit Suisse (Hong Kong) Limited	Morgan Stanley Asia Limited	BOCI Asia Limited
45th Floor, Two Exchange Square 8 Connaught Place Central Hong Kong	Level 46, International Commerce Centre 1 Austin Road West Kowloon Hong Kong	26th Floor, Bank of China Tower 1 Garden Road Central Hong Kong

or any of the following branches of Industrial and Commercial Bank of China (Asia) Limited, Bank of Communications Co., Ltd and The Bank of East Asia, Limited:

(a) Industrial and Commercial Bank of China (Asia) Limited

	Branch Name	Address
Hong Kong	Central Branch	1/F., 9 Queen's Road Central
	Hennessy Road Branch	Shop 2A, G/F & Basement, Cameron Commercial Centre, 468 Hennessy Road, Causeway Bay
	Aberdeen Branch	Shop 7A, G/F, Site 1, Aberdeen Centre
Kowloon	Tsim Sha Tsui Branch	Shop 1 & 2, G/F, No. 35 - 37 Hankow Road, Tsimshatsui
	Wong Tai Sin Branch	Shop 128, Level One, Wong Tai Sin Plaza, 103 Ching Tak Street, Wong Tai Sin
New Territories	Tsuen Wan Castle Peak Road	G/F., 423-427 Castle Peak Road, Tsuen Wan
	Tai Po Branch	Shop F, G/F, Mee Fat Building, No 34-38 Tai Wing Lane, Tai Po

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

(b) Bank of Communications Co., Ltd Hong Kong Branch

	Branch Name	Address
Hong Kong	Hong Kong Branch	20 Pedder Street, Central
	Taikoo Shing Sub-Branch	Shop 38, G/F., CityPlaza 2, 18 Taikoo Shing Road
Kowloon	Kwun Tong Sub-Branch	Shop A, G/F., Hong Ning Court, 55 Hong Ning Road
	Jordan Road Sub-Branch	1/F., Booman Bldg, 37U Jordan Road
New Territories	Sha Tsui Road Sub-Branch	122-124 Sha Tsui Road, Tsuen Wan

(c) The Bank of East Asia, Limited

	Branch Name	Address
Hong Kong	Main Branch	10 Des Voeux Road Central, Hong Kong
	Wanchai Branch	Shop A-C, G/F, Easey Commercial Building, 253-261 Hennessy Road, Wanchai
	Shaukiwan Branch	G/F, Ka Fook Building, 289-293 Shau Kei Wan Road
Kowloon	Mongkok North Branch	G/F, Kalok Building, 720 - 722 Nathan Road, Mongkok
New Territories	Shatin Plaza Branch	Shop 3 - 4, Level 1, Shatin Plaza
	Tuen Mun Town Plaza Branch	Shop 2 - 10, UG/F, Tuen Mun Town Plaza Phase II, 3 Tuen Lung Street, Tuen Mun

You can collect a **YELLOW** Application Form and this prospectus during normal business hours from 9:00 a.m. on Friday, November 26, 2010 until 12:00 noon on Wednesday, December 1, 2010 from:

- the Depository Counter of HKSCC at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong; or
- your stockbroker, who may have such Application Forms and this prospectus available.

How to Complete the Application Form

- (i) Obtain an Application Form as described in the section headed “— Where to Collect the Application Forms” above.
- (ii) Complete the Application Form in ink and sign it. There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions your application may be rejected and returned by ordinary post together with the accompanying cheque or banker’s cashier order to you (or the first-named applicant in the case of joint applicants) at your own risk to the address stated in the Application Form.
- (iii) Each Application Form must be accompanied by payment, in the form of either one cheque or one banker’s cashier order. You should read the detailed instructions set out in the Application Form carefully as an application is liable to be rejected if the cheque or banker’s cashier order does not meet the requirements set out in the Application Form.

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- (iv) Lodge the **WHITE** or **YELLOW** Application Form in one of the collection boxes by the time and at one of the locations as described in section headed “— Where to Collect the Application Forms” above.

In order for the **YELLOW** Application Forms to be valid:

- (i) **If the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):**

- the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box on the Application Form.

- (ii) **If the application is made by an individual CCASS Investor Participant:**

- the Application Form must contain the CCASS Investor Participant’s name and Hong Kong identity card number; and
- the CCASS Investor Participant must insert its participant I.D. in the appropriate box on the Application Form.

- (iii) **If the application is made by a joint individual CCASS Investor Participant:**

- the Application Form must contain all joint CCASS Investor Participants’ names and Hong Kong identity card numbers; and
- the participant I.D. must be inserted in the appropriate box on the Application Form.

- (iv) **If the application is made by a corporate CCASS Investor Participant:**

- the Application Form must contain the CCASS Investor Participant’s company name and Hong Kong business registration number; and
- the participant I.D. and company chop (bearing its company name) must be inserted in the appropriate box on the Application Form.

Incorrect or incomplete details of the CCASS Participant or the omission or inadequacy of participant I.D. or other similar matters may render the application invalid.

Nominees who wish to submit separate applications in their names on behalf of different beneficial owners are requested to designate on each Application Form in the box marked “For nominees” account numbers or other identification codes for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner.

If your application is made through a duly authorized attorney, our Company and the Joint Bookrunners, as our Company’s agents, may accept it at our Company’s discretion, and subject to any conditions our Company thinks fit, including evidence of the authority of your attorney. Our Company and the Joint Bookrunners, as our Company’s agents, will have full discretion to reject or accept any application, in full or in part, without giving any reason.

3. Applying Through White Form eIPO

General

- (a) If you are an individual and meet the criteria set out in section headed “— Who Can Apply for Hong Kong Offer Shares” above, you may apply through **White Form eIPO** by submitting an application through the designated website at www.eipo.com.hk. If you apply through **White Form eIPO**, the Offer Shares will be issued in your own name.

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- (b) Detailed instructions for application through the **White Form eIPO** service are set out on the designated website at www.eipo.com.hk. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the White Form eIPO Service Provider and may not be submitted to our Company.
- (c) In addition to the terms and conditions set out in this prospectus, the White Form eIPO Service Provider may impose additional terms and conditions upon you for the use of the **White Form eIPO** service. Such terms and conditions are set out on the designated website at www.eipo.com.hk. You will be required to read, understand and agree to such terms and conditions in full prior to making any application.
- (d) By submitting an application to the White Form eIPO Service Provider through the **White Form eIPO** service, you are deemed to have authorized the White Form eIPO Service Provider to transfer the details of your application to our Company and the Hong Kong Share Registrar.
- (e) You may submit an application through the **White Form eIPO** service in respect of a minimum of 500 Hong Kong Offer Shares. Each **electronic application instruction** in respect of more than 500 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at www.eipo.com.hk.
- (f) You may submit your application to the White Form eIPO Service Provider through the designated website at www.eipo.com.hk from 9:00 a.m. on Friday, November 26, 2010 until 11:30 a.m. on Wednesday, December 1, 2010 or such later time as described in the section headed “— When May Applications Be Made — Effect of Bad Weather on the Opening of the Application Lists” below (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Wednesday, December 1, 2010, the last application day, or, if the application lists are not open on that day, then by the time and date stated in the section headed “— When May Applications Be Made — Effect of Bad Weather on the Opening of the Application Lists” below.
- (g) You will not be permitted to submit your application to the White Form eIPO Service Provider through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website prior to 11:30 a.m. on Wednesday, December 1, 2010, you will be permitted to continue the application process (by completing full payment of application monies) until 12:00 noon on the last day for submitting applications (that is Wednesday, December 1, 2010), when the application lists close. If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Wednesday, December 1, 2010, or such later time as described in the section headed “— When May Applications Be Made — Effect of Bad Weather on the Opening of the Application Lists” below, the White Form eIPO Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at www.eipo.com.hk.
- (h) Warning: The application for Hong Kong Offer Shares through the **White Form eIPO** service is only a facility provided by the White Form eIPO Service Provider to public investors. Our Company, the Directors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors, the Underwriters and the White Form eIPO Service Provider take no responsibility for such applications, and provide no assurance that applications through the **White Form eIPO** service will be submitted to our Company or that you will be allotted any Hong Kong Offer Shares.

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated White Form eIPO Service Provider, will contribute HK\$2 for each “SATERI HOLDINGS LIMITED” **White Form eIPO** application submitted via www.eipo.com.hk to support the funding of “Source of DongJiang — Hong Kong Forest” project initiated by Friends of the Earth (HK).

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Please note that Internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the **White Form eIPO** service, you are advised not to wait until the last day for submitting applications in the Hong Kong Public Offering to submit your electronic application instructions. In the event that you have problems connecting to the designated website for the **White Form eIPO** service, you should submit a **WHITE** Application Form. However, once you have submitted electronic application instructions and completed payment in full using the application reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit a **WHITE** Application Form. See the section headed “— How Many Applications May You Make” below.

Additional Information

For the purposes of allocating Hong Kong Offer Shares, each applicant giving electronic application instructions through the **White Form eIPO** service to the White Form eIPO Service Provider through the designated website at www.eipo.com.hk will be treated as an applicant.

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Hong Kong Offer Shares for which you have applied, or if your application is otherwise rejected by the White Form eIPO Service Provider, the White Form eIPO Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the White Form eIPO Service Provider on the designated website at www.eipo.com.hk.

4. Applying By Giving Electronic Application Instructions to HKSCC

General

CCASS Participants may give **electronic application instructions** via CCASS to HKSCC to apply for Hong Kong Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC, the General Rules of CCASS and the CCASS Operational Procedures.

If you are a **CCASS Investor Participant**, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
2/F, Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form. Prospectuses are available for collection from the above address.

If you are **not a CCASS Investor Participant**, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for Hong Kong Offer Shares on your behalf.

You are deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to our Company and the Hong Kong Share Registrar.

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Application for Hong Kong Offer Shares by HKSCC Nominees on your behalf

Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given electronic application instructions to apply for Hong Kong Offer Shares:

- (i) HKSCC Nominees is only acting as a nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees does the following things on behalf of each such person:
 - agrees that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted **electronic application instructions** on that person's behalf or that person's CCASS Investor Participant stock account;
 - undertakes and agrees to accept the Hong Kong Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;
 - undertakes and confirms that that person has not applied for or taken up any Offer Shares under the International Offering nor otherwise participated in the International Offering;
 - (if the **electronic application instructions** are given for that person's own benefit) declares that only one set of **electronic application instructions** has been given for that person's benefit;
 - (if that person is an agent for another person) declares that that person has only given one set of **electronic application instructions** for the benefit of that other person and that that person is duly authorized to give those instructions as that other person's agent;
 - understands that the above declaration will be relied upon by our Company, the Directors and the Joint Bookrunners in deciding whether or not to make any allotment of Hong Kong Offer Shares in respect of the **electronic application instructions** given by that person and that that person may be prosecuted if he makes a false declaration;
 - authorizes our Company to place the name of HKSCC Nominees on our Company's register of members as the holder of the Hong Kong Offer Shares allotted in respect of that person's **electronic application instructions** and to send Share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between our Company and HKSCC;
 - confirms that that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;
 - confirms that that person has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give **electronic application instructions** on that person's behalf and will not rely on any other information and representations, save as set out in any supplement to this prospectus, and that person agrees that none of our Company, the Directors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors, the Underwriters and any of the parties involved in the Global Offering will have any liability for any such other information or representation;
 - agrees that our Company, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors, the Underwriters and any of their respective directors, officers, employees, partners, agents or advisors are liable only for the information and representations contained in this prospectus and any supplement thereto;

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- agrees to disclose that person's personal data to our Company, the Hong Kong Share Registrar, the receiving bankers, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors, the Underwriters and any of their respective advisors and agents and any information which they may require about that person for whose benefit the application is made;
- agrees (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees is accepted, the application cannot be rescinded for innocent misrepresentation;
- agrees that any application made by HKSCC Nominees on behalf of that person pursuant to the **electronic application instructions** given by that person is irrevocable before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day), such agreement to take effect as a collateral contract with our Company and to become binding when that person gives the **electronic application instructions** and such collateral contract to be in consideration of our Company agreeing that our Company will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day) if a person responsible for this prospectus under Section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;
- agrees that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering published by our Company;
- agrees to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Hong Kong Offer Shares;
- agrees with our Company, for our Company and for the benefit of each Shareholder (and so that our Company will be deemed by our Company's acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for our Company and on behalf of each Shareholder, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance and the Bye-laws; and
- agrees that that person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees will be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;

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- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or the Offer Price is less than the initial price per Offer Share paid on application, refund of the application monies, in each case including brokerage, SFC transaction levy and Stock Exchange trading fee, by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **WHITE** Application Form.

Minimum Subscription Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** in respect of a minimum of 500 Hong Kong Offer Shares. Such instructions in respect of more than 500 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application may be rejected.

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instructions is given will be treated as an applicant.

Section 40 of the Companies Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies Ordinance.

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Share Registrar, the receiving bankers, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors, the Underwriters and any of their respective advisors and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

Warning

The application for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Our Company, the Directors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors and the Underwriters take no responsibility for the application and provide no assurance that any CCASS Participant will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or the CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input their **electronic application instructions** to the systems. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System to submit their **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Wednesday, December 1, 2010 or such later time as described in the section headed “— When May Applications Be Made — Effect of Bad Weather on the Opening of the Application Lists” below.

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II. WHEN MAY APPLICATIONS BE MADE

1. Application on WHITE or YELLOW Application Forms

Completed **WHITE** or **YELLOW** Application Forms, together with payment attached, must be lodged by 12:00 noon on Wednesday, December 1, 2010, or, if the application lists are not open on that day, then by the time and date stated in the section headed “— Effect of Bad Weather on the Opening of the Application Lists” below.

Your completed Application Form, together with payment attached, should be deposited in the special collection boxes provided at any of the branches of Industrial and Commercial Bank of China (Asia) Limited, Bank of Communications Co., Ltd and The Bank of East Asia, Limited listed above in the section headed “— Applying by Using an Application Form — Where to Collect the Application Forms” at the specified times on the following dates:

Friday, November 26, 2010 — 9:00 a.m. to 5:00 p.m.
Saturday, November 27, 2010 — 9:00 a.m. to 1:00 p.m.
Monday, November 29, 2010 — 9:00 a.m. to 5:00 p.m.
Tuesday, November 30, 2010 — 9:00 a.m. to 5:00 p.m.
Wednesday, December 1, 2010 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Wednesday, December 1, 2010.

No proceedings will be taken on applications for the Hong Kong Offer Shares and no allotment of any such Hong Kong Offer Shares will be made until after the closing of the application lists.

2. White Form eIPO

You may submit your application to the White Form eIPO Service Provider through the designated website at www.eipo.com.hk from 9:00 a.m. on Friday, November 26, 2010 until 11:30 a.m. on Wednesday, December 1, 2010 or such later time as described in the section headed “— Effect of Bad Weather on the Opening of the Application Lists” below (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Wednesday, December 1, 2010, the last application day, or, if the application lists are not open on that day, then the time and date stated in the section headed “— Effect of Bad Weather on the Opening of the Application Lists” below. You will not be permitted to submit your application to the White Form eIPO Service Provider through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

3. Electronic Application Instructions to HKSCC via CCASS

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Friday, November 26, 2010 — 9:00 a.m. to 8:30 p.m.⁽¹⁾
Saturday, November 27, 2010 — 8:00 a.m. to 1:00 p.m.⁽¹⁾
Monday, November 29, 2010 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
Tuesday, November 30, 2010 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
Wednesday, December 1, 2010 — 8:00 a.m.⁽¹⁾ to 12:00 noon

Note:

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

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CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, November 26, 2010 until 12:00 noon on Wednesday, December 1, 2010 (24 hours daily, except on the last application day).

The latest time for inputting **electronic application instructions** via CCASS will be 12:00 noon on Wednesday, December 1, 2010, the last application day, or, if the application lists are not open on that day, then the time and date stated in the section headed “— Effect of Bad Weather on the Opening of the Application Lists” below.

4. Effect of Bad Weather on the Opening of the Application Lists

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, December 1, 2010. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

If the application lists of the Hong Kong Public Offering do not open and close on Wednesday, December 1, 2010 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong on the other dates mentioned in “Expected Timetable”, such dates mentioned in “Expected Timetable” may be affected. An announcement will be made in such event.

III. HOW MANY APPLICATIONS MAY YOU MAKE

Multiple applications or suspected multiple applications are liable to be rejected.

You may make more than one application for the Hong Kong Offer Shares only if you are a nominee, in which case you may give both electronic application instructions to HKSCC (if you are a CCASS Participant) and lodge more than one Application Form in your own name on behalf of different beneficial owners. In the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code

for **each** beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

Otherwise, multiple applications are not allowed and will be rejected.

If you have made an application by giving **electronic application instructions** to HKSCC and you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for Hong Kong Offer Shares given by you or for your benefit to HKSCC will be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

If you apply by means of **White Form eIPO**, once you complete payment in respect of any electronic application instruction given by you or for your benefit to the White Form eIPO Service Provider to make an application for Hong Kong Offer Shares, an actual application will be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under the **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

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If you are suspected of submitting more than one application through the **White Form eIPO** service by giving electronic application instructions through the designated website at www.eipo.com.hk and completing payment in respect of such electronic application instructions, or of submitting one application through the **White Form eIPO** service and one or more applications by any other means, all of your applications are liable to be rejected.

It will be a term and condition of all applications that by completing and delivering a **WHITE** or **YELLOW** Application Form or submitting an **electronic application instruction**, you:

- (if the application is made for your own benefit) warrant that the application made pursuant to a **WHITE** or **YELLOW** Application Form or by **electronic application instructions** is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the White Form eIPO Service Provider through the **White Form eIPO** service;
- (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person that this is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the White Form eIPO Service Provider through the **White Form eIPO** service, and that you are duly authorized to sign the Application Form or give **electronic application instructions** as that other person's agent.

Save as referred to above, all of your applications will be rejected as multiple applications if you, or you and your joint applicant(s) together:

- make more than one application (whether individually or jointly) on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the White Form eIPO Service Provider through the **White Form eIPO** service; or
- both apply (whether individually or jointly) on one **WHITE** Application Form and one **YELLOW** Application Form or on one **WHITE** or **YELLOW** Application Form and give **electronic application instructions** to HKSCC or to the White Form eIPO Service Provider through the **White Form eIPO** service; or
- apply on one **WHITE** or **YELLOW** Application Form (whether individually or jointly) or by giving **electronic application instructions** to HKSCC or to the White Form eIPO Service Provider through the **White Form eIPO** service for more than 25,266,500 Hong Kong Offer Shares (being 50% of the 50,533,000 Hong Kong Offer Shares initially available under the Hong Kong Public Offering); or
- have indicated an interest for or have been or will be placed any of the International Offer Shares under the International Offering.

All of your applications will also be rejected as multiple applications if more than one application is made for your **benefit** (including the part of an application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being made for your benefit.

“**Unlisted company**” means a company with no equity securities listed on the Stock Exchange.

“**Statutory control**” means you:

- control the composition of the board of directors of the company; or

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- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

IV. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG OFFER SHARES

Full details of the circumstances in which you will not be allotted Hong Kong Offer Shares are set out in the notes attached to the Application Forms (whether you are making your application by an Application Form or giving **electronic application instructions** to HKSCC to cause HKSCC Nominees to apply on your behalf), and you should read them carefully. You should note in particular the following situations in which the Shares will not be allotted to you:

- **If your application is revoked:**

By completing and submitting an Application Form or submitting an **electronic application instruction**, you agree that your application or the application made by HKSCC Nominees or to the White Form eIPO Service Provider through the **White Form eIPO** service on your behalf cannot be revoked before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day), unless a person responsible for this prospectus under Section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

This agreement will take effect as a collateral contract with our Company and will become binding when you lodge your Application Form or give your **electronic application instructions** to HKSCC or the White Form eIPO Service Provider and an application has been made by HKSCC Nominees on your behalf. This collateral contract will be in consideration of our Company agreeing that our Company will not offer any Hong Kong Offer Shares to any person on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day), except by means of one of the procedures referred to in this prospectus.

If your application or the application made by HKSCC Nominees on your behalf or to the White Form eIPO Service Provider through the **White Form eIPO** service has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the announcement of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

- **Full discretion of our Company, the Joint Bookrunners, the White Form eIPO Service Provider or our Company's or their respective agents or nominees to reject or accept:**

Our Company, the Joint Bookrunners, the White Form eIPO Service Provider and our Company's or their respective agents or nominees have full discretion to reject or accept any application, or to accept only part of any application. No reasons have to be given for any rejection or acceptance.

- **If your allotment of Hong Kong Offer Shares is void:**

The allotment of Hong Kong Offer Shares to you or to HKSCC Nominees (if you give **electronic application instructions** to HKSCC or apply by a **YELLOW** Application Form) will be void if the Listing Committee does not grant permission to list the Shares either:

- within three weeks from the closing of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- **You will not receive any allotment if:**
 - you make multiple applications or are suspected of making multiple applications;
 - you or the person for whose benefit you apply for have taken up or indicated an interest or applied for or received or have been or will be placed or allocated (including conditionally and/or provisionally) International Offer Shares under the International Offering. By filling in any of the Application Forms or submitting **electronic application instructions** to HKSCC via CCASS or applying by **White Form eIPO** via the White Form eIPO Service Provider, you agree not to apply for or indicate an interest for Offer Shares in the International Offering. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offering from investors who have received Offer Shares in the International Offering, and to identify and reject indications of interest in the International Offering from investors who have received Hong Kong Offer Shares in the Hong Kong Public Offering;
 - your payment is not made correctly or you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonored upon its first presentation;
 - your Application Form is not completed in accordance with the instructions as stated in the Application Form (if you apply by an Application Form);
 - your application instructions through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions set out on the designated website at www.eipo.com.hk (if you apply through **White Form eIPO**);
 - you apply for more than 25,266,500 Hong Kong Offer Shares, being 50% of the 50,533,000 Hong Kong Offer Shares initially available under the Hong Kong Public Offering;
 - our Company believes that, by accepting your application, our Company would violate the applicable securities or other laws, rules or regulations of the jurisdiction in which your application is received or your address is located;
 - the Underwriting Agreements do not become unconditional; or
 - the Hong Kong Underwriting Agreement and/or the International Underwriting Agreement are/is terminated in accordance with their respective terms.

You should also note that you may apply for Offer Shares under the Hong Kong Public Offering or indicate an interest for Offer Shares under the International Offering, but may not do both.

V. HOW MUCH ARE THE HONG KONG OFFER SHARES

The maximum Offer Price is HK\$9.20 per Hong Kong Offer Share. You must also pay brokerage of 1.0%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%. This means that for one board lot of 500 Hong Kong Offer Shares you will pay HK\$4,646.37. The Application Forms contain tables showing the exact amount payable for the numbers of Hong Kong Offer Shares that may be applied for.

When you apply for Hong Kong Offer Shares, you must pay the maximum Offer Price, together with brokerage, SFC transaction levy and Stock Exchange trading fee in full. You must pay the amount payable upon application for Hong Kong Offer Shares by one cheque or one banker's cashier order in accordance with the terms set out in the Application Form (if you apply by an Application Form) or this prospectus.

If your application is successful, brokerage is paid to the Stock Exchange or its participants (as the case may be), the SFC transaction levy is paid to the Stock Exchange collecting on behalf of the SFC and the Stock Exchange trading fee is paid to the Stock Exchange.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

VI. PUBLICATION OF RESULTS

We expect to announce the Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Tuesday, December 7, 2010 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), on the website of the Stock Exchange (www.hkexnews.hk) and on our Company's website (www.sateri.com).

In addition, we expect to announce the results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering at the times and date and in the manner specified below:

- Results of allocations for the Hong Kong Public Offering will be available from our Company's designated results of allocations website at www.iporesults.com.hk on a 24-hour basis from 8:00 a.m. on Tuesday, December 7, 2010 to 12:00 midnight on Monday, December 13, 2010. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its application to search for his/her/its own allocation result.
- Results of allocations will be available from our Company's Hong Kong Public Offering allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Hong Kong Offer Shares allocated to them, if any, by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Tuesday, December 7, 2010 to Friday, December 10, 2010.
- Special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual branches and sub-branches from Tuesday, December 7, 2010 to Thursday, December 9, 2010 and at all the receiving bank branches and sub-branches at the addresses set out in the section headed "— Applying by Using an Application Form — Where to Collect the Application Forms" above.

VII. DISPATCH/COLLECTION OF SHARE CERTIFICATES/e-REFUND PAYMENT INSTRUCTIONS/REFUND CHEQUES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the initial price per Offer Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee payable thereon) paid on application, or if the conditions of the Hong Kong Public Offering as set out in the section headed "Structure of the Global Offering — Conditions of the Global Offering" in this prospectus are not fulfilled or if any application is revoked or any allocation pursuant thereto has become void, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and Stock Exchange trading fee, will be refunded without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

No temporary documents of title will be issued in respect of the Hong Kong Offer Shares. No receipt will be issued for sums paid on application.

If you apply by **WHITE** or **YELLOW** Application Form, subject as mentioned below, in due course, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified in the application:

- (i) Share certificate(s) for all the Hong Kong Offer Shares applied for, if the application is wholly successful or (ii) Share certificate(s) for the number of Hong Kong Offer Shares successfully applied for, if the application is partially successful (for wholly and partially successful applicants on **YELLOW** Application Forms, Share certificate(s) for the Hong Kong Offer Shares successfully applied for will be deposited into CCASS as described below); and/or

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- (b) refund cheque(s) crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) the surplus application monies for the Hong Kong Offer Shares unsuccessfully applied for, if the application is partially unsuccessful or (ii) all the application monies, if the application is wholly unsuccessful and/or (iii) the difference between the Offer Price and the initial price per Offer Share paid on application in the event that the Offer Price is less than the initial price per Offer Share paid on application, in each case including brokerage of 1.0%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, without interest.

Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third-party for refund purposes. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of or may invalidate your refund cheque.

Subject as mentioned below, refund cheques for surplus application monies (if any) in respect of wholly and partially unsuccessful applications and the difference between the Offer Price and the initial price per Offer Share paid on application in the event that the Offer Price is less than the initial price per Offer Share paid on application and Share certificate(s) for successful applicants under **WHITE** Application Forms or the **White Form eIPO** service are expected to be posted on or before Tuesday, December 7, 2010. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheque(s).

If you apply by giving **electronic application instructions** to HKSCC, and your application is wholly or partially successful:

- (a) your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or your CCASS Investor Participant stock account on Tuesday, December 7, 2010 or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees; and
- (b) refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the initial price per Offer Share paid on application, in each case including the related brokerage of 1.0%, SFC transaction levy of 0.003%, and Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Tuesday, December 7, 2010. No interest will be paid thereon.

If you apply using a **WHITE** Application Form:

- If you apply for 1,000,000 Hong Kong Offer Shares or more and have indicated in your **WHITE** Application Form that you wish to collect refund cheque(s) (where applicable) and/or Share certificate(s) (where applicable) in person, you may collect your refund cheque(s) (where applicable) and/or Share certificate(s) (where applicable) from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Tuesday, December 7, 2010, or any other place or date notified by our Company in the newspapers as the place or date of dispatch/collection of Share certificates/e-Refund payment instructions/refund cheques.
- If you are an individual who opts for personal collection, you must not authorize any other person to make collection on your behalf. If you are a corporate applicant which opts for personal collection, your authorized representative must attend by your authorized representative bearing a letter of authorization from your corporation stamped with your corporation’s chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- If you do not collect your refund cheque(s) (where applicable) and/or Share certificate(s) (where applicable) personally within the time period specified for collection, they will be dispatched promptly to you by ordinary post to the address as specified in your Application Form at your own risk.
- If you apply for less than 1,000,000 Shares or if you have applied for 1,000,000 Shares or more but have not indicated in your Application Form that you wish to collect your Share certificate(s) (where applicable) and/or refund cheque(s) (where applicable) in person, or if your application is rejected, nor accepted or accepted in part only, or if the conditions of the Hong Kong Public Offering as set out in the section headed “Structure of the Global Offering — Conditions of the Global Offering” in this prospectus are not fulfilled, or if your application is revoked or any allotment pursuant thereto has become void, your Share certificate(s) (where applicable) and/or refund cheque(s) (where applicable) will be sent to the address on your Application Form on Tuesday, December 7, 2010 by ordinary post and at your own risk.

If you apply using a **YELLOW** Application Form:

- If you apply for Hong Kong Offer Shares using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form on Tuesday, December 7, 2010 or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.
- If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant), for Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allocated to you with that CCASS Participant.
- If you are applying as a CCASS Investor Participant, we expect to announce the results of CCASS Investor Participants’ applications together with the results of the Hong Kong Public Offering on Tuesday, December 7, 2010 in the manner as described in the section headed “— Publication of Results” above. You should check the announcement made by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, December 7, 2010 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your CCASS Investor Participant stock account, you can check the number of Hong Kong Offer Shares allocated to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account.
- If you apply for 1,000,000 Hong Kong Offer Shares or more and you have elected on your **YELLOW** Application Form to collect your refund cheque (where applicable) in person, please follow the same instructions as those for **WHITE** Application Form applicants as described above.
- If you apply for 1,000,000 Hong Kong Offer Shares or more and have not indicated on your **YELLOW** Application Form that you will collect your refund cheque(s) (if any) in person, or if you have applied for less than 1,000,000 Hong Kong Offer Shares, or if your application is rejected, nor accepted or accepted in part only, or if the conditions of the Hong Kong Public Offering as set out in the section headed “Structure of the Global Offering — Conditions of the Global Offering” in this prospectus are not fulfilled, or if your application is revoked or any allotment pursuant thereto has become void your refund cheque(s) (if any) will be sent to the address on your **YELLOW** Application Form by ordinary post and at your own risk on Tuesday, December 7, 2010.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

If you apply through **White Form eIPO**:

- If you apply for 1,000,000 Hong Kong Offer Shares or more through the **White Form eIPO** service by submitting an electronic application to the White Form eIPO Service Provider through the designated website www.eipo.com.hk and your application is wholly or partially successful, you may collect your Share certificate(s) (where applicable) in person from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Tuesday, December 7, 2010, or any other date notified by our Company in the newspapers as the date of dispatch/collection of Share certificates/e-Refund payment instructions/refund cheques.
- If you are an individual who opts for personal collection, you must not authorize any other person to make collection on your behalf. If you are a corporate applicant which opts for personal collection, your authorized representative must attend by your authorized representative bearing a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited.
- If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions to the White Form eIPO Service Provider promptly thereafter by ordinary post and at your own risk.
- If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions to the White Form eIPO Service Provider on Tuesday, December 7, 2010, by ordinary post and at your own risk.
- If you apply through the **White Form eIPO** service and paid the application monies from a single bank account, refund monies (if any) will be dispatched to the application payment account in the form of e-Refund payment instructions. If you apply through the **White Form eIPO** service and paid the application monies from multiple bank accounts, refund monies (if any) will be dispatched to the address as specified on your **White Form eIPO** application in the form of refund cheque(s), by ordinary post at your own risk.
- Please also note the additional information relating to refund of application monies overpaid, application money underpaid or applications rejected by the White Form eIPO Service Provider set out in the section headed “— Applying Through White Form eIPO — Additional Information” above.

If you apply by giving **electronic application instructions** to HKSCC via CCASS:

- We expect to publish the application results of the Hong Kong Public Offering including the results of CCASS Participants' applications (and in the case of CCASS Clearing Participants and CCASS Custodian Participants, we shall include information relating to the beneficial owner, if supplied), your Hong Kong identity card/passport/Hong Kong business registration number or other identification code and the basis of allotment of the Hong Kong Public Offering in the manner as described in the section headed “— Publication of Results” above on Tuesday, December 7, 2010. You should check the announcement made by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, December 7, 2010 or such other date as shall be determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Tuesday, December 7, 2010. Immediately after the credit of the Hong Kong Offer Shares to your stock account and the credit of the refund monies (if any) to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

VIII. REFUND OF APPLICATION MONIES

If you do not receive any Hong Kong Offer Shares for any reason, we will refund your application monies, including brokerage of 1.0%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, without interest.

If your application is accepted only in part, we will refund to you the appropriate portion of your application monies (including the related brokerage of 1.0%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%) without interest.

If the Offer Price as finally determined is less than the initial price per Offer Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee thereon) paid on application, we will refund to you the surplus application monies, together with the related brokerage of 1.0%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, without interest.

All such interest accrued prior to the date of dispatch of e-Refund payment instructions/refund cheques will be retained for our Company's benefit.

In a contingency situation involving a substantial over-subscription, at the discretion of our Company and the Joint Bookrunners, cheques for applications (on Application Forms) for certain small denominations of Hong Kong Offer Shares (apart from successful applications) may not be cleared.

Refund of your application monies (if any) will be made on Tuesday, December 7, 2010 in accordance with the various arrangements as described above.

IX. DEALINGS AND SETTLEMENT

Commencement of Dealings in the Shares

Dealings in the Shares on the Stock Exchange are expected to commence on Wednesday, December 8, 2010.

The Shares will be traded in board lots of 500 Shares each. The stock code of the Shares is 1768.

Shares will be Eligible for Admission into CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and our Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangements as such arrangements will affect their rights and interests.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

The following is the text of a report received from our Company's reporting accountant, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

Deloitte.

德勤

德勤·關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

November 26, 2010

The Directors
Sateri Holdings Limited
Credit Suisse (Hong Kong) Limited
Morgan Stanley Asia Limited

Dear Sirs,

We set out below our report on the financial information (the “**Financial Information**”) relating to Sateri Holdings Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) for each of the three years ended December 31, 2009 and the six months ended June 30, 2010 (the “**Relevant Periods**”), for inclusion in the prospectus of the Company dated November 26, 2010 (the “**Prospectus**”).

The Company was incorporated as an exempted company with limited liability in Bermuda under the Companies Act 1981 of Bermuda (as amended) on June 8, 2010. The Company's immediate and ultimate holding company is Gold Silk Holdings Limited (“**Gold Silk**”), a company incorporated in the Cayman Islands.

The Company had direct and indirect interests in the following subsidiaries:

Name of subsidiary	Place and date of incorporation/ establishment/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Company					Principal activities
			Direct & Indirect					
			At December 31,		At June 30,		At date of this report	
2007	2008	2009	2010					
Sateri International Co. Ltd. (“ Sateri International ”)**	British Virgin Islands (“ BVI ”) August 9, 2001	Ordinary shares US\$100 Preferred shares US\$409,009,267*****	100%	100%	100%	100%	100%	Investment holding
Bahia Specialty Cellulose S.A. (previously known as Bahia Pulp S.A.) (“ Bahia Specialty Cellulose ”)	Brazil October 30, 1992	3,248,213,308 common shares with no par value 380,869,270 preferential shares with no par value	98.4%	98.4%	98.4%	98.4%	98.4%	Manufacturing and sales of cellulose products
Copener Florestal Ltda.	Brazil September 12, 1980	Ordinary quotas Reais 74,442,000	99.8%	99.8%	99.8%	99.8%	99.8%	Plantation in Brazil

APPENDIX I
ACCOUNTANTS' REPORT

Name of subsidiary	Place and date of incorporation/ establishment/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Company					Principal activities
			Direct & Indirect					
			At December 31,		At June 30,		At date of this report	
2007	2008	2009	2010					
DP Marketing International Limited	BVI November 6, 2003	Ordinary shares US\$1	100%	100%	100%	100%	100%	Marketing and sales of cellulose products
DP Marketing International Limited - Macao Commercial Offshore**** ("DP Macao")	Macau February 15, 2007	Ordinary shares MOP100,000	100%	100%	100%	100%	N/A	Marketing and sales of cellulose products
Norcell S.A. ("Norcell")	Brazil May 15, 1989	42,800,334 common shares with no par value 29,771,891 preferential shares with no par value	99.8%	99.8%	99.8%	99.8%	99.8%	Investment holding
Sateri Bacell Limited	BVI September 4, 2003	Ordinary shares US\$30,000,000	100%	100%	100%	100%	100%	Investment holding
Sateri Copener Limited	BVI September 4, 2003	Ordinary shares US\$100,000	100%	100%	100%	100%	100%	Investment holding
Sateri International (Singapore) Pte. Ltd.	Singapore August 15, 2001	Ordinary shares S\$22,634,250	100%	100%	100%	100%	100%	Investment holding
Sateri Marketing SA	Switzerland May 25, 2007	Ordinary shares CHF100,000	100%	100%	100%	100%	100%	Marketing services for cellulose products
Sateri (Jiangxi) Chemical Fibre Co., Ltd. *	The People's Republic of China (the "PRC") August 23, 2002	Registered capital US\$113,957,000	73.2%	77.8%	81.1%	81.1%	81.1%	Manufacturing and sales of viscose staple fibers
Sateri (Shanghai) Management Limited *	The PRC April 28, 2004	Registered capital US\$2,500,000	100%	100%	100%	100%	100%	Provision of advisory and administrative services
Sateri China (Hong Kong) Limited	Hong Kong October 5, 2007	Ordinary shares HK\$10,000	100%	100%	100%	100%	100%	Investment holding

Name of subsidiary	Place and date of incorporation/ establishment/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Company					Principal activities
			Direct & Indirect					
			At December 31,		At June 30,		At date of this report	
2007	2008	2009	2010					
Sateri (Hong Kong) Management Limited	Hong Kong February 20, 2008	Ordinary shares HK\$10,000	N/A	100%	100%	100%	100%	Provision of advisory and administrative services
Sateri Specialty Cellulose Limited	Cayman Islands December 29, 2009	Ordinary shares US\$183,939,551	N/A	N/A	100%	100%	100%	Investment holding
Sateri (Fujian) Fibre Co., Ltd*	The PRC June 4, 2010	Registered capital US\$8,800,000***	N/A	N/A	N/A	100%	100%	Manufacturing and sales of viscose staple fiber
SC Marketing Limited	BVI July 22, 2010	Ordinary shares US\$100	N/A	N/A	N/A	N/A	100%	Marketing and sales of cellulose products
Sateri Marketing International Limited****	Cayman Islands May 20, 2010	Ordinary shares US\$1	N/A	N/A	N/A	N/A	100%	Investment holding
SC International Macao Commercial Offshore Limited ("SC International Macao")*****	Macau November 22, 2007	Ordinary shares MOP100,000	N/A	N/A	N/A	N/A	100%	Marketing and sales of cellulose products
Specialty Cellulose Marketing Pte. Ltd	Singapore October 20, 2010	Ordinary shares US\$1	N/A	N/A	N/A	N/A	100%	Marketing and sales of cellulose products

* Wholly-foreign owned enterprise established in the PRC

** Other than Sateri International which is directly held by the Company, other subsidiaries are indirectly owned subsidiaries of the Company.

*** The registered capital is US\$47,500,000, up to date of this report, the registered capital has been paid up to US\$8,800,000.

**** The subsidiary was disposed of on September 30, 2010. Details are set out in note (i) of Section C.

***** Sateri Marketing International Limited, together with its wholly owned subsidiary SC International Macao, was acquired by the Group in September 2010. Details are set out in note (ii) of Section C.

***** In November 2010, Sateri International redeemed 22,800,000 Class 1 preference shares and 4,410,067 Class 2 preference shares in the capital of Sateri International. Details are set out in note (v) of Section C.

The financial year end date of the companies now comprising the Group is December 31. DP Marketing International Limited, Sateri International, Sateri Specialty Cellulose Limited, Sateri Bacell Limited and Sateri Copener Limited did not prepare statutory financial statements for the Relevant Periods because there is no statutory requirement in the countries of their incorporation. For Sateri China (Hong Kong) Limited, Sateri (Hong Kong) Management Limited and Sateri (Fujian) Fibre Co., Ltd, no statutory financial statements for the Relevant Periods have been prepared because they have not yet commenced business since their incorporation. For the purpose of this report, we have, however, reviewed the relevant transactions of these companies since their respective dates of incorporation and carried out such procedures as we considered necessary for inclusion of the financial information relating to these companies in the Financial Information.

The statutory financial statements of the companies comprising the Group during the Relevant Periods were audited by the following firms of certified public accountants/auditors:

Name of company	Financial period	Name of statutory auditors
Bahia Specialty Cellulose	For each of the three years ended December 31, 2009	Deloitte & Touche, Brazil #
Copener Florestal Ltda.	For each of the three years ended December 31, 2009	Deloitte & Touche, Brazil #
DP Macao	For the period from February 15, 2007 (date of incorporation) to December 31, 2007 and each of the two years ended December 31, 2009	HMV & Associates, Macau
Norcell	For each of the three years ended December 31, 2009	Deloitte & Touche, Brazil #
Sateri International (Singapore) Pte Ltd.	For each of the two years ended December 31, 2008 For the year ended December 31, 2009	Mazars Moores Rowland, Singapore Deloitte & Touche, Singapore
Sateri (Jiangxi) Chemical Fibre Co., Ltd.	For each of the three years ended December 31, 2009	Deloitte Touche Tohmatsu CPA Limited, China
Sateri (Shanghai) Management Limited	For each of the two years ended December 31, 2008 For the year ended December 31, 2009	BDO Shanghai Zhonghua, Certified Public Accountants (上海眾華滬銀會計師事務所) Grant Thornton, Certified Public Accountants Shanghai (上海眾華滬銀會計師事務所有限公司)
Sateri Marketing SA	For the period from May 25, 2007 (date of incorporation) to December 31, 2007 and each of the two years ended December 31, 2009	Deloitte AG, Switzerland

These auditors are Auditores Independentes (same meaning as certified public accountants) registered in Brazil.

For the purpose of this report, the Group has prepared the consolidated financial statements of Sateri International and its subsidiaries for the Relevant Periods in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (the “IASB”) (the “Underlying Financial Statements”). We have audited the Underlying Financial Statements in accordance with International Standards on Auditing for the Relevant Periods.

For the purpose of preparing this report, we have examined the audited Underlying Financial Statements and performed such additional procedures as necessary in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The Financial Information of the Group for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements, on the basis set out in note 1 of Section A below. No adjustment has been made by us to the Underlying Financial Statements in preparing our report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of Sateri International who approved their issue. The directors of the Company are responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in note 1 of Section A below, the Financial Information gives, for the purpose of this report, a true and fair view of the combined state of affairs of the Group as at December 31, 2007, 2008 and 2009 and June 30, 2010 and of the combined results and combined cash flows of the Group for each of the three years ended December 31, 2009 and six months ended June 30, 2010.

The comparative combined statement of comprehensive income, combined statement of changes in equity and combined statement of cash flows of the Group for the six months ended June 30, 2009 together with the notes thereon (the “June 2009 Financial Information”) have been extracted from the unaudited consolidated financial information of Sateri International and its subsidiaries for the same period, which was prepared by the directors of the Company solely for the purpose of this report. We have reviewed the June 2009 Financial Information in accordance with International Standard on Review Engagement 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. Our review of the June 2009 Financial Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion on the June 2009 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the June 2009 Financial Information is not prepared, in all material aspects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with IFRS.

A. FINANCIAL INFORMATION

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

	NOTES	Year ended December 31,			Six months ended June 30,	
		2007	2008	2009	2009	2010
		US\$'000	US\$'000	US\$'000	US\$'000 (unaudited)	US\$'000
Revenue	7	272,167	382,259	551,998	180,982	440,862
Cost of sales		(165,616)	(303,966)	(341,891)	(154,511)	(198,208)
Gross profit		106,551	78,293	210,107	26,471	242,654
Increase (decrease) in fair value of forestation and reforestation assets	16	—	—	23,246	—	(524)
Other income and gains (losses).	9	9,889	32,880	(1,995)	(3,955)	1,947
Impairment loss on amounts due from subsidiaries of an associate	29	—	(4,945)	—	—	—
Changes in fair value of derivative financial instruments	28	13,572	(21,223)	1,832	10,426	233
Gain on settlement of derivative financial instruments	28	42,546	4,290	18,391	891	49
Selling and distribution expenses		(13,669)	(28,486)	(43,776)	(20,570)	(26,342)
Administrative expenses.		(43,315)	(44,573)	(41,209)	(21,342)	(28,184)
Impairment loss recognized in respect of property, plant and equipment	17	—	—	(20,013)	—	—
Share of result of an associate.	20	4,025	(5,421)	—	—	—
Finance costs.	10	(11,895)	(22,808)	(36,414)	(18,576)	(12,327)
Imputed interest on advance from a related party.	37	—	—	(5,755)	(2,877)	(2,877)
Profit (loss) before tax.		107,704	(11,993)	104,414	(29,532)	174,629
Income tax (expense) credit	11	(4,205)	2,532	3,016	15,432	(8,065)
Profit (loss) for the year/period	12	103,499	(9,461)	107,430	(14,100)	166,564
Other comprehensive income (expense)						
Exchange differences arising on translation		7,548	8,806	(172)	394	541
Share of exchange difference of an associate		148	—	—	—	—
Other comprehensive income (expense) for the year/period		7,696	8,806	(172)	394	541
Total comprehensive income (expense) for the year/period		111,195	(655)	107,258	(13,706)	167,105
Profit (loss) for the year/period attributable to:						
Owners of the Company		94,966	(3,979)	106,867	(14,597)	165,064
Non-controlling interests.		8,533	(5,482)	563	497	1,500
		103,499	(9,461)	107,430	(14,100)	166,564
Total comprehensive income (expense) attributable to:						
Owners of the Company		101,044	4,729	105,883	(12,973)	165,484
Non-controlling interests.		10,151	(5,384)	1,375	(733)	1,621
		111,195	(655)	107,258	(13,706)	167,105
Earnings (loss) per share	15					
- basic (US\$).		0.03	(0.00)	0.04	(0.01)	0.06

A. FINANCIAL INFORMATION

COMBINED STATEMENTS OF FINANCIAL POSITION

	NOTES	As at December 31,			As at
		2007	2008	2009	June 30
		US\$'000	US\$'000	US\$'000	2010
					US\$'000
Non-current assets					
Forestation and reforestation assets	16	104,426	138,544	177,691	177,709
Property, plant and equipment	17	1,048,045	1,350,787	1,376,386	1,371,495
Prepaid lease payments - non-current portion	18	869	909	889	883
Investment properties	19	1,988	2,025	1,924	1,884
Interest in an associate	20	5,421	—	—	—
Intangible assets	21	1,441	975	875	825
Other long-term assets	22	21,828	21,628	39,079	36,512
Deferred tax assets	24	21,612	77,883	102,745	103,026
Pledged bank deposits	30	3,012	—	—	—
		<u>1,208,642</u>	<u>1,592,751</u>	<u>1,699,589</u>	<u>1,692,334</u>
Current assets					
Inventories	25	42,434	68,935	53,177	68,417
Trade and other receivables	26	111,164	73,027	102,709	65,192
Bills receivables discounted	27	2,206	59,223	132,231	94,174
Derivative financial instruments	28	22,651	—	5,273	4,194
Amounts due from related parties	29	201,201	177,573	4,693	165,283
Prepaid lease payments - current portion . .	18	19	20	20	20
Pledged bank deposits	30	8,663	54,477	49,419	60,434
Bank balances and cash	31	51,381	20,479	59,388	57,960
		<u>439,719</u>	<u>453,734</u>	<u>406,910</u>	<u>515,674</u>
Current liabilities					
Trade and other payables	32	89,417	109,813	65,841	65,885
Amounts due to related parties	29	37,866	13,033	4,538	1,318
Advance drawn on bills receivables discounted	27	2,206	59,223	132,231	94,174
Provisions	33	5,039	4,152	6,935	9,384
Derivative financial instruments	28	8,362	26,560	15,134	13,094
Tax payable		18,409	19,655	27,354	25,859
Bank borrowings - due within one year . . .	34	82,167	153,480	177,119	194,818
Obligations under finance leases - due within one year	35	3,603	3,608	2,268	2,596
Consideration payable on acquisition of subsidiaries - due within one year	36	878	—	—	—
		<u>247,947</u>	<u>389,524</u>	<u>431,420</u>	<u>407,128</u>
Net current assets (liabilities)		<u>191,772</u>	<u>64,210</u>	<u>(24,510)</u>	<u>108,546</u>
Total assets less current liabilities		<u>1,400,414</u>	<u>1,656,961</u>	<u>1,675,079</u>	<u>1,800,880</u>

	NOTES	As at December 31,			As at
		2007	2008	2009	June 30
		US\$'000	US\$'000	US\$'000	2010
				US\$'000	
Non-current liabilities					
Loans from related parties	37	—	213,131	142,784	145,661
Bank borrowings - due after one year	34	316,323	310,802	277,777	232,671
Deferred tax liabilities	24	2,088	54,105	68,209	68,628
Obligations under finance leases					
- due after one year	35	3,072	647	775	1,281
		<u>321,483</u>	<u>578,685</u>	<u>489,545</u>	<u>448,241</u>
		<u>1,078,931</u>	<u>1,078,276</u>	<u>1,185,534</u>	<u>1,352,639</u>
Capital and reserves					
Share capital	38	409,009	409,009	409,009	409,009
Share premium and reserves		<u>634,736</u>	<u>639,465</u>	<u>745,348</u>	<u>910,832</u>
Equity attributable to owners of the					
Company		1,043,745	1,048,474	1,154,357	1,319,841
Non-controlling interests		<u>35,186</u>	<u>29,802</u>	<u>31,177</u>	<u>32,798</u>
		<u>1,078,931</u>	<u>1,078,276</u>	<u>1,185,534</u>	<u>1,352,639</u>

A. FINANCIAL INFORMATION

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company									
	Ordinary shares	Preference shares	Share premium	Special reserve	Other non-distributable reserves	Translation reserve	Accumulated profits	Total	Non-controlling interests	Total
	US\$'000	US\$'000	US\$'000	US\$'000 (Note a)	US\$'000 (Note b)	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
At January 1, 2007	—	375,789	—	28,698	7	5,247	63,143	472,884	2,716	475,600
Profit for the year	—	—	—	—	—	—	94,966	94,966	8,533	103,499
Exchange difference arising on translation	—	—	—	—	—	5,930	—	5,930	1,618	7,548
Share of other comprehensive income of an associate	—	—	—	—	—	148	—	148	—	148
Total comprehensive income for the year	—	—	—	—	—	6,078	94,966	101,044	10,151	111,195
Issuance of shares by capitalization of amount due to ultimate holding company (note 38)	—	33,220	436,597	—	—	—	—	469,817	—	469,817
Addition of non-controlling interests upon divestment of subsidiaries	—	—	—	—	—	—	—	—	22,319	22,319
Transfers	—	—	—	—	3,410	—	(3,410)	—	—	—
At December 31, 2007	—	409,009	436,597	28,698	3,417	11,325	154,699	1,043,745	35,186	1,078,931
Loss for the year	—	—	—	—	—	—	(3,979)	(3,979)	(5,482)	(9,461)
Exchange difference arising on translation	—	—	—	—	—	8,708	—	8,708	98	8,806
Total comprehensive income (expenses) for the year	—	—	—	—	—	8,708	(3,979)	4,729	(5,384)	(655)
Transfers	—	—	—	—	6	—	(6)	—	—	—
At December 31, 2008	—	409,009	436,597	28,698	3,423	20,033	150,714	1,048,474	29,802	1,078,276
Profit for the year	—	—	—	—	—	—	106,867	106,867	563	107,430
Exchange difference arising on translation	—	—	—	—	—	(984)	—	(984)	812	(172)
Total comprehensive (expense) income for the year	—	—	—	—	—	(984)	106,867	105,883	1,375	107,258
At December 31, 2009	—	409,009	436,597	28,698	3,423	19,049	257,581	1,154,357	31,177	1,185,534
Profit for the period	—	—	—	—	—	—	165,064	165,064	1,500	166,564
Exchange difference arising on translation	—	—	—	—	—	420	—	420	121	541
Total comprehensive income for the period	—	—	—	—	—	420	165,064	165,484	1,621	167,105
At June 30, 2010	—	409,009	436,597	28,698	3,423	19,469	422,645	1,319,841	32,798	1,352,639
For the six months ended June 30, 2009 (unaudited)										
At January 1, 2009	—	409,009	436,597	28,698	3,423	20,033	150,714	1,048,474	29,802	1,078,276
(Loss) profit for the period	—	—	—	—	—	—	(14,597)	(14,597)	497	(14,100)
Exchange difference arising on translation	—	—	—	—	—	1,624	—	1,624	(1,230)	394
Total comprehensive income (expense) for the period	—	—	—	—	—	1,624	(14,597)	(12,973)	(733)	(13,706)
At June 30, 2009	—	409,009	436,597	28,698	3,423	21,657	136,117	1,035,501	29,069	1,064,570

Notes:

- a. Special reserve represents deemed contribution and waiver of interest on advances from related companies, former ultimate holding company and the shareholder.
- b. Other non-distributable reserves represent statutory reserves required to be appropriated from net profit after tax of subsidiaries established in the People's Republic of China under the relevant laws and regulations at an amount determined by the respective boards of directors of the subsidiaries annually, but must not be less than 10% of the net profit after tax, until such reserves reach 50% of the registered capital of the relevant subsidiaries. The reserve may be used to offset accumulated losses and/or converted to increase capital of the relevant subsidiaries subject to certain restrictions set out in the Company Law of the PRC. No appropriation was made for 2008 and 2009 as the relevant subsidiaries incurred accumulated losses for the relevant years.

According to Macao Commercial Code, DP Macao is required to appropriate a minimum of 25% of its net profit to a statutory reserve until such reserve reaches 50% of its registered share capital. During the years ended December 31, 2007 and 2008, DP Macao had appropriated such reserve and reached 50% of its registered share capital as at December 31, 2008.

A. FINANCIAL INFORMATION

COMBINED STATEMENTS OF CASH FLOWS

NOTE	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	US\$'000	US\$'000	US\$'000	US\$'000 (unaudited)	US\$'000
OPERATING ACTIVITIES					
Profit (loss) before tax	107,704	(11,993)	104,414	(29,532)	174,629
Adjustments for:					
Amortization of intangible assets . . .	—	25	100	50	50
Release of prepaid lease payments . .	19	20	20	11	6
Depreciation of property, plant and equipment	16,427	28,509	62,743	31,903	32,795
Decrease due to harvest	7,158	7,334	8,543	2,940	13,702
Depreciation of investment properties	91	98	101	52	51
Loss (gain) on disposal of property, plant and equipment	26	(247)	(222)	27	491
Gain on settlement of derivative financial instruments	(42,546)	(4,290)	(18,391)	(891)	(49)
Share of result of an associate	(4,025)	5,421	—	—	—
Gain on divestment of subsidiaries . .	(801)	—	—	—	—
Impairment loss recognized in respect of claim receivables	2,704	—	—	—	—
Impairment loss recognized in respect of intangible assets	—	441	—	—	—
Impairment loss recognized in respect of amounts due from subsidiaries of an associate	—	4,945	—	—	—
Impairment loss recognized in respect of property, plant and equipment	—	—	20,013	—	—
(Increase) decrease in fair value of forestation and reforestation assets	—	—	(23,246)	—	524
Changes in fair value of derivative financial instruments	(13,572)	21,223	(1,832)	(10,426)	(233)
Interest income	(2,382)	(13,912)	(3,838)	(2,866)	(141)
Finance costs	11,895	22,808	36,414	18,576	12,327
Imputed interest on advance from a related party	—	—	5,755	2,877	2,877
Operating cash flows before movements in working capital	82,698	60,382	190,574	12,721	237,029
(Increase) decrease in inventories	(16,553)	(26,501)	15,758	17,450	(15,240)
(Increase) decrease in trade and other receivables	(64,026)	40,671	(29,673)	29,234	30,189
Increase (decrease) in trade and other payables	24,659	15,009	(24,996)	(20,082)	12,237

NOTE	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	US\$*000	US\$*000	US\$*000	US\$*000 (unaudited)	US\$*000
Decrease (increase) in amounts due from related parties	15,587	4,033	(6,697)	(11,370)	798
Decrease in retirement benefit plan asset	22	—	—	—	—
Increase (decrease) in provisions	1,318	(887)	2,783	1,442	2,449
Change in derivative financial instruments	52,668	23,916	3,524	(4,601)	(926)
(Increase) decrease in VAT tax recoverable included in other long-term assets	(9,554)	4,339	(14,446)	(18,204)	4,239
Net cash generated from operations . . .	86,819	120,962	136,827	6,590	270,775
Income taxes paid	(1,781)	(476)	(43)	(29)	(2,093)
NET CASH FROM OPERATING ACTIVITIES	85,038	120,486	136,784	6,561	268,682
INVESTING ACTIVITIES					
Purchase of property, plant and equipment	(495,804)	(298,874)	(120,788)	(33,815)	(40,948)
Advance to related parties	(188,638)	—	—	—	(164,361)
Additions of forestation and reforestation assets	(39,542)	(41,452)	(24,444)	(7,100)	(14,244)
Purchase of intangible assets	(441)	—	—	—	—
Decrease (increase) in pledged bank deposits	43,871	(42,802)	5,058	34,573	(11,015)
Interest received	2,382	1,302	3,838	1,147	141
Divestment of subsidiaries	39	1,766	—	—	—
Proceeds from disposal of property, plant and equipment	9	331	427	39	2,453
Repayment from related parties	—	30,100	171,148	85,135	—
Additions of unlisted investments (included in other long-term assets)	—	(4,139)	(3,005)	(1,370)	(1,672)
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(676,397)	(355,534)	32,234	78,609	(229,646)
FINANCING ACTIVITIES					
Advance from related parties	521,017	237,231	—	—	—
New bank borrowings raised	219,195	209,968	195,337	25,584	87,934
Repayments of bank borrowings	(61,757)	(146,576)	(204,723)	(57,514)	(113,365)
Repayment to related parties	(42,049)	(51,719)	(76,168)	(1,500)	—
Interest paid	(37,233)	(38,883)	(41,031)	(18,575)	(12,327)
Repayments of consideration payable for acquisition of subsidiaries	(1,095)	(878)	—	—	—
Repayments of obligations under finance leases	(440)	(4,308)	(3,358)	(1,100)	(1,262)

APPENDIX I

ACCOUNTANTS' REPORT

NOTE	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	US\$'000	US\$'000	US\$'000	US\$'000 (unaudited)	US\$'000
NET CASH FROM (USED IN) FINANCING ACTIVITIES	<u>597,638</u>	<u>204,835</u>	<u>(129,943)</u>	<u>(53,105)</u>	<u>(39,020)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,279	(30,213)	39,075	32,065	16
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	2,196	(689)	(166)	(2,452)	(1,444)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD	<u>42,906</u>	<u>51,381</u>	<u>20,479</u>	<u>20,479</u>	<u>59,388</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD, represented by bank balances and cash	<u>51,381</u>	<u>20,479</u>	<u>59,388</u>	<u>50,092</u>	<u>57,960</u>

NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Sateri Holdings Limited (the “Company”) was incorporated in Bermuda on June 8, 2010 as an exempted company with limited liability. The Company was owned and controlled by Gold Silk Holdings Limited, a limited liability company incorporated in Cayman Islands and 100% owned and controlled by Mr. Sukanto Tanoto and certain members of his family (the “Tanoto Family”). Mr. Sukanto Tanoto is the ultimate controlling shareholder of the Company. At the date of incorporation, the authorized share capital of the Company is US\$10,000 divided into 10,000 ordinary shares with a nominal value of US\$1.00 each, and an issued and fully paid-up share capital of US\$100, divided into 100 ordinary shares with a nominal value of US\$1.00, all of which were allotted and issued to Gold Silk.

On November 8, 2010, the authorized share capital of the Company was increased from US\$10,000 to US\$750,000,000 by the creation of an additional 749,990,000 ordinary shares with a nominal value of US\$1.00 each and each issued and unissued ordinary share with a nominal value of US\$1.00 each in the capital of the Company was sub-divided into 20 shares of the Company of nominal value US\$0.05 each, resulting in the Company having an issued and fully paid-up share capital of US\$100, divided into 2,000 shares of nominal value US\$0.05 each.

In November 2010, Sateri International redeemed 22,800,000 Class 1 preference shares and 4,410,067 Class 2 preference shares in the capital of Sateri International, representing approximately 5.6% of the outstanding Class 1 preference shares and 100% of the outstanding Class 2 preference shares, owned by Gold Silk. In accordance with the terms of the Class 1 preference shares, the redemption price was US\$1.00 for each Class 1 preference share, being the par value of each Class 1 preference share. In accordance with the terms of the Class 2 preference shares, the redemption price was US\$100.00 for each Class 2 preference share, being the aggregate of the par value and the premium paid on each Class 2 preference share owned by Gold Silk.

On November 23, 2010, Gold Silk entered into a share exchange agreement with the Company pursuant to which it transferred to the Company its entire shareholding interest in Sateri International, comprising 100 ordinary shares and the remaining 381,799,200 Class 1 preference shares in exchange for an aggregate of 2,863,494,750 ordinary shares of the Company of nominal value US\$0.05 each, which were allotted and issued to Gold Silk credited as fully paid (“Reorganization”). Following the completion of such share exchange, Gold Silk holds an aggregate of 2,863,496,750 shares of the Company.

The combined statements of comprehensive income, combined statements of cash flows and combined statements of changes in equity are prepared as if the current group structure had been in existence throughout the Relevant Periods, or since their respective dates of incorporation/establishment, where this is a shorter period. The combined statements of financial position as at December 31, 2007, December 31, 2008, December 31, 2009 and June 30, 2010 present the assets and liabilities of the companies now comprising the Group which had been incorporated as at that date as if the current group structure had been in existence at those dates.

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the Group has consistently adopted the relevant International Accounting Standards (“IAS”), IFRSs, amendments and the related interpretations which are effective for the Group’s financial year beginning on January 1, 2010 throughout the Relevant Periods, except as described below.

IFRS 3 (Revised) has been adopted by the Group prospectively from January 1, 2010 and the main changes introduced by IFRS 3 (Revised) have been:

- to allow a choice on a transaction-by-transaction basis for the measurement of non-controlling interest either at fair value or at the non-controlling interests’ share of the fair value of the identifiable net assets of the acquiree;

- to change the recognition and subsequent accounting requirements for contingent consideration. Under the previous version of the Standard, contingent consideration was recognized at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were recognized against goodwill. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognized against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognized in profit or loss;
- where the business combination in effect settles a pre-existing relationship between the Group and the acquiree, to require the recognition of a settlement gain or loss; and
- to require acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognized as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

The application of IAS 27 (Revised) has resulted in changes in the Group's accounting policies regarding increases or decreases in ownership interests in subsidiaries of the Group. Under IAS 27 (Revised), all increases or decreases in such interests are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires that the Group derecognizes all assets, liabilities and non-controlling interests at their carrying amount. Any retained interest in the former subsidiary is recognized at its fair value at the date the control is lost. A gain or loss on loss of control is recognized in profit or loss as the difference between the proceeds, if any, and these adjustments.

The adoption of IFRS 3 (Revised) and IAS 27 (Revised) has had no material effect on the Financial Information of the Group.

At the date of this report, the IASB has issued the following new or revised standards, amendments or interpretations which are not yet effective:

IFRSs (Amendments)	Improvements to IFRSs in May 2010 ¹
IAS 24 (Revised)	Related Party Disclosures ⁴
IAS 32 (Amendment)	Classification of Rights Issues ²
IFRS 1 (Amendment)	Limited Exemptions from Comparative IFRS 7 Disclosure for First-time Adopters ³
IFRS 7 (Amendment)	Disclosures — Transfers of Financial Assets ⁵
IFRS 9	Financial Instruments ⁶
IFRIC - Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement ⁴
IFRIC - Int 19	Extinguishing Financial Liabilities with Equity Instruments ³

¹ Effective for annual periods beginning on or after July 1, 2010 and January 1, 2011, as appropriate

² Effective for annual periods beginning on or after February 1, 2010

³ Effective for annual periods beginning on or after July 1, 2010

⁴ Effective for annual periods beginning on or after January 1, 2011

⁵ Effective for annual periods beginning on or after July 1, 2011

⁶ Effective for annual periods beginning on or after January 1, 2013

IFRS 9 Financial Instruments issued in November 2009 introduces new requirements for the classification and measurement of financial assets. The Standard requires all recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at either amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at fair value at the end of subsequent accounting periods.

IFRS 9 was revised in October 2010. The revised version adds the requirements for the classification and measurement of financial liabilities. One major change on the classification and measurement of measurement of financial liabilities relates to the accounting for change in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognized in profit or loss.

IFRS 9 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The application of IFRS 9 may affect the classification and measurement of the Group's financial assets and financial liabilities.

The directors of the Company anticipate that the application of the other new or revised standards, amendments and interpretations will have no material impact on the financial performance and financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis except for the forestation and reforestation assets as at December 31, 2009 and June 30, 2010 which are measured at fair value less estimated costs to sell, and derivative financial instruments which are measured at fair values, as explained in the accounting policies set out below which conform with IFRS.

In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and by the Hong Kong Companies Ordinance.

Basis of consolidation

The Financial Information incorporates the financial information of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries disposed of during the Relevant Periods are included in the combined statements of comprehensive income up to the effective date of disposal.

Where necessary, adjustments are made to the financial information of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

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

Non-controlling interests in subsidiaries are presented separately from the equity of the owners of the Company.

Investment in an associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over these policies.

The results and assets and liabilities of an associate are incorporated in this Financial Information using the equity method of accounting. Under the equity method, investment in an associate is carried in the combined statements of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. An additional share of losses is provided for and a liability is recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of estimated customer returns, discounts, sales related taxes and other similar allowances.

Revenue from sale of goods is recognized when the goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Rental income, including rentals invoiced in advance, from investment properties let under operating leases is recognized in profit or loss on a straight-line basis over the period of the respective leases.

Financial instruments

Financial assets and financial liabilities are recognized in the combined statements of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction cost directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

The Group's financial assets comprise loans and receivables, available-for-sale financial assets and derivative financial instruments. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis for debt instruments.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss (“FVTPL”) of the Group comprise derivative financial instruments classified as held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognized directly in profit or loss in the period in which they arise. The net gain or loss recognized in profit or loss excludes any dividend or interest earned on the financial assets.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including VAT tax recoverables, trade and other receivables, bills receivables discounted, amounts due from related parties, bank balances and cash and pledged bank deposits) are carried at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For financial assets other than those at FVTPL, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of between 30 to 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, an impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are classified into other financial liabilities and derivative financial instruments.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fee paid or received that form an integral part of the effective interest rate, translation costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognized on an effective interest basis.

Other financial liabilities

Other financial liabilities including amounts due to related parties, loans from related parties, bank borrowings, trade payables, advance drawn on bills receivables discounted and consideration payable on acquisition of subsidiaries are subsequently measured at amortized cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments

Derivatives are classified as financial assets or liabilities held for trading and are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognized in profit or loss immediately.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognize the financial asset and recognize a collateralized borrowing for proceeds received.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Intangible assets***Intangible assets acquired separately***

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful lives is provided on a straight line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss in the period when the asset is derecognized.

Forestation and reforestation assets

Forestation and reforestation assets comprise the plantation in Brazil. These biological assets comprise plantations and seedling stocks. The Group's plantation comprises trees planted for the production of wood for use in the Group's specialty cellulose production process.

Plantation expenditure on forestation and reforestation includes land preparation expense and the cost of seedlings transferred for plantation are capitalized as costs for forestation and reforestation assets. Expenditure on seedling stocks includes other direct expenses incurred during the cultivation period of the seedling stock. These expenditures on seedling stocks are deferred and transferred to plantation once they are planted.

Forestation and reforestation assets are stated at fair value less estimated costs to sell at the end of the reporting period. On initial recognition where market-determined prices or values are not available and alternative estimates of fair value are determined to be clearly unreliable, the biological assets are measured at the end of the reporting period at its cost less any accumulated depletion and accumulated impairment losses. Once the fair value of such a biological asset becomes reliably measurable, the Group measures it at its fair value less costs to sell.

At the time the tree is harvested, the agricultural produce is measured at its fair value less estimated costs to sell at the point of harvest. It is taken out of forestation and reforestation assets (non-current assets) and accounted for under inventories (current assets).

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than freehold land and construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account of their estimated residual values, using the straight line method.

Freehold land is stated at cost less identified impairment losses. No depreciation is provided for freehold land.

Construction in progress represents property, plant and equipment in the course of construction for production purpose or for its own use. Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is classified into the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the relevant lease.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the period in which the item is derecognized.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight line method.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognized.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of these assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the weighted average method.

Impairment losses on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit as reported in the combined statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case the deferred tax is also recognized in other comprehensive income or directly in equity respectively.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity ("foreign currencies") are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges

prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period, except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which cases, the exchange differences are also recognized directly in other comprehensive income.

For the purposes of presenting the Financial Information, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. United States dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (the translation reserve). Such exchange differences are recognized in the profit or loss in the period in which the foreign operation is disposed of.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of the ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the terms of the relevant leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the combined statements of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Operating lease payments are recognized as an expense on a straight-line basis over the terms of the relevant leases. Benefits received and receivable as an incentive to enter into an operating lease are recognized as a reduction of rental expense over the lease term on a straight line basis.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment or investment properties. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases and amortized over the lease term on a straight-line basis.

Government grants

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes and state-managed retirement benefit schemes are charged as expenses when employees have rendered service entitling them to the contribution.

Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Income taxes

As described in note 24, deferred tax assets in relation to certain unused tax losses of the Group of approximately US\$44,271,000, US\$208,797,000, US\$272,428,000 and US\$256,212,000 as at December 31, 2007, 2008, 2009 and June 30, 2010 have been recognized in the Group's combined statements of financial position. The realizability of the deferred tax asset mainly depends on whether sufficient future profits will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognized in profit or loss for the period in which such a reversal takes place.

Fair value of derivative financial instruments

As described in Note 6c, the management of the Company uses their judgment in selecting an appropriate valuation technique for derivative financial instruments. Valuation techniques commonly used by market practitioners are applied. Fair values of the forward foreign exchange contracts have been arrived at using the forward rates of similar instruments as at the end of the reporting period. Fair values of interest rate swaps have been determined based on valuations provided by the counterparty banks as at each reporting period with reference to market data such as settlement prices and interest rates. Actual results may differ when the assumptions and selections of valuation technique changes.

Estimated impairment of VAT tax recoverable

In determining whether there is any impairment loss on VAT tax recoverable, the Group estimates the amount expected to be utilized in offsetting against VAT payable on future sales. Where the actual amount utilized in offsetting against VAT payable on future sales are less than expected, a material impairment loss may arise and charge to profit or loss for the period. The carrying amounts of the VAT tax recoverable included in other long-term assets and other receivables as at December 31, 2007, 2008, 2009 and June 30, 2010 are approximately US\$34,734,000, US\$41,454,000, US\$47,853,000 and US\$43,019,000 respectively.

Estimated impairment of trade receivables

The provision policy for doubtful debts of the Group is based on the ongoing evaluation of collectability and aging analysis of the outstanding receivables and on management's judgments. When there is objective evidence of impairment loss, the Group estimates the future cash flows to determine the impairment loss. A considerable amount of judgment is required in assessing the ultimate realization of these receivables, including creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, material amount of allowances may be required. The carrying amounts of trade receivables as at December 31, 2007, 2008, 2009 and June 30, 2010 are approximately US\$70,824,000, US\$33,793,000, US\$69,075,000 and US\$40,458,000 respectively.

Depreciation of property, plant and equipment

The Group depreciates the property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual values, using the straight line method. The estimated useful lives reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. The residual values reflect the management's estimated amount that the Group would currently obtain from disposal of the assets, after deducting the estimated costs of disposal, if the assets were already of the age and in the condition expected at the end of their useful lives. Changes in the above estimates will affect the depreciation charged to profit or loss for the period in which such changes take place. The depreciation charge for the year 2007, 2008, 2009 and six months ended June 30, 2009 and 2010 are approximately US\$16,427,000, US\$28,509,000, US\$62,743,000, US\$31,903,000 and US\$32,795,000 respectively. The carrying amounts of property, plant and equipment as at December 31, 2007, 2008, 2009 and June 30, 2010 are approximately US\$1,048,045,000, US\$1,350,787,000, US\$1,376,386,000 and US\$1,371,495,000 respectively.

Estimated impairment of amounts due from related parties

The policy for allowance for amounts due from related parties is based on the evaluation of collectability of accounts and on management's estimate. In determining whether impairment is required, the Group takes into consideration the likelihood of collection. Specific allowance is only made for the amounts due from related parties that are unlikely to be collected and is measured as the difference between the estimated future cash flows (excluding future credit losses that have not been incurred) discounted using the original effective interest rate and the carrying amount. Changes in the estimates used in the calculation of future cash flows may materially affect the Group's results for each of the reporting period. The carrying amounts of amounts due from related parties as at December 31, 2007, 2008, 2009 and June 30, 2010 are approximately US\$201,201,000, US\$177,573,000, US\$4,693,000 and US\$165,283,000 respectively.

Fair value of forestation and reforestation assets

As described in Note 16, the management of the Company uses their judgment in selecting an appropriate valuation technique for forestation and reforestation assets.

When there is an active market, the quoted price in the market is the appropriate basis for determining the fair value. When an active market does not exist, the more recent market transaction price or the market price of similar assets with adjustment to reflect difference, will be considered in determining fair value. In circumstances where market-determined prices or values may not be available for a biological asset in its present condition, the present value of expected net cash flows from the assets discounted at the appropriate discount rate is used in determining fair value.

At December 31, 2009, the forestation and reforestation assets are stated at fair value less costs to sell of approximately US\$177,691,000, with increase in fair value of approximately US\$23,246,000 recognized in profit or loss for the year. At June 30, 2010, the forestation and reforestation assets are stated at fair value less costs to sell of approximately US\$177,709,000, with decrease in fair value of approximately US\$524,000 recognized in profit or loss for the period. Fair value of forestation and reforestation assets has been estimated using the discounted cash flow model with reference to estimates in growth, harvest, sales prices and costs. The volume of forest harvested and recoverable as estimated by the Group is based on statistical information and data obtained from physical measurements and other information gathering techniques. Such information gathered and data used requires, to a certain extent, estimates and judgments in determining the amount of forest harvested and recoverable. If the expectation differs from the original estimate, such difference will impact the carrying amount of forestation and reforestation assets whenever such estimates are changed.

Inventory valuation method

Inventories are valued at the lower of the actual cost and net realizable value. Cost is determined using the weighted average method. Net realizable value is generally the merchandise's selling price quoted from the market for similar items. The Group reviews its inventory levels in order to identify slow-moving and obsolete merchandise. When the Group identifies items of inventories which have a market price that is lower than its carrying amount, the Group estimates the amount of allowance on inventories charged to profit or loss for the year. The carrying amounts of inventory as at December 31, 2007, 2008, 2009 and June 30, 2010 are approximately US\$42,434,000, US\$68,935,000, US\$53,177,000 and US\$68,417,000 respectively.

Provisions

The Group made provisions for all loss contingences when information available prior to the issuance of the Financial Information indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of Financial Information and the amount of loss can be reasonably estimated. For provisions related to litigation, the Group makes provisions based on information from legal counsel and the best estimation of management. The actual resolution of these contingencies may differ from the estimation made by the Group. If the contingencies were settled for an amount greater than the Group's estimate, an additional charge to profit or loss would result. Likewise, if the contingencies were settled for an amount that is less than the Group's estimate, a credit to profit or loss would result.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to owners of the Company through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged throughout the Relevant Periods.

The capital structure of the Group consists of net debt, which includes the loans from related parties, advance drawn on bills receivables discounted, bank borrowings and obligations under finance leases disclosed in Notes 37, 27, 34 and 35, respectively, net of cash and cash equivalents and equity attributable to owners of the Company, comprising share capital, share premium, various reserves and accumulated profits.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through the payment of dividends, new share issues, new borrowings raised and repayment of borrowings.

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	As at December 31,			As at
	2007	2008	2009	June 30,
	US\$'000	US\$'000	US\$'000	2010
				US\$'000
<i>Financial assets</i>				
Loans and receivables (including cash and cash equivalents)	338,420	358,895	339,747	446,078
Unlisted available-for-sale investment	—	4,139	7,144	8,816
Fair value through profit or loss				
Derivative financial instruments	22,651	—	5,273	4,194
<i>Financial liabilities</i>				
Amortized cost	499,135	838,260	768,560	695,995
Obligations under finance leases	6,675	4,255	3,043	3,877
Fair value through profit or loss				
Derivative financial instruments	<u>8,362</u>	<u>26,560</u>	<u>15,134</u>	<u>13,094</u>

6b. Financial risk management objectives and policies

The Group's major financial instruments include derivative financial instruments, trade and other receivables, bills receivables discounted, other long-term assets, trade payables, amounts due from/to related parties, pledged bank deposits, bank balances, loans from related parties, advance drawn on bills receivables discounted, bank borrowings and obligations under finance leases. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (mainly currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The directors manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner. There has been no material change to the Group's exposure to financial risk or the manner in which it manages and measures the risk.

Market risk management

(i) Foreign currency risk management

Certain subsidiaries of the Company have foreign currency sales, which expose the Group to foreign currency risk. Also, certain trade and other receivables, trade and other payables, bank balances, bank borrowings, obligation under finance leases and other long-term assets of the Group are denominated in foreign currencies. Exchange rate exposures are managed within approved policy parameters utilizing forward foreign exchange contracts.

The Group entered into forward foreign exchange contracts to cover the anticipated foreign currency exposures. These contracts were arranged mainly to hedge the currency fluctuation of Brazilian Reais against USD, which is the functional currency of the Company. These contracts were arranged with maturities spread over the months from 2007 to 2010. Details of the outstanding forward foreign exchange contracts are listed in Note 28.

The carrying amounts of the Group's monetary assets and monetary liabilities denominated in currencies other than the functional currencies of the relevant group entities at the end of each reporting period are as follows:

	As at December 31,			As at
	2007	2008	2009	June 30,
	US\$'000	US\$'000	US\$'000	2010
<i>Assets</i>				US\$'000
Brazilian Reais	50,539	38,280	36,195	32,276
USD	33,647	14,828	2,733	3,136
Euro	125	150	—	—
<i>Liabilities</i>				
Brazilian Reais	94,659	93,417	56,185	28,501
USD	12,415	2,332	6,496	12,262
Euro	14	955	—	46

Sensitivity analysis

The group entities are mainly exposed to the effects of fluctuation in Brazilian Reais and USD. As the functional currency of one of the group entities is Renminbi, the Group is exposed to the effects of fluctuation in USD.

The following table details the Group's sensitivity to a 5% increase and decrease in the functional currency of relevant group entity against Brazilian Reais and USD. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates. A 5% strengthening of USD and Renminbi (functional currencies) against the Brazilian Reais and USD (foreign currencies) respectively will give rise to the following impact to post-tax profit/loss for the year/period. For a 5% weakening of USD and Renminbi, there would be an equal and opposite impact.

	USD Impact					Brazilian Reais Impact				
	Year ended December 31,		As at			Year ended December 31,		As at		
	2007	2008	2009	2010		2007	2008	2009	2010	
	US\$'000	US\$'000	US\$'000	US\$'000		US\$'000	US\$'000	US\$'000	US\$'000	
Increase (decrease) in post-tax profit for the year/period	(955)	—	169	411	(i)	1,456	—	660	(125)	(ii)
Increase (decrease) in post-tax loss for the year	—	562	—	—	(i)	—	(1,820)	—	—	(ii)

(i) This is mainly attributable to the exposure on USD denominated bank balances, receivables, payables and borrowings at the year end.

(ii) This is mainly attributable to the exposure on Brazilian Reais denominated other long-term assets, trade and other receivables, bank balances, payables, obligations under finance leases and bank borrowings at the year end.

For the forward foreign exchange contracts, the sensitivity analysis has been estimated based on the contracts outstanding at the end of respective reporting periods. If the market bid and ask forward exchange rate of USD strengthens against Brazilian Reais by 5%, the potential effect on post-tax profit/loss for the year/period, as a result of the changes in the market ask foreign currency forward exchange rate of USD against Brazilian Reais is as follows:

	As at December 31,			As at
	2007	2008	2009	June 30,
	US\$'000	US\$'000	US\$'000	2010
	US\$'000	US\$'000	US\$'000	US\$'000
Decrease in post-tax profit for the year/period . . .	9,671	—	7,116	6,392
Increase in post-tax loss for the year	—	15	—	—

For a 5% weakening of USD against Brazilian Reais, there would be an equal and opposite impact on the profit/loss.

In management's opinion, the sensitivity analysis is unrepresentative of the market risk as the year end exposure does not reflect the exposure during the year/period.

(ii) ***Interest rate risk management***

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see Note 34 for details of these borrowings) and advance drawn on bills receivables discounted. The Group aims at keeping certain borrowings at fixed rates of interest. In order to achieve this result, the Group entered into interest rate swaps to hedge against its cash flow exposures on interest rate risk. These interest rate swaps are regarded as economic hedging instruments but hedge accounting is not applied. The Group's bank deposits and bank balances also have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances. The management considers the Group's exposure of the bank deposits and bank balances to cash flow interest rate risk is not significant as the management does not anticipate significant fluctuation in interest rate on bank deposits.

Interest rate swap contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the cash flow exposures on the variable rate bank borrowings. The fair value of interest rate swaps at the end of the reporting period is determined by discounting the estimated future cash flows using the interest rate curves at the end of the reporting period, and terms are disclosed in Note 28.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest risk is mainly concentrated on the fluctuation of the London Inter-bank Offered Rate ("**LIBOR**") arising from its USD denominated borrowings.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivatives and non-derivative instruments including pledged bank deposits, bank balances, bank borrowings and advance drawn on bills receivables discounted. The analysis is prepared assuming these financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis point higher and all other variables were held constant, the potential effect on post-tax profit/loss for the year is as follows:

	Year ended December 31,			As at
	2007	2008	2009	June 30,
	US\$'000	US\$'000	US\$'000	2010
	US\$'000	US\$'000	US\$'000	US\$'000
Increase in post-tax profit for the year/period . . .	4,214	—	956	838
Decrease in post-tax loss for the year	—	2,121	—	—

If interest rates had been 50% basis point lower and all other variables were held constant, these would be an equal and opposite impact on the profit/loss.

This is mainly attributable to the Group's exposure to cash flow interest rate risk on bank deposits, bank balances, advance drawn on bills receivable discounted and variable rate borrowings.

In management's opinion, the sensitivity analysis is unrepresentative of the interest rate risk as the year end exposure does not reflect the exposure during the year/period.

Credit risk management

At the end of each reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties is arising from the carrying amount of the respective recognized financial assets as stated in the combined statements of financial position.

In order to minimize the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group has reviewed the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, management of the Company considers that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The Group has concentration of credit risk on its top three customers which in aggregate accounted for 26%, 39%, 41% and 27% of the Group's total trade receivables as at December 31, 2007, 2008, 2009 and June 30, 2010, respectively. These top three customers have good credit rating and repayment history and are well-known manufacturers of fiber in the world. The credit period granted to them ranged from 30 to 90 days. The Group has no significant concentration of credit risk in respect of other trade receivables, with exposure spread over a number of counterparties and customers.

The Group is exposed to concentration of credit risk on the amounts due from related parties as a significant amount is due from a single related party, which is with good repayment history and disclosed in Note 29.

Liquidity risk management

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilization of borrowings.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates on which the Group can be required to pay. The tables include both interest and principal cash flows. For variable rate non-derivative financial liabilities, the undiscounted cash flows on interest are estimated based on interest rates at the end of the reporting period, and therefore subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

In addition, the following tables detail the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash outflows on derivative instruments settled on a net basis, determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

	Contractual interest rate	0-90 days	91-365 days	1-2 years	2-3 years	Over 3 years	Total undiscounted cash flows	Carrying amount
	%	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
At December 31, 2007								
Non-derivative financial liabilities								
Trade and other payables	—	59,695	—	—	—	—	59,695	59,695
Consideration payable on acquisition of subsidiaries	8.0	895	—	—	—	—	895	878
Advance drawn on bills receivables discounted	5.0	2,233	—	—	—	—	2,233	2,206
Amounts due to related parties	—	8,068	—	—	—	—	8,068	8,068
Amounts due to related parties	7.4	30,342	—	—	—	—	30,342	29,798
Bank and other borrowings								
- Fixed rate	7.3	5,090	—	—	—	—	5,090	5,000
- Variable rate	8.6	37,615	71,594	83,382	88,549	216,335	497,475	393,490
Obligations under finance leases . . .	15.5	1,008	3,145	3,551	—	—	7,704	6,675
		<u>144,946</u>	<u>74,739</u>	<u>86,933</u>	<u>88,549</u>	<u>216,335</u>	<u>611,502</u>	<u>505,810</u>
Derivatives financial liabilities, settled net								
Foreign currency option		1	778	—	—	—	779	779
Interest rate swaps		814	1,730	1,961	1,961	1,681	8,147	7,583
		<u>815</u>	<u>2,508</u>	<u>1,961</u>	<u>1,961</u>	<u>1,681</u>	<u>8,926</u>	<u>8,362</u>

APPENDIX I
ACCOUNTANTS' REPORT

	Contractual interest rate	0-90 days	91-365 days	1-2 years	2-3 years	Over 3 years	Total undiscounted cash flows	Carrying amount
	%	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
At December 31, 2008								
Non-derivative financial liabilities								
Trade and other payables	—	88,591	—	—	—	—	88,591	88,591
Amounts due to related parties	—	10,414	—	—	—	—	10,414	10,414
Amounts due to related parties	7.4	2,667	—	—	—	—	2,667	2,619
Loans from related parties	—	—	—	—	207,131	—	207,131	207,131
Loans from related parties	7.4	—	—	—	7,332	—	7,332	6,000
Advance drawn on bills receivables discounted	5.0	59,953	—	—	—	—	59,953	59,223
Bank borrowings								
- Fixed rate	7.8	1,794	83,786	11,170	390	5,780	102,920	93,303
- Variable rate	8.0	40,363	62,502	88,811	89,378	175,011	456,065	370,979
Obligations under finance leases	15.1	1,067	3,204	781	—	—	5,052	4,255
		<u>204,849</u>	<u>149,492</u>	<u>100,762</u>	<u>304,231</u>	<u>180,791</u>	<u>940,125</u>	<u>842,515</u>
Derivative financial liabilities, settled net								
Forward foreign exchange contracts		5,273	3,549	—	—	—	8,822	8,570
Interest rate swaps		1,600	4,958	12,826	—	—	19,384	17,990
		<u>6,873</u>	<u>8,507</u>	<u>12,826</u>	<u>—</u>	<u>—</u>	<u>28,206</u>	<u>26,560</u>
At December 31, 2009								
Non-derivative financial liabilities								
Trade and other payables	—	34,146	—	—	—	—	34,146	34,146
Amounts due to related parties	—	1,950	—	—	—	—	1,950	1,950
Amounts due to related parties	7.4	2,600	—	—	—	—	2,600	2,553
Loans from related parties	—	—	—	145,661	—	—	145,661	142,784
Advance drawn on bills receivables discounted	4.0	133,535	—	—	—	—	133,535	132,231
Bank borrowings								
- Fixed rate	7.8	1,788	88,456	10,780	—	—	101,024	92,991
- Variable rate	6.2	5,533	111,033	92,691	98,095	113,672	421,024	361,905
Obligation under finance leases	17.4	591	1,851	1,024	—	—	3,466	3,043
		<u>180,143</u>	<u>201,340</u>	<u>250,156</u>	<u>98,095</u>	<u>113,672</u>	<u>843,406</u>	<u>771,603</u>
Derivative financial liabilities, settled net								
Interest rate swaps		2,474	7,174	6,034	—	—	15,682	15,134

	Weighted average effective interest rate	0-90 days	91-365 days	1-2 years	2-3 years	Over 3 years	Total undiscounted cash flows	Carrying amount
	%	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
At June 30, 2010								
Non-derivative financial liabilities								
Trade and other payables	—	26,843	475	35	—	—	27,353	27,353
Amounts due to related parties	—	1,318	—	—	—	—	1,318	1,318
Loans from related parties	—	—	—	145,661	—	—	145,661	145,661
Advance drawn on bills receivables discounted	4.2	95,149	—	—	—	—	95,149	94,174
Bank borrowings								
- Fixed rate	7.8	2,192	120,278	447	—	—	122,917	113,994
- Variable rate	6.2	4,793	95,883	104,054	78,218	79,059	362,007	313,495
Obligations under finance leases	12.9	658	2,093	1,536	—	—	4,287	3,877
		<u>130,953</u>	<u>218,729</u>	<u>251,733</u>	<u>78,218</u>	<u>79,059</u>	<u>758,692</u>	<u>699,872</u>
Derivative financial liabilities, settled net								
Interest rate swaps		<u>2,337</u>	<u>6,718</u>	<u>4,182</u>	<u>—</u>	<u>—</u>	<u>13,237</u>	<u>13,094</u>

6c. Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined as follows:

- the fair values of the forward foreign exchange contracts have been arrived at using the forward rates of similar instruments as at the end of each reporting period. Fair values of interest rate swaps have been determined using the valuations provided by the counterparty banks as at each reporting period with reference to market data such as settlement prices and interest rates; and
- the fair values of other financial assets and financial liabilities (excluding derivative financial instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Management of the Company considers that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the Financial Information approximate their fair values.

Fair value measurements recognized in the combined statements of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	December 31, 2007			
	Level 1	Level 2	Level 3	Total
	US\$'000	US\$'000	US\$'000	US\$'000
Financial assets				
Derivative financial instruments	—	22,651	—	22,651
Financial liabilities				
Derivative financial instruments	—	8,362	—	8,362
	December 31, 2008			
	Level 1	Level 2	Level 3	Total
	US\$'000	US\$'000	US\$'000	US\$'000
Financial liabilities				
Derivative financial instruments	—	26,560	—	26,560
	December 31, 2009			
	Level 1	Level 2	Level 3	Total
	US\$'000	US\$'000	US\$'000	US\$'000
Financial assets				
Derivative financial instruments	—	5,273	—	5,273
Financial liabilities				
Derivative financial instruments	—	15,134	—	15,134
	June 30, 2010			
	Level 1	Level 2	Level 3	Total
	US\$'000	US\$'000	US\$'000	US\$'000
Financial assets				
Derivative financial instruments	—	4,194	—	4,194
Financial liabilities				
Derivative financial instruments	—	13,094	—	13,094

7. REVENUE

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Sales of cellulose products	106,864	257,355	424,392	125,719	365,471
Sales of viscose staple fibers	165,303	124,904	127,606	55,263	75,391
	<u>272,167</u>	<u>382,259</u>	<u>551,998</u>	<u>180,982</u>	<u>440,862</u>

8. SEGMENT INFORMATION

The Group has adopted IFRS 8 “Operating Segments”, which requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. The Group’s board of directors is the chief operating decision maker as they collectively make strategic decisions in allocating Group’s resources and assessing performance.

For the purpose of resources allocation and performance assessment, the Group’s chief operating decision maker regularly reviews the internal report containing operating results derived from two types of goods manufactured and supplied by the Group. The Group’s operating and reportable segments under IFRS 8 are therefore as follows:

- Manufacture and sales of cellulose products
- Manufacture and sales of viscose staple fibers

Information regarding the above segments is reported below.

Segment revenues and results

The following is an analysis of the Group’s revenue and results by reportable segments.

For the year ended December 31, 2007

	Manufacture and sales of cellulose products	Manufacture and sales of viscose staple fibers	Segment total	Elimination	Combined
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Segment revenue					
External sales	106,864	165,303	272,167	—	272,167
Inter-segment sales	41,114	—	41,114	(41,114)	—
Total	<u>147,978</u>	<u>165,303</u>	<u>313,281</u>	<u>(41,114)</u>	<u>272,167</u>
Segment profit	<u>31,797</u>	<u>33,042</u>	<u>64,839</u>	<u>—</u>	64,839
Unallocated income					2,138
Unallocated expenses					(17,903)
Changes in fair value of derivative financial instruments					13,572
Gain on settlement of derivative financial instruments					42,546
Gain on divestment of subsidiaries					801
Share of result of an associate					4,025
Finance costs					<u>(2,314)</u>
Profit before tax					<u>107,704</u>

Inter-segment sales are charged at prevailing market prices.

For the year ended December 31, 2008

	Manufacture and sales of cellulose products	Manufacture and sales of viscose staple fibers	Segment total	Elimination	Combined
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Segment revenue					
External sales.	257,355	124,904	382,259	—	382,259
Inter-segment sales.	49,328	—	49,328	(49,328)	—
Total.	<u>306,683</u>	<u>124,904</u>	<u>431,587</u>	<u>(49,328)</u>	<u>382,259</u>
Segment profit (loss)	<u>36,798</u>	<u>(21,374)</u>	<u>15,424</u>	<u>(275)</u>	15,149
Unallocated income					14,697
Unallocated expenses					(14,039)
Changes in fair value of derivative financial instruments.					(21,223)
Gain on settlement of derivative financial instruments.					4,290
Impairment loss on amounts due from subsidiaries of an associate . .					(4,945)
Share of result of an associate					(5,421)
Finance costs					(501)
Loss before tax					<u>(11,993)</u>

Inter-segment sales are charged at prevailing market prices.

For the year ended December 31, 2009

	Manufacture and sales of cellulose products	Manufacture and sales of viscose staple fibers	Segment total	Elimination	Combined
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Segment revenue					
External sales.	424,392	127,606	551,998	—	551,998
Inter-segment sales.	45,857	—	45,857	(45,857)	—
Total.	<u>470,249</u>	<u>127,606</u>	<u>597,855</u>	<u>(45,857)</u>	<u>551,998</u>
Segment profit.	<u>92,928</u>	<u>20,786</u>	<u>113,714</u>	<u>(6,537)</u>	107,177
Unallocated income					4,314
Unallocated expenses					(1,064)
Changes in fair value of derivative financial instruments.					1,832
Gain on settlement of derivative financial instruments.					18,391
Impairment loss recognized in respect of property, plant and equipment					(20,013)
Imputed interest on advance from a related party					(5,755)
Finance costs					(468)
Profit before tax					<u>104,414</u>

Inter-segment sales are charged at prevailing market prices.

For the six months ended 30 June, 2009 (unaudited)

	Manufacture and sales of cellulose products	Manufacture and sales of viscose staple fiber	Segment total	Elimination	Combined
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Segment revenue					
External sales	125,719	55,263	180,982	—	180,982
Inter-segment sales	20,407	—	20,407	(20,407)	—
Total	<u>146,126</u>	<u>55,263</u>	<u>201,389</u>	<u>(20,407)</u>	<u>180,982</u>
Segment (loss) profit	<u>(42,861)</u>	<u>3,304</u>	<u>(39,557)</u>	<u>(318)</u>	<u>(39,875)</u>
Unallocated income					3,122
Unallocated expenses					(943)
Changes in fair value of derivative financial instruments					10,426
Gain on settlement of derivative financial instruments					891
Imputed interest on advance from a related party					(2,877)
Finance costs					<u>(276)</u>
Loss before tax					<u>(29,532)</u>

Inter-segment sales are charged at prevailing market prices.

For the six months ended June 30, 2010

	Manufacture and sales of cellulose products	Manufacture and sales of viscose staple fiber	Segment total	Elimination	Combined
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Segment revenue					
External sales	365,471	75,391	440,862	—	440,862
Inter-segment sales	33,923	—	33,923	(33,923)	—
Total	<u>399,394</u>	<u>75,391</u>	<u>474,785</u>	<u>(33,923)</u>	<u>440,862</u>
Segment profit.	<u>169,334</u>	<u>9,075</u>	<u>178,409</u>	<u>(812)</u>	177,597
Unallocated income					311
Unallocated expenses					(682)
Changes in fair value of derivative financial instruments					233
Gain on settlement of derivative financial instruments					49
Imputed interest on advance from a related party					(2,877)
Finance costs					<u>(2)</u>
Profit before tax					<u>174,629</u>

Inter-segment sales are charged at prevailing market prices.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit (loss) represents the profit earned/loss incurred by each segment without allocation of other income, gains and losses (including primarily gain on divestment of subsidiaries, interest income from a related party, exchange differences, rental income, impairment loss in respect of intangible assets and other long-term assets, share of result of an associate, changes in fair value of derivative financial instruments, gain on settlement of derivative financial instruments and certain amounts of gain/loss on disposal of property, plant and equipment and bank interest income), imputed interest on advance from a related party, certain finance costs, and income tax (expense) credit. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

At December 31, 2007

	Manufacture and sales of cellulose products	Manufacture and sales of viscose staple fibers	Combined
	US\$'000	US\$'000	US\$'000
Assets			
Segment assets	1,113,123	296,049	1,409,172
Amounts due from related parties			188,657
Derivative financial instruments			22,651
Bank deposits, bank balances and cash			16,007
Investment properties			1,988
Other unallocated assets			9,886
Combined total assets			<u>1,648,361</u>
Liabilities			
Segment liabilities	(474,554)	(54,066)	(528,620)
Amounts due to related parties			(30,369)
Derivative financial instruments			(8,362)
Other unallocated liabilities			(2,079)
Combined total liabilities			<u>(569,430)</u>

At December 31, 2008

	Manufacture and sales of cellulose products	Manufacture and sales of viscose staple fibers	Combined
	US\$'000	US\$'000	US\$'000
Assets			
Segment assets	1,491,360	371,624	1,862,984
Amounts due from related parties			176,294
Bank deposits, bank balances and cash			1,588
Investment properties			2,025
Other unallocated assets			3,594
Combined total assets			<u>2,046,485</u>
Liabilities			
Segment liabilities	(592,063)	(123,840)	(715,903)
Amounts due to a related party			(9,907)
Loan from related parties			(213,131)
Derivative financial instruments			(26,560)
Other unallocated liabilities			(2,708)
Combined total liabilities			<u>(968,209)</u>

At December 31, 2009

	Manufacture and sales of cellulose products	Manufacture and sales of viscose staple fibers	Combined
	US\$'000	US\$'000	US\$'000
Assets			
Segment assets	1,665,735	427,069	2,092,804
Amounts due from related parties			6
Derivative financial instruments			5,273
Bank deposits, bank balances and cash			3,218
Investment properties			1,924
Other unallocated assets			3,274
Combined total assets			<u>2,106,499</u>
Liabilities			
Segment liabilities	(597,469)	(161,966)	(759,435)
Amounts due to related parties			(2,958)
Loan from a related party			(142,784)
Derivative financial instruments			(15,134)
Other unallocated liabilities			(654)
Combined total liabilities			<u>(920,965)</u>

At June 30, 2010

	Manufacture and sales of cellulose products	Manufacture and sales of viscose staple fiber	Combined
	US\$'000	US\$'000	US\$'000
Assets			
Segment assets	1,573,285	448,029	2,021,314
Amounts due from related parties			165,090
Derivative financial instruments			4,194
Bank deposits, bank balances and cash			12,835
Investment properties			1,884
Other unallocated assets			<u>2,691</u>
Combined total assets			<u>2,208,008</u>
Liabilities			
Segment liabilities	(539,081)	(157,140)	(696,221)
Loan from a related party			(145,661)
Derivative financial instruments			(13,094)
Other unallocated liabilities			<u>(393)</u>
Combined total liabilities			<u>(855,369)</u>

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments other than interest in an associate, intangible assets and assets of the non-operating subsidiaries and those set out in the reconciliation above;
- all liabilities are allocated to reportable segments other than other payables and accruals of the non-operating subsidiaries and those set out in the reconciliation above.

Other segment information

For the year ended December 31, 2007

	Amounts included in the measure of segment profit/loss or segment assets:			
	Manufacture and sales of cellulose products	Manufacture and sales of viscose staple fiber	Unallocated	Combined
	US\$'000	US\$'000	US\$'000	US\$'000
Additions to non-current assets (Note)	569,411	15,460	571	585,442
Release of prepaid lease payments	—	19	—	19
Depreciation of property, plant and equipment . . .	8,214	7,971	242	16,427
Loss on disposal of property, plant and equipment	26	—	—	26
Impairment loss recognized in respect of claim receivables	2,704	—	—	2,704
Bank interest income	(854)	(70)	(1,458)	(2,382)

For the year ended December 31, 2008

	Amounts included in the measure of segment profit/loss or segment assets:			
	Manufacture and sales of cellulose products	Manufacture and sales of viscose staple fiber	Unallocated	Combined
	US\$'000	US\$'000	US\$'000	US\$'000
Additions to non-current assets (Note)	296,373	61,744	85	358,202
Release of prepaid lease payments	—	20	—	20
Depreciation of property, plant and equipment . . .	19,479	8,751	279	28,509
Gain on disposal of property, plant and equipment	(247)	—	—	(247)
Bank interest income	(450)	(563)	(289)	(1,302)

For the year ended December 31, 2009

	Amounts included in the measure of segment profit/loss or segment assets:			
	Manufacture and sales of cellulose products	Manufacture and sales of viscose staple fiber	Unallocated	Combined
	US\$'000	US\$'000	US\$'000	US\$'000
Additions to non-current assets (Note)	76,817	56,142	45	133,004
Release of prepaid lease payments	—	20	—	20
Depreciation of property, plant and equipment . . .	53,389	9,091	263	62,743
Gain on disposal of property, plant and equipment	(212)	—	(10)	(222)
Increase in fair value of forestation and reforestation assets	(23,246)	—	—	(23,246)
Bank interest income	(9)	(262)	(11)	(282)

For the six months ended June 30, 2009 (unaudited)

	Amounts included in the measure of segment profit/loss or segment assets:			
	Manufacture and sales of cellulose products	Manufacture and sales of viscose staple fiber	Unallocated	Combined
	US\$'000	US\$'000	US\$'000	US\$'000
Additions to non-current assets (Note)	48,403	21,230	—	69,633
Release of prepaid lease payments	—	11	—	11
Depreciation of property, plant and equipment . . .	27,236	4,558	109	31,903
Loss on disposal of property, plant and equipment	3	24	—	27
Bank interest income	(2)	(138)	(1)	(141)

For the six months ended June 30, 2010

	Amounts included in the measure of segment profit/loss or segment assets:			
	Manufacture and sales of cellulose products	Manufacture and sales of viscose staple fiber	Unallocated	Combined
	US\$'000	US\$'000	US\$'000	US\$'000
Additions to non-current assets (Note)	28,467	16,589	38	45,094
Release of prepaid lease payments	—	6	—	6
Depreciation of property, plant and equipment . . .	28,182	4,569	44	32,795
Decrease in fair value of forestation and reforestation assets	524	—	—	524
Loss on disposal of property, plant and equipment	491	—	—	491
Bank interest income	(32)	(108)	(1)	(141)

Note: Non-current assets excluded financial instruments, interest in an associate, deferred tax assets and other long-term assets.

Revenue from major products

Analysis of the Group's revenue by major products is set out in Note 7.

Geographical information

The Group's customers are mainly located in United States of America ("USA"), Brazil, the PRC and Europe.

An analysis of the Group's revenue from external customers by geographical market based on where the goods are delivered to are as below:

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	US\$'000	US\$'000	US\$'000	US\$'000 (unaudited)	US\$'000
America (primarily USA and Brazil) .	51,142	18,062	28,522	12,715	26,595
Europe (primarily UK, Germany, Austria)	24,911	29,740	35,510	7,746	56,614
The PRC.	196,114	316,382	475,094	159,514	337,742
Asia (excluding China).	—	18,075	12,872	1,007	19,911
	<u>272,167</u>	<u>382,259</u>	<u>551,998</u>	<u>180,982</u>	<u>440,862</u>

The Group's non-current assets by geographical location are detailed below:

	Year ended December 31,			Six months ended June 30,
	2007	2008	2009	2010
	US\$'000	US\$'000	US\$'000	US\$'000
America (primarily USA and Brazil)	939,349	1,208,277	1,244,437	1,225,844
Europe (primarily UK, Germany, Austria)	—	77	68	65
The PRC.	217,389	284,849	313,233	326,863
Asia (excluding China).	31	37	27	24
	<u>1,156,769</u>	<u>1,493,240</u>	<u>1,557,765</u>	<u>1,552,796</u>

Note: Non-current assets excluded financial instruments, interest in an associate, deferred tax assets and other long-term assets.

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	US\$'000	US\$'000	US\$'000	US\$'000 (unaudited)	US\$'000
Customer A.	*	*	115,677	45,049	*
Customer B.	52,537	*	*	*	*
Customer C.	37,033	*	*	*	*
Customer D.	*	*	*	*	47,780
Customer E	*	*	*	*	45,374

* The corresponding revenue did not contribute over 10% of the total sales of the Group.

Revenue from Customer A, C, D and E are mainly derived from the cellulose products segment while revenue from Customer B is derived from the viscose staple fiber segment.

9. OTHER INCOME AND GAINS (LOSSES)

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	US\$'000	US\$'000	US\$'000	US\$'000 (unaudited)	US\$'000
(Loss) gain on disposal of property, plant and equipment	(26)	247	222	(27)	(491)
Rental income	127	169	174	83	86
Bank interest income	2,382	1,302	282	141	141
Interest income from a related party .	—	12,610	3,556	2,725	—
Foreign currency exchange gain (loss).	8,084	18,197	(8,511)	(7,450)	1,064
Service income from a related party .	—	—	1,484	532	750
Impairment loss in respect of:					
— intangible assets	—	(441)	—	—	—
— claim receivables (other long-term assets)	(2,704)	—	—	—	—
Gain on divestment of subsidiaries (Note 39).	801	—	—	—	—
Others	1,225	796	798	41	397
	<u>9,889</u>	<u>32,880</u>	<u>(1,995)</u>	<u>(3,955)</u>	<u>1,947</u>

10. FINANCE COSTS

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	US\$'000	US\$'000	US\$'000	US\$'000 (unaudited)	US\$'000
Interest on:					
— bank borrowings wholly repayable within five years . .	33,129	31,395	27,405	13,467	11,714
— bank borrowings not wholly repayable within five years . .	667	1,831	904	664	285
— consideration payable on acquisition of subsidiaries . . .	122	34	—	—	—
— advance from a related party . . .	2,071	467	467	275	24
— obligations under finance leases	1,019	338	334	258	209
	<u>37,008</u>	<u>34,065</u>	<u>29,110</u>	<u>14,664</u>	<u>12,232</u>
Other finance costs (note).	225	4,818	11,921	6,086	2,824
Total borrowing costs.	37,233	38,883	41,031	20,750	15,056
Less: amounts capitalized.	(25,338)	(16,075)	(4,617)	(2,174)	(2,729)
	<u>11,895</u>	<u>22,808</u>	<u>36,414</u>	<u>18,576</u>	<u>12,327</u>

Borrowing costs capitalized during each of three years ended December 31, 2007, 2008, 2009 and six months ended June 30, 2009 and 2010 arose on the general borrowing pool and are calculated by applying a capitalization rate of 4.9%, 6.5%, 6.1%, 4.2% and 6.0% per annum, respectively, to expenditure on qualifying assets.

Note: Other finance costs represent primarily the transaction cost charged by banks for discounting bills receivable.

11. INCOME TAX EXPENSE (CREDIT)

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	US\$'000	US\$'000	US\$'000	US\$'000 (unaudited)	US\$'000
The income tax expense (credit) comprises:					
Current tax:					
— Current year	5,310	1,682	7,742	324	8,203
— Underprovision in respect of prior years	8,428	40	—	—	—
Deferred taxation (Note 24)	(9,533)	(4,254)	(10,758)	(15,756)	(138)
	<u>4,205</u>	<u>(2,532)</u>	<u>(3,016)</u>	<u>(15,432)</u>	<u>8,065</u>

Pursuant to the relevant Enterprise Income Tax (“EIT”) regulations of the PRC for enterprises with foreign investments and foreign enterprises in the PRC, one of the Group’s PRC subsidiaries is eligible for full exemption from State Foreign Enterprise Income Tax for two years, commencing from the first profit-making year after offsetting all tax losses carried forward from the previous five years, followed by a 50% reduction in the next three years (“**tax holidays**”). That subsidiary enjoyed full tax exemption for the years 2007 and 2008, and a 50% reduction of EIT for the years 2009 and 2010.

The EIT rate of other Group’s subsidiaries in the PRC is 33% up to December 31, 2007.

On March 16, 2007, the PRC promulgated the Law on Enterprise Income Tax (the “**EIT Law**”) by Order No. 63 of the President of the PRC. On December 6, 2007, the State Council of the PRC issued Implementation Regulation of the EIT Law. Under the EIT Law and Implementation Regulation, the EIT rate of the Group’s subsidiaries in the PRC has been reduced from 33% to 25% from January 1, 2008 onwards.

The Brazilian Corporate Tax (“**BCT**”), consists of income tax and social contributions, which are calculated at the rates of 25% and 9%, respectively on the Brazilian subsidiaries’ taxable profit. Pursuant to the SUDENE Report 0258/02 and 0182/02, the BCT on Copener Florestal Ltda’s (“**Copener**”) profit from forest plantation operations is entitled to a 25% reduction from January 1, 2007 to December 31, 2008 and a 12.5% reduction from January 1, 2009 to December 31, 2013. The BCT on Copener’s profit from wood log processing is entitled to a 75% reduction up to December 12, 2011. In addition, the BCT on Bahia Specialty Cellulose’s profit, which is derived from the development and production of soluble cellulose, was fully exempted up to December 31, 2007. There is no tax exemption for Bahia Specialty Cellulose for the year ended December 31, 2008. However, in 2008, Bahia Specialty Cellulose applied and obtained approval from the Federal government (Sudene) for a 75% reduction in BCT for a ten year terms starting from January 1, 2009 due to modernization of the existing production line. For the new production line, an application has been registered with Sudene for the same percentage given (i.e. 75% reduction in BCT) the subsidiary met the application criteria.

The Group's Macau subsidiary is exempted from Macau Complimentary Tax pursuant to Decree Law No. 58/99/M, Chapter 2, Article 12, dated October 18, 1999.

The corporate income tax in Switzerland is calculated at 28.9725% of the estimated profit for the years ended December 31, 2007, 2008, 2009 and the six months ended June 30, 2009 and 2010.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. Other jurisdictions refer to Hong Kong and Singapore. The applicable income tax rates are 17.5% for 2007 and 16.5% for 2008, 2009 and six months ended June 30, 2010 and 2009 for group entities incorporated in Hong Kong, and 20% for the group entity incorporated in Singapore for 2007 and 18% for 2008, 2009 and six months ended June 30, 2010 and 2009.

The tax expense (credit) for the year/period can be reconciled to the profit (loss) before tax per combined statements of comprehensive income as follows:

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	US\$'000	US\$'000	US\$'000	US\$'000 (unaudited)	US\$'000
Profit (loss) before tax	<u>107,704</u>	<u>(11,993)</u>	<u>104,414</u>	<u>(29,532)</u>	<u>174,629</u>
Tax at the respective domestic income tax rates applicable to profits in the countries concerned (Note a)	17,683	(6,153)	13,017	(9,675)	20,946
Tax effect of expenses that are not deductible in determining taxable profit (Note b)	5,588	15,532	1,823	5,593	3,189
Tax effect of income that is not taxable in determining taxable profit (Note c)	(14,848)	(14,787)	(8,970)	(7,990)	(8,062)
Underprovision in respect of prior years	8,428	40	—	—	—
Tax effect of tax losses not recognized	1,518	5,608	—	—	—
Effect of tax exemption granted (Note d)	(13,480)	(2,772)	(6,036)	(3,410)	(8,868)
Utilization of tax losses previously not recognized	(684)	—	(2,850)	264	—
Others	—	—	—	(214)	860
Tax expense (credit) for the year/period	<u>4,205</u>	<u>(2,532)</u>	<u>(3,016)</u>	<u>(15,432)</u>	<u>8,065</u>

Notes:

- The domestic income tax rate represents the rate prevailing in the jurisdictions in which each group entity principally operates.
- Tax effect of expenses not deductible for 2007 mainly represented finance cost in respect of certain bank borrowings and loans from related parties. Tax effect of expenses not deductible for 2008 mainly represented finance cost in respect of certain bank borrowings, fair value loss of derivative financial instruments and impairment loss on amounts due from subsidiaries of an associate. Tax effect of expenses not deductible for 2009 mainly represented finance cost in respect of certain bank borrowings and loan from related parties, imputed interest on advance from a related party and unrealized foreign exchange loss recognized by Bahia Specialty Cellulose. Tax effect of expenses not deductible for the six months ended June 30, 2010 mainly represented finance cost in respect of certain bank borrowings and loans from related parties.

- c. Tax effect of income that is not taxable in 2007, 2008 and 2009 and for the six months ended June 30, 2010 mainly related to interest income from a related party, gains on settlement of derivative financial instruments, and fair value gains of derivative financial instruments. In addition, in 2007 and 2008, the tax effect of income that is not taxable also included unrealized foreign exchange gain recognized by Bahia Specialty Cellulose.
- d. Tax exemption was granted to Bahia Specialty Cellulose, DP Macao for 2007, 2008, 2009 and for the six months ended June 30, 2009 and 2010. Tax exemption was granted to Copener for 2009. Tax exemption was granted to Sateri Jiangxi for 2007, 2008, 2009 and for the six months ended June 30, 2009 and 2010. The tax exemption was granted by appropriate competent authorities in Brazil, the PRC and Macau.

Details of deferred tax are set out in Note 24.

12. PROFIT (LOSS) FOR THE YEAR/PERIOD

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	US\$'000	US\$'000	US\$'000	US\$'000 (unaudited)	US\$'000
Profit (loss) for the year/period has been arrived at after charging:					
Directors' remuneration	218	337	742	285	521
Staff costs	18,527	21,925	30,323	12,206	20,237
Retirement benefit scheme contributions	341	591	704	266	439
Total staff costs	19,086	22,853	31,769	12,757	21,197
Auditor's remuneration	564	640	695	277	549
Amortization of intangible assets . . .	—	25	100	50	50
Release of prepaid lease payments . .	19	20	20	11	6
Depreciation of property, plant and equipment	16,427	28,509	62,743	31,903	32,795
Depreciation of investment properties	91	98	101	52	51
Cost of inventories recognized as an expense	165,616	303,966	341,891	143,919	195,403

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors

Details of the emoluments paid to the directors for the Relevant Periods are as follows:

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	US\$'000	US\$'000	US\$'000	US\$'000 (unaudited)	US\$'000
Directors' fee	—	—	—	—	—
Salaries and other allowances	218	337	742	285	521
Retirement benefit scheme contributions	—	—	7	1	5
	<u>218</u>	<u>337</u>	<u>749</u>	<u>286</u>	<u>526</u>
Executive directors:					
BARKER, Craig Edward	218	337	311	155	155
HOON, Will Wee Teng	—	—	438	131	371
YING, John Jeffrey	—	—	—	—	—
TEY, Wei Lin	—	—	—	—	—
SETO Gin Chung, John	—	—	—	—	—
LOH, Meng See	—	—	—	—	—
WEERASINGHE, Rohan Seneka	—	—	—	—	—
LAM, Jeffrey Kin-fung	—	—	—	—	—
YU Hon To, David	—	—	—	—	—
	<u>218</u>	<u>337</u>	<u>749</u>	<u>286</u>	<u>526</u>

Employees

Of the five highest paid individuals of the Group for the Relevant Periods, the number of directors and employees are as follows:

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
				(unaudited)	
Directors	1	1	2	2	1
Employees	4	4	3	3	4
	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

The remuneration of the above directors are set out above. The remuneration of remaining individuals for the Relevant Periods are as follows:

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	US\$'000	US\$'000	US\$'000	US\$'000 (unaudited)	US\$'000
Basic salaries, housing allowances, other allowances and benefits in kind	854	1,003	805	469	719
Retirement benefit scheme contributions	36	36	36	19	33
	<u>890</u>	<u>1,039</u>	<u>841</u>	<u>488</u>	<u>752</u>

The number of these individuals whose emoluments fell within the following band is as follows:

	Number of staff				
	2007	2008	2009	June 2009	June 2010
Emoluments					
Not more than HK\$1,000,000	—	—	—	—	—
HK\$1,000,001 to HK\$1,500,000	1	1	—	5	3
HK\$1,500,001 to HK\$2,000,000	3	1	1	—	1
HK\$2,000,001 to HK\$2,500,000	1	1	2	—	—
HK\$2,500,001 to HK\$3,000,000	—	2	1	—	1
HK\$3,000,001 to HK\$3,500,000	—	—	1	—	—
	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

During the Relevant Periods, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the Relevant Periods.

14. DIVIDENDS

No dividend has been paid or declared by the Company for the Relevant Periods.

15. EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings (loss) per share for the Relevant Periods is based on the following data:

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	US\$'000	US\$'000	US\$'000	US\$'000 (unaudited)	US\$'000
Profit (loss) for the year attributable to owners of the Company	94,966	(3,979)	106,867	(14,597)	165,064
Number of ordinary shares for the purpose of basic earnings (loss) per share	2,863,496,750	2,863,496,750	2,863,496,750	2,863,496,750	2,863,496,750

The number of ordinary shares for the purpose of basic earnings (loss) per share for the Relevant Periods has been adjusted retrospectively assuming that the Reorganization has been effective from January 1, 2007 and accordingly, that the 2,863,496,750 ordinary shares of the Company which were issued pursuant to the Reorganization (see note 1) were issued as at January 1, 2007. No diluted earnings (loss) per share is presented for the Relevant Periods as there were no potential ordinary shares in issue.

16. FORESTATION AND REFORESTATION ASSETS

	Year ended December 31,			Period ended June 30,
	2007	2008	2009	2010
	US\$'000	US\$'000	US\$'000	US\$'000
At beginning of the year/period	72,042	104,426	138,544	177,691
Additions	39,542	41,452	24,444	14,244
Decrease due to harvest (i.e. depletion charge)	(7,158)	(7,334)	(8,543)	(13,702)
Increase (decrease) in fair value recognized in profit or loss	—	—	23,246	(524)
At end of the year/period	104,426	138,544	177,691	177,709

Wood is the principal raw material used in producing cellulose products, one of the principal products of the Group. The Group owns plantation land in Brazil. Generally, the Group harvests the planted trees six to seven years after planting and two harvests can be potentially obtained from a single seedling. After the second harvest, new seedlings are planted. Additions of forestation and reforestation assets represented the costs incurred during the years and period for maintaining the forest and planting new trees.

The Group is exposed to risks on the forestation and reforestation assets arising from climatic changes, disease and other natural risks such as fire, flooding and storms and human induced losses arising from strikes, civil commotion and malicious damage.

As at December 31, 2007, 2008, 2009 and June 30, 2010, the estimated mature plantations are approximately 20,463 hectares, 12,784 hectares, 6,757 hectares and 10,592 hectares, respectively and immature plantations are approximately 61,298 hectares, 68,137 hectares and 72,581 hectares and 69,924 hectares, respectively. For the years ended December 31, 2007, 2008, 2009 and for the six months period ended June 30, 2010, the wood harvested from the mature plantations is approximately 1,680,331 m³, 1,832,793 m³, 2,017,587 m³ and 862,022 m³ respectively.

In 2007 and 2008, no external valuation was performed by independent qualified professional valuers on the forestation and reforestation assets as there was no active market for the eucalyptus wood grown in the plantations around Bahia Brazil. In the absence of an active local community market for wood in the region in Brazil where the Group's plantation land is situated and absence of other reliable input measures of fair value, management of the Company is of the opinion that the fair value of the forestation and reforestation assets cannot be measured reliably and hence such assets are stated at cost less decrease due to harvest at January 1, 2007, December 31, 2007 and 2008. At the time the tree is harvested, it is taken out of forestation and reforestation assets and accounted for under inventories. Depletion of forestation and reforestation assets is calculated based on the rate corresponding to the volume of wood actually harvested and the total estimated wood volume of the plantation. The management of the Company estimates the volume of forest harvested and recoverable based on the statistical information and data obtained from physical measurements and other information gathering techniques.

At January 1, 2007, December 31, 2007 and 2008, the gross carrying amounts of forestation and reforestation assets are approximately US\$91,161,000, US\$130,703,000 and US\$172,155,000 and the accumulated depletion are approximately US\$19,119,000, US\$26,277,000 and US\$33,611,000 respectively. The depletion charges (i.e. decrease due to harvest) for the years ended December 31, 2007 and 2008 are US\$7,158,000 and US\$7,334,000 respectively.

At December 31, 2009, the management of the Company determined that the reference market price for locally sourced wood in the region in Brazil in which the Group's plantation land is situated could be reliably obtained from the prices agreed in the contracts entered into with local farmers. The Group's management believes that such reference market prices obtained in this manner provide reliable inputs for the estimate of the fair value, and accordingly, the forestation and reforestation assets are stated at fair value less costs to sell of approximately US\$177,691,000, with the resulting change in fair value of approximately US\$23,246,000 recognized in profit for the year ended December 31, 2009. At June 30, 2010, the forestation and reforestation assets are stated at fair value less costs to sell of approximately US\$177,709,000, with decrease in fair value of approximately US\$524,000 recognized in profit or loss for the period. No external valuation was performed by independent qualified professional valuers as of December 31, 2009 and June 30, 2010.

The principal valuation methodology and assumptions adopted are as follows:

- the discounted cash flow valuation model assuming a six-year harvest cycle of the trees;
- the weighted average capital cost of planting of 10% determined with reference to the market rates;
- the reference wood price of Reais ("R") \$29 (equivalent to US\$16.67 and US\$16.11) per cubic meter, based on the prices paid under contracts entered into with local farmers during the year ended December 31, 2009 and for the six months period ended June 30, 2010 respectively;
- the wood production rate calculated based on the planting programs during the period from 2004 to 2009;
- the wood consumption rate calculated based on the actual and estimated annual production capacity of the mills, which was 465,000 tons per year for 2010 and an estimated 500,000 tons per year from 2011 to 2016, respectively;
- the forestry maintenance costs calculated based on the average historical expenses;

- the overhead expenses calculated based on the latest budget, that is, R\$12 million (equivalent to US\$6.67 million) for 2010 and projected for 2011 to 2016 in a proportional manner to the volume planted annually; and
- an exchange rate between US dollars and Reais (at US\$1.00 = R\$1.74 as at December 31, 2009 and at US\$1.00 = R\$1.80 as at June 30, 2010) which is determined as of the end of the respective reporting periods conducting the valuation.

Prior to measuring the forestation and reforestation assets at fair value less costs to sell at December 31, 2009, the gross carrying amount of forestation and reforestation assets was US\$196,599,000 and the accumulated depletion were US\$42,154,000. The depletion charge for the year ended December 31, 2009 is US\$8,543,000. At June 30, 2010, the gross carrying amount of forestation and reforestation assets was US\$233,565,000 and the accumulated depletion were US\$55,856,000. The depletion charge (i.e. decrease due to harvest) is US\$13,702,000 for the six months ended June 30, 2010.

One of the subsidiaries in Brazil participated in a special partnership (“SCP”) project initiated by the government in relation to the reforestation activities in Brazil. As at December 31, 2007, 2008, 2009 and June 30, 2010, the carrying amount of forestation and reforestation assets under this arrangement is approximately US\$5 million, US\$2 million, US\$0.6 million and US\$0.2 million respectively and the share of minority investors in the SCP is approximately US\$0.3 million, US\$0.1 million, US\$0.06 million and US\$0.2 million respectively.

17. PROPERTY, PLANT AND EQUIPMENT

	Freehold land	Buildings and leasehold improvement	Plant and machinery	Other tangible assets	Construction in progress	Total
	US\$'000 (Note i)	US\$'000	US\$'000	US\$'000 (Note ii)	US\$'000	US\$'000
COST						
At January 1, 2007	30,653	29,763	280,636	8,742	204,981	554,775
Exchange adjustments . .	—	875	13,568	59	136	14,638
Additions	184	104	6,420	1,717	537,034	545,459
Disposals	—	—	—	(209)	—	(209)
Transfer	—	1,200	7,127	845	(9,172)	—
At December 31, 2007 . .	30,837	31,942	307,751	11,154	732,979	1,114,663
Exchange adjustments . .	—	1,007	15,088	81	776	16,952
Additions	686	6	1,456	6,856	307,746	316,750
Disposals	—	(210)	(58)	(567)	—	(835)
Transfer	—	4,367	863,302	(5,017)	(862,652)	—
At December 31, 2008 . .	31,523	37,112	1,187,539	12,507	178,849	1,447,530
Additions	644	—	2,048	2,908	102,960	108,560
Disposals	—	—	(439)	(210)	—	(649)
Transfer	—	88,143	46,527	5,001	(139,671)	—
At December 31, 2009 . .	32,167	125,255	1,235,675	20,206	142,138	1,555,441
Additions	54	28	2,276	1,364	27,128	30,850
Transfer	398	141	32,016	542	(33,097)	—
Disposal	—	(2,844)	(287)	(5)	—	(3,136)
At June 30, 2010	32,619	122,580	1,269,680	22,107	136,169	1,583,155
DEPRECIATION AND IMPAIRMENT						
At January 1, 2007	—	3,668	42,670	2,393	—	48,731
Exchange adjustments . .	—	79	1,524	31	—	1,634
Provided for the year . . .	—	1,553	13,593	1,281	—	16,427
Eliminated on disposals .	—	—	—	(174)	—	(174)
At December 31, 2007 . .	—	5,300	57,787	3,531	—	66,618
Exchange adjustments . .	—	124	2,197	46	—	2,367
Provided for the year . . .	—	1,682	25,112	1,715	—	28,509
Eliminated on disposals .	—	(145)	(39)	(567)	—	(751)
At December 31, 2008 . .	—	6,961	85,057	4,725	—	96,743
Provided for the year . . .	—	5,284	55,582	1,877	—	62,743
Impairment (Note iii) . . .	—	—	—	—	20,013	20,013
Eliminated on disposals .	—	—	(278)	(166)	—	(444)
At December 31, 2009 . .	—	12,245	140,361	6,436	20,013	179,055
Provided for the period . .	—	2,455	27,354	2,986	—	32,795
Eliminated on disposals .	—	(182)	(6)	(2)	—	(190)
At June 30, 2010	—	14,518	167,709	9,420	20,013	211,660
CARRYING VALUES						
At December 31, 2007 . .	30,837	26,642	249,964	7,623	732,979	1,048,045
At December 31, 2008 . .	31,523	30,151	1,102,482	7,782	178,849	1,350,787
At December 31, 2009 . .	32,167	113,010	1,095,314	13,770	122,125	1,376,386
At June 30, 2010	32,619	108,062	1,101,971	12,687	116,156	1,371,495

Notes:

- (i) Freehold land comprise the plantation lands in Brazil.
- (ii) Other tangible assets comprise furniture, fixtures and fittings, motor vehicles and office equipments.
- (iii) There was a fire incident in December 2009 in a section of an expansion project in the PRC which was still under construction. This fire damaged certain infrastructure and equipment of the expansion project which has a total carrying amount (before impairment) of approximately US\$20,013,000. The existing operations of the Group and equipment in operation were not affected by the fire. The expansion project under construction is covered by a construction-all-risk insurance with a reputable insurance company in China. The management has already submitted the claim to the insurance company and the claim evaluation process is on going, and management expects that the loss can be recovered through the insurance claim. In June 2010, the insurance claim is still in progress and not yet finalized, the Group has received approximately US\$1,465,000 as temporary receipt. The Group has not recognized the insurance claim in the Financial Information as the insurance claim process was still on going as at June 30, 2010.

The above items of property, plant and equipment, other than freehold land and construction in progress, are depreciated on a straight line basis at the following rates per annum.

Leasehold improvements	Shorter of lease term of land and useful life of buildings
Buildings	25 to 30 years
Plant and machinery	5 to 25 years
Other tangible assets	5 to 10 years

The carrying values of plant and machinery as at December 31, 2007, 2008, 2009 and June 30, 2010 include an amount of US\$4,283,000, US\$9,505,000, US\$10,545,000 and US\$11,446,000 in respect of assets held under finance leases.

At December 31, 2007, 2008, 2009 and June 30, 2010, the Group has pledged plant and machinery and construction in progress having a carrying amount of approximately US\$164,037,000, US\$393,987,000, US\$490,480,000 and US\$493,500,000, and US\$320,000,000, US\$106,168,000, US\$107,829,000 and US\$98,730,000 respectively to secure the bank loans borrowed by the Group.

The Group has capitalized interest expenses amounting to approximately US\$25,338,000, US\$16,075,000, US\$4,617,000 and US\$2,729,000 in construction in progress for each of three years ended December 31, 2009 and the six months ended June 30, 2010.

18. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

	As at December 31,			As at
	2007	2008	2009	June 30,
	US\$'000	US\$'000	US\$'000	2010
				US\$'000
Analyzed for reporting purposes as:				
Non-current assets	869	909	889	883
Current assets	19	20	20	20
	<u>888</u>	<u>929</u>	<u>909</u>	<u>903</u>

Prepaid lease payments represent medium-term land use rights in the PRC and are released to profit or loss over the terms of relevant rights as stated in the land use right certificates granted for usage to the Group.

19. INVESTMENT PROPERTIES

	<u>US\$'000</u>
COST	
At January 1, 2007	1,964
Exchange adjustment	<u>134</u>
At December 31, 2007	2,098
Exchange adjustments	<u>145</u>
At December 31, 2008, December 31, 2009 and at June 30, 2010	<u><u>2,243</u></u>
DEPRECIATION AND IMPAIRMENT	
At January 1, 2007	15
Exchange adjustments	4
Provided for the year	<u>91</u>
At December 31, 2007	110
Exchange adjustments	10
Provided for the year	<u>98</u>
At December 31, 2008	218
Provided for the year	<u>101</u>
At December 31, 2009	319
Exchange adjustments	(11)
Provided for the period	<u>51</u>
At June 30, 2010	<u>359</u>
CARRYING VALUES	
At December 31, 2007	<u>1,988</u>
At December 31, 2008	<u>2,025</u>
At December 31, 2009	<u>1,924</u>
At June 30, 2010	<u>1,884</u>

The above investment properties are depreciated on a straight line basis at a rate of 5% per annum.

The Group's investment properties are stated at historical cost at the end of each reporting period. In 2007, valuations were carried out by an international independent valuer not connected with the Group by reference to recent market prices for similar properties. The fair value of the Group's investment properties as at December 31, 2007 was US\$2,921,000. No valuation had been performed by independent qualified professional valuers at December 31, 2008, 2009 and June 30, 2010. The valuations performed by the directors of the Group as at these dates were arrived at by reference to recent market prices for similar properties. The fair value of the Group's investment properties estimated by the Group's directors as at December 31, 2008, 2009 and June 30, 2010 was US\$3,335,000, US\$3,152,000 and US\$3,100,000 respectively. In view of the fact that the estimated fair value of the Group's investment properties exceeded the carrying amounts as at the end of each reporting period, no impairment loss was considered necessary.

During the year ended December 31, 2007, 2008, 2009 and six months ended June 30, 2009 and 2010, the property rental income earned by the Group from its leasehold property, all of which are leased out under operating leases, amounted to US\$127,000, US\$169,000, US\$174,000, US\$83,000 and US\$86,000.

20. INTEREST IN AN ASSOCIATE

	As at December 31,			As at
	2007	2008	2009	June 30,
	US\$'000	US\$'000	US\$'000	2010
Cost of investment in an associate	1,248	1,248	—	—
Share of post-acquisition reserves and loss, net of dividends received	4,173	(1,248)	—	—
	<u>5,421</u>	<u>—</u>	<u>—</u>	<u>—</u>

No summarized financial information in respect of the Group's associate as at December 31, 2009 is disclosed below as the Group has disposed of the entire interest in the associate to a related party during the year ended December 31, 2009. Details of these are set out in note 44(f).

Particulars of the Group's principal associate at December 31, 2008 and 2007:

Name of associate	Form of business structure	Country of incorporation/ operations	Class of share held	Proportion of nominal value of issued capital/ registered capital held by the Group	Proportion of voting power held	Principal activity
				%	%	
Goodwood Venture Limited ("Goodwood")	Incorporated	British Virgin Islands	Ordinary	30	30	Investment holding
Principal subsidiaries held by the associate						
Kuitu Finland Oy	Incorporated	Finland	Ordinary	30	N/A	Investment holding and manufacturing and sales of viscose staple fibers
Sateri (Cyprus) Limited	Incorporated	Cyprus	Ordinary	30	N/A	Investment holding

The summarized financial information in respect of the Group's associate, based on their unaudited management accounts is set out below:

	As at December 31,	
	2007	2008
	US\$'000	US\$'000 (Note)
Total assets	99,031	5,008
Total liabilities	(80,961)	(5,008)
Net assets	<u>18,070</u>	<u>—</u>
Group's share of net assets of an associate	<u>5,421</u>	<u>—</u>
Revenue	<u>136,110</u>	<u>21,422</u>
Loss for the year	<u>13,416</u>	<u>(10,412)</u>
Group's share of result of an associate for the year	<u>4,025</u>	<u>(5,421)</u>

Note: The above financial information was extracted from the unaudited consolidated management accounts of Goodwood which was prepared by the management of Goodwood based on the financial information they were able to obtain up to December 31, 2008.

21. INTANGIBLE ASSETS

	Technical know-how	Patent	Total
	US\$'000	US\$'000	US\$'000
	(Note a)	(Note b)	
COST			
At January 1, 2007	1,000	—	1,000
Additions	—	441	441
At December 31, 2007, December 31, 2008, December 31, 2009 and June 30, 2010	<u>1,000</u>	<u>441</u>	<u>1,441</u>
ACCUMULATED AMORTIZATION			
At January 1, 2007 and December 31, 2007	—	—	—
Charge for the year	25	—	25
Impairment loss recognized in the year	—	441	441
At December 31, 2008	<u>25</u>	<u>441</u>	<u>466</u>
Charge for the year	100	—	100
At December 31, 2009	<u>125</u>	<u>441</u>	<u>566</u>
Charge for the period	50	—	50
At June 30, 2010	<u>175</u>	<u>441</u>	<u>616</u>
CARRYING VALUES			
At December 31, 2007	<u>1,000</u>	<u>441</u>	<u>1,441</u>
At December 31, 2008	<u>975</u>	<u>—</u>	<u>975</u>
At December 31, 2009	<u>875</u>	<u>—</u>	<u>875</u>
At June 30, 2010	<u>825</u>	<u>—</u>	<u>825</u>

Notes:

- a. The technical know-how relates to certain manufacturing process of dissolving wood pulp which was acquired in November 2005 from an independent third party. The amount is amortized over its estimated economic life of 10 years from the commencement of commercial production of the high purity cellulose in 2008.
- b. The patent is to protect the right of trademark held by the Group and was licensed to the wholly owned subsidiary of an associate. The patent allows the Group to collect license fee annually. The patent was acquired from Terry Investments Worldwide Limited (formerly known as Sateri Overseas Holdings Limited), a related party in 2007 (details are set out in note 44(b)). The amount will be amortized over its estimated economic life of 5 years. During the year ended December 31, 2008, as the wholly owned subsidiary of the associate was being put under liquidation, the recoverable amount of the patent was considered as minimal and therefore, the whole amount of the patent was fully impaired.

22. OTHER LONG-TERM ASSETS

	As at December 31,			As at June 30,
	2007	2008	2009	2010
	US\$'000	US\$'000	US\$'000	US\$'000
Tax recoverable (a)	20,677	16,482	30,766	27,040
Unlisted equity investment (b)	—	4,139	7,144	8,816
Others	1,151	1,007	1,169	656
	<u>21,828</u>	<u>21,628</u>	<u>39,079</u>	<u>36,512</u>

- (a) The amounts represent mainly value-added tax recoverable in respect of acquisition of property, plant and equipment and raw materials in Brazil that are not expected to be recovered within the next twelve months from the respective reporting dates, and are accordingly classified as non-current assets. No impairment is considered by management of the Group to be necessary in respect of these tax recoverable as the balances are expected to be utilized by 2017 by offsetting against VAT payable on future sales.
- (b) The unlisted investment represents 5.7% equity investment in Cetrel S.A. Empresa de Proteção Ambiental ("Cetrel S.A."), a company which is incorporated in Brazil and it is responsible for operating the environmental protection systems in Camaçari industrial complex, within which the Group's Bahia Specialty Cellulose mill is located. Due to the strategy reason and to meet the increase of production capacity of the Group, the Group invested into the Cetrel S.A. and in return Cetrel S.A. can increase its capital investment in infrastructure and production capacity of chemicals effluent treatment. The unlisted investment is measured at cost less impairment at December 31, 2008, 2009 and June 30, 2010 as the directors of the Group are of the opinion that the fair value cannot be measured reliably. In the opinion of the directors, no impairment loss required to be recognized for the years ended December 31, 2008, 2009 and six months ended June 30, 2010.

The Group's other long-term assets that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	As at December 31,			As at June 30,
	2007	2008	2009	2010
	US\$'000	US\$'000	US\$'000	US\$'000
Brazilian Reals	<u>20,677</u>	<u>20,621</u>	<u>37,910</u>	<u>36,197</u>

23. POST-EMPLOYMENT BENEFIT OBLIGATIONS

The Group operates the following defined contribution schemes for its employees:

(i) Plans for PRC employees

The employees employed in the PRC are members of the state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

(ii) Other defined contribution plans

The Group participates in defined contribution retirement benefit plans for qualifying employees in Brazil and Singapore. The assets of the plans are held separately from those of the Group in funds under the control of trustees or state appointed agencies.

The total costs charged to combined statements of comprehensive income during each of three years ended December 31, 2009 and during the six months ended June 30, 2009 and 2010 of US\$341,000, US\$591,000, US\$711,000, US\$267,000 and US\$444,000 represent contributions to these schemes by the Group in respect of the Relevant Periods.

24. DEFERRED TAX ASSETS AND LIABILITIES

The following are the deferred tax assets (liabilities) recognized by the Group and the movements thereon during the Relevant Periods.

	Accelerated tax depreciation	Fair value of forestation and reforestation assets	Unrealized profit on inventories	Provisions	Tax losses	Others (note)	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
At January 1, 2007	(2,852)	—	16	357	12,470	—	9,991
Credit (charge) to profit or loss for the year . .	5,981	—	1,255	(285)	2,582	—	9,533
At December 31, 2007 .	3,129	—	1,271	72	15,052	—	19,524
(Charge) credit to profit or loss for the year . .	(57,234)	—	1,059	1,340	55,156	3,933	4,254
At December 31, 2008 .	(54,105)	—	2,330	1,412	70,208	3,933	23,778
(Charge) credit to profit or loss for the year . .	(6,200)	(7,904)	(1,421)	946	21,426	3,911	10,758
At December 31, 2009 .	(60,305)	(7,904)	909	2,358	91,634	7,844	34,536
(Charge) credit to profit or loss for the period	(597)	178	(250)	833	(3,874)	3,572	(138)
At June 30, 2010	(60,902)	(7,726)	659	3,191	87,760	11,416	34,398

Note: Others represent deductible temporary differences in respect of accruals for demobilization of property, plant and equipment and other miscellaneous accruals. Deferred tax assets have been recognized on such temporary differences as it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

The following is an analysis of the deferred tax balances for financial reporting purposes:

	As at December 31,			As at June 30,
	2007	2008	2009	2010
	US\$'000	US\$'000	US\$'000	US\$'000
Deferred tax assets	21,612	77,883	102,745	103,026
Deferred tax liabilities	(2,088)	(54,105)	(68,209)	(68,628)
	<u>19,524</u>	<u>23,778</u>	<u>34,536</u>	<u>34,398</u>

At December 31, 2007, 2008, 2009 and June 30, 2010, the Group has unused tax losses of US\$86,304,000, US\$231,595,000, US\$272,428,000 and US\$256,212,000, respectively available for offsetting against future profits. A deferred tax asset has been recognized in respect of approximately US\$44,271,000, US\$208,797,000, US\$272,428,000 and US\$256,212,000 of such losses at December 31, 2007, 2008, 2009 and June 30, 2010. No deferred tax asset has been recognized in respect of the remaining tax losses of US\$42,033,000, US\$22,798,000, nil and nil at December 31, 2007, 2008, 2009 and June 30, 2010 due to the unpredictability of future profit streams. Included in unrecognized tax losses at December 31, 2007, 2008, 2009 and June 30, 2010 are losses of nil, US\$22,058,000, nil and nil that will expire in 2013. Other losses may be carried forward indefinitely.

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from January 1, 2008 onwards. At December 31, 2008, 2009 and June 30, 2010, the aggregate amount of temporary differences associated with undistributed earnings of the Group's PRC subsidiaries for which deferred tax liabilities have not been recognized in the Financial Information amounted to approximately nil, US\$9,414,000 and US\$21,906,000 as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

25. INVENTORIES

	As at December 31,			As at June 30,
	2007	2008	2009	2010
	US\$'000	US\$'000	US\$'000	US\$'000
Raw materials	37,459	34,498	45,102	52,980
Work in progress	1,264	676	1,940	100
Finished goods	<u>3,711</u>	<u>33,761</u>	<u>6,135</u>	<u>15,337</u>
	<u>42,434</u>	<u>68,935</u>	<u>53,177</u>	<u>68,417</u>

26. TRADE AND OTHER RECEIVABLES

The ageing analysis of the Group's trade receivables presented based on the invoice date at the end of the reporting period is as follows:

	As at December 31,			As at June 30,
	2007	2008	2009	2010
	US\$'000	US\$'000	US\$'000	US\$'000
Trade receivables:				
0 - 60 days	63,732	32,082	68,504	39,654
61 - 90 days	6,808	1,579	571	365
91 - 180 days	284	132	—	220
Over 180 days	<u>—</u>	<u>—</u>	<u>—</u>	<u>219</u>
	<u>70,824</u>	<u>33,793</u>	<u>69,075</u>	<u>40,458</u>
Other receivables:				
Prepayments	2,529	4,790	2,221	1,129
Deposits paid	41	13	20	17
Advance to suppliers	21,201	9,173	13,910	3,721
VAT tax recoverable	14,057	24,972	17,087	15,979
Others	<u>2,512</u>	<u>286</u>	<u>396</u>	<u>3,888</u>
	<u>40,340</u>	<u>39,234</u>	<u>33,634</u>	<u>24,734</u>
	<u>111,164</u>	<u>73,027</u>	<u>102,709</u>	<u>65,192</u>

Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed regularly. Nearly all of the trade receivables that are neither past due or impaired have the good credit rating and/or good repayment history for the three years ended December 31, 2009 and six months ended June 30, 2010.

The Group normally allows a credit period ranging from 30 to 90 days to its customers. At December 31, 2007, 2008 and June 30, 2010, included in the Group's trade receivables are debtors with aggregate carrying amounts of US\$284,000, US\$132,000 and US\$439,000, respectively, which are past due at the reporting date for which the Group has not provided for impairment loss as these customers have good repayment history. The Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired

	As at December 31,			As at June 30,
	2007	2008	2009	2010
	US\$'000	US\$'000	US\$'000	US\$'000
91-180 days	284	132	—	220
Over 180 days	—	—	—	219
	<u>284</u>	<u>132</u>	<u>—</u>	<u>439</u>

The Group's trade and other receivables that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	As at December 31,			As at June 30,
	2007	2008	2009	2010
	US\$'000	US\$'000	US\$'000	US\$'000
Brazilian Reais	24,542	22,755	7,361	267
United States dollars	21,972	3,225	1,894	1,723
Euro	<u>125</u>	<u>150</u>	<u>—</u>	<u>—</u>

27. BILLS RECEIVABLES DISCOUNTED/ADVANCE DRAWN ON BILLS RECEIVABLES DISCOUNTED

At December 31, 2007, 2008, 2009 and June 30, 2010, the bills receivables discounted amounting to approximately US\$2,206,000, US\$59,223,000, US\$132,231,000 and US\$94,174,000, respectively are due for collection in next three months. The weighted average effective interest rate for bills receivables discounted were 5.0%, 5.0%, 4.0% and 4.2% per annum for the years ended December 31, 2007, 2008, 2009 and June 30, 2010, respectively. None of the bills receivables discounted are past due or impaired. The Group retains all the risks and rewards of such bills receivables discounted and accordingly, the Group continues to recognize the full amount as bills receivables discounted. Bills receivables discounted and the advance drawn on bills receivables discounted are derecognized when the banks receive cash from the customers.

At the end of each reporting period, the bills receivables discounted were aged within 90 days and had been fully settled in the next financial year.

28. DERIVATIVE FINANCIAL INSTRUMENTS

	As at December 31,			As at June 30,
	2007	2008	2009	2010
	US\$'000	US\$'000	US\$'000	US\$'000
Fair value:				
— Forward foreign exchange contracts	22,651	(8,570)	5,273	4,194
— Foreign exchange options	(779)	—	—	—
— Interest rate swaps	(7,583)	(17,990)	(15,134)	(13,094)
	<u>14,289</u>	<u>(26,560)</u>	<u>(9,861)</u>	<u>(8,900)</u>
Analyzed as:				
Current assets	22,651	—	5,273	4,194
Current liabilities	(8,362)	(26,560)	(15,134)	(13,094)
	<u>14,289</u>	<u>(26,560)</u>	<u>(9,861)</u>	<u>(8,900)</u>

The Group enters into forward foreign exchange contracts and options to cover the anticipated foreign currency exposures. The Group is a party to a variety of forward foreign exchange contracts and options in the management of the exchange rate exposures. In addition, the Group has also entered into interest rate swaps to stabilize the borrowing rates for its borrowings. The instruments purchased are primarily denominated in the currencies of the Group's principal markets.

For the years ended December 31, 2007, 2008 and 2009, the change in fair value of the Group's outstanding derivatives are estimated to be a net gain of approximately US\$13,572,000, net loss of US\$21,223,000 and net gain of US\$1,832,000, and a net gain of approximately US\$10,426,000 and US\$233,000 for the six months ended June 30, 2009 and 2010, based on fair values arrived at using forward rates of similar instruments of forward foreign exchange contracts and discounting the future cash flows using the interest rate curves at the end of the reporting period. For the years ended December 31, 2007, 2008 and 2009 and six months ended June 30, 2009 and 2010, a gain on settlement of financial derivative contracts of approximately US\$42,546,000, US\$4,290,000, US\$18,391,000, US\$891,000 and US\$49,000 respectively, arose on forward foreign exchange contracts and interest rate swaps. Details of the derivative transactions between the Group and the related parties are disclosed in Note 44.

The above derivative financial instrument are not designated as hedging instruments for hedge accounting and the changes in the fair values thereof have been recognized in the profit or loss.

At December 31, 2007, the details of outstanding forward foreign exchange contracts and foreign exchange option to which the Group is committed are as follows:

Buy	Sell	Notional amount	Maturity	Contracted exchange rate (per US\$1)
US\$				
Forward foreign exchange contracts				
Brazilian Reais	U.S. dollar	16,593,000	From January 15 to January 25, 2008	Reais1.8255 to 2.4490
Brazilian Reais	U.S. dollar	19,693,000	From February 15 to February 29, 2008	Reais1.8255 to 2.4490
Brazilian Reais	U.S. dollar	13,093,000	From March 20 to March 31, 2008	Reais1.8255 to 2.1780
Brazilian Reais	U.S. dollar	12,993,000	From April 22 to April 30, 2008	Reais1.8255 to 2.1780
Brazilian Reais	U.S. dollar	12,993,000	From May 20 to May 30, 2008	Reais1.8255 to 2.1780
Brazilian Reais	U.S. dollar	21,004,000	From June 20 to June 30, 2008	Reais1.8100 to 2.1780
Brazilian Reais	U.S. dollar	15,318,000	From July 25 to July 31, 2008	Reais1.8335 to 2.0775
Brazilian Reais	U.S. dollar	15,500,000	From August 4 to August 29, 2008	Reais1.9750 to 2.1000
Brazilian Reais	U.S. dollar	20,408,000	From September 3 to September 30, 2008	Reais1.8335 to 2.1000
Brazilian Reais	U.S. dollar	17,682,000	From October 2 to October 31, 2008	Reais1.8335 to 2.0775
Brazilian Reais	U.S. dollar	18,228,000	From November 3 to November 28, 2008	Reais1.8335 to 2.0775
Brazilian Reais	U.S. dollar	19,500,000	From December 3 to December 31, 2008	Reais1.9750 to 2.1000
US\$				
Foreign exchange option				
Brazilian Reais	U.S. dollar	1,600,000	January 31, 2008	Reais 2.2000
Brazilian Reais	U.S. dollar	1,600,000	February 29, 2008	Reais 2.2000
Brazilian Reais	U.S. dollar	1,600,000	March 31, 2008	Reais 2.2000
Brazilian Reais	U.S. dollar	1,600,000	April 30, 2008	Reais 2.2000
Brazilian Reais	U.S. dollar	1,600,000	May 30, 2008	Reais 2.2000
Brazilian Reais	U.S. dollar	7,500,000	July 25, 2008	Reais 2.1500 to 2.2000
Brazilian Reais	U.S. dollar	11,500,000	From August 4 to August 25, 2008	Reais 2.1500 to 2.2000
Brazilian Reais	U.S. dollar	11,500,000	From September 3 to September 25, 2008	Reais 2.1500 to 2.2000
Brazilian Reais	U.S. dollar	11,500,000	From October 2 to October 27, 2008	Reais 2.1500 to 2.2000
Brazilian Reais	U.S. dollar	11,500,000	From November 3 to November 25, 2008	Reais 2.1500 to 2.2000
Brazilian Reais	U.S. dollar	15,500,000	From December 3 to December 29, 2008	Reais 2.1500 to 2.2000

At December 31, 2007, the interest differential on the outstanding interest rate swap contract is settled in every three months, with the contract of US\$200,000,000 notional amount expires on October 15, 2011. Details are as follows:

Interest rate swap

Notional amount	Interest reset date	Contracted fixing interest rate
US\$		
59,200,000	March 17, 2008	USD3-month LIBOR to 4.85% p.a.
56,800,000	June 17, 2008	USD3-month LIBOR to 4.85% p.a.
54,400,000	September 17, 2008	USD3-month LIBOR to 4.85% p.a.
52,000,000	December 17, 2008	USD3-month LIBOR to 4.85% p.a.
23,520,000	March 17, 2008	USD3-month LIBOR to 4.85% p.a.
18,480,000	June 17, 2008	USD3-month LIBOR to 4.85% p.a.
13,440,000	September 17, 2008	USD3-month LIBOR to 4.85% p.a.
8,400,000	December 17, 2008	USD3-month LIBOR to 4.85% p.a.
200,000,000	January 15, 2008	USD3-month LIBOR to 5.069% p.a.
200,000,000	April 15, 2008	USD3-month LIBOR to 5.069% p.a.
200,000,000	July 15, 2008	USD3-month LIBOR to 5.069% p.a.
200,000,000	October 15, 2008	USD3-month LIBOR to 5.069% p.a.
200,000,000	January 15, 2009	USD3-month LIBOR to 5.069% p.a.
200,000,000	April 15, 2009	USD3-month LIBOR to 5.069% p.a.
200,000,000	July 15, 2009	USD3-month LIBOR to 5.069% p.a.
200,000,000	October 15, 2009	USD3-month LIBOR to 5.069% p.a.
200,000,000	January 15, 2010	USD3-month LIBOR to 5.069% p.a.
200,000,000	April 15, 2010	USD3-month LIBOR to 5.069% p.a.
200,000,000	July 15, 2010	USD3-month LIBOR to 5.069% p.a.
200,000,000	October 15, 2010	USD3-month LIBOR to 5.069% p.a.
193,600,000	January 15, 2011	USD3-month LIBOR to 5.069% p.a.
179,556,000	April 15, 2011	USD3-month LIBOR to 5.069% p.a.
164,011,000	July 15, 2011	USD3-month LIBOR to 5.069% p.a.
148,467,000	October 15, 2011	USD3-month LIBOR to 5.069% p.a.

At December 31, 2008, the details of outstanding forward foreign exchange contracts to which the Group is committed are as follows:

Forward foreign exchange contracts

Buy	Sell	Notional amount	Maturity	Contracted exchange rate (per US\$1)
		US\$		
U.S. dollar	Brazilian Reais	4,095,000	January 30, 2009	Reais2.442
U.S. dollar	Brazilian Reais	6,087,000	February 27, 2009	Reais2.464
U.S. dollar	Brazilian Reais	6,043,000	March 31, 2009	Reais2.482
Brazilian Reais	U.S. dollar	813,000	April 30, 2009	Reais1.873 to 2.446
Brazilian Reais	U.S. dollar	828,000	May 29, 2009	Reais1.873 to 2.4595
Brazilian Reais	U.S. dollar	843,000	June 30, 2009	Reais1.873 to 2.474
Brazilian Reais	U.S. dollar	3,470,000	July 31, 2009	Reais1.873
Brazilian Reais	U.S. dollar	3,470,000	August 31, 2009	Reais1.873
Brazilian Reais	U.S. dollar	3,470,000	September 30, 2009	Reais1.873
Brazilian Reais	U.S. dollar	4,087,000	October 31, 2009	Reais1.835
Brazilian Reais	U.S. dollar	4,087,000	November 30, 2009	Reais1.835
Brazilian Reais	U.S. dollar	4,087,000	December 31, 2009	Reais1.835

At December 31, 2008, the interest differential on the outstanding interest rate swap contract with principal amount of US\$200,000,000 is settled in every three months and will expire on October 15, 2011. Details are as follows:

Interest rate swap

Notional amount	Interest reset date	Contracted fixing interest rate
US\$		
200,000,000	January 15, 2009	USD3-month LIBOR to 5.069% p.a.
200,000,000	April 15, 2009	USD3-month LIBOR to 5.069% p.a.
200,000,000	July 15, 2009	USD3-month LIBOR to 5.069% p.a.
200,000,000	October 15, 2009	USD3-month LIBOR to 5.069% p.a.
200,000,000	January 15, 2010	USD3-month LIBOR to 5.069% p.a.
200,000,000	April 15, 2010	USD3-month LIBOR to 5.069% p.a.
200,000,000	July 15, 2010	USD3-month LIBOR to 5.069% p.a.
200,000,000	October 15, 2010	USD3-month LIBOR to 5.069% p.a.
193,600,000	January 15, 2011	USD3-month LIBOR to 5.069% p.a.
179,556,000	April 15, 2011	USD3-month LIBOR to 5.069% p.a.
164,011,000	July 15, 2011	USD3-month LIBOR to 5.069% p.a.
148,467,000	October 15, 2011	USD3-month LIBOR to 5.069% p.a.

At December 31, 2009, the details of outstanding forward foreign exchange contracts which the Group is committed are as follows:

Forward foreign exchange contracts

Buy	Sell	Notional amount	Maturity	Contracted exchange rate (per US\$1)
US\$				
Brazilian Reais	U.S. dollar	14,956,000	January 8 to January 29, 2010	Reais1.8000 to 1.9500
Brazilian Reais	U.S. dollar	14,956,000	February 5 to February 26, 2010	Reais1.8000 to 1.9500
Brazilian Reais	U.S. dollar	14,956,000	March 5 to March 26, 2010	Reais1.8000 to 1.9500
Brazilian Reais	U.S. dollar	14,340,000	April 8 to April 30, 2010	Reais1.8000 to 1.9500
Brazilian Reais	U.S. dollar	14,340,000	May 7 to May 27, 2010	Reais1.8000 to 1.9500
Brazilian Reais	U.S. dollar	11,272,000	June 4 to June 25, 2010	Reais1.8000 to 1.9500
Brazilian Reais	U.S. dollar	13,883,000	July 8 to July 29, 2010	Reais1.8350 to 1.9300
Brazilian Reais	U.S. dollar	13,883,000	August 5 to August 26, 2010	Reais1.8350 to 1.9300
Brazilian Reais	U.S. dollar	8,500,000	September 3 to September 24, 2010	Reais1.8600 to 1.8900
Brazilian Reais	U.S. dollar	13,225,000	October 7 to October 28, 2010	Reais1.8200 to 1.9500
Brazilian Reais	U.S. dollar	13,225,000	November 3 to November 26, 2010	Reais1.8200 to 1.9500
Brazilian Reais	U.S. dollar	13,225,000	December 1 to December 29, 2010	Reais1.8200 to 1.9500

At December 31, 2009, the interest differential on the outstanding interest rate swap contract with principal amount of US\$200,000,000 is settled every three months and will expire on October 15, 2011. Details are as follows:

Interest rate swap

Notional amount	Interest reset date	Contracted fixed interest rate
US\$		
200,000,000	January 15, 2010	USD3-month LIBOR to 5.069% p.a.
200,000,000	April 15, 2010	USD3-month LIBOR to 5.069% p.a.
200,000,000	July 15, 2010	USD3-month LIBOR to 5.069% p.a.
200,000,000	October 15, 2010	USD3-month LIBOR to 5.069% p.a.
193,600,000	January 15, 2010	USD3-month LIBOR to 5.069% p.a.
179,556,000	April 15, 2011	USD3-month LIBOR to 5.069% p.a.
164,011,000	July 15, 2011	USD3-month LIBOR to 5.069% p.a.
148,467,000	October 15, 2011	USD3-month LIBOR to 5.069% p.a.

At June 30, 2010, the details of outstanding forward foreign exchange contracts which the Group is committed are as follows:

Forward foreign exchange contracts

Buy	Sell	Notional amount	Maturity	Contracted exchange rate (per US\$1)
		US\$		
Brazilian Reais	US dollar	21,966,000	July 8 to July 29, 2010	Reais1.8350 to 1.9350
Brazilian Reais	US dollar	17,340,000	August 5 to August 31, 2010	Reais1.8350 to 1.9350
Brazilian Reais	US dollar	9,068,000	September 3 to September 29, 2010	Reais1.8900 to 1.9350
Brazilian Reais	US dollar	14,517,000	October 7 to October 29, 2010	Reais1.8200 to 1.9500
Brazilian Reais	US dollar	19,979,000	November 3 to November 29, 2010	Reais1.8200 to 1.9500
Brazilian Reais	US dollar	18,224,000	December 1 to December 29, 2010	Reais1.8200 to 1.9500
Brazilian Reais	US dollar	8,946,000	January 7 to January 28, 2011	Reais1.9800 to 2.0100
Brazilian Reais	US dollar	8,946,000	February 2 to February 23, 2011	Reais1.9800 to 2.0100
Brazilian Reais	US dollar	8,946,000	March 3 to March 24, 2011	Reais1.9800 to 2.0100
Brazilian Reais	US dollar	8,497,000	April 6 to April 28, 2011	Reais1.9800 to 2.0100
Brazilian Reais	US dollar	8,497,000	May 5 to May 26, 2011	Reais1.9800 to 2.0100
Brazilian Reais	US dollar	8,472,000	June 3 to June 24, 2011	Reais1.9800 to 2.0100
Brazilian Reais	US dollar	4,127,000	July 6 to July 13, 2011	Reais2.0500
Brazilian Reais	US dollar	4,127,000	August 3 to August 10, 2011	Reais2.0500
Brazilian Reais	US dollar	4,127,000	September 8 to September 14, 2011	Reais2.0500

At June 30, 2010, the interest differential on the outstanding interest rate swap contract with principal amount of US\$200,000,000 is settled every three months and will expire on October 15, 2011. Details are as follows:

Interest rate swap

Notional amount	Interest reset date	Contracted fixed interest rate
US\$		
200,000,000	July 15, 2010	USD3-month LIBOR to 5.069% p.a.
200,000,000	October 15, 2010	USD3-month LIBOR to 5.069% p.a.
193,600,000	January 15, 2010	USD3-month LIBOR to 5.069% p.a.
179,556,000	April 15, 2011	USD3-month LIBOR to 5.069% p.a.
164,011,000	July 15, 2011	USD3-month LIBOR to 5.069% p.a.
148,467,000	October 15, 2011	USD3-month LIBOR to 5.069% p.a.

Fair values of the forward foreign exchange contracts have been arrived at using the forward rates of similar instruments at the end of each reporting period. Fair values of interest rate swaps have been arrived at using valuations provided by the counterparty banks for each reporting period with reference to market data such as settlement prices and interest rates.

29. AMOUNTS DUE FROM (TO) RELATED PARTIES

(a) Details of amounts due from related parties are as follows:

	Maximum outstanding amount during the year/period							For the six months ended June 30,
	As at December 31,			As at June 30,	For the year ended December 31,			
	2007	2008	2009	2010	2007	2008	2009	
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
April International Marketing Services Ltd. (Note i and vii) . . .	—	—	191	185	—	—	191	191
East Trade Limited (Note i and vii)	—	100	6	6	—	100	106	6
PT Toba Pulp Lestari tbk (“TPL”) (Note i and vii)	—	1,279	4,458	—	—	1,279	7,490	4,458
Pacific Eagle Asset Management S.A. (Note i and vii)	—	—	17	8	—	—	17	25
Averis Sdn. Bhd. (Note i and vii) . . .	—	—	19	—	—	—	19	19
Peiterson Investment Limited (formerly known as Sateri Holdings Limited) (Note i)	—	2,933	—	—	—	2,933	3,133	—
Pinnacle Company Ltd. (Note i and v)	188,638	171,148	—	—	188,638	188,638	171,148	—
Pec-Tech Limited (Note i)	170	2,113	—	—	170	2,113	2,785	—
General Rank Limited (Note i, vii and viii)	6,624	—	—	476	6,624	—	—	476
RGE Inc (Note i and vii)	—	—	—	164,608	—	—	—	164,608
RGE Management (China) Co., Ltd. (“RGE China”) (Note i)	859	—	—	—	859	859	—	—
Headington Investment Inc. (Note i)	12	—	—	—	12	12	—	—
April Management (Shanghai) Co. Ltd (Note i)	19	—	—	—	19	19	—	—
April Management Pte Ltd. (Note i)	3	—	—	—	3	3	—	—
Kuitu Finland Oy (Note ii and vi)	4,181	4,249	—	—	4,181	4,249	4,249	—
Sateri (Cyprus) Limited (Note ii and vi)	345	345	—	—	358	345	345	—
Sateri International S.A. (Note ii and vi)	350	351	2	—	1,941	351	351	2
	<u>201,201</u>	<u>182,518</u>	<u>4,693</u>	<u>165,283</u>	<u>202,805</u>	<u>200,901</u>	<u>189,834</u>	<u>169,785</u>
Impairment loss recognized (Note vi)	—	(4,945)	—	—	—	(4,945)	—	—
	<u>201,201</u>	<u>177,573</u>	<u>4,693</u>	<u>165,283</u>	<u>202,805</u>	<u>195,956</u>	<u>189,834</u>	<u>169,785</u>

(b) Details of amounts due to related parties are as follows:

	As at December 31,			As at
	2007	2008	2009	June 30,
	US\$'000	US\$'000	US\$'000	2010
				US\$'000
Terry Investments Worldwide Limited				
(Note i and v)	30,238	2,619	2,553	—
TPL (Note i and vii)	7,178	—	—	17
Shandong Asia Pacific Pulp and Paper Co. Ltd.				
(Note i)	2	—	—	—
RGE China (Note i)	32	23	3	—
East Trade Limited (Note i and vii)	139	392	241	187
Kuitu Finland Oy (Note ii)	10	4	—	—
Sateri International S.A. (Note ii)	35	34	35	—
General Rank Limited (Note i)	—	9,302	—	—
Averis Sdn. Bhd. (Note i and vii)	—	659	556	1,108
April Management (Shanghai) Co. Ltd.				
(Note i and vii)	—	—	6	6
Pec-Tech Limited (Note i)	232	—	1,137	—
AP Enterprises (Macao) Commercial Offshore				
Limited (Note i)	—	—	7	—
	<u>37,866</u>	<u>13,033</u>	<u>4,538</u>	<u>1,318</u>

Notes:

- i. The companies are beneficially owned by the ultimate beneficial owner of the Group, the Tanoto Family, whom beneficially owns 100% of Gold Silk.
- ii. The companies were wholly-owned subsidiaries of Goodwood Venture Limited, an associate of the Group which was fully disposed of by the Group during the year ended December 31, 2009.
- iii. All balances are non-trade in nature except for amounts due from April International Marketing Services Ltd., TPL and Averis Sdn. Bhd. (aged within 90 days), and amounts due from Sateri International S.A. (aged more than three years) and these non-trade balances will be settled before the Listing of the Company's shares on the Stock Exchange. All amounts that are trade in nature have a credit term of 30-90 days.
- iv. All the amounts due from (to) related parties are unsecured, non-interest bearing and repayable on demand except for the amount mentioned in note (v).
- v. The amount due from Pinnacle Company Ltd as at December 31, 2007 and 2008 of US\$188,638,000 and US\$171,148,000, respectively which was unsecured and bore variable interest at LIBOR plus 2% to 3.5% per annum. The amount had been fully settled in 2009. The effective interest rate is 6.61%, 6.61% and 4.53% per annum for the years ended December 31, 2007, 2008 and 2009 respectively.
The amount due to Terry Investments Worldwide Limited of US\$29,798,000, US\$2,619,000 and US\$2,553,000 as of December 31, 2007, 2008 and 2009, respectively was unsecured, bear interest at 7.4% per annum for the three years, and repayable within twelve months from the end of the reporting period.
- vi. No impairment loss was made during the Relevant Periods except for an impairment loss of US\$4,945,000 made to the amounts due from wholly owned subsidiaries of an associate given one of the major subsidiaries of the associate, who was undergoing provisional winding-up proceeding during 2008. The management of the Company considered that the recoverability of the amounts were uncertain, therefore, full provision for impairment loss was made in 2008.
- vii. The amounts have been settled before the listing of the Company's shares on the Stock Exchange.
- viii. The amount represented the receivable from General Rank Limited of the net gain on settlement of derivative financial instruments, details of which are set out in Note 44(b).

30. PLEDGED BANK DEPOSITS

The pledged bank deposits represent bank deposits pledged to banks to secure banking facilities granted to the Group and carry interest at the following rates:

	As at December 31,			As at
	2007	2008	2009	June 30,
Interest rates per annum	<u>0.72%-11.25%</u>	<u>0.36%-12%</u>	<u>0.14%-15%</u>	<u>2010</u> <u>0.18%-10.13%</u>

31. BANK BALANCES AND CASH

Bank balances and cash of the Group carry interest at market rates which are as follows:

	As at December 31,			As at
	2007	2008	2009	June 30,
Interest rates per annum	<u>0.72%-4.5%</u>	<u>0.14%-5.5%</u>	<u>0.36%-3.5%</u>	<u>2010</u> <u>0.36%-2.02%</u>

The Group's bank balances and cash that are not denominated in the functional currencies of the relevant group entities are as follows:

	As at December 31,			As at
	2007	2008	2009	June 30,
	US\$'000	US\$'000	US\$'000	2010
	US\$'000	US\$'000	US\$'000	US\$'000
Brazilian Reais	5,320	3,182	5,212	4,628
United States dollars	<u>9,961</u>	<u>11,603</u>	<u>839</u>	<u>1,413</u>

32. TRADE AND OTHER PAYABLES

The ageing analysis of the Group's trade payables presented based on the invoice date at the end of reporting period.

	As at December 31,			As at
	2007	2008	2009	June 30,
	US\$'000	US\$'000	US\$'000	2010
Trade payables:				
0 - 90 days	19,855	48,838	12,300	20,799
91 - 180 days	—	—	1,084	82
Over 180 days	—	—	—	428
	<u>19,855</u>	<u>48,838</u>	<u>13,384</u>	<u>21,309</u>
Other payables:				
Accruals and others	19,548	17,431	26,398	21,742
Advance from customers	2,267	726	2,840	12,866
Construction payable	39,840	39,753	20,762	6,044
Other taxes payable	6,618	2,513	2,285	3,495
Others	1,289	552	172	429
	<u>69,562</u>	<u>60,975</u>	<u>52,457</u>	<u>44,576</u>
	<u>89,417</u>	<u>109,813</u>	<u>65,841</u>	<u>65,885</u>

The normal credit period on purchases of goods is in the range of 30 to 90 days. The Group has financial risk management policies in place for its payables with respect to the credit timeframe.

The Group's trade and other payables that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	As at December 31,			As at
	2007	2008	2009	June 30,
	US\$'000	US\$'000	US\$'000	2010
Brazilian Reais	62,434	67,050	25,450	14,404
United States dollars	7,415	1,192	—	1,318
Euro	14	955	—	46

33. PROVISIONS

	US\$'000
At January 1, 2007	3,434
Additions for the year	<u>1,605</u>
At December 31, 2007	5,039
Utilization of provision	<u>(887)</u>
At December 31, 2008	4,152
Addition for the year	2,832
Utilization of provision	<u>(49)</u>
At December 31, 2009	6,935
Addition for the period	<u>2,449</u>
At June 30, 2010	<u><u>9,384</u></u>

The provisions represent the Group's liabilities for probable losses on civil, labor and tax lawsuits based on the opinion of its legal counsel. Management considers that these provisions are sufficient and appropriate to cover the corresponding contingencies. Additionally, the Group is party to certain lawsuits and administrative proceedings, in the amount of approximately US\$27,412,000, which, in accordance with the Group's legal advisors, are possible but not probable loss including a labor related case concerning Bahia Specialty Cellulose's labor union in the amount of approximately US\$5,510,000. No provision has been included in the Financial Information for these possible losses.

34. BANK BORROWINGS

	As at December 31,			As at June 30,
	2007	2008	2009	2010
	US\$'000	US\$'000	US\$'000	US\$'000
Bank borrowings:				
Secured	348,066	391,602	373,409	371,480
Unsecured	<u>50,424</u>	<u>72,680</u>	<u>81,487</u>	<u>56,009</u>
	<u>398,490</u>	<u>464,282</u>	<u>454,896</u>	<u>427,489</u>
Fixed rate	5,000	93,303	92,991	113,994
Variable rate	<u>393,490</u>	<u>370,979</u>	<u>361,905</u>	<u>313,495</u>
	<u>398,490</u>	<u>464,282</u>	<u>454,896</u>	<u>427,489</u>
Carrying amount repayable:				
On demand or within one year	82,167	153,480	177,119	194,818
More than one year but not more than two years	56,178	75,146	86,089	90,069
More than two years but not more than five years	194,032	225,408	165,018	121,739
More than five years	<u>66,113</u>	<u>10,248</u>	<u>26,670</u>	<u>20,863</u>
	<u>398,490</u>	<u>464,282</u>	<u>454,896</u>	<u>427,489</u>
Less: Amount due within one year shown under current liabilities	<u>(82,167)</u>	<u>(153,480)</u>	<u>(177,119)</u>	<u>(194,818)</u>
Amount due after one year	<u>316,323</u>	<u>310,802</u>	<u>277,777</u>	<u>232,671</u>

The amounts of the Group's borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	As at December 31,			As at June 30,
	2007	2008	2009	2010
	US\$'000	US\$'000	US\$'000	US\$'000
Denominated in United States dollars	<u>5,000</u>	<u>1,140</u>	<u>6,496</u>	<u>10,174</u>
Denominated in Brazilian Reais	<u>25,550</u>	<u>22,112</u>	<u>27,692</u>	<u>10,220</u>

The weighted average effective interest rates per annum were as follows:

	2007	2008	2009	2010
Bank borrowings	<u>8.4%</u>	<u>8.0%</u>	<u>6.5%</u>	<u>6.6%</u>

In November 2005, the Group entered into a US\$320 million loan agreement with a bank (the "**Debt Facility**"). The proceeds of the Debt Facility are used to finance the expansion of production plant of a subsidiary of the Company. The Debt Facility is secured by, inter alia, certain property, plant and equipment, bank deposits, receivables and contractual rights and claims under product purchase and sale contracts of the Group's certain subsidiaries. Interest rates on outstanding loans under the Debt Facility are based on the LIBOR plus applicable margin, repriced monthly or quarterly, at the Group's option. The Debt Facility also contains financial and other covenants, which include restrictions on additional borrowings, and liens against the assets of certain subsidiaries of the Company. The amount outstanding under the Debt Facility as at December 31, 2007, 2008, 2009 and June 30, 2010 amounted to approximately US\$315,367,000, US\$302,018,000, US\$246,448,000 and US\$219,752,000, respectively, net of loan raising cost. Repayment has commenced in 2008 in quarterly installments.

For the years ended December 31, 2007, 2008 and 2009 and June 30, 2010, the remaining loans of the Group comprise secured loans of US\$32,699,000, US\$89,584,000, US\$126,961,000 and US\$151,728,000 respectively and unsecured loans of US\$50,424,000, US\$72,680,000, US\$81,487,000 and US\$56,009,000, respectively. They are repayable within one year from the end of the reporting period except for loans of US\$15,000,000, US\$64,961,000, US\$88,282,000 and US\$70,597,000 respectively, of which the repayment is scheduled to commence from 2010. All the loans bear interest determined based on the prevailing short-term market interest rates in the respective countries in which the subsidiaries operate.

35. OBLIGATIONS UNDER FINANCE LEASES

For the three year ended December 31, 2009 and six months ended June 30, 2010, the Group leased certain of its machinery and equipment under finance leases. The average lease term was 2 years. Interest rates underlying all obligations under finance leases were fixed at respective contract dates ranging from 15.12% to 17.4% per annum. These leases had no terms of renewal or purchase options and escalation clauses.

	Minimum lease payments				Present value of minimum lease payments			
	December 31,		June 30,		December 31,		June 30,	
	2007	2008	2009	2010	2007	2008	2009	2010
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Amounts payable under finance leases								
Within one year	4,153	4,271	2,442	2,751	3,603	3,608	2,268	2,596
In more than one year but not more than two years	<u>3,551</u>	<u>781</u>	<u>1,024</u>	<u>1,536</u>	<u>3,072</u>	<u>647</u>	<u>775</u>	<u>1,281</u>
	7,704	5,052	3,466	4,287	6,675	4,255	3,043	3,877
Less: future finance charges	<u>(1,029)</u>	<u>(797)</u>	<u>(423)</u>	<u>(410)</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Present value of lease obligations	<u>6,675</u>	<u>4,255</u>	<u>3,043</u>	<u>3,877</u>	6,675	4,255	3,043	3,877
Less: Amount due for settlement with one year (shown under current liabilities)					<u>(3,603)</u>	<u>(3,608)</u>	<u>(2,268)</u>	<u>(2,596)</u>
Amount due for settlement after one year					<u>3,072</u>	<u>647</u>	<u>775</u>	<u>1,281</u>

Financial lease obligations that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	As at December 31,			As at
				June 30,
	2007	2008	2009	2010
	US\$'000	US\$'000	US\$'000	US\$'000
Brazilian Reais	<u>6,675</u>	<u>4,255</u>	<u>3,043</u>	<u>3,877</u>

36. CONSIDERATION PAYABLE ON ACQUISITION OF SUBSIDIARIES

As at December 31, 2007, the amount of approximately US\$878,000 represent consideration payable denominated in United States dollar on the acquisition of subsidiaries in 2003. The consideration payable on acquisition of the subsidiaries is unsecured, bears interest at approximately 8% per annum and is repayable in quarterly installments. The amounts were fully settled in 2008.

37. LOANS FROM RELATED PARTIES

	As at December 31,			As at June 30,
	2007	2008	2009	2010
	US\$'000	US\$'000	US\$'000	US\$'000
General Rank Limited	—	207,131	142,784	145,661
Terry Investments Worldwide Limited	—	6,000	—	—
	<u>—</u>	<u>213,131</u>	<u>142,784</u>	<u>145,661</u>

The loans were borrowed from companies which are under common control of the ultimate beneficial owner of the Company.

The loan from General Rank Limited with a principal amount of US\$207,131,000 is unsecured, non-interest bearing and repayable on July 1, 2011. The effective interest rate is 4.5% per annum for the Relevant Periods.

Included in the amount as at December 31, 2008 is a loan due to Terry Investments Worldwide Limited of US\$6,000,000 which was interest bearing at 7.4% per annum and the loan was unsecured and repayable in 2010, thus, the loan was classified as a non-current liability as at December 31, 2008. During the year ended December 31, 2009, part of the loan of approximately US\$3,447,000 was repaid during the year and the remaining US\$2,553,000 is repayable on demand and was reclassified to amounts due to related parties as current liabilities.

38. SHARE CAPITAL

For the purpose of preparation of the combined statements of financial position, the balance of the share capital at December 31, 2007, 2008, 2009 and June 30, 2010 represented the share capital of Sateri International.

Sateri International has only one class of ordinary shares which carries no right to fixed income.

	Authorized ordinary shares of US\$1 each		Issued and fully paid-up ordinary shares of US\$1 each	
	Number of shares	US\$'000	Number of shares	US\$'000
At January 1, 2007, December 31, 2007, 2008, 2009 and June 30, 2010	<u>600,000,000</u>	<u>600,000</u>	<u>100</u>	<u>*</u>

* Less than US\$1,000.

Details of preference shares are set out below:

	Authorized									
	Preference shares of US\$1 each		Preference shares Class 1 of US\$1 each		Preference shares Class 2 of US\$0.5 each		Preference shares Class 2 of US\$1 each		Preference shares Total	
	Number of shares	US\$'000	Number of shares	US\$'000	Number of shares	US\$'000	Number of shares	US\$'000	Number of shares	US\$'000
At January 1, 2007 . . .	600,000,000	600,000	—	—	—	—	—	—	600,000,000	600,000
Increase during the year	—	—	—	—	800,000,000	400,000	—	—	800,000,000	400,000
Reclassification	(600,000,000)	(600,000)	600,000,000	600,000	—	—	—	—	—	—
At December 31, 2007	—	—	600,000,000	600,000	800,000,000	400,000	—	—	1,400,000,000	1,000,000
Share consolidation	—	—	—	—	(800,000,000)	(400,000)	400,000,000	400,000	(400,000,000)	—
At December 31, 2008, 2009 and June 30, 2010	—	—	600,000,000	600,000	—	—	400,000,000	400,000	1,000,000,000	1,000,000
	Issued and fully paid-up									
	Preference shares of US\$1 each		Preference shares Class 1 of US\$1 each		Preference shares Class 2 of US\$0.5 each		Preference shares Class 2 of US\$1 each		Preference shares Total	
	Number of shares	US\$'000	Number of shares	US\$'000	Number of shares	US\$'000	Number of shares	US\$'000	Number of shares	US\$'000
At January 1, 2007 . . .	375,789,199	375,789	—	—	—	—	—	—	375,789,199	375,789
Increase during the year	33,220,068	33,220	—	—	—	—	—	—	33,220,068	33,220
Reclassification	(409,009,267)	(409,009)	409,009,267	409,009	—	—	—	—	—	—
At December 31, 2007	—	—	409,009,267	409,009	—	—	—	—	409,009,267	409,009
Reclassification	—	—	(4,410,067)	(4,410)	—	—	4,410,067	4,410	—	—
At December 31, 2008, 2009 and June 30, 2010	—	—	404,599,200	404,599	—	—	4,410,067	4,410	409,009,267	409,009

As at January 1, 2007, preference shares (a) have one vote each; (b) are subject to redemption, purchase or acquisition only at the option of Sateri International with the redemption price per share payable by Sateri International being equal to the par value of the shares; (c) are, at the option of the holder, convertible into ordinary shares, such conversion to be on a share for share basis in respect of which the holder of the shares shall provide no less than 15 days written notice (or such other period as may from time to time be determined by Sateri International) to Sateri International requesting the conversion; and (d) are entitled to the payment of a dividend in preference to the payment of any dividend payable on the ordinary shares, provided however that the payment of a dividend shall be subject to the discretion of the Board of Directors of Sateri International in accordance with the Articles of Association.

During the year ended December 31, 2007, 28,810,001 preference shares of US\$1 each were issued at par to Gold Silk Holdings Limited by capitalization of the same amount due to Gold Silk Holdings Limited and 4,410,067 preference shares of US\$1 each were issued at a premium of US\$99 per share to Gold Silk Holdings Limited by capitalization of the amount due to Gold Silk Holdings Limited.

Sateri International's memorandum of association was amended and restated on December 31, 2007 to provide two classes of preference shares, namely, Class 1 preference shares and Class 2 preference shares and accordingly, the authorized preference shares of US\$1 each were reclassified to 600,000,000 Class 1 preference shares of US\$1 each and a new Class 2 preference shares of 800,000,000 preference shares of US\$0.5 each was created as at December 31, 2007.

Class 1 preference shares of US\$1 each (a) have one vote each; (b) are subject to redemption, purchase or acquisition only at the option of Sateri International, with the redemption price per share payable by Sateri International equal to the par value of the shares; (c) are, at the option of the holder, convertible into ordinary

shares, such conversion to be on a share for share basis, and in respect of such conversion, the holder of the shares shall provide no less than 15 days written notice (or such other period as may from time to time be determined by Sateri International) to Sateri International requesting the conversion; and (d) are entitled to the payment of a dividend in preference to the payment of any dividend payable on the ordinary shares, provided however that the payment of a dividend shall be subject to the discretion of the Board of Directors in accordance with the Articles of Association.

Class 2 preference shares of US\$0.5 each (a) have one vote each; (b) are subject to redemption, purchase or acquisition only at the option of Sateri International, with the redemption price per share payable by Sateri International equal to the par value of the shares and the premium issued thereon (if any); (c) are, at the option of the holder, convertible into ordinary shares, such conversion to be on the basis of one Class 2 preference share (together with premium, if any) into one ordinary share in respect of which the holder of the shares shall provide no less than 15 days written notice (or such other period as may from time to time be determined by Sateri International) to Sateri International requesting the conversion; and (d) are entitled to the payment of a dividend in preference to the payment of any dividend payable on the ordinary shares, provided however that the payment of a dividend shall be subject to the discretion of the Board of Directors in accordance with the Articles of Association.

Upon the amendment of Sateri International's memorandum of association on December 31, 2007, 409,009,267 issued preference shares of US\$1 each, comprising 404,599,200 preference shares issued at par and 4,410,067 preference shares issued with premium, were reclassified to Class 1 preference shares of US\$1 each.

Pursuant to an amendment and restatement of Sateri International's memorandum of association on February 1, 2008:

- a) the authorized Class 2 preference shares of 800,000,000 Class 2 preference shares of US\$0.5 each were consolidated into 400,000,000 Class 2 preference shares of US\$1 each;
- b) Class 1 preference shares of US\$1 each (a) have one vote each; (b) are subject to redemption, purchase or acquisition only at the option of Sateri International, with the redemption price per share payable by the Sateri International being equal to the par value of the shares and the premium issued thereon (if any); (c) at the option of the holder, convert into ordinary shares, such conversion to be on the basis of one Class 1 preference share into a number of ordinary shares (with no premium thereon) such that the total par value of the Class 1 preference share and the premium issued thereon (if any) is equal to the total par value of that number of ordinary shares (with no premium thereon), and in respect of such conversion, the holder of the shares shall provide no less than 15 days written notice (or such other period as may from time to time be determined by Sateri International) to Sateri International requesting the conversion; and (d) be entitled to the payment of a dividend in preference to the payment of any dividend payable on the ordinary shares, provided however that the payment of a dividend shall be subject to the discretion of the Board of Directors in accordance with the Articles of Association; and
- c) Class 2 preference shares of US\$1 each shall have the same terms as Class 1 preference shares of US\$1 each, except that Class 2 preference shares shall be entitled to the payment of a dividend in preference to the payment of any dividend payable on the ordinary shares and Class 1 preference shares.

On February 22, 2008, 4,410,067 Class 1 preference shares of US\$1 each, which were issued with premium, were reclassified to Class 2 preference shares of US\$1 each.

39. DIVESTMENT OF SUBSIDIARIES

During the year ended December 31, 2006, management of the Company actively sought to divest the Group's interest in Sateri (Cyprus) Ltd. and Kuitu Finland Oy (formerly known as Sateri Oy). The assets and liabilities of the relevant entities as at December 31, 2006 had been classified as held for sale. On January 31, 2007, the Group transferred all its shareholdings in Sateri (Cyprus) Ltd. and Sateri Oy into Goodwood, a then wholly-owned subsidiary incorporated in the BVI. On February 9, 2007, the Group divested 70% of the Group's shareholdings in Goodwood. Upon divestment, Goodwood became an associate of the Group until further disposal in 2009 to a related company at a nominal consideration of US\$1. Details are set out in note 44(f). The net assets of divested entities at the date of divestment were as follows:

	February 9, 2007
	US\$'000
NET ASSETS DIVESTED OF	
Property, plant and equipment	26,076
Investment in an associate	22,319
Retirement benefit plan asset	1,490
Deferred tax assets	3,420
Inventories	12,255
Trade and other receivables	11,473
Bank balances and cash	1,948
Trade and other payables	(23,621)
Provisions	(2,744)
Amounts due to group companies	(8,227)
Bank and other borrowings	(40,228)
	4,161
Less: interest in an associate	(1,248)
	2,913
Gain on divestment	801
Net cash inflow arising on divestment:	
Cash consideration	3,714
Bank balances and cash divested of	(1,948)
	<u>1,766</u>

40. PLEDGE OF ASSETS

At the end of each reporting period, the carrying values of assets pledged to various banks for securing bank loans are:

	As at December 31,			As at
	2007	2008	2009	June 30,
	US\$'000	US\$'000	US\$'000	2010
Property, plant and equipment	484,037	500,155	598,309	592,230
Prepaid lease payments	888	929	909	903
Trade receivables	46,182	20,050	52,124	37,682
Bills receivables discounted	—	19,738	66,737	51,837
Bank deposits (Note a)	11,675	54,477	49,419	60,434
	<u>542,782</u>	<u>595,349</u>	<u>767,498</u>	<u>743,086</u>

Note

- a. The amount represents deposit pledged to a bank to secure general banking facilities of the Group. The deposit carries fixed interest rate of 0.14% to 13.62% per annum during the Relevant Periods.

41. OPERATING LEASE ARRANGEMENT/COMMITMENTS

The Group as lessee

	Year ended December 31,			As at
	2007	2008	2009	June 30,
	US\$'000	US\$'000	US\$'000	2010
Minimum lease payments under operating leases recognized as an expense in the year/period . . .	16	16	32	16

At December 31, 2009, the Group has outstanding commitments under non-cancelable operating leases, which fall due as follows:

	As at December 31,			As at
	2007	2008	2009	June 30,
	US\$'000	US\$'000	US\$'000	2010
Within one year	32	16	32	29
In the second to fifth year inclusive	16	—	—	18
	<u>48</u>	<u>16</u>	<u>32</u>	<u>47</u>

Operating lease payments represent rentals payable by the Group for certain of its office properties and staff quarters. Leases are negotiated for an average term of one to three years with fixed rentals.

The Group as lessor

Property rental income earned on the investment properties held by the Group was approximately US\$127,000, US\$169,000, US\$174,000, US\$83,000 and US\$86,000 for each of the years ended December 31, 2007, 2008, 2009 and six months ended June 30, 2009 and 2010, respectively. The leases are negotiated and fixed for a term of one to three years. The expenses incurred for property rental amounted to US\$9,000, US\$8,000, US\$8,000, US\$4,000 and US\$4,000 for the years ended December 31, 2007, 2008, 2009 and six months ended June 30, 2009 and 2010, respectively.

At the end of the each reporting period, the Group has contracted with tenants for the following future minimum lease receipts:

	As at December 31,			As at
	2007	2008	2009	June 30,
	US\$'000	US\$'000	US\$'000	2010
Within one year	158	152	114	148
In the second to fifth year inclusive	162	—	28	54
	<u>320</u>	<u>152</u>	<u>142</u>	<u>202</u>

Operating lease receipts represent rentals receivable by the Group for certain of its office properties.

42. COMMITMENTS

	As at December 31,			As at
	2007	2008	2009	June 30,
	US\$'000	US\$'000	US\$'000	2010
				US\$'000
Amount contracted for but not provided in the Financial Information in respect of				
— acquisition of property, plant and equipment	151,955	81,707	32,644	36,466
— capital injections in unlisted investment	<u>15,478</u>	<u>9,172</u>	<u>8,875</u>	<u>6,918</u>
Amount authorized but not contracted for in respect of				
— acquisition of property, plant and equipment	57,463	59,182	4,579	3,077
— additions of forestation assets	<u>36,862</u>	<u>20,255</u>	<u>561</u>	<u>3,133</u>

43. MAJOR NON-CASH TRANSACTIONS

During the year ended December 31, 2007, Sateri International issued a total of 33,220,068 preference shares of US\$1 each to Gold Silk Holdings Limited at an aggregate amount of approximately US\$469,817,000 by capitalization of the same amount due to Gold Silk Holdings Limited. Details are set out in Note 38.

During the years ended December 31, 2007, 2008 and 2009, and for the six months ended June 30, 2010, the Group entered into finance lease arrangements in respect of plant and machinery with a total capital value at the inception of the leases of US\$7,115,000, US\$1,888,000, US\$2,146,000 and US\$2,096,000.

44. RELATED PARTY DISCLOSURES

- (a) Details of the balances with related parties are set out in Notes 29 and 37.
- (b) During the year, the Group entered into the following significant transactions with the following related parties:

Name of related parties	Nature of transactions	Year ended December 31,			Six months ended June 30,	
		2007	2008	2009	2009	2010
		US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
					(unaudited)	
<i>Companies under common control of the ultimate beneficial owner of the Company, the Tanoto Family:</i>						
Terry Investments Worldwide Limited	Purchase of trademark	441	—	—	—	—
TPL	Purchase of goods	12,038	107,239	71,064	26,741	43,462
Pinnacle Company Limited	Interest income	—	12,610	3,556	2,725	—
Terry Investments Worldwide Limited	Interest expense on amount due to a related party	2,071	467	467	275	24
General Rank Limited	Imputed interest expense on loan from a related party	—	—	5,755	2,877	2,877
Averis Sdn. Bhd.	Service fee paid	—	1,419	1,349	456	770
April International Marketing Services Ltd.	Service income	—	—	1,484	532	750
		=====	=====	=====	=====	=====
<i>Wholly-owned subsidiary of an associate:</i>						
Sateri International S.A.	Patent fee income	345	—	—	—	—
	Marketing commission fee	35	—	—	—	—
		=====	=====	=====	=====	=====

Gain or loss arising from the derivative transactions between the Group and the related parties are disclosed as follows:

	Notes	Year ended December 31,			Six months ended June 30,	
		2007	2008	2009	2009	2010
		US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
					(unaudited)	
Gain (loss) on settlement of:						
— forward foreign exchange contracts	(i)	33,329	9,350	—	—	(558)
— interest rate swaps	(ii)	190	(1,458)	(174)	999	(7)
		<u>33,519</u>	<u>7,892</u>	<u>(174)</u>	<u>999</u>	<u>(565)</u>
Gain (loss) on fair value changes of:						
— forward foreign exchange contracts	(iii)	18,163	—	4,569	—	169
— interest rate swaps	(ii)	(7,583)	(12,653)	(3,441)	(1,855)	(2,808)
		<u>10,580</u>	<u>(12,653)</u>	<u>1,128</u>	<u>(1,855)</u>	<u>(2,639)</u>
Total		<u>44,099</u>	<u>(4,761)</u>	<u>954</u>	<u>(856)</u>	<u>(3,204)</u>

Notes:

- (i) Certain forward foreign exchange contracts of the Group were entered into by General Rank Limited and RGE Inc., companies under the common control of the ultimate beneficial owner of the Company, the Tanoto Family, at the prevailing market terms with third party financial institutions as the ultimate party. The gain/loss on settlement of these contracts for the years ended December 31, 2007 and 2008 and the six months ended June 30, 2010 were approximately gain of US\$33,329,000, gain of US\$9,350,000 and loss of US\$558,000 respectively.
- (ii) The interest rate swaps of the Group were entered into by General Rank Limited at the prevailing market terms with third party financial institution as the ultimate party. The gain/loss on settlement of these interest rate swaps for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2009 and 2010 were gain of US\$190,000, loss of US\$1,458,000, loss of US\$174,000, gain of US\$999,000 and loss of US\$7,000, respectively. The loss on fair value changes of these interest rate swaps for the years ended December 31, 2007, 2008, 2009 and the six months ended June 30, 2009 and 2010 were approximately US\$7,583,000, US\$12,653,000, US\$3,441,000, US\$1,855,000 and US\$2,808,000, respectively.
- (iii) Certain forward foreign exchange contracts of the Group were entered into by General Rank Limited and RGE Inc., companies under the common control of the ultimate beneficial owner of the Company, at the prevailing market terms with third party financial institutions as the ultimate party. The gain on fair value changes of these contracts for the years ended December 31, 2007, 2008 and 2009 were approximately US\$18,163,000, nil and US\$4,569,000, respectively. The gain on fair value of these contracts for the six months ended June 30, 2010 was US\$169,000.

For all the derivative contracts above, the related parties have assigned all their benefits, risks and obligations in these contracts to the Group.

Accordingly, all the gain/loss on these contracts will be earned/incurred by the Group on a back-to-back basis.

- (c) During the year ended December 31, 2007, a subsidiary of the Group sold goods to a related company namely Forindo Marketing International Limited (“**Forindo**”) amounted to approximately US\$12,539,000. Forindo is under common control of the ultimate beneficial owner of the Company, the Tanoto Family. Forindo acted as trading agent of the Group for certain sales to certain countries. Most of the sales to a non-wholly owned subsidiary of the Company namely Sateri Jiangxi Chemical Fibre Co., Ltd (“**Sateri Jiangxi**”) during the year ended December 31,

2007 were made through Forindo on a direct, back-to-back basis with other group companies. Such goods sold by the Group to Forindo were then sold by Forindo to Sateri Jiangxi during the year ended December 31, 2007 for approximately US\$12,038,000 (2008 and 2009: Nil).

On July 19, 2007, Forindo changed its name to Ascend International Limited (“**Ascend**”) and on July 23, 2007 changed its shareholders. During the year ended December 31, 2007, sales of goods to Ascend after July 23, 2007 from the Group amounted to US\$21,862,000 of which the goods resold to Sateri Jiangxi approximated to US\$21,051,000. These sales and purchases have been eliminated on consolidation and were not recognized in the revenue and cost of sales of the Group.

In addition to the above, the Group sold goods to Ascend of approximately US\$11,803,000 after July 23, 2007 during the year ended December 31, 2007. There was no such related party transactions for the years ended December 31, 2008 and 2009 and six months ended June 30, 2010.

At December 31, 2007, the amount of US\$47,290,000 (US\$26,418,000 and US\$20,872,000 included in trade receivable and other receivable respectively) was due from Ascend (2006: Forindo) and the amount of US\$7,260,000 was due to Ascend.

- (d) During the year ended December 31, 2007, a subsidiary of the Company entered into an engineering, procurement and construction contract with Pec Tech do Brasil Engenharia Uda. (“**Pec Tech**”), an entity that is under common control of the ultimate beneficial owner of the Company, engaging Pec Tech as the turnkey contractor for the Bahia Specialty Cellulose expansion project. As at December 31, 2007 and 2008, the accumulated engineering expenses charged by Pec Tech and capitalized to the property, plant and equipment of the Group, amounted to approximately US\$7,456,000, US\$11,195,000 respectively. With the completion of expansion project in Brazil, no further engineering expenses incurred after 2008.
- (e) On December 23, 2007, the Group entered into a sale and purchase agreement to acquire Pinnacle Company Limited, the immediate holding company of an Indonesian Company, TPL, listed in the Indonesian Stock Exchange. Due to the change of the strategy of the Group, in July 2008, the sale and purchase transaction was rescinded by mutual agreement of the parties to the transaction. As Pinnacle is under common control of ultimate beneficial owner of the Group, the directors are of the opinion that the acquisition transaction falls outside of the scope of IFRS 3 “Business Combinations” and the combined financial statements of the Group are presented according to the Group structure prevailing after taking into consideration both the acquisition and its rescission. On this basis, the results of Pinnacle Company Limited had not been consolidated into the Group during December 2007 to July 2008.
- (f) In August 2009, the Group has disposed of its interest in its associate with carrying amount of nil to an entity that is under common control of the ultimate beneficial owner of the Company for a nominal consideration of US\$1 and a gain on disposal of the associate of US\$1 is credited to profit or loss in 2009.
- (g) In the opinion of the directors of the Group, only the related party transactions with Averis Sdn. Bhd. is expected to be continued after the listing of the shares of the Company on the Stock Exchange.
- (h) In the opinion of the Directors, the related party transactions were conducted in the normal course of business and based on the terms mutually determined and agreed by the respective parties.
- (i) Compensation of key management personnel

Other than the emoluments paid to directors and employees of the Company as set out in Note 13, who are considered as the key management of the Group, the Group did not have any other significant compensation to key management personnel.

B. DIRECTORS' REMUNERATION

Save as disclosed in this report, no remuneration was paid or is payable by the Company or any of its subsidiaries to the Company's directors in respect of the Relevant Periods.

Under the arrangement currently in force, the aggregate amount of the directors' fees and other emoluments for the year ending 31 December 2010 is estimated to be approximately US\$0.9 million.

C. SUBSEQUENT EVENTS

The following significant events have occurred subsequent to June 30, 2010:

- (i) On August 24, 2010, Sateri Specialty Cellulose Limited entered into a share transfer agreement (which was supplemented by a supplemental agreement dated October 1, 2010) to dispose of its entire shareholding interest in DP Macao with effect from September 30, 2010 to Blue Dot Resources Ltd, a company controlled by Mr. Sukanto Tanoto, the ultimate controlling shareholder of the Company, for a cash consideration of MOP13,229,521, which is equivalent to US\$1,655,410, representing the net book value of DP Macao as of September 30, 2010.
- (ii) On September 13, 2010, Sateri Specialty Cellulose Limited acquired the entire issued share capital of Sateri Marketing International Limited, a company incorporated in the Cayman Islands, from Hibiscus Bay Investment Limited, a company controlled by Mr. Sukanto Tanoto, the ultimate controlling shareholder of the Company, for a nominal consideration of US\$1.00, which represents the net book value of Sateri Marketing International Limited. Sateri Marketing International Limited is an investment holding company and holds the entire issued share capital of SC International Macao Commercial Offshore Limited (formerly known as Alloy Universal Trading (Macao Commercial Offshore) Limited) ("**SC International Macao**"). SC International Macao was incorporated in Macau as a commercial offshore institution and was granted a permit by the Macao Trade and Investment Promotion Institute to operate offshore business in Macau. Sateri Marketing International Limited entered into a share transfer agreement on July 7, 2010 to acquire the entire issued share capital of SC International Macao, an independent third party, in which its ultimate holding company is Ascend (details are set out in note 44(c)) for a consideration of MOP100,000 and such share transfer was completed on September 2, 2010.

As of and for the period from the date of incorporation of SC International Macao on November 22, 2007 until December 31, 2008, based on the audited statutory financial statements of SC International Macao for the year ended December 31, 2008, the total assets, total liabilities, revenue and loss after tax of SC International Macao were US\$3.0 million, US\$3.1 million, US\$3.0 million and US\$0.1 million, respectively. As of and for the year ended December 31, 2009, based on the audited statutory financial statements of SC International Macao for the year ended December 31, 2009, the total assets, total liabilities, revenue and profit after tax of SC International Macao were US\$0.3 million, US\$0.3 million, US\$0.3 million and US\$0.1 million, respectively. The audited statutory financial statements of SC International Macao for the years ended December 31, 2008 and 2009, were audited by HMV & Associates, certified public accountants in Macau, who expressed an unqualified opinion in respect of such financial statements. The audited statutory financial statements of SC International Macao were prepared in accordance with Financial Reporting Standards of the Macau Special Administrative Region.

As Sateri Marketing International Limited is a newly incorporated company, it has not recorded any revenue or profits and has no assets and liabilities other than its shareholding interest in SC International Macao as of the Latest Practicable Date and has not prepared any historical audited financial statements.

- (iii) On October 27, 2010, a netting and novation deed was entered among Sateri International, RGE Inc., General Rank Limited and Gold Silk relating to the netting and novation of the related amount due from RGE Inc. and the loan balance due to General Rank Limited and resulted in Gold Silk owing an amount of US\$68,581,192 to Sateri International after the netting and novation effected by the deed. As at June 30, 2010, the amount due from RGE Inc. to the Group was included in amounts due from related parties and amounted to US\$164.6 million and the loan from General Rank Limited to the Group was included in loans from related parties and amounted to US\$145.7 million.
- (iv) On November 8, 2010, the Company approved and adopted schemes for the grant of restricted share units and options. These schemes are Pre-IPO RSU Scheme and Post-IPO RSU Scheme and Share Option Scheme and may be awarded to eligible participants and/or eligible participants following the completion of the Global Offering of the Company. As at the date of the issuance of this report, restricted share units in respect of an aggregate of 8,165,026 shares of the Company had been granted to 18 grantees. Details of the principal terms of these schemes and the restricted share units granted are summarized in the section headed "Statutory and General Information" in Appendix IX to this prospectus.
- (v) In November 2010, Sateri International redeemed 22,800,000 Class 1 preference shares and 4,410,067 Class 2 preference shares in the capital of Sateri International, representing approximately 5.6% of the outstanding Class 1 preference shares and 100% of the outstanding Class 2 preference shares, owned by Gold Silk. In accordance with the terms of the Class 1 preference shares, the redemption price was US\$1.00 for each Class 1 preference share, being the par value of each Class 1 preference share. In accordance with the terms of the Class 2 preference shares, the redemption price was US\$100.00 for each Class 2 preference share, being the aggregate of the par value and the premium paid on each Class 2 preference share owned by Gold Silk. An amount of US\$68,581,192 of the redemption price was settled against the amount due from Gold Silk and the remaining amount of US\$395,225,508 has been settled as at the date of issuance of this report.

On November 23, 2010, Gold Silk entered into a share exchange agreement with the Company pursuant to which it transferred to the Company its entire shareholding interest in Sateri International comprising 100 ordinary shares and the remaining 381,799,200 Class 1 preference shares in exchange for an aggregate of 2,863,494,750 ordinary shares of the Company of nominal value US\$0.05 each, which were allotted and issued to Gold Silk credited as fully paid. Following the completion of such share exchange, Gold Silk holds an aggregate of 2,863,496,750 shares of the Company.

D. FINANCIAL INFORMATION OF THE COMPANY

The Company was incorporated on June 8, 2010 with an authorized share capital of US\$10,000, divided into 10,000 shares of US\$1.00 each.

On June 14, 2010, 100 shares with a nominal value of US\$1.00 each were issued to Gold Silk. On November 8, 2010, (a) the authorized share capital of the Company was increased from US\$10,000 to US\$750,000,000 by the creation of an additional 749,990,000 shares with a nominal value of US\$1.00 each and (b) each issued and unissued share with a nominal value of US\$1.00 each in the capital of the Company was subdivided into 20 Shares. On November 23, 2010, the Company allotted and issued shares to Gold Silk pursuant to the share exchange agreement, details of which are set out in note (v) of Section C.

As at June 30, 2010, the Company had one hundred issued ordinary shares of US\$1 outstanding and minimal asset on the statement of financial position. Save as disclosed in this report, it had no other assets, liabilities or distributable reserve as at June 30, 2010.

E. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group, the Company or any of the companies comprising the Group in respect of any period subsequent to June 30, 2010.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The information set out in this Appendix does not form part of the Accountants' Report from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, our Company's reporting accountant, as set out in Appendix I to this prospectus, and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma data relating to our net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only and is set out below to illustrate the effect of the Global Offering on our net tangible assets as of June 30, 2010 as if the Global Offering had taken place on June 30, 2010.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of the Group attributable to the owners of our Company as of June 30, 2010 or as of any subsequent dates, including following the Global Offering.

	Unadjusted audited combined net tangible assets of the Group attributable to the owners of our Company as of June 30, 2010 ⁽¹⁾	Estimated net proceeds to our Company from the Global Offering ⁽²⁾	Unaudited pro forma adjusted net tangible assets of the Group attributable to the owners of our Company ⁽³⁾	Unaudited pro forma adjusted net tangible assets per Share ⁽⁴⁾	
	US\$ (in millions)	US\$ (in millions)	US\$ (in millions)	US\$	HK\$
Based on an Offer Price of HK\$6.60 per Offer Share	1,319	400	1,719	0.51	3.98
Based on an Offer Price of HK\$9.20 per Offer Share	1,319	562	1,881	0.56	4.35

Notes:

- (1) The unadjusted audited combined net tangible assets of the Group attributable to the owners of our Company as of June 30, 2010 is extracted from the Accountants' Report set out in Appendix I to this prospectus, which is based on the audited combined net assets of the Group attributable to the owners of our Company of US\$1,319,841,000 with an adjustment for intangible assets of US\$825,000.
- (2) The estimated net proceeds to our Company from the Global Offering are based on the indicative Offer Prices of HK\$6.60 and HK\$9.20 per Offer Share, respectively, after deduction of underwriting fees and commissions and other related expenses payable by our Company and take no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option. Our Company may, at our sole discretion, pay to the Joint Bookrunners for themselves only a discretionary incentive fee of up to 1.0% of the Offer Price per Offer Share. If we decide to pay such additional fee, the net proceeds from the Global Offering and the unaudited pro forma adjusted net tangible assets per Share will decrease.
- (3) The unaudited pro forma adjusted net tangible assets of the Group attributable to the owners of our Company do not include the redemption consideration paid to Gold Silk, our immediate Controlling Shareholder, for the redemption of 22,800,000 class 1 preference shares with a redemption price of US\$1.00 per share and 4,410,067 class 2 preference shares with a redemption price of US\$100.00 per share in the capital of Sateri International in November 2010, amounting to an aggregate redemption amount of US\$463,806,700. Details of these are set out in Appendix I to this prospectus.
- (4) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in note (2) above and on the basis that 3,368,826,750 Shares were in issue assuming that the Reorganization and the Global Offering had been completed on June 30, 2010 and without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which may be granted pursuant to the Share Option Scheme or upon the vesting of any RSUs granted or to be granted pursuant to the RSU Schemes. Our Company's unaudited pro forma adjusted net tangible assets per Share are converted into Hong Kong dollars at an exchange rate of US\$1.00 to HK\$7.79.

- (5) As of September 30, 2010, the Group’s property interests were valued by CBRE, an independent property valuer, and the property valuation report is set out in Appendix IV to this prospectus. The surplus arising on the revaluation, representing the excess of market value of the property interests over their corresponding book value shown in investment properties, prepaid lease payments and certain property, plant and equipment, is approximately US\$279.5 million. This amount has not taken into account of the associated deferred tax charge relating to this revaluation surplus, which will cause a material reduction in this revaluation surplus. The revaluation surplus has not been included in the Group’s audited combined financial information as of June 30, 2010 and will not be included in the Group’s financial statements for the year ending December 31, 2010. The above adjustment does not take into account the revaluation surplus.
- (6) No adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to June 30, 2010.

B. UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE

The following unaudited pro forma forecast earnings per Share have been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had been taken place on January 1, 2010. This unaudited pro forma forecast earnings per Share has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of financial results of the Group for the year ending December 31, 2010 or any future period.

Forecast profit attributable to the owners of our Company	
for the year ending December 31, 2010 ⁽¹⁾⁽²⁾Not less than US\$302 million
Unaudited forecast earnings per Share on a pro forma basis ⁽³⁾Not less than US\$0.09

Notes:

- (1) Our forecast profit attributable to the owners of our Company for the year ending December 31, 2010 is extracted from the section headed “Financial Information — Profit Forecast for the Year Ending December 31, 2010” in this prospectus. The bases and assumptions on which the above profit forecast has been prepared are summarized in the section headed “Profit Forecast” in Appendix III to this prospectus. The Directors have prepared the forecast profit attributable to the owners of our Company for the year ending December 31, 2010 based on the audited combined results of the Group for the six months ended June 30, 2010, the unaudited results based on the management accounts of the Group for the two months ended August 31, 2010 and a forecast of the results of the Group for the remaining four months ending December 31, 2010. The forecast has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by the Group as set out in Note 3 of Section A of the Accountants’ Report, the text of which is set out in Appendix I to this prospectus.
- (2) In determining the forecast profit attributable to the owners of our Company for the year ending December 31, 2010, our estimates of sales volume and average selling prices of our products, based on legally binding contracts and sales orders as of October 31, 2010, accounted for approximately 75% of the forecasted sales volume for the period from September 1, 2010 through the end of 2010. We disposed of DP Macao effective as of September 30, 2010 to a subsidiary of our Ultimate Controlling Shareholder. The results of operations of DP Macao of US\$61.5 million are included in the forecast profit attributable to the owners of our Company.
- (3) The unaudited forecast earnings per Share on a pro forma basis is calculated by dividing the forecast profit attributable to the owners of our Company for the year ending December 31, 2010 by 3,368,826,750 Shares as if such Shares had been in issue on January 1, 2010. The number of Shares used in this calculation includes the Shares in issue as of the date of this prospectus and the Shares to be issued pursuant to the Global Offering but excludes any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which may be granted pursuant to the Share Option Scheme or upon the vesting of any RSUs granted or to be granted pursuant to the RSU Schemes.

C. REPORT FROM THE REPORTING ACCOUNTANT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

**ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION RELATING TO THE UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS AND UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE****TO THE DIRECTORS OF SATERI HOLDINGS LIMITED**

We report on the unaudited pro forma financial information of Sateri Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed global offering might have affected the financial information presented, for inclusion in Appendix II of the prospectus dated November 26, 2010 (the "**Prospectus**"). The basis of preparation of the unaudited pro forma financial information is set out on page II-1 and II-2 of the Prospectus.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Our work has not been carried out in accordance with the auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it has been carried out in accordance with those standards.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of:

- the financial position of the Group as at June 30, 2010 or any future date; or
- the earnings per share of the Group for the year ending December 31, 2010 or any future period.

Opinion

In our opinion:

- a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
November 26, 2010

Our forecast profit attributable to the owners of our Company for the year ending December 31, 2010 is set out in the section headed “Financial Information — Profit Forecast for the Year Ending December 31, 2010” in this prospectus.

A. BASES AND ASSUMPTIONS

Our Directors have prepared the forecast profit attributable to owners of the Company for the year ending December 31, 2010 based on the audited combined results of the Group for the six months ended June 30, 2010, the unaudited combined results based on management accounts of the Group for the two months ended August 31, 2010 and a forecast of the combined results of the Group for the remaining four months ending December 31, 2010.

The forecast has been prepared on the basis of the accounting policies consistent in all material respects with those currently adopted by our Group as set out in note 3 of the Accountants’ Report set out in Appendix I to this prospectus and is based on the following principal assumptions:

- (a) there will be no significant changes in existing political, legal, fiscal, market or economic conditions in the PRC and Brazil, including changes in legislation, regulations, or rules, which may have a material adverse effect on the Group’s results of operates;
- (b) there will be no significant changes in the government policies in the PRC and Brazil where we operate including, but not limited to, those in relation to pulp industry, which may adversely affect the Group’s business or operations;
- (c) there will be no material changes in the inflation rate, interest rates or foreign currency exchange rates in the PRC, Brazil and the US;

It is expected that spot and forward exchange rate as at August 31, 2010 will remain unchanged throughout the period from September 1, 2010 to December 31, 2010 and accordingly it is expected that there is no foreign exchange gain or loss and no gain or loss on fair value changes or settlement of derivative financial instruments. There is no reasonable basis to arrive at the fair values of the derivative financial instruments as of any future date. For interest rate swap contract, fair value of interest rate swaps determined based on valuation provided by banks with reference to market data such as settlement prices and interest rates as at August 31, 2010 is expected to remain unchanged throughout the period from September 1, 2010 to December 31, 2010.

- (d) there will be no material change in the bases or rates of taxation, both direct and indirect, in the PRC and Brazil;
- (e) the Group’s operations and business will not be severely interrupted by any force majeure events or unforeseeable factors or any unforeseeable reasons that are beyond the control of the Directors, including the occurrence of natural disasters or catastrophes (such as floods and typhoons); epidemics or serious accidents;
- (f) there will be no material fluctuation in raw material prices and labor costs;
- (g) there will be no dividend paid by the Group during the forecast period. The Group might or might not declare dividend in the future. The timing, amount and form of future dividends, if any, will mainly depend on our results of operations and cash flows, our future prospects, general business conditions and our capital requirements and surplus;
- (h) there will be no material delays and significant changes in the Group’s operation plans, production plans and expansion plans as disclosed in this prospectus;
- (i) for the forecasted changes in fair value of forestation and reforestation assets, the assumptions of the discounted cash flow valuation model adopted for the estimation of the fair value of forestation and reforestation assets are the same as those used for the estimate of change in fair value as of June 30, 2010. The Company only prepares fair value valuation of forestation and reforestation assets at the end of the interim and audit periods. The Company did not carry such

valuation at August 31, 2010 and therefore no gain or loss from change in fair value of forestation and reforestation assets is reflected for the two months ended August 31, 2010. There is no reasonable basis to arrive at the fair value of the forestation and reforestation assets as of any future date;

- (j) there will be no material impacts of subsequent revisions of the accounting standards, which the Group currently adopted for preparation of the Group's financial statements, to the Group's financial reporting;
- (k) no extraordinary item will occur during the forecast period;
- (l) there will be no material change in the timing of Global Offering; and
- (m) listing expenses will be paid as incurred, and in any event no later than the month of listing.

B. LETTERS

The following is the text of the letters prepared for the purpose of incorporation in this prospectus received from our Company's reporting accountant, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong and from the Joint Sponsors in connection with the profit forecast.

(1) LETTER FROM THE REPORTING ACCOUNTANTS

Deloitte.
德勤

德勤·關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

November 26, 2010

The Directors
Sateri Holdings Limited
Credit Suisse (Hong Kong) Limited
Morgan Stanley Asia Limited

Dear Sirs,

We have reviewed the accounting policies adopted and calculations made in arriving at the forecast of the combined profit of Sateri Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ending December 31, 2010 attributable to owners of the Company (the "Forecast"), for which the directors of the Company are solely responsible, as set out in the prospectus dated November 26, 2010 issued by the Company (the "Prospectus"). The Forecast is prepared based on the audited combined results of the Group for the six months ended June 30, 2010, the results shown in the unaudited management accounts of the Group for the two months ended August 31, 2010, and a forecast of the results for the remaining four months of the financial year ending December 31, 2010.

In our opinion the Forecast, so far as the accounting policies and calculations are concerned, has been properly compiled on the basis of the assumptions made by the directors of the Company as set out in "Bases and assumptions" of Appendix III to the Prospectus and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants' report of the financial information on the Group for the three years ended December 31, 2009 and the six months ended June 30, 2010 as set out in Appendix I to the Prospectus.

Without qualifying our opinion above, we draw to your attention that in preparing the Profit Forecast, the directors of the Company have assumed that, as disclosed in the section headed "Bases and assumptions" in Appendix III, there will be no change in the fair value of the forestation and reforestation assets and derivative financial instruments since June 30, 2010 and August 31, 2010 respectively as in their opinion, there is no reasonable basis to arrive at the fair values of the forestation and reforestation assets and the derivative financial instruments as of any future date. We would point out that any increase or decrease in the fair values of the forestation and reforestation assets and the derivative financial instruments would need to be credited or charged to the profit and loss in accordance with the accounting policies adopted in preparing the accountant's report. Should such an increase and decrease arise, this would have the effect of increasing or reducing the profit attributable to owners of the Company for the year ending December 31, 2010.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

(2) LETTER FROM THE JOINT SPONSORS



Morgan Stanley

The Board of Directors
Sateri Holdings Limited

November 26, 2010

Dear Sirs

We refer to the forecast profit attributable to the owners of Sateri Holdings Limited (the “**Company**”) for the year ending December 31, 2010 (the “**Profit Forecast**”) as set out in the prospectus issued by the Company dated November 26, 2010 (the “**Prospectus**”).

We understand the Profit Forecast, for which the directors of the Company are solely responsible, has been prepared by them based on the audited combined results of the Company and its subsidiaries (the “**Group**”) for the six months ended June 30, 2010, the unaudited combined results based on the management accounts of the Group for the two months ended August 31, 2010 and a forecast of the consolidated results of the Group for the remaining four months ending December 31, 2010.

We have discussed with you the bases and assumptions made by the directors of the Company as set out in Appendix III to the Prospectus upon which the Profit Forecast has been made. We have also considered the letter dated November 26, 2010 addressed to you and us from Deloitte Touche Tohmatsu regarding the accounting policies and calculations upon which the Profit Forecast has been based.

On the basis of the information comprising the Profit Forecast and on the bases and assumptions of the accounting policies and calculations adopted by you and reviewed by Deloitte Touche Tohmatsu, we are of the opinion that the Profit Forecast, for which you as the directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully
For and on behalf of
Credit Suisse (Hong Kong) Limited
David Cheng
Managing Director

Yours faithfully
For and on behalf of
Morgan Stanley Asia Limited
Crawford Jamieson
Managing Director

The following is the text of a letter with the summary of values and valuation certificate received from CB Richard Ellis Limited, prepared for the purpose of incorporation in this prospectus, in connection with their valuation as at September 30, 2010 of all the property interests of the Group.

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地產代理（公司）牌照號碼
Estate Agent's Licence No: C-004065

November 26, 2010

The Board of Directors
Sateri Holdings Limited
23/F., East Tower, Zhong Rong Heng Rui International Plaza,
No. 620 Zhang Yang Road,
Pudong, Shanghai City,
the People's Republic of China

Dear Sirs,

We have received instructions from you for us to value the property interests held by Sateri Holdings Limited (the “**Company**”) and its subsidiaries (hereinafter together know as the “**Group**”) in the People's Republic of China (the “**PRC**”) and the Federative Republic of Brazil (the “**Brazil**”). We confirm that we have carried out inspections, made relevant inquiries and obtained such further information as we considered necessary for the purpose of providing you with our opinion of the capital values of such property interests as at September 30, 2010 (the “**date of valuation**”).

Our valuation is our opinion of market value which is defined to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”

Unless otherwise stated, our valuation is prepared in accordance with the “First Edition of The HKIS Valuation Standards on Properties” published by The Hong Kong Institute of Surveyors (the “**HKIS**”) and the RICS Appraisal and Valuation Standards (6th Edition) published by The Royal Institution of Chartered Surveyors and effective from September 2008. We have also complied with all requirements contained in Paragraph 34(2), (3) of Schedule 3 of the Companies Ordinance (Cap. 32) and Chapter 5, Practice Note 12 and Practice Note 16 of the Rule Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

Our valuation has been prepared in the capacity as consultants and has been made on the assumption that the owner sells the properties on the open market without the benefit or burden of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which would serve to affect the values of the property interests.

Unless otherwise stated, all the property interests are valued by the comparison method on the assumption that each property can be sold with the benefit of vacant possession. Comparison is based on prices realized on actual transactions or asking prices of comparable properties. Comparable properties with similar sizes, character and locations are analyzed, and carefully weighted against all respective advantages and disadvantages of each property in order to arrive at a fair comparison of value.

For property No. 1 in Group I, which is partly held by the Group for occupation in the PRC, we have valued that property interests by the direct comparison approach. We have assumed sale of each of these property interests in its existing state with the benefit of vacant possession and by making reference to comparable sales transactions as available in the relevant market.

For the other property interests in Group I, which are held by the Group for occupation in the PRC and Brazil, we have adopted the market approach in valuing the land portion of the property and depreciated replacement cost approach in assessing buildings and structures standing on the land. In the valuation of the land portion, reference has been made to the standard land prices and the sales evidence as available to us in the locality.

Depreciated replacement cost is based on an estimate of the market value for the existing use of the land, plus the current gross replacement (or reproduction) costs of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimization.

Where due to the specific purpose for which the buildings and structures of the property interests have been constructed, or where the property interests are located in markets where there are no readily identifiable market comparables, the property interests have been valued on the basis of the depreciated replacement cost. The depreciated replacement cost approach considers the cost to reproduce or replace in new condition the property appraised in accordance with current construction costs for similar property in the locality, with allowance for accrued depreciation as evidence by observed condition or obsolescence present, whether arising from physical, functional or economic causes. The depreciated replacement cost approach generally furnishes the most reliable indication of value for property in the absence of a known market based on comparable sales.

For the property in Group II, which is a property interest to be acquired by the Group in the PRC, we have valued that property interest by the direct comparison approach. We have assumed sale of the property interest in its existing state with the benefit of vacant possession and by making reference to comparable sales transactions as available in the relevant market.

For the property Nos. 4 and 5 in Group I, we have relied on the valuation reports undertaken by Odemir Vianna, Director of CB Richard Ellis LTDA located in São Paulo, Brazil. Odemir Vianna is an engineer with 20 years experience in property valuation regarding the properties located in Brazil.

In the course of our valuation for the property interests in the PRC and Brazil, we have relied on the legal opinion provided by the Group's PRC legal advisor, King & Wood (the "PRC Legal Opinion") and the Group's Brazil Legal advisor, Machado, Meyer, Sendacze Opice (the "Brazil Legal Opinion") respectively. We have been provided with extracts from title documents relating to such property interests. We have not, however, searched the original documents to verify ownership or existence of any amendment which does not appear on the copies handed to us. All documents have been used for reference only.

We have relied to a considerable extent on information given by the Group, in particular, but not limited to, planning approvals, statutory notices, easements, tenancies, site areas, floor areas. No on-site measurement has been taken. Dimensions, measurements and areas included in the valuation certificates are only approximations. We have taken every reasonable care both during inspecting the information provided to us and in making relevant enquiries. We have no reason to doubt the truth and accuracy of the information provided to us by the Group, which is material to the valuation. We were also advised by the Group that no material facts have been omitted from the information provided to us.

We have inspected the properties to such extent as for the purpose of this valuation. In the course of our inspection, we did not notice any serious defects. However, we have not carried out any structural survey nor any tests were made on the building services. Therefore, we are not able to report whether the properties are free of rot, infestation or any other structural defects. We have not carried out investigations on the site to determine the suitability of the ground conditions and the services etc. for any future development.

No allowance has been made in our valuation neither for any charges, mortgages or amounts owing on the property interests nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoing of an onerous nature which could affect their values.

Unless otherwise stated, all monetary amounts are stated in US Dollars (“USD”). We have converted Renminbi (“RMB”) into USD at an exchange rate of USD1 = RMB6.7011 and Brazilian Real (“BRL”) into USD at an exchange rate of USD1 = BRL1.6920.

We enclose herewith a summary of values and our valuation certificate.

Yours faithfully,
For and on behalf of
CB Richard Ellis Limited

Leo M Y Lo
MHKIS MRICS
Director
Valuation & Advisory Services

Note:

Mr. Lo is a member of the Royal Institution of Chartered Surveyors and a member of the Hong Kong Institute of Surveyors. He has over 7 years’ valuation experience in the PRC and Hong Kong.

SUMMARY OF VALUES

<u>Property interests</u>	<u>Capital value in existing state as at September 30, 2010</u> (USD)	<u>Interests attributable to the Group</u>	<u>Capital value attributable to the Group as at September 30, 2010</u> (USD)
Group I — Property interests owned by the Group for occupation in the PRC and Brazil			
1. Room Nos. 2201, 2205 and 2206 on 22nd Floor and Room Nos. 2302, 2303 and 2304 on 23rd Floor, No. 620 Zhangyang Road, Shanghai City, the PRC	6,400,000	100%	6,400,000
2. An industrial complex located at Gushan Village, Gutang Town, Jiujiang City, Jiangxi Province, the PRC	52,000,000	81.1%	42,172,000
3. A Block of Staff Dormitory Building located at Gushan Village, Gutang Town, Jiujiang City, Jiangxi Province, the PRC	2,000,000	81.1%	1,622,000
4. An Industrial Complex, Alfa Street, Camacari, the State of Bahia, Brazil	96,660,000	98.4%	95,113,440
5. Various forest units with buildings and structures in the State of Bahia, Brazil	310,200,000	99.6%	308,959,200
		Group I Sub-total:	<u>454,266,640</u>

<u>Property interests</u>	<u>Capital value in existing state as at September 30, 2010</u> (USD)	<u>Interests attributable to the Group</u>	<u>Capital value attributable to the Group as at September 30, 2010</u> (USD)
Group II — Property interest to be acquired by the Group in the PRC			
6. A reserved land parcel (Plot No.PSBA-2010-01) located at Economic Development Zone, North Meizhou Bay, Putian City, Fujian Province, the PRC			No Commercial Value (Note i)
		Group II Sub-total:	<u>No Commercial Value</u>
		Grand total:	<u><u>454,266,640</u></u>

Note:

- i. As Sateri (Fujian) Fibre Co., Ltd. (“Sateri Fujian”) has not obtained any State-owned Land Use Rights Certificate of the property as at the date of valuation, we have ascribed “no commercial value” to the property. Had Sateri Fujian obtained all the State-owned Land Use Rights Certificate of the property at the date of valuation, the capital value of the property as at the date of valuation would be in the sum of USD6,500,000. (100% interest attributable to the Group: USD6,500,000)

VALUATION CERTIFICATE

Group I — Property interests owned by the Group for occupation in the PRC and Brazil

<u>Property</u>	<u>Description and tenure</u>	<u>Details of occupancy</u>	<u>Capital value in existing state as at September 30, 2010</u> (USD)
1. Units 2201, 2205 and 2206 on 22nd Floor and Units 2302, 2303 and 2304 on 23rd Floor, No. 620 Zhangyang Road, Shanghai City, the PRC	<p>The property comprises 6 office units on two office floors in a commercial building.</p> <p>The property was completed in 2006.</p> <p>The gross floor area of the property is approximately 1,462.10 sq.m.</p> <p>The property is held under 6 Realty Title Certificates for a land use term expiring on 23 February 2052 for office use.</p>	<p>Units 2201, 2205 and 2206 of the property are currently leased to two tenants; while Units 2302, 2303 and 2304 are currently occupied by the Group as office.</p> <p>Unit 2201 of the property with a total gross floor area of 309.43 sq.m. was leased to a company at a monthly rent of RMB42,353.20 from March 20, 2010 to March 19, 2012.</p> <p>Units 2205 and 2206 of the property with a total gross floor area of 402.48 sq.m. was leased to a company at a monthly rent of RMB55,090 from November 13, 2009 to April 15, 2011.</p>	<p>6,400,000</p> <p>100% interest attributable to the Group: USD 6,400,000</p>

Notes:

- Pursuant to six Housing Presale Contracts dated 13 June 2006 between Zhongrong Real Estate Group Co., Ltd. (中融置業集團有限公司) (the "Party A") and Sateri (Shanghai) Management Limited, Party A agreed to transfer 6 office units (Units 2201, 2205, 2206, 2302, 2303 and 2304) at No.620 Zhangyang Road, Shanghai, with a total gross floor area of approximately 1,432.10 sq.m., to the Party B at a consideration of RMB30,464,550.
- Pursuant to the following Realty Title Certificates, the title ownership of the property with a gross floor area of approximately 1,462.1 sq.m. has been held by Sateri (Shanghai) Management Limited for office use:

<u>Certificate No.</u>	<u>Date of Issuance</u>	<u>Location</u>	<u>Gross Floor Area</u> (sq.m.)	<u>Date of Expiry</u>
Hu Fang Di Pu Zi (2006) Di 057731 Hao	25 July 2006	Unit 2302	298.22	23 February 2052
Hu Fang Di Pu Zi (2006) Di 058309 Hao	27 July 2006	Unit 2303	329.47	23 February 2052
Hu Fang Di Pu Zi (2006) Di 058308 Hao	27 July 2006	Unit 2304	122.50	23 February 2052
Hu Fang Di Pu Zi (2006) Di 057730 Hao	25 July 2006	Unit 2201	309.43	23 February 2052
Hu Fang Di Pu Zi (2006) Di 059244 Hao	27 July 2006	Unit 2205	122.50	23 February 2052
Hu Fang Di Pu Zi (2006) Di 057698 Hao	25 July 2006	Unit 2206	279.98	23 February 2052
		Total:	<u>1,462.1</u>	

3. We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, which contains, inter alia, the following information:
- a). Based on the Company's confirmation and to the best of our knowledge, Sateri (Shanghai) Management Limited ("Sateri Shanghai") is the legitimate owner of the aforementioned properties, and holds the corresponding land use rights for a term expiring on 23 February 2052. Under the PRC Laws, Sateri Shanghai is entitled to lease, transfer, mortgage or otherwise dispose of the aforementioned properties, which are clear in title and free from any mortgage.
 - b). Based on the Company's confirmation and to the best of our knowledge, the use of the aforementioned properties and land by Sateri Shanghai are in compliance with the approved usage of such properties and land.
 - c). Pursuant to a lease agreement executed by Sateri Shanghai and APEX China Co., Ltd (hereinafter refer to as "APEX"), Units 2205 and 2206 were leased to APEX for commercial and office use. The lease term is from November 13, 2009 to April 15, 2011.
 - d). Pursuant to a lease agreement executed by Sateri Shanghai and Stemcor Co. Ltd Group, Shanghai Office (hereinafter refer to as "Stemcor Shanghai"), Unit 2201 was leased to Stemcor Shanghai for commercial and office use. The lease term is from March 20, 2010 to March 19, 2012.
 - e). Sateri Shanghai has the legal right to lease the aforementioned properties to a third party and obtain the lease proceeds according to the terms of the agreements. The aforementioned lease agreements are legal, valid and binding on the parties thereto. We note that the aforementioned lease agreements have not been registered with the relevant competent authority. The Administration Measures of the Leasing of Urban Premises Procedures (in Chinese: 城市房屋租賃管理辦法), which came into effect on June 1, 1995, requires leases to be registered with local housing authorities. However, the registration is not mandatory in Shanghai according to Regulations of Shanghai Municipality on Registration of Real Estate (in Chinese: 上海市房地產登記條例) effective from 1 July, 2009, and the same regulation does not provide any consequence for the non-registration of the lease agreement. Such non-registration with the relevant competent authority will not affect the legality of the aforementioned lease agreements, which remain valid and binding on the parties thereto.

VALUATION CERTIFICATE

<u>Property</u>	<u>Description and tenure</u>	<u>Details of occupancy</u>	<u>Capital value in existing state as at September 30, 2010</u> (USD)
2. An industrial complex located at Gushan Village, Gutang Town, Jiujiang City, Jiangxi Province, the PRC	<p>The property comprises an industrial complex occupying a site with a land area of approximately 404,351 sq.m.(the "Site").</p> <p>As advised by the Group, Phase I of the property comprises 18 buildings, including various 1 to 5 storey workshops, plant rooms, power station, ancillary office and a guard house with a total gross floor area of approximately 47,353.78 sq.m., it was completed in 2004.</p> <p>Phase II of the property is currently under construction. As advised, upon completion, it will comprise 32 various buildings and various constructions. The proposed gross floor area of the buildings is approximately 75,734.08 sq.m.. As advised, Phase II will be completed in late 2010.</p> <p>The Site is held under four State-owned Land Use Rights Certificates with various land use term expiring on 26 October 2053, 9 April 2057 and 29 June 2057 respectively for industrial use.</p>	<p>Phase I of the property is currently occupied by the Group as a chemical fiber production plant.</p> <p>Phase II of the property is currently under construction.</p>	<p>52,000,000</p> <p>81.1% interest attributable to the Group: USD 42,172,000</p>

Notes:

- Pursuant to the following State-owned Land Use Rights Grant Contracts entered into between Sateri (Jiangxi) Chemical Fibre Co., Ltd. and Jiangxi Jiujiang Land and Resources Bureau, the land use rights of the Site with a total land area of approximately 457,838 sq.m. has been contracted to be granted to the Group with a total consideration of RMB16,407,400.

<u>Plot No.</u>	<u>Contract No.</u>	<u>Date of Agreement</u>	<u>Site Area</u> (sq.m.)	<u>Consideration</u> (RMB)
Plot 1	N/A	19 September 2002	411,333	7,000,000
Plot 2	Jiu Guo Tu Chu 2007 05-11	29 June 2007	45,505	9,283,020
Plot 3	Jiu Guo Tu Chu 2007 03-19	29 April 2007	1,000	124,380
		Total:	<u>457,838</u>	<u>16,407,400</u>

Remark:

(1). The total site area of 457,838sq.m. includes the site area for a dormitory building which is not part of the industrial complex.

(2). The plot ratio of Plot 1 is not specified in the State-owned Land Use Rights Grant Contract dated 19 September 2002; whereas the plot ratio of Plot 2 should not be less than 0.8 as stated in State-owned Land Use Rights Grant Contract dated 29 June 2007. As advised by the Group, the plot ratio of Plot 2 complies with the relevant requirement set out in the aforesaid State-owned Land Use Rights Grant Contract.

2. Pursuant to the following State-owned Land Use Rights Certificates issued by Jiujiang Land and Resources Bureau, the land use rights of the Site with a total site area of approximately 404,351 sq.m. has been granted to Sateri (Jiangxi) Chemical Fibre Co., Ltd. for industrial use.

<u>Certificate No.</u>	<u>Issue Date</u>	<u>Site Area</u>	<u>Expiry Date</u>
		(sq.m.)	
Jiu Cheng Guo Yong (2003) Zi Di 067 Hao	17 October 2003	357,846.00	26 October 2053
Jiu Cheng Guo Yong (2007) Zi Di 110 Hao	23 May 2007	1,000.00	9 April 2057
Jiu Cheng Guo Yong (2007) Zi Di 229 Hao	17 August 2007	41,185.60	29 June 2057
Jiu Cheng Guo Yong (2007) Zi Di 230 Hao	17 August 2007	4,319.40	29 June 2057
	Total:	<u>404,351.00</u>	

3. Pursuant to the following Building Ownership Certificates, the building ownership of the property with a total gross floor area of approximately 47,353.78 sq.m. has been held by Sateri (Jiangxi) Chemical Fibre Co., Ltd. for industrial use.

<u>Certificate No.</u>	<u>Issue Date</u>	<u>Gross Floor Area</u>
		(sq.m.)
Jiu Fang Quan Zheng Xun Zi Di 107029 Hao	17 November 2005	21.57
Jiu Fang Quan Zheng Xun Zi Di 107030 Hao	17 November 2005	21.57
Jiu Fang Quan Zheng Xun Zi Di 107031 Hao	17 November 2005	32.71
Jiu Fang Quan Zheng Xun Zi Di 107032 Hao	17 November 2005	1,035.62
Jiu Fang Quan Zheng Xun Zi Di 107033 Hao	17 November 2005	22.22
Jiu Fang Quan Zheng Xun Zi Di 107034 Hao	17 November 2005	140.82
Jiu Fang Quan Zheng Xun Zi Di 107035 Hao	17 November 2005	13,135.93
Jiu Fang Quan Zheng Xun Zi Di 107036 Hao	17 November 2005	13,270.80
Jiu Fang Quan Zheng Xun Zi Di 107037 Hao	17 November 2005	12,399.82
Jiu Fang Quan Zheng Xun Zi Di 107038 Hao	17 November 2005	205.50
Jiu Fang Quan Zheng Xun Zi Di 107039 Hao	17 November 2005	450.92
Jiu Fang Quan Zheng Xun Zi Di 107040 Hao	17 November 2005	188.55
Jiu Fang Quan Zheng Xun Zi Di 107041 Hao	17 November 2005	107.25
Jiu Fang Quan Zheng Xun Zi Di 107042 Hao	17 November 2005	143.00
Jiu Fang Quan Zheng Xun Zi Di 107043 Hao	17 November 2005	73.70
Jiu Fang Quan Zheng Xun Zi Di 107072 Hao	17 November 2005	5,793.95
Jiu Fang Quan Zheng Xun Zi Di 107073 Hao	17 November 2005	97.31
Jiu Fang Quan Zheng Xun Zi Di 107074 Hao	17 November 2005	212.54
	Total:	<u>47,353.78</u>

4. As advised by the Group, the incurred cost as at the date of valuation is approximately RMB220,000,000 and the estimated outstanding cost to completion is approximately RMB33,000,000.
5. According to the information provided by the Group, the proposed gross floor area of buildings under construction in Phase II as at valuation date was approximately 75,734.08 sq.m.. However, we have only been provided with Construction Work Commencement Permits for a construction area of approximately 58,907.51 sq.m. as at the date of valuation. We were further advised by the Group and its legal advisor, as of 26 November 2010, Sateri (Jiangxi) Chemical Fibre Co., Ltd. has obtained all required Construction Planning Permits and Construction Work Commencement Permits for the corresponding buildings.
6. We have been provided with a legal opinion on the property prepared by the Group's PRC legal advisor, which contains, inter alia, the following information:
- a). Pursuant to the Land Use Right Certificate (Jiu Cheng Guo Yong (2003) No.067), the land located at Gushan Village of Gutang Township, Lushan District, Jiujiang, Jiangxi Province, with an area of 357,846 sq.m., has been granted to Sateri (Jiangxi) Chemical Fibre Co., Ltd. ("Sateri Jiangxi") for a term expiring on October 26, 2053 for industrial use.

- b). According to the Mortgage Certificate (Jiu Guo Tu Ta Xiang (2009) No. 015), an area of 312,343 sq.m. of the land has been mortgaged to the Bank of Industry and Commerce, Jiujiang Xunzhong Sub-branch for a term of 6 years expiring on February 11, 2015. Based on the Company's confirmation and to the best of our knowledge, Sateri Jiangxi has the legitimate right to use the land aforementioned. Under the PRC Laws, Sateri Jiangxi is entitled to lease, transfer, mortgage or otherwise dispose of the aforementioned land upon the prior written consent of the Bank of Industry and Commerce, Jiujiang Xunzhong Sub-branch within the mortgaged period.
- c). Pursuant to the Land Use Right Certificate (Jiu Cheng Guo Yong (2007) Zi No. 230), the land located at Gushan Village and Dengqiao Village of Gutang Township, Lushan District, Jiujiang, Jiangxi Province, with an area of 4,319.4 sq.m., has been granted to Sateri Jiangxi for a term expiring on June 29, 2057 for industrial use. Based on the Company's confirmation and to the best of our knowledge, Sateri Jiangxi has the legitimate right to use the land aforementioned. Under the PRC Laws, Sateri Jiangxi is entitled to lease, transfer, mortgage or otherwise dispose of the aforementioned land, which is clear in title and free from any mortgage.
- d). Pursuant to the Land Use Right Certificate (Jiu Cheng Guo Yong (2007) Zi No. 229), the land located at Gushan Village and Dengqiao Village of Gutang Township, Lushan District, Jiujiang, Jiangxi Province, with an area of 41,185.6 sq.m., has been granted to Sateri Jiangxi for a term expiring on June 29, 2057 for industrial use. According to the Mortgage Certificate (Jiu Guo Tu Ta Xiang (2008) No. 13), the land has been mortgaged to the Bank of China, Jiujiang Branch for a term of 5 years expiring on February 3, 2013. Based on the Company's confirmation and to the best of our knowledge, Sateri Jiangxi has the legitimate right to use the land aforementioned. Under the PRC Laws, Sateri Jiangxi is entitled to lease, transfer, mortgage or otherwise dispose of the aforementioned land upon the prior written consent of the Bank of China, Jiujiang Branch within the mortgaged period.
- e). Pursuant to the Land Use Right Certificate (Jiu Cheng Guo Yong (2007) No. 110), the land located at Gushan Village of Haihui Township, Lushan District, Jiujiang, Jiangxi Province, with an area of 1,000 sq.m., has been granted to Sateri Jiangxi for a term expiring on April 9, 2057 for industrial use. Based on the Company's confirmation and to the best of our knowledge, Sateri Jiangxi has the legitimate right to use the land aforementioned. Under the PRC Laws, Sateri Jiangxi is entitled to lease, transfer, mortgage or otherwise dispose of the aforementioned land, which is clear in title and free from any mortgage.
- f). According to the Mortgage Certificate (Jiu Fang Xun Ta Zi No. 163645), the aforementioned (18) buildings, with a total gross floor area of approximately 47,353.78 sq.m., have been mortgaged to the Bank of Industry and Commerce, Jiujiang Xunzhong Sub-branch for a term of 6 years expiring on February 11, 2015. Based on the Company's confirmation and to the best of our knowledge, Sateri Jiangxi is the legitimate owner of the buildings aforementioned. Under the PRC Laws, Sateri Jiangxi is entitled to lease, transfer, mortgage or otherwise dispose of the aforementioned buildings upon the prior written consent of the Bank of Industry and Commerce, Jiujiang Xunzhong ranch within the mortgaged period.
- g). Based on the Company's confirmation, Sateri Jiangxi currently has 32 buildings under construction, and has obtained all required Construction Planning Permits and Construction Work Commencement Permits for the corresponding buildings.

VALUATION CERTIFICATE

<u>Property</u>	<u>Description and tenure</u>	<u>Details of occupancy</u>	<u>Capital value in existing state as at September 30, 2010</u> (USD)
3. A Block of Staff Dormitory Building located at Gushan Village, Gutang Town, Jiujiang City, Jiangxi Province, the PRC	<p>The property comprises a block of 5-storey staff dormitory building with a total gross floor area of approximately 1,860.06 sq.m. erected on a site with a land area of approximately 53,333.33 sq.m. (the "Site").</p> <p>As advised by the Group, the property was completed in 2006.</p> <p>The Site is held under a State-owned Land Use Rights Certificate with a land use term expiring on 25 April 2053 for industrial use (residential use).</p>	The property is currently self-occupied by the Group as staff dormitory.	2,000,000 81.1% interest attributable to the Group: USD 1,622,000

Notes:

- Pursuant to the following State-owned Land Use Rights Certificate issued by Jiujiang Land and Resources Bureau, the land use rights of the Site with a total site area of approximately 53,333.33 sq.m. has been granted to Sateri (Jiangxi) Chemical Fibre Co., Ltd. for industrial use (residential use).

<u>Certificate No.</u>	<u>Issue Date</u>	<u>Site Area</u> (sq.m.)	<u>Expiry Date</u>
Jiu Cheng Guo Yong (2003) Zi Di 177 Hao	24 September 2003	53,333.33	25 April 2053

- Pursuant to the following Building Ownership Certificate, the building ownership of the property with a total gross floor area of approximately 47,353.78 sq.m. has been held by Sateri (Jiangxi) Chemical Fibre Co., Ltd. for residential use.

<u>Certificate No.</u>	<u>Issue Date</u>	<u>Gross Floor Area</u> (sq.m.)
Jiu Fang Quan Zheng Xun Zi Di 127618 Hao	2 July 2007	1,860.06

- We have been provided with a legal opinion on the property prepared by the Group's PRC legal advisor, which contains, inter alia, the following information:
 - Based on the Company's confirmation and to the best of our knowledge, Sateri (Jiangxi) Chemical Fibre Co., Ltd. ("Sateri Jiangxi") has the legitimate right to use the land aforementioned. Under the PRC Laws, Sateri Jiangxi is entitled to lease, transfer, mortgage or otherwise dispose of the aforementioned land, which is clear in title and free from any mortgage.
 - Based on the Company's confirmation and to the best of our knowledge, Sateri Jiangxi is the legitimate owner of the buildings aforementioned. Under the PRC Laws, Sateri Jiangxi is entitled to lease, transfer, mortgage or otherwise dispose of the aforementioned buildings, which is clear and free of any mortgage.
 - Based on the Company's confirmation and to the best of our knowledge, the use of the buildings and land as mentioned in Notes 1 and 2 above, by Sateri Jiangxi are in compliance with the approved usage of such buildings and land.

VALUATION CERTIFICATE

<u>Property</u>	<u>Description and tenure</u>	<u>Details of occupancy</u>	<u>Capital value in existing state as at September 30, 2010</u> (USD)
4. An Industrial Complex, Alfa Street, Camacari, the State of Bahia, Brazil	<p>The property comprises an industrial complex used for the production of soluble cellulose located at Alfa Street in the Industrial Estate of Camaçari, State of Bahia, Brazil. The property covers a site area of approximately 850,000 sq.m.</p> <p>Buildings with a gross area of about 30,000 sq.m. and other improvements were completed in various years, from 1977 to 1995; while the remaining buildings with a gross area of approximately 60,000 sq.m. were completed in 2008.</p> <p>The general conditions of the industrial complex are good and its layout is compatible with its current use.</p>	The property is currently occupied by the Group as production plant.	96,660,000 98.4% interest attributable to the Group: USD 95,113,440

Notes:

1. The registered owner of the property is Bahia Specialty Cellulose S.A.
2. Our valuation conclusion is reached having regard to the valuation report undertaken by Odemir Vianna, Director of CB Richard Ellis LTDA located in São Paulo, Brazil. Odemir Vianna is an engineer with 20 years experience in property valuation in Brazil.
3. We have been provided with a legal opinion on the property prepared by the Group's Brazil legal advisor, which contains, inter alia, the following information:
 - a). To the best of our knowledge after due enquiry and based on our review of real estate documents, Bahia Specialty Cellulose (i) has good and marketable title to the real property represented by approximately 44.3 hectares located in the Camaçari Industrial Complex, located at Municipality of Camaçari, State of Bahia, Brazil (the "Camaçari Complex"), including the constructions located therein, and therefore according to Brazilian law has the legitimate right to use, lease, transfer, constitute mortgage (hipoteca) or otherwise dispose of such real property, and (ii) has the right of possession with respect to an additional area of 40 hectares in the Camaçari Complex, and therefore according to Brazilian law has the right to use, enjoy and claim such real property from a party who wrongfully possesses or holds it and has good title to the constructions located therein, and therefore has the right to be indemnified in case of loss of the right of possession of the area of 40 hectares. However, the relevant Brazilian Subsidiary may not sell, dispose or constitute mortgages (hipoteca) over such real property. According to a Statement issued on April 12, 2010 by SUDIC- Superintendência de Desenvolvimento Industrial e Comercial, an autonomous governmental entity of the State of Bahia, the grant of the public deed of title for the transfer of the ownership of the 40 hectares (400,000.00 m²) area to Bahia Specialty Cellulose S.A. is currently undergoing an approval process and no technical issues or obstacles have been identified that could prevent the transfer of such area by SUDIC to Bahia Specialty Cellulose;
 - b). To the best of our knowledge and based on our review of the Documents, except for a first priority mortgage (which release is pending) and a second priority mortgage (which will become a first priority mortgage once the existing one is formally released) over the real property represented by approximately 44.3 hectares located in the Camaçari Industrial Complex, such real property is free and clear of other liens, mortgages (hipoteca), encumbrances, claims, charges, security interests and defects and imperfections of title.

VALUATION CERTIFICATE

<u>Property</u>	<u>Description and tenure</u>	<u>Details of occupancy</u>	<u>Capital value in existing state as at September 30, 2010</u> (USD)																																														
5. Various forest units with buildings and structures in the State of Bahia, Brazil	<p>The property comprises 752 farms of different sizes varying from 0.03 hectares to 7,950 hectares (average 200 hectares) scattered through 21 municipalities in the State of Bahia, Brazil.</p> <p>The total land area of the property is approximately 150,680 hectares.</p> <p>The distribution of land area per municipality is presented in the table below:</p> <table border="1"> <thead> <tr> <th>Municipality</th> <th>Total site Area (hectare)</th> </tr> </thead> <tbody> <tr><td>Agua Fria</td><td>1,865.04</td></tr> <tr><td>Alagoinhas</td><td>18,272.02</td></tr> <tr><td>Aporá</td><td>502.70</td></tr> <tr><td>Araçás</td><td>185.44</td></tr> <tr><td>Aramari</td><td>8,874.51</td></tr> <tr><td>Cardeal da Silva</td><td>4,168.56</td></tr> <tr><td>Catú</td><td>81.05</td></tr> <tr><td>Conde</td><td>7,744.64</td></tr> <tr><td>Crisópolis</td><td>1,771.65</td></tr> <tr><td>Entre Rios</td><td>29,320.84</td></tr> <tr><td>Esplanada</td><td>15,354.69</td></tr> <tr><td>Inhambupe</td><td>24,559.92</td></tr> <tr><td>Irará</td><td>1,018.60</td></tr> <tr><td>Itangará</td><td>3,788.76</td></tr> <tr><td>Itapicuru</td><td>1,856.57</td></tr> <tr><td>Jandaira</td><td>9,795.29</td></tr> <tr><td>Mata de São João</td><td>9,845.61</td></tr> <tr><td>Olindina</td><td>3,444.07</td></tr> <tr><td>Ouriçangas</td><td>2,977.37</td></tr> <tr><td>Rio Real</td><td>3,897.39</td></tr> <tr><td>Sátiro Dias</td><td>1,355.44</td></tr> <tr><td>Total</td><td>150,680.15</td></tr> </tbody> </table> <p>The main clusters of land are in the municipalities of Entre Rios, Inhambupe, Alagoinhas, Esplanada, Itanagra and Jandaíra.</p> <p>The land is used for the growing of raw material (mostly eucalyptus) for the company's cellulose processing plant located in Camaçari/BA. The farms are at different stages of management of land.</p> <p>The improvements on the farms are simple and suitable for the current use and there are just a few buildings in some of the farms for operational purposes.</p>	Municipality	Total site Area (hectare)	Agua Fria	1,865.04	Alagoinhas	18,272.02	Aporá	502.70	Araçás	185.44	Aramari	8,874.51	Cardeal da Silva	4,168.56	Catú	81.05	Conde	7,744.64	Crisópolis	1,771.65	Entre Rios	29,320.84	Esplanada	15,354.69	Inhambupe	24,559.92	Irará	1,018.60	Itangará	3,788.76	Itapicuru	1,856.57	Jandaira	9,795.29	Mata de São João	9,845.61	Olindina	3,444.07	Ouriçangas	2,977.37	Rio Real	3,897.39	Sátiro Dias	1,355.44	Total	150,680.15	<p>The property is currently occupied by the Group for production and procurement of raw material.</p>	<p>310,200,000</p> <p>99.6% interest attributable to the Group: USD 308,959,200</p>
Municipality	Total site Area (hectare)																																																
Agua Fria	1,865.04																																																
Alagoinhas	18,272.02																																																
Aporá	502.70																																																
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Rio Real	3,897.39																																																
Sátiro Dias	1,355.44																																																
Total	150,680.15																																																

Notes:

1. The registered owners of the property are Bahia Pulp S.A. (27,986 hectares) and Copener Florestal Ltda (122,694 hectares).
2. The property includes land portion only and excludes forests and buildings.
3. Our valuation conclusion is reached having regard to the valuation report undertaken by Odemir Vianna, Director of CB Richard Ellis LTDA located in São Paulo, Brazil. Odemir Vianna is an engineer with 20 years experience in property valuation in Brazil.
4. Please note that the detailed information of the property is listed in Exhibit II and III as below pages mentioned.
5. We have been provided with a legal opinion on the property prepared by the Group's Brazil legal advisors, which contains, inter alia, the following information:
 - a). To the best of our knowledge after due enquiry and based on our review of real estate documents, the respective Brazilian Subsidiaries have good and marketable title to the real property described in Exhibit II hereto and identified as having enrollment certificates issued in 2010 and therefore according to Brazilian law have the legitimate right to use, lease, transfer, constitute mortgage (*hipoteca*) or otherwise dispose of such real property; except for the real properties named Terra Dura and Canon, located in the districts of Irara and Mata de São João, respectively, for which we have not received enrollment certificates issued in 2010 and are relying exclusively on a duly executed certificate delivered to us by each of the Brazilian Subsidiaries dated November 18, 2010. As indicated in Exhibit II, certain areas regarding the real property found in the enrollment certificates do not correspond to the areas the Brazilian Subsidiaries understand to be correct and, in case no measures are taken to correct such differences in areas, discussions with third parties regarding the title to such areas may arise;

To the best of our knowledge and based on our review of the Documents, all real property of the respective Brazilian Subsidiaries described in Exhibit II hereto are free and clear of all liens, mortgages (*hipoteca*), encumbrances, claims, charges, security interests and defects and imperfections of title, except for the first and second priority mortgage described in note b) of the Property No.4 above and for the mortgage over Altamira da Direita Farm enrolled with the Real Estate Registry Office of Conde, State of Bahia, under nr. 164. However, for the real properties which enrollment certificates presented for review were issued more than thirty days prior to the date hereof, there may be recent liens, mortgages (*hipoteca*), encumbrances, claims, charges and security interests created in one or more of such real properties that we are not aware of;
 - b). Based exclusively on a duly executed certificate delivered to us by each of the Brazilian Subsidiaries dated November 18, 2010 and without having performed any independent investigation in connection thereto, the respective Brazilian Subsidiaries also have rights of possession over the rural property described in Exhibit III hereto, and therefore according to Brazilian law has the right to use, enjoy and claim the real property from a party who wrongfully possesses or holds it. However, the relevant Brazilian Subsidiary may not sell, dispose or constitute mortgages (*hipoteca*) over such real properties. According to the respective Brazilian Subsidiaries, such rights of possession have arisen from sales contracts and/or the peaceful and uncontested occupation of the land over a period by the respective Brazilian Subsidiaries.

VALUATION CERTIFICATE

Group II — Property interest to be acquired by the Group in the PRC

<u>Property</u>	<u>Description and tenure</u>	<u>Details of occupancy</u>	<u>Capital value in existing state as at September 30, 2010</u> (USD)
6. A reserved land parcel (Plot No. PSBA-2010-01) located at Economic Development Zone, North Meizhou Bay, Dongpu Township and Zhongmen Township, Putian City, Fujian Province, the PRC	<p>The property comprises a land parcel with a site area of approximately 299,348.29 sq.m. (“the Site”)</p> <p>As required by the State-owned Land Use Rights Grant Contract, the construction plot ratio upon the property shall be no less than 0.90, and be completed by no later than 8 September 2012.</p> <p>Pursuant to the abovementioned contract, the site is held for industrial use with a term of 50 years.</p>	As advised, the property is currently vacant.	No Commercial Value

Notes:

1. Pursuant to the a State-owned Land Use Rights Grant Contract Pu Mei Bei Guo Tu Zi Chu Zi (2010) No.1 dated 6 September 2010, a site with an area of approximately 299,348.29 sq.m. was contracted to be granted to Sateri (Fujian) Fibre Co., Ltd. (“Sateri Fujian”) for industrial use at a total consideration of RMB43,555,176.20.
2. As Sateri Fujian has not obtained any State-owned Land Use Rights Certificate of the property as at the date of valuation, we have ascribed “no commercial value” to the property. Had Sateri Fujian obtained all the State-owned Land Use Rights Certificate of the property at the date of valuation, the capital value of the property as at the date of valuation would be in the sum of USD6,500,000. (100% interest attributable to the Group: USD6,500,000)
3. We have been provided with a legal opinion on the property prepared by the Group’s PRC legal advisors, which contains, inter alia, the following information:
 - a). Pursuant to a Land Use Rights Granting Agreement dated September 6, 2010, a land parcel located in Dongpu Township and Zhongmen Township, Putian City with a gross area of 299,348.29 sq.m. has been granted to Sateri Fujian for industrial use. The granting fee is RMB43,555,176.20 and according to the Company, has been fully paid.
 - b). As confirmed by the Company, Sateri Fujian is waiting for the issuance of the related Land Use Rights Certificate. Sateri Fujian will have the legitimate right to use the land aforementioned when it receives the Land Use Rights Certificate of the same.

EXHIBIT II TO THE LEGAL OPINION DATED AS OF NOVEMBER 26, 2010

REAL ESTATE PROPERTIES WITH GOOD AND MARKETABLE TITLE

COPENER FLORESTAL LTDA.

DISTRICT	FARM	AREA According to the Enrollments Certificates (ha)	Enrolment Certificates issued on ¹	AREA indicated by the Company (ha) ²	
1.	Conde	REUNIDAS ALTAMIRA	5,064.2492	06/17/2010	5,064.2492
2.	Irara	SITIO DE LICIA	2,977.3637	06/21/2010	2,977.3677
3.	Alagoinhas	REUNIDAS RIO BRANCO	2,234.0891	07/30/2010	2,234.0891
4.	Rio Real	REUNIDAS PIRANJI	2,131.2570	06/18/2010	2,131.2570
5.	Alagoinhas	SUBAUMA MIRIM	2,128.8009	07/09/2010	2,128.8008
6.	Inhambupe	MINA DO OURO A	1,964.5312	07/14/2010	1,964.5313
7.	Esplanada	LAGOA DO BÚ	1,992.5902	07/16/2010	1,910.8532
8.	Entre Rios	LONTRA E SAUDADE	2,451.1830	06/10/2010	1,904.2000
9.	Esplanada	REUNIDAS CARDOSO	1,858.2133	07/21/2010	1,858.2133
10.	Inhambupe	BORBA GATO	2,098.0000	07/14/2010	1,712.0871
11.	Rio Real	MINERVA	1,517.7800	06/18/2010	1,539.7975
12.	Mata de Sao Joao	REUNIDAS PEDRA DE SAO JOSE	1,531.6050	07/20/2010	1,531.6050
13.	Inhambupe	CAJUEIRO	1,357.8100	07/14/2010	1,353.0000
14.	Inhambupe	PONTA DO BREJO	1,352.8020	07/14/2010	1,352.8020
15.	Inhambupe	MATINHA	1,301.4600	08/01/2010	1,301.6400
16.	Entre Rios	AZEVEDO	1,153.5028	07/27/2010	1,153.5028
17.	Alagoinhas	SANTO ANDRE E PANCADA GRANDE	1,162.0242	07/14/2010	1,058.9400
18.	Crisopolis	NAMBIS PECUARINHA	1,000.0000	07/19/2010	1,054.5545
19.	Entre Rios	CACHOEIRA	1,045.4799	07/27/2010	880.8108
20.	Cardeal da Silva	RANCHO ALEGRE IV	1,091.6729	01/14/2009	1,043.0358
21.	Inhambupe	CAJUEIRO II	1,000.0000	07/14/2010	1,000.0000
22.	Inhambupe	OITEIRO I	1,027.5600	07/14/2010	937.1620
23.	Olindina	SANTA ESTER	845.0000	07/19/2010	885.4016
24.	Alagoinhas	LAGOA AMARELA E ALVORADA	971.9200	07/21/2010	870.9000
25.	Entre Rios	QUATIS	936.2633	06/10/2010	868.1633
26.	Inhambupe	MINA DO OURO B	856.4600	07/14/2010	856.4600
27.	Inhambupe	BONFIM IV	850.8800	07/14/2010	850.8800

¹ The enrollment certificates are only valid for 30 days after their issuance date.

² The company has informed that the differences in the areas found in certain enrollment certificates and the area indicated by the company are due to reasons such as (i) sales of part of the land have not been registered before the competent Real Estate Registry Office and (ii) the company measured the area and found that the area identified in the enrollment certificate is different from the actual area, however the company has not yet taken the measures to request the applicable correction.

APPENDIX IV

PROPERTY VALUATION

DISTRICT	FARM	AREA According to the Enrollments Certificates (ha)	Enrolment Certificates issued on ¹	AREA indicated by the Company (ha) ²
28. Entre Rios	CABOCLO/MONTE ALEGRE³	884.0900	07/07/2010	845.1427
29. Alagoinhas	RENASCENÇAS	817.4266	07/09/2010	817.4266
30. Esplanada	ITARIRI	764.5506	07/16/2010	764.5506
31. Rio Real	REUNIDAS MASSARANDUBA	755.4202	08/12/2010	755.4202
32. Irara	LAGOA D'AGUA	740.4751	07/21/2010	740.4751
33. Entre Rios	CANABRAVA	867.4411	07/27/2010	737.6434
34. Alagoinhas	ARATICUM	733.5475	07/09/2010	733.5475
35. Inhambupe	CAJUEIRO III	724.0000	07/14/2010	724.0000
36. Inhambupe	CAATINGA GRANDE	702.0000	07/14/2010	695.6400
37. Alagoinhas	CABANA	698.6282	07/30/2010	688.4719
38. Conde	RIO FUNDO	677.5315	06/18/2010	677.5315
39. Olindina	DONA MARIA E GENIPAPINHO	1,072.3122	06/02/2009	670.5994
40. Alagoinhas	RIO TORTO	668.6778	07/30/2010	653.6511
41. Esplanada	REUNIDAS BAIXA DA RAPÔSA	639.5842	08/05/2010	636.1942
42. Esplanada	LUA ALTA	577.3269	06/08/2010	577.3269
43. Entre Rios	RIO NEGRO	572.4467	06/10/2010	572.4467
44. Entre Rios	VALENTIM	570.0925	07/27/2010	570.0925
45. Inhambupe	SALGADA/LARANJEIRAS	737.7300	07/14/2010	565.0221
46. Esplanada	PARAISO	648.2338	06/10/2010	553.5581
47. Irara	TERRA DURA			540.0000
48. Mata de São João	PEDRA DE SÃO JOSÉ	535.3718	07/06/2010	531.9742
49. Olindina	FERNAO DIAS	1,000.0000	06/22/2010	520.1700
50. Alagoinhas	TOMBADOR	515.7411	06/14/2010	515.7416
51. Alagoinhas	FARJE	514.9725	07/30/2010	514.9725
52. Mata de São João	ALCOBAÇA	364.5277	06/21/2010	506.5230
53. Crisópolis	OLHOS D'ÁGUA I	502.1666	07/19/2010	502.1666
54. Entre Rios	TUPY	499.3193	07/27/2010	499.3193
55. Inhambupe	PAVUNA	499.3082	07/21/2010	499.3082
56. Inhambupe	MINA DO OURO	522.7743	07/14/2010	487.6997
57. Alagoinhas	SAO MARCELINO	488.7589	07/09/2010	479.3939
58. Alagoinhas	SAGARANA	472.6395	07/09/2010	472.6395
59. Alagoinhas	BAIXA DA CANDEIA	467.5197	07/21/2010	467.5197
60. Alagoinhas	MUCURI	465.9722	07/09/2010	465.9722
61. Inhambupe	BEIJA FLOR	500.6726	07/14/2010	463.3471
62. Alagoinhas	PANCADA GRANDE I	463.1887	07/09/2010	463.1887
63. Entre Rios	RIACHAO	661.6757	07/27/2010	460.1770
64. Esplanada	JUSSARA	904.5306	08/05/2010	453.3985
65. Alagoinhas	LAGOA DA CATARINA I	452.0934	07/09/2010	452.0934
66. Inhambupe	BONFIM I	450.0000	07/14/2010	450.0000

³ “Tarefa” is one way to measure land areas in Brazil, and it is usually used for sugar cane plantations, specially in Bahia State. However, since we standardized “hectares” at this report, but this Certificate of Enrollment mention “tarefa” as a way to measure the land size area, we convert “tarefa” into “hectare”. Just for information, 1 “tarefa” is equal to 4356m², or 0.4356ha.

APPENDIX IV

PROPERTY VALUATION

DISTRICT	FARM	AREA According to the Enrollments Certificates (ha)	Enrolment Certificates issued on ¹	AREA indicated by the Company (ha) ²
67. Inhambupe	MINA DO OURO	442.0000	08/01/2010	442.0224
68. Alagoinhas	RIACHO VERMELHO	14.8451	07/26/2010	439.5496
69. Itapicuri	CAICARA	432.8807	07/19/2010	432.8807
70. Inhambupe	BOA ESPERANCA	178.6604	07/14/2010	430.8575
71. Entre Rios	DIVINA PASTORA DO PATI	444.3353	07/27/2010	430.8233
72. Inhambupe	VITORIA	429.0700	07/14/2010	429.0700
73. Rio Real	AGUAS CLARAS	423.7054	08/16/2010	423.7054
74. Inhambupe	BONFIM III	422.1900	07/14/2010	422.1900
75. Esplanada	JAPURA	450.2741	07/16/2010	415.3792
76. Entre Rios	PONTE NOVA	406.5183	07/27/2010	406.5183
77. Inhambupe	BONFIM II	405.2500	07/14/2010	405.2500
78. Alagoinhas	BAIXA DO GONCALO ALVES	404.6090	07/09/2010	404.6090
79. Entre Rios	CAPIVARA	401.9797	07/27/2010	401.9797
80. Entre Rios	SUSSUARANA II/FERRUGEM II	426.4958	07/27/2010	399.8487
81. Entre Rios	CAIANA	416.2817	07/27/2010	399.3342
82. Entre Rios	SANTA MARIA/SANTA CECILIA	381.7237	07/27/2010	381.7237
83. Mata de São João	TAIMBE II	378.5623	07/26/2010	375.3123
84. Inhambupe	CAMPOS	332.6513	07/14/2010	374.4026
85. Inhambupe	RAIZ	366.6414	08/01/2010	366.6414
86. Conde	SALOBRO	353.8757	07/19/2010	353.8757
87. Inhambupe	BONFIM V	352.3800	07/14/2010	352.3800
88. Alagoinhas	RAPE	347.4000	07/30/2010	348.3423
89. Alagoinhas	CONCEICAO I/II	338.2756	07/14/2010	339.9525
90. Entre Rios	BREJADA	339.4936	07/27/2010	339.4936
91. Irapá	GENIPAPO	346.1216	07/21/2010	333.8679
92. Alagoinhas	SAO SEBASTIAO	332.3018	07/30/2010	332.3018
93. Alagoinhas	ALTO ALEGRE	332.0397	07/26/2010	332.0397
94. Alagoinhas	AGUA BOA	330.3241	07/09/2010	330.3241
95. Mata de São João	TAIMBE	331.9625	07/26/2010	330.2125
96. Entre Rios	CACHOEIRA I	325.6865	07/27/2010	325.6865
97. Alagoinhas	ALIANCA	321.5500	07/09/2010	321.5500
98. Entre Rios	GAMELEIRA	313.1064	07/27/2010	313.1064
99. Alagoinhas	BAOBA	318.4102	07/30/2010	311.5000
100. Entre Rios	CHAPARRAL	320.0890	07/27/2010	311.4300
101. Esplanada	ENGENHO VELHO	450.0000	08/05/2010	309.9855
102. Entre Rios	OURO NEGRO	274.2314	07/27/2010	309.1374
103. Rio Real	OLHOS D'AGUA VI	450.4410	08/16/2010	307.7321
104. Itapicuri	OLHOS D'AGUA DAS CANDEIAS	305.1383	07/19/2010	305.1383
105. Entre Rios	CABOCLO/MANGUEIRA	296.6748	07/27/2010	296.6748
106. Inhambupe	CAJUEIRO	296.6325	07/14/2010	296.6325
107. Inhambupe	PONTA DO BREJO	300.0000	08/01/2010	294.4800
108. Alagoinhas	INOAN	280.2200	07/09/2010	280.2200
109. Entre Rios	JOAO MENDES	222.7379	07/27/2010	277.7311

APPENDIX IV

PROPERTY VALUATION

DISTRICT	FARM	AREA According to the Enrollments Certificates (ha)	Enrolment Certificates issued on ¹	AREA indicated by the Company (ha) ²
110. Aporá	PUEBLA	323.5172	07/14/2010	270.2224
111. Mata de São João	SANTA ROSA	302.0191	07/26/2010	265.1591
112. Mata de São João	CACHOEIRA GRANDE	262.8353	07/27/2010	262.2690
113. Alagoinhas	CHILE	258.7975	07/30/2010	258.7975
114. Olindina	MANDACARU	253.5286	06/22/2010	253.5286
115. Inhambupe	BONFIM I-A	252.3700	07/14/2010	252.3700
116. Entre Rios	ABAETE	247.2572	07/27/2010	247.2572
117. Alagoinhas	JASMINE	270.6961	07/30/2010	247.0000
118. Mata de São João	POUSO ALEGRE	246.4253	07/26/2010	246.4253
119. Rio Real	REUNIDAS CARANGUEIJO	240.4993	07/09/2010	242.4993
120. Inhambupe	SALOBRO	241.8607	07/14/2010	241.8607
121. Entre Rios	BOA SORTE	240.9767	07/27/2010	240.9767
122. Inhambupe	GALILEIA/BORBA GATO 2	240.0000	08/01/2010	240.0000
123. Inhambupe	OITEIRO II	236.6000	07/14/2010	236.6000
124. Esplanada	REUNIDAS BURIZINHO	232.6427	08/05/2010	232.6427
125. Inhambupe	FENIX	232.2424	08/01/2010	232.2424
126. Alagoinhas	NORUEGA	227.7132	07/30/2010	227.7132
127. Conde	GROTA VERDE	224.0976	07/29/2010	224.0976
128. Entre Rios	MASSAPE	223.8744	07/27/2010	223.8744
129. Crisópolis	OLHOS D'AGUA II	220.5033	07/19/2010	220.5033
130. Entre Rios	ALEGRIA/MONTE ALEGRE	217.2238	07/27/2010	217.2238
131. Inhambupe	MOCAMBO	216.2571	07/14/2010	215.4871
132. Inhambupe	CANAVERDE	214.0052	07/14/2010	214.0052
133. Itapicuri	SALGADO	215.4945	08/12/2010	213.3546
134. Entre Rios	ESPIRITO SANTO	213.0636	07/27/2010	213.0636
135. Itapicuri	ASA BRANCA	211.5713	09/20/2010	211.5713
136. Olindina	BAIXA DA CANABRAVA	98.1159	07/19/2010	211.0662
137. Entre Rios	VALENTIM II	210.4000	07/27/2010	210.4000
138. Entre Rios	DOIS IRMAOS	209.7862	07/27/2010	209.7862
139. Alagoinhas	VARELA	221.9579	07/30/2010	208.5614
140. Inhambupe	CAJUEIRO	208.4849	07/14/2010	208.4849
141. Alagoinhas	DIAMANTINA IX	208.7521	07/30/2010	207.9824
142. Alagoinhas	SIRIEMA	307.8381	08/27/2010	205.5876
143. Esplanada	BARBOSA	203.8546	07/21/2010	203.8546
144. Entre Rios	SANTA MARIA/SANTA CECILIA	201.1236	07/27/2010	201.1236
145. Entre Rios	GEREZIN	196.1786	07/27/2010	196.1786
146. Itapicuri	NAMBIS	1,000.00	07/19/2010	193.8159
147. Inhambupe	MINA DO OURO C	188.6200	07/14/2010	188.6200
148. Entre Rios	CARAVELLE	187.1762	07/27/2010	187.1762
149. Inhambupe	ILHA GRANDE	185.5743	08/26/2010	185.5743
150. Alagoinhas	MACAQUINHO	185.4745	07/30/2010	185.4745
151. Entre Rios	POTY DE MONTE ALEGRE	159.5335	07/27/2010	184.1737
152. Irapá	TANQUINHO ³	217.8000	07/21/2010	182.2729
153. Alagoinhas	PILAR	181.1088	07/30/2010	181.0409

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PROPERTY VALUATION

DISTRICT	FARM	AREA According to the Enrollments Certificates (ha)	Enrolment Certificates issued on ¹	AREA indicated by the Company (ha) ²
154. Entre Rios	MASSARANDUPIO ³	180.2240	07/27/2010	180.2243
155. Inhambupe	TAPERINHA	197.9124	07/14/2010	176.5105
156. Rio Real	PIRANJI	175.2334	07/07/2010	175.2334
157. Entre Rios	TRAIRA II	161.9946	07/27/2010	173.0143
158. Inhambupe	TAPERINHA V	172.8915	07/14/2010	172.8915
159. Alagoinhas	NARRE	177.8445	07/26/2010	172.1929
160. Iará	JUREMA ³	111.0780	07/21/2010	168.0700
161. Entre Rios	CATANA	166.0729	07/27/2010	166.0729
162. Entre Rios	GENIPAPO	130.6530	07/27/2010	165.4309
163. Alagoinhas	MANGUEIRA	163.5400	07/30/2010	163.5400
164. Esplanada	REUNIDAS SR. DO BONFIM	493.5373	08/02/2010	162.8317
165. Itapicuri	GENIPAPO	161.5872	09/20/2010	161.5872
166. Aporá	BARRINHA	164.1326	07/14/2010	160.2426
167. Alagoinhas	MANGALO	43.5600	07/30/2010	159.9019
168. Esplanada	JAPURA A	159.7757	07/16/2010	159.7757
169. Entre Rios	CABOCLO-M	166.5995	07/27/2010	159.5995
170. Mata de São João	SAO JOAO DE ITAPICIRICA	158.7983	07/26/2010	158.7983
171. Inhambupe	CAPOEIRA	197.7124	07/14/2010	155.1500
172. Inhambupe	CANDEAL	155.1384	07/14/2010	155.1384
173. Olindina	POÇOS	155.1379	07/19/2010	155.1379
174. Inhambupe	BOTELHO	151.8308	07/14/2010	151.8308
175. Entre Rios	REUNIDAS SAO GONCALO	151.5084	07/27/2010	151.0544
176. Entre Rios	CARACATU	150.8234	07/27/2010	150.8234
177. Entre Rios	PAU DE MILHO	150.7030	07/27/2010	150.7030
178. Entre Rios	TRES IRMAOS	138.1991	07/27/2010	148.5988
179. Alagoinhas	ARATICUM II	145.0582	07/09/2010	145.0582
180. Inhambupe	JATOBA	141.2851	07/14/2010	141.2851
181. Alagoinhas	LIMEIRA I	140.9032	07/30/2010	140.9032
182. Rio Real	REUNIDAS ANJINHO	139.1928	07/23/2010	139.1928
183. Entre Rios	BAIXIO	136.9817	07/27/2010	136.9817
184. Inhambupe	FLORES	136.3983	07/14/2010	136.3983
185. Entre Rios	NEGRO DO MATO	149.4208	07/27/2010	135.8715
186. Inhambupe	SAO JORGE II	135.0635	08/01/2010	134.9635
187. Entre Rios	BOM JARDIM	169.5341	07/27/2010	134.8901
188. Inhambupe	AMARGOSO B/C/E	134.2910	07/14/2010	134.2910
189. Inhambupe	MERANTE	133.5400	07/14/2010	133.5400
190. Entre Rios	MIRANGA	133.4275	07/27/2010	133.4275
191. Entre Rios	DUSA	133.1466	07/27/2010	133.1466
192. Alagoinhas	TROVATA	158.0914	07/30/2010	131.4619
193. Entre Rios	NEGRO DO MATO I	130.6530	07/27/2010	130.6530
194. Entre Rios	RIO NEGRO IV	130.0508	07/27/2010	130.0508
195. Esplanada	NATIVA	166.4971	08/02/2010	129.7927
196. Alagoinhas	RIBALTA	131.4004	07/30/2010	129.2704
197. Inhambupe	MONTE ALEGRE	130.3988	08/01/2010	128.7949
198. Entre Rios	GROTAO	130.5937	07/27/2010	128.1341

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DISTRICT	FARM	AREA According to the Enrollments Certificates (ha)	Enrolment Certificates issued on ¹	AREA indicated by the Company (ha) ²
199. Entre Rios	VISTA ALEGRE II	128.1166	07/27/2010	128.1166
200. Entre Rios	BARREIROS	127.7453	07/27/2010	127.7453
201. Esplanada	TONSO	600.0000	08/05/2010	123.5900
202. Entre Rios	JUAZEIRO	123.1626	07/27/2010	123.1626
203. Alagoinhas	ACARA	122.7606	07/09/2010	122.7606
204. Alagoinhas	SAO JOSE	119.9147	07/30/2010	119.9147
205. Entre Rios	RIO GRANDE	119.5756	07/27/2010	119.5756
206. Entre Rios	VERONICA/REDENCAO/PEDRAS	118.4869	07/27/2010	118.4869
207. Inhambupe	CABACEIRO	117.6674	07/14/2010	117.6674
208. Alagoinhas	PATIOBA	117.4190	08/02/2010	115.8020
209. Entre Rios	NEGRO DO MATO VII	208.7114	07/27/2010	115.2492
210. Esplanada	ESTRELA	70.5000	08/05/2010	115.1450
211. Inhambupe	MURICI	112.7890	07/14/2010	112.3590
212. Inhambupe	VINHA	256.1500	07/14/2010	111.5803
213. Alagoinhas	ESPERANCA	110.8419	07/30/2010	110.8419
214. Alagoinhas	AGUA SANTA I	108.4500	07/30/2010	108.4500
215. Entre Rios	ROSANA	108.9000	07/27/2010	105.8155
216. Entre Rios	SAINANA	105.7647	07/27/2010	105.7647
217. Entre Rios	GENIPAPO VI	105.0563	07/27/2010	105.0563
218. Entre Rios	CAUBA	47.0000	07/27/2010	105.0484
219. Entre Rios	CABOCLO ³	105.0095	07/27/2010	105.0067
220. Inhambupe	CAJU	103.7200	07/14/2010	103.7200
221. Alagoinhas	SANTO ANTONIO	103.4359	07/09/2010	103.4359
222. Entre Rios	PIRAJUI	103.4334	07/27/2010	103.4334
223. Itapicuru	BOA VISTA	20.3733	07/19/2010	102.6139
224. Entre Rios	CASARAO	102.2221	01/27/2010	102.2221
225. Esplanada	DIVINERA	102.1700	07/14/2010	102.1700
226. Alagoinhas	CRAVO ROXO	101.3449	07/09/2010	101.3449
227. Entre Rios	BOA VISTA VIII	100.8666	07/27/2010	100.8666
228. Itapicuri	POCOS I	100.8504	07/19/2010	100.8504
229. Alagoinhas	PAPA MEL	99.9904	07/30/2010	99.9904
230. Alagoinhas	APIS	99.9624	07/30/2010	99.9624
231. Alagoinhas	COQUEIRO	99.5987	07/09/2010	99.5987
232. Entre Rios	ARARI	98.7301	07/27/2010	98.7301
233. Entre Rios	SAJORA	96.9153	07/27/2010	96.9453
234. Alagoinhas	LADEIRA	96.2001	07/09/2010	96.2001
235. Alagoinhas	SARANDI	95.8533	07/30/2010	95.8933
236. Inhambupe	TERRA DURA II	95.0000	07/14/2010	95.0000
237. Entre Rios	BOM JARDIM/ALEGRIA	94.3295	07/27/2010	94.3260
238. Alagoinhas	O BONITO	93.9842	07/30/2010	93.9842
239. Inhambupe	LAGOA DO MANGUE	91.4155	07/14/2010	91.4155
240. Inhambupe	MATINHA II/III	101.3109	07/14/2010	90.8109
241. Entre Rios	BOM JARDIM II/III	93.7977	07/22/2010	89.8477
242. Esplanada	PASTO NOVO	89.7119	07/27/2010	89.7119
243. Entre Rios	SERRADINHO	88.5008	07/27/2010	88.5008

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DISTRICT	FARM	AREA According to the Enrollments Certificates (ha)	Enrolment Certificates issued on ¹	AREA indicated by the Company (ha) ²
244. Entre Rios	FLORESTA	88.2611	07/27/2010	88.2611
245. Entre Rios	RIATA	88.1885	07/27/2010	88.1885
246. Alagoinhas	CAROLINA	104.5440	07/30/2010	87.3325
247. Inhambupe	SACO I	86.0574	08/01/2010	86.1554
248. Rio Real	SITIO SAO JOSE I e II	85.5735	08/12/2010	85.5735
249. Mata de São João	ALEGRIA	97.7200	07/26/2010	85.4992
250. Alagoinhas	URAI	85.0391	07/30/2010	85.0691
251. Entre Rios	FILOME	85.0445	07/27/2010	85.0445
252. Alagoinhas	SAUIPE A	85.0000	07/30/2010	85.0000
253. Entre Rios	ARACATI	84.7825	07/27/2010	84.7825
254. Inhambupe	SUBAUMA IV	83.1894	07/14/2010	83.1894
255. Inhambupe	MOCAMBO II	83.0392	08/01/2010	83.0392
256. Inhambupe	SACO IX	119.4438	08/01/2010	82.8279
257. Entre Rios	GENIPAPO	82.2407	07/27/2010	82.2407
258. Inhambupe	MOCAMBO III	81.5253	08/01/2010	81.5253
259. Rio Real	RIO AZUL I (PARTE 1)	81.0000	09/01/2010	81.1353
260. Alagoinhas	BULDOGUE	80.4616	07/30/2010	80.4616
261. Entre Rios	SUBAUMA	78.4243	07/27/2010	80.4043
262. Inhambupe	CAJUEIRO	80.3312	07/14/2010	80.3312
263. Inhambupe	BONFIM III	80.1827	08/01/2010	80.1847
264. Entre Rios	SANTA MARIA II	79.0928	07/27/2010	79.0928
265. Inhambupe	FRADES	78.6469	07/14/2010	78.7269
266. Itapicuri	POCOS II	76.6966	09/20/2010	76.6966
267. Olindina	LAGOA DOS VEADOS	76.5619	07/19/2010	76.5619
268. Alagoinhas	PASTORE	86.3230	07/09/2010	75.9779
269. Entre Rios	TIMBO I	75.8638	07/27/2010	75.8638
270. Entre Rios	SANTA BARBARA	74.1734	07/27/2010	74.1734
271. Entre Rios	BROCA	74.0320	07/27/2010	74.0320
272. Entre Rios	MACEIO III	73.9140	07/27/2010	73.9140
273. Inhambupe	ALDEIA IV	92.2070	07/14/2010	73.9108
274. Mata de São João	CANON			73.1812
275. Entre Rios	VALE VERDE	72.9013	07/27/2010	72.9013
276. Rio Real	AGUAS CLARAS I	71.1776	08/09/2010	71.1716
277. Entre Rios	GENIPAPO III	70.1152	07/27/2010	70.1152
278. Entre Rios	CORAL	69.7410	07/27/2010	69.7420
279. Entre Rios	HUMAITA IV	69.7177	07/27/2010	69.7177
280. Alagoinhas	CENTO E UM	68.5790	07/30/2010	68.5917
281. Alagoinhas	HABALA	67.5217	07/09/2010	67.5217
282. Alagoinhas	JURITI	66.5747	07/30/2010	66.5747
283. Entre Rios	FLAMENGO	66.4201	07/27/2010	66.4201
284. Alagoinhas	ESPUMA	66.3338	07/30/2010	66.3338
285. Entre Rios	ROSAS	66.0086	07/27/2010	66.0086
286. Alagoinhas	ARATICUM III	65.7342	07/09/2010	65.7342
287. Inhambupe	PAPAGAIO	25.5035	07/26/2010	65.5173
288. Esplanada	GROTA	65.1836	08/05/2010	65.1836

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DISTRICT	FARM	AREA According to the Enrollments Certificates (ha)	Enrolment Certificates issued on ¹	AREA indicated by the Company (ha) ²
289. Entre Rios	BOA SORTE	65.1618	07/27/2010	65.1618
290. Entre Rios	TAQUARAL	69.0155	07/27/2010	64.0783
291. Alagoinhas	REPUBLICA	78.3692	10/13/2010	63.8692
292. Entre Rios	CASARAO	63.4209	07/27/2010	63.4209
293. Entre Rios	CAPOEIRINHA	63.2860	07/27/2010	63.2860
294. Inhambupe	SACO IV	77.6690	07/14/2010	62.0519
295. Entre Rios	JUNCO	61.9205	07/27/2010	61.9205
296. Entre Rios	XINDUBA/SAO JUDAS TADEU	61.9127	07/27/2010	61.9127
297. Inhambupe	SAO CAMILO	61.7009	07/14/2010	61.7009
298. Entre Rios	BOA NOVA	61.6618	07/27/2010	61.6618
299. Inhambupe	CANGURU	60.9796	07/14/2010	60.9796
300. Entre Rios	BAIPENDI	60.1253	07/27/2010	60.1253
301. Alagoinhas	SAUIPE	59.2600	07/29/2010	59.2600
302. Inhambupe	SERRADO	59.0000	07/14/2010	59.0000
303. Entre Rios	MONTE SERRAT	58.0323	07/27/2010	58.0323
304. Alagoinhas	GRANJA ALEGRE	56.6000	07/30/2010	57.8698
305. Entre Rios	SUBAUMITA	58.3831	07/27/2010	57.8031
306. Entre Rios	VISTA ALEGRE	57.7481	07/27/2010	57.7481
307. Entre Rios	SAO JUDAS TADEU	57.6706	07/27/2010	57.6706
308. Entre Rios	SANTA LUCIA	56.7826	07/27/2010	56.7826
309. Entre Rios	TALISCA	56.5400	07/27/2010	56.5400
310. Alagoinhas	ANTATA	56.4220	07/09/2010	56.4220
311. Inhambupe	VITORIA	56.3735	07/14/2010	56.3755
312. Alagoinhas	ITACHAN	60.0000	07/30/2010	56.2215
313. Entre Rios	SANTO ANTONIO	56.1037	07/27/2010	56.1037
314. Alagoinhas	IGUANA	57.0000	07/30/2010	55.9627
315. Alagoinhas	COLIBRI	55.9027	07/15/2010	55.9027
316. Inhambupe	CANDEAL	55.6939	08/01/2010	55.8939
317. Entre Rios	JEQUITIBA	55.6366	07/27/2010	55.6366
318. Inhambupe	SACO DO MATIAS	83.6422	08/01/2010	55.4987
319. Inhambupe	SACO II	48.8662	09/20/2010	54.0714
320. Inhambupe	PEDREIRA II	58.6235	07/14/2010	54.0500
321. Inhambupe	BONFIM	53.9380	07/14/2010	53.9380
322. Entre Rios	HUMAITA II	53.4900	07/27/2010	53.4900
323. Entre Rios	SANTA FE	53.2062	07/27/2010	53.2062
324. Entre Rios	TERRA DURA	52.2300	07/27/2010	52.2369
325. Entre Rios	BELA VISTA I	52.0256	07/27/2010	52.0256
326. Inhambupe	PEDREIRA III	50.9691	08/01/2010	50.9691
327. Itapicuru	BOA VISTA	20.3733	07/19/2010	50.8811
328. Entre Rios	BACAXA	48.7100	07/27/2010	50.7800
329. Entre Rios	SUSSUARANA	50.6373	07/27/2010	50.6373
330. Entre Rios	MACEIO II	50.2987	07/27/2010	50.2987
331. Entre Rios	OLHOS D'AGUA IV	49.6671	07/27/2010	49.9009
332. Inhambupe	PEARI	49.6844	07/14/2009	49.6844
333. Entre Rios	CAPIVARA	48.9715	07/27/2010	48.9715

DISTRICT	FARM	AREA According to the Enrollments Certificates (ha)	Enrolment Certificates issued on ¹	AREA indicated by the Company (ha) ²
334. Alagoinhas	TEXAS	54.2322	07/30/2010	48.9373
335. Inhambupe	SACO	58.3600	07/14/2010	48.8647
336. Entre Rios	BELA VISTA	48.7887	07/27/2010	48.7887
337. Entre Rios	ALTAMIRA	48.7000	07/27/2010	48.7000
338. Entre Rios	TRES MARIAS	48.5779	07/27/2010	48.5779
339. Inhambupe	MURA	48.4815	07/14/2010	48.4815
340. Entre Rios	MATURI	30.2689	07/27/2010	47.6929
341. Entre Rios	PRATA	47.9220	07/27/2010	47.2720
342. Alagoinhas	REALEJO	47.2202	07/09/2010	47.2202
343. Entre Rios	BOA VISTA X	47.2107	07/27/2010	47.2107
344. Alagoinhas	MILAGRE	46.6010	07/30/2010	46.6010
345. Entre Rios	HUMAITA III	46.5125	07/27/2010	46.5125
346. Mata de Sao Joao	ARIZONA	46.0491	07/06/2008	46.0491
347. Entre Rios	SAO CAETANO ³	47.0970	07/27/2010	45.7963
348. Rio Real	RIO AZUL II	45.7650	08/12/2010	45.7650
349. Rio Real	CARANGUEIJO II	27.5400	07/21/2010	45.6897
350. Entre Rios	HUMAITA I	45.5986	07/27/2010	45.5986
351. Inhambupe	CAMPO ALEGRE I	45.2845	07/14/2010	45.2845
352. Entre Rios	MACEIO I	44.0389	07/27/2010	44.0389
353. Alagoinhas	ARAPUA	43.9660	07/30/2010	43.9660
354. Entre Rios	NOVA JERUSALEM	43.5600	07/27/2010	43.5600
355. Inhambupe	NOSSA SENHORA DE FATIMA	43.5600	08/09/2010	43.5600
356. Entre Rios	OLHOS D'AGUA IX	85.8131	07/27/2010	43.4689
357. Mata de São João	BINA	30.7325	07/26/2010	43.2921
358. Inhambupe	LAGE	43.1738	07/14/2010	43.1738
359. Mata de São João	SANTA MARGARIDA	42.9417	07/26/2010	42.9419
360. Entre Rios	JUERANA II	44.7445	07/27/2010	41.9745
361. Inhambupe	MATO DO UMBU	41.5475	07/14/2010	41.5475
362. Entre Rios	VALE I	39.5268	07/27/2010	39.5268
363. Inhambupe	TAPERINHA	39.2798	07/14/2010	39.2798
364. Entre Rios	ADERNO	39.1491	07/27/2010	39.1491
365. Inhambupe	AMARGOSO A	39.1317	07/14/2010	39.1317
366. Entre Rios	FORQUILHA	38.2387	07/27/2010	38.7387
367. Inhambupe	TAPERA	38.6618	07/14/2010	38.6655
368. Alagoinhas	CASTELO	43.5600	07/30/2010	38.4100
369. Alagoinhas	LIMEIRA	43.7500	07/30/2010	38.2500
370. Itapicuri	SALGADO III	37.5606	08/12/2010	37.5606
371. Entre Rios	FUNDAO	33.1410	07/27/2010	37.4336
372. Entre Rios	RIACHO DO MEIO	36.7297	07/27/2010	36.9344
373. Inhambupe	GAIVOTA	36.3976	03/13/2007	36.3976
374. Alagoinhas	LIMEIRA	43.7500	07/30/2010	35.9300
375. Rio Real	RIBEIRA	35.8058	08/17/2010	35.8058
376. Alagoinhas	INES	35.7600	07/30/2010	35.7600
377. Entre Rios	ACASSIA	35.5295	07/27/2010	35.5295
378. Entre Rios	GENIPAPO VII	35.3854	07/27/2010	35.3854

DISTRICT	FARM	AREA According to the Enrollments Certificates (ha)	Enrolment Certificates issued on ¹	AREA indicated by the Company (ha) ²
379. Inhambupe	ITAIBA	34.7571	08/01/2010	34.7571
380. Inhambupe	FATIMA	34.7569	07/14/2010	34.7569
381. Inhambupe	GAROTA	34.7569	08/01/2010	34.7569
382. Entre Rios	PROGRESSO	34.4344	07/27/2010	34.4344
383. Entre Rios	CAMACARI	238.9600	07/27/2010	34.3840
384. Alagoinhas	LAGOA DA CATARINA II	33.5198	07/09/2010	33.5198
385. Rio Real	RIO AZUL (PARTE 2)	33.4898	08/18/2010	33.4898
386. Rio Real	RIO AZUL I (PARTE 3)	33.4849	08/13/2010	33.4898
387. Alagoinhas	ARARAT	33.4178	07/30/2010	33.4178
388. Entre Rios	CASQUINHA	47.4512	07/27/2010	33.3012
389. Entre Rios	LAGO	33.2302	07/27/2010	33.2302
390. Entre Rios	PORTENHA	33.0478	07/27/2010	33.0478
391. Inhambupe	PEDREIRA I	32.8800	07/14/2010	32.8810
392. Alagoinhas	TRES IRMAS	32.8423	07/30/2010	32.8426
393. Entre Rios	MATA VERDE	56.7898	07/27/2010	32.6798
394. Rio Real	ÁGUAS CLARAS III	32.5260	09/01/2010	32.5260
395. Alagoinhas	SHARA	33.6544	07/30/2010	32.4361
396. Inhambupe	CAJUEIRO B	31.3163	07/14/2010	31.3163
397. Inhambupe	CAJUEIRO A	33.6200	08/01/2010	31.3163
398. Entre Rios	FELICIDADE	31.2783	07/27/2010	31.2783
399. Conde	LUA ALTA A	30.7303	07/21/2010	30.7303
400. Alagoinhas	ATALAIA	30.6017	07/30/2010	30.6017
401. Entre Rios	INDEPENDENCIA	30.4629	07/27/2010	30.4629
402. Entre Rios	SUSSUARANA I	35.9022	07/27/2010	29.8222
403. Alagoinhas	PORTOES	30.0000	07/30/2010	29.6600
404. Entre Rios	RIO VERDE	29.5577	07/27/2010	29.5577
405. Mata de São João	CONQUISTA I	29.5403	07/26/2010	29.5403
406. Entre Rios	FERRUGEM	29.1333	07/27/2010	29.1333
407. Alagoinhas	CRISTAL	28.9496	07/30/2010	28.9496
408. Alagoinhas	GIRASSOL	28.8813	07/30/2010	28.8813
409. Alagoinhas	SAO CRISTOVAO	28.8755	09/02/2010	28.8755
410. Conde	IPEUNA	59.0000	07/19/2010	28.8000
411. Entre Rios	BIRIBA	33.9652	07/27/2010	28.6618
412. Entre Rios	TEDESCA	27.9953	07/27/2010	27.9953
413. Alagoinhas	CRISTELA	29.3930	07/30/2010	27.7779
414. Inhambupe	INCA	27.5037	07/14/2010	27.5037
415. Esplanada	TATU	27.3600	08/26/2010	27.3600
416. Entre Rios	SUSSUARANA V	28.1000	07/27/2010	26.9984
417. Entre Rios	NOVA ESPERANCA	26.6540	07/27/2010	26.6540
418. Entre Rios	NOSSA SENHORA DE LOURDES	51.3488	07/27/2010	26.4974
419. Entre Rios	SUSSUARANA III	26.3421	07/27/2010	26.3421
420. Alagoinhas	Turquesa	26.1000	07/30/2010	26.1000
421. Entre Rios	SERRA AZUL	25.8375	07/27/2010	25.8375
422. Inhambupe	PAPAGAIO I	25.5035	07/14/2010	25.5038

DISTRICT	FARM	AREA According to the Enrollments Certificates (ha)	Enrolment Certificates issued on ¹	AREA indicated by the Company (ha) ²
423. Inhambupe	CARINA	22.2300	07/14/2010	25.4799
424. Entre Rios	ESPERANCA	31.9915	07/27/2010	25.1083
425. Entre Rios	MATO LIMPO	24.9049	07/27/2010	24.9049
426. Entre Rios	SANTO ANTONIO II	23.6829	07/27/2010	23.6829
427. Entre Rios	COVA DO BOI	23.3262	07/27/2010	23.3262
428. Entre Rios	CAMPESTRE	22.9996	07/27/2010	22.9996
429. Alagoinhas	CRISTALINA	22.7616	07/09/2010	22.7616
430. Rio Real	CARANGUEIJO III	25.6426	08/09/2010	22.7347
431. Entre Rios	FRADES II/III	22.7176	07/27/2010	22.7176
432. Entre Rios	COVA DO BOI II	22.4682	07/27/2010	22.4682
433. Inhambupe	SACO V	22.7900	07/14/2010	22.1232
434. Entre Rios	CATARINA	16.5421	07/27/2010	21.851
435. Catu	PAFER	21.7798	09/29/2010	21.7798
436. Inhambupe	MATINHA	21.6654	07/14/2010	21.6654
437. Alagoinhas	OLHOS D'AGUA I	21.7925	07/09/2010	21.6351
438. Inhambupe	CAMAMU	21.3395	07/14/2010	21.3395
439. Alagoinhas	OCIDENTE	21.3108	07/30/2010	21.3100
440. Inhambupe	PALMEIRA	21.1462	07/14/2010	21.1462
441. Inhambupe	AMARGOSO J	20.9958	07/14/2010	20.9958
442. Inhambupe	SUBAUMA	20.6314	07/14/2010	20.6314
443. Inhambupe	SACO DO MATIAS	20.3054	08/01/2010	20.3054
444. Alagoinhas	SARANDI A	20.0145	08/27/2010	20.0145
445. Alagoinhas	MILOCA	25.6334	07/30/2010	19.8512
446. Alagoinhas	PASSAGEM	20.8941	07/09/2010	19.7941
447. Mata de São João	BARROS	25.3302	08/25/2010	19.3910
448. Alagoinhas	BARDANA	39.0000	07/30/2010	19.2033
449. Entre Rios	SUSSUARANA V	18.8158	07/27/2010	18.8158
450. Entre Rios	OLHOS D'AGUA XI	18.7954	07/27/2010	18.7954
451. Entre Rios	FRADES IV	18.2022	07/27/2010	18.2022
452. Entre Rios	ALCATIRA	17.9107	07/27/2010	17.9107
453. Entre Rios	IMBUI	17.6973	07/27/2010	17.6973
454. Entre Rios	RIO GRANDE II	17.6800	07/27/2010	17.6800
455. Inhambupe	AMARGOSO G	17.4632	07/14/2010	17.4632
456. Inhambupe	VOLTA DE CIMA V	17.4493	07/14/2010	17.4493
457. Inhambupe	AMARGOSO I	17.4240	07/14/2010	17.4240
458. Inhambupe	CAJUEIRO C	17.4240	07/14/2010	17.4240
459. Alagoinhas	ANCE	17.4240	07/09/2010	17.4240
460. Entre Rios	MARABA	16.8000	07/27/2010	16.8000
461. Entre Rios	MARAJÓ	29.0096	07/27/2010	16.6212
462. Mata de São João	CANON I	16.8188	07/27/2010	16.2653
463. Alagoinhas	LIRIO	15.7494	07/30/2010	15.7494
464. Entre Rios	SOLEDADE	18.9389	07/27/2010	15.6389
465. Entre Rios	RIO NEGRO	15.6177	07/27/2010	15.6177
466. Inhambupe	VOLTA DE CIMA I	15.1767	07/14/2010	15.1767
467. Alagoinhas	CHAMBO	15.1765	07/30/2010	15.1765

APPENDIX IV

PROPERTY VALUATION

DISTRICT	FARM	AREA According to the Enrollments Certificates (ha)	Enrolment Certificates issued on ¹	AREA indicated by the Company (ha) ²
468. Alagoinhas	MANGA	15.0000	07/09/2010	15.0000
469. Alagoinhas	JACOCA	14.9502	07/30/2010	14.9502
470. Alagoinhas	SUCURI	35.5974	07/09/2010	14.6450
471. Alagoinhas	SANTA CRUZ	17.6673	07/30/2010	14.5126
472. Alagoinhas	NOLAR	14.3998	07/30/2010	14.3938
473. Entre Rios	FRADES I	21.0237	07/27/2010	14.2240
474. Entre Rios	CAPOEIRINHA A	14.0793	07/27/2010	14.0793
475. Entre Rios	MACHADO	13.8913	07/27/2010	13.8916
476. Inhambupe	CAJUEIRO E/F	13.8900	07/14/2010	13.8900
477. Entre Rios	COWBOI I	13.8023	07/27/2010	13.8023
478. Entre Rios	ALALI	13.7757	07/27/2010	13.7757
479. Entre Rios	SAPUCAIA	13.5938	07/27/2010	13.5938
480. Entre Rios	MATO LIMPO A	13.5689	07/27/2010	13.5689
481. Entre Rios	GENIPAPO V	13.5439	07/27/2010	13.5439
482. Alagoinhas	CEJARA	13.5036	07/30/2010	13.5036
483. Irara	ESTRELA	13.4614	07/21/2010	13.4614
484. Alagoinhas	IPE	13.1671	07/30/2010	13.1671
485. Olindina	MANDACARU III	12.4749	07/19/2010	12.4749
486. Alagoinhas	ORIENTE(Canta Galo)	12.3275	07/30/2010	12.3276
487. Inhambupe	RETIRO	11.9664	07/14/2010	11.9664
488. Inhambupe	AMARGOSO F	8.0000	08/01/2010	11.9310
489. Alagoinhas	VASSOURA	11.7493	07/30/2010	11.7493
490. Entre Rios	POSTAL	11.0258	07/27/2010	11.7258
491. Alagoinhas	CHAMBE	11.3437	07/30/2010	11.4804
492. Entre Rios	LOTE 19	11.2697	07/27/2010	11.2697
493. Alagoinhas	VIRGEM	11.1062	07/30/2010	11.1062
494. Inhambupe	VOLTA DO MEIO	11.8794	07/14/2010	11.0794
495. Entre Rios	CAPOEIRINHA	11.0519	07/27/2010	11.0519
496. Inhanbupe	AMARGOSO D	11.0119	08/01/2010	11.0119
497. Alagoinhas	CHAMBA	10.5265	07/30/2010	10.5265
498. Entre Rios	CAPOEIRINHA IV	19.1910	07/23/2010	10.4887
499. Inhambupe	QUEBRADA	10.1320	08/01/2010	10.1320
500. Inhambupe	AMARGOSO H	10.1277	07/14/2010	10.1277
501. Inhambupe	MURICI A	10.1086	07/14/2009	10.1086
502. Inhambupe	VOLTA DE CIMA IV	10.0038	08/01/2010	10.0038
503. Entre Rios	CAPOEIRINHA VI	9.9793	07/27/2010	9.9793
504. Entre Rios	MUNGUBA	10.0188	07/27/2010	9.9188
505. Entre Rios	NEGRO DO MATO VIII	9.8516	07/27/2010	9.8516
506. Entre Rios	OLHOS D'AGUA V	9.5774	07/27/2010	9.5774
507. Entre Rios	CANADA	9.0138	07/27/2010	9.0138
508. Entre Rios	GENIPAPO VIII	8.9364	07/27/2010	8.9364
509. Entre Rios	TIMBO	8.8478	07/27/2010	8.8478
510. Inhambupe	CAJUEIRO D	8.7120	07/14/2010	8.7120
511. Alagoinhas	MALHADINHA I	11.2508	07/09/2010	8.3879
512. Inhambupe	CANDEIA	8.1225	07/14/2010	8.1225

APPENDIX IV

PROPERTY VALUATION

DISTRICT	FARM	AREA According to the Enrollments Certificates (ha)	Enrolment Certificates issued on ¹	AREA indicated by the Company (ha) ²
513. Alagoinhas	MALHADINHA II	11.5995	07/09/2010	7.9495
514. Inhambupe	TAPERINHA A/B	18.8808	07/14/2010	7.8398
515. Entre Rios	COVA DO BOI III	7.6970	07/27/2010	7.6970
516. Entre Rios	PITOMBA	7.6500	07/27/2010	7.6500
517. Entre Rios	RANCHO ALEGRE V	7.5506	07/27/2010	7.5506
518. Alagoinhas	PEREQUE	7.4928	07/09/2010	7.4928
519. Alagoinhas	ITAU	13.6699	07/30/2010	7.4699
520. Alagoinhas	BIBI II	7.2868	07/09/2010	7.2868
521. Alagoinhas	MAMAO	7.1495	07/30/2010	7.1495
522. Entre Rios	CAPOEIRINHA III	6.7485	07/27/2010	6.7482
523. Entre Rios	CAPOEIRINHA D	6.4827	07/27/2010	6.4827
524. Entre Rios	DOLINA	6.2200	07/27/2010	6.2200
525. Esplanada	ALECRIM	5.8291	07/20/2010	5.8291
526. Alagoinhas	SITIO JUERANA	5.7718	07/30/2010	5.7718
527. Inhambupe	VOLTA DE CIMA II	5.3514	07/14/2010	5.3514
528. Mata de São João	LISBOA	4.4564	08/25/2010	5.3355
529. Inhambupe	MONTE ALEGRE II	5.1411	07/14/2010	5.1411
530. Entre Rios	TOESA	5.0768	07/27/2010	5.0768
531. Entre Rios	COWBOI II	4.9007	07/27/2010	4.9007
532. Entre Rios	FENICIA	4.8084	07/27/2010	4.8084
533. Inhambupe	VOLTA DE CIMA III	4.5324	07/14/2010	4.5324
534. Entre Rios	XINDUBA III	10.8404	07/27/2010	4.4477
535. Irapá	IRACEMA ³	111.0780	07/21/2010	3.8888
536. Entre Rios	BEIRADA	3.6241	07/27/2010	3.6241
537. Entre Rios	BEIRADAO	3.6241	07/27/2010	3.6241
538. Entre Rios	SULTANA	3.1133	07/27/2010	3.1133
539. Entre Rios	ROSANA	3.0846	07/27/2010	3.0846
540. Entre Rios	FAZENDINHA	3.0134	07/27/2010	3.0134
541. Alagoinhas	TUCANO	366.9543	07/09/2010	2.9721
542. Entre Rios	PEDRA BRANCA	2.7473	07/27/2010	2.7473
543. Alagoinhas	PANCARAI	2.6957	07/26/2010	2.6957
544. Alagoinhas	PASTOREIO	2.3537	07/09/2010	2.3537
545. Alagoinhas	SANTA CRUZ A	6.906	08/25/2010	2.1824
546. Entre Rios	COITE	1.9603	07/27/2010	1.9603
547. Rio Real	OLHOS D'AGUA VII	21.5066	08/12/2010	1.7400
548. Entre Rios	VALE II	1.2828	07/27/2010	1.2828
549. Mata de São João	CACHOEIRA GRANDE A	0.5663	07/27/2010	0.5663
TOTAL AREA		118,047.1318		112,658.1898

BAHIA SPECIALTY CELLULOSE S.A.

DISTRICT	FARM	AREA (ha)	Enrolment Certificates issued on ¹	AREA indicated by the Company (ha)	
		TOTAL		TOTAL	
BAHIA SPECIALTY CELLULOSE AREAS					
1.	Mata de Sao Joao	PEDRA DO SOBRADO	7,954.2320	07/06/2010	7,954.2320
2.	Rio Real	REUNIDAS MARCANAIR	4,882.3801	01/21/2010	4,882.3800
3.	Entre Rios	AREAL	4,255.8700	07/27/2010	4,255.8700
4.	Rio Real	REUNIDAS TERRA DURA	1,906.1534	06/18/2010	1,906.1500
5.	Conde	ALTAMIRA DA DIREITA	1,617.5785	07/22/2010	1,617.5800
6.	Mata de Sao Joao	CACHIMBO	1,545.2750	07/06/2010	1,545.2700
7.	Esplanada	REUNIDAS RIACHO ESCURO	1,125.5965	08/02/2010	1,125.6000
8.	Esplanada	REUNIDAS TIMBOZINHO	959.2805	07/16/2010	959.2800
9.	Esplanada	FALCÃO	676.3439	08/02/2010	676.3439
10.	Esplanada	REUNIDAS SR.DO BONFIM (parte)	493.5300	03/24/2010	493.5773
11.	Mata de Sao Joao	MARABÁ	418.0000	01/15/2010	418.0000
12.	Esplanada	BARRA DO MALOMBE (II)	282.6666	07/16/2010	282.6700
13.	Mata de Sao Joao	DENDEZEIRO	261.1500	01/15/2010	261.1500
14.	Esplanada	COCO CARDOSO - I	227.7860	07/16/2010	227.7860
15.	Mata de Sao Joao	VÁRZEA DE BAIXO	197.3900	03/23/2010	197.3900
16.	Conde	REUNIDAS ITARIRI (parte)	178.0009	07/22/2010	178.0009
17.	Entre Rios	BOM JARDIM	163.8200	01/15/2010	163.8250
18.	Mata de Sao Joao	ALEGRIA	97.7200	01/15/2010	97.7200
19.	Esplanada	RIACHO DA ONCA	86.1649	06/22/2009	86.1649
20.	Esplanada	GUARIBAS	52.3493	07/16/2010	52.3500
21.	Esplanada	TIMBOZINHO IV	49.7485	07/16/2010	49.7500
TOTAL AREA			27,431.0392		27,431.0900

EXHIBIT III TO THE LEGAL OPINION DATED AS OF NOVEMBER 26, 2010

REAL ESTATE PROPERTIES WITH RIGHT OF POSSESSION ONLY ACCORDING TO
CERTIFICATE RECEIVED FROM THE BRAZILIAN SUBSIDIARIES

SALE CONTRACT — COPENER FLORESTAL LTDA.

	FARM	AREA (HÁ)	PURCHASE DATE	KIND
1	Poços	660.8556	21.05.99	Heritage assignment
2	Vargem	370.0204		Possession
3	Mangue Dourado	367.5681		Possession
4	Orion	327.4762	21.05.99	Possession
5	Caboclo	4.7631	21.05.99	Possession
6	Poços	1.7318	21.05.99	Possession
7	Barbosa II	189.3201	10.05.84	Possession
8	Cabuçu	185.6023	26.11.86	Possession
9	Cacique	181.4163	26.11.86	Possession
10	Paloma	176.5700	26.11.86	Possession
11	Tanquinho	163.2724	10.11.92	Possession
12	Cardoso IV	157.1989	21.05.99	Possession
13	Cardoso V	151.8510	21.05.99	Possession
14	Abaíra	145.5040	15.08.88	Possession
15	Mutica	137.5999	20.09.88	Possession
16	Jangada	130.3086	20.11.87	Possession
17	Taita I	126.5731	19.10.90	Possession
18	Concórdia	122.8161	30.11.90	Possession
19	Ibó	101.5056	08.10.87	Possession
20	Mingote	100.5349	30.09.86	Possession
21	Pontal	100.3556	14.05.1987	Possession
22	Bardana	93.6717	05.11.87	Possession
23	Alegrete II	91.4760	31.07.90	Possession
24	Olaria	89.2753	29.10.87	Possession
25	Talisca A	88.2884	29.12.87	Possession
26	Cabeça do Rio	88.0576	15.12.87	Possession
27	Pancada Grande II	84.1208		Possession
28	Moíta Fria	82.4504	05.12.86	Possession
29	União	81.4720	25.06.87	Possession
30	Oliveira	81.2245	21.03.88	Possession
31	Piranema (Água Fria)	80.2647	10.09.87	Possession
32	Uruba	77.5897	17.12.87	Possession
33	Erundi	74.1755	24.01.89	Possession
34	Bariri	72.9013	09.09.92	Possession
35	Roldana	66.5450	22.09.88	Possession
36	Tombadora	63.0059	20.10.87	Possession
37	Catolé	62.6242	30.11.90	Possession
38	Amora	61.6841	23.10.84	Possession
39	Santana	60.3921	20.12.85	Possession
40	Alegrete	59.5465	28.12.89	Possession
41	Pafer I (Catu)	59.2730	09.06.88	Possession

APPENDIX IV

PROPERTY VALUATION

	FARM	AREA (HÁ)	PURCHASE DATE	KIND
42	Cercania	53.1999	03.09.87	Possession
43	Ribó	53.0620	15.03.88	Possession
44	Batista	48.7597	20.07.88	Heritage assignment
45	Tamanduá II (Conde)	48.6021	21.05.99	Possession
46	Hawaí	48.0755	15.12.87	Possession
47	Cachoeira IV	47.6186	15.01.97	Possession
48	Neves	47.1628		Possession
49	Visale	46.3901		Possession
50	Baver	44.2794	02.08.88	Possession
51	Canto Escuro	41.3369	02.04.87	Possession
52	N.Sa. das Graças	36.4989	27.07.84	Possession
53	Fafsa	36.1218	29.12.87	Possession
54	Oliva	34.4794	09.02.88	Possession
55	Olival	31.0029	23.02.88	Possession
56	Turquesa I	30.5280	24.03.87	Possession
57	Eldorado	29.0852	15.06.87	Possession
58	Fuerte	28.8071	09.02.88	Possession
59	Nascença II	28.3841	4.4.91	Possession
60	Jardineira	27.2538		Possession
61	Donana	26.6428	28.11.86	Possession
62	Tejana	26.4000	27.10.87	Heritage assignment
63	Bauru	24.6922	15.12.87	Possession
64	Pedreira	24.2994	27.10.87	Possession
65	Matila	24.0817	14.02.90	Possession
66	Flórida (Água Fria)	23.7394	20.01.87	Possession
67	Serrado I	23.4137	25.07.91	Possession
68	Mangalô A	23.0000	09.03.88	Possession
69	Jangada II	22.9312	29.03.88	Possession
70	Cajazeira	22.9212	21.01.88	Possession
71	Lagoinha	22.6056	18.11.88	Possession
72	Queimadão	22.2921	19.09.84	Possession
73	Alvorada	22.0497	30.06.87	Possession
74	Iris	21.4950	15.08.97	Possession
75	Melodia	21.0332	30.04.87	Possession
76	Irati	20.8112	19.06.92	Possession
77	Vazante	19.9200	23.04.87	Possession
78	Ibirá	19.3609	05.01.87	Possession
79	Lagoa Branca	18.2903	24.8.84	Possession
80	Coaraci	18.0751	05.01.88	Heritage assignment
81	Olhos D'agua III	17.9615	11.03.86	Possession
82	Guaíba	17.5660	21.03.88	Possession
83	Baixão	17.0842	13.10.86	Possession
84	Recanto	16.8653	07.11.86	Possession
85	Panelas	16.8171	17.03.87	Possession
86	Mirangá I	16.4638	05.09.88	Possession
87	Negro do Mato IX	16.2875	10.05.84	Possession
88	Itachan I	15.6191		Possession
89	Salobro IV	15.3972	6.12.83	Possession

APPENDIX IV

PROPERTY VALUATION

	FARM	AREA (HÁ)	PURCHASE DATE	KIND
90	Riacho Vermelho	14.8451	16.02.96	Possession
91	Brejadinha	14.8090	27.07.88	Possession
92	Benedita	14.1346	18.03.86	Possession
93	Ubá	13.8556	09.06.87	Possession
94	Santa Rita	13.8473	15.09.86	Possession
95	Gaveta	13.1572	17.02.87	Possession
96	Zanun II	13.0361	25.04.91	Possession
97	Tamisa	13.0120	14.02.89	Possession
98	Anjuna	12.8854	22.01.88	Possession
99	Cruz	12.4284		Possession
100	Olhos D'agua II	11.4631	11.05.86	Possession
101	Santa Alice	11.4374	08.01.91	Possession
102	Pity	11.3478	09.12.88	Possession
103	Arambol	10.2198		Possession
104	Mulata	10.0977	21.01.88	Possession
105	Sauipe B	9.7742	22.12.87	Possession
106	Capoeirinha C	9.6595	18.09.85	Possession
107	Lama Preta	9.5106	29.12.86	Possession
108	Lenca	9.4239	07.11.86	Possession
109	Mangara	9.3540		Possession
110	Taquara	9.3426	19.12.88	Possession
111	Benedito	8.8701	25.06.86	Possession
112	Boa Sorte	8.6453	22.01.88	Possession
113	Canela	8.4108	19.05.86	Possession
114	Bauru I	8.2112	03.03.88	Possession
115	Caburé	7.9332	6.5.83	Possession
116	Tatuí	7.8392	13.1.87	Possession
117	Regente	7.5363	16.10.91	Possession
118	Setubal	6.9390	12.01.89	Possession
119	Tombador I	6.3842	04.03.86	Possession
120	Celina	5.8757	07.08.87	Possession
121	Chácara Mangabeira	5.8737	30.05.90	Possession
122	Negro do Mato	5.6374	08.02.85	Possession
123	Três Irmãs A	5.6263		Possession
124	Tradição I	5.6263	02.10.90	Heritage assignment
125	Estevo	5.4278	05.12.86	Possession
126	Salgado	5.3268	13.9.84	Possession
127	Rapeca	4.5440	03.08.88	Possession
128	Mangueira	4.5361	21.5.99	Possession
129	Perdiz	4.3678	18.08.87	Possession
130	Salgada	4.3562	13.11.84	Possession
131	Leira (Água Fria)	4.1800	27.01.87	Possession
132	Texana	3.6728	04.11.87	Possession
133	Vila Flor	3.5488	12.03.93	Possession
134	Acará I	3.4651	27.03.86	Possession
135	Jatobá I	2.9814	22.06.89	Possession
136	Perequê I	2.1199	21.10.88	Possession
137	Beiradinha	1.8167	26.11.87	Possession

APPENDIX IV**PROPERTY VALUATION**

	FARM	AREA (HÁ)	PURCHASE DATE	KIND
138	Estância	1.3692	02.08.88	Possession
139	Conquista (Itanagra)	1.3426	19.06.89	Possession
140	Taboca (Aporá)	1.2478	09.11.84	Possession
141	Cabeça do Rio A	0.6220	06.05.88	Possession
142	Ponta do Brejo	0.6037	05.11.86	Possession
143	Passagem	0.4813	25.09.89	Possession
144	Honório	0.1897	18.08.86	Possession
145	Cabeça do Rio C	0.1848	06.05.88	Possession
146	Brejada - Lote D	0.0561	26.03.90	Possession
147	Brejada - Lote A	0.0416	29.03.90	Possession
148	Brejada - Lote B	0.0412	29.03.90	Possession
149	Calçada Nova (Calçada)	245.6448	21.5.04	Possession
150	Xinduba II	19.8536	23.7.84	Possession
151	Riviera	12.0800	11.7.88	Possession
152	Santa Inês I	6.6249	26.11.93	Possession
152	Santa Inês II	7.2900	26.11.93	Possession
154	Vereda	19.9926	30.4.87	Possession
155	Encantado	351.3300	21.5.99	Possession
156	Cayru	64.7463	30.5.85	Possession
157	Boa Vista/ Pedra Angular	128.4223	3.1.84	Possession
158	Valentim III	36.4560	2.12.00	Possession
159	Pati	16.0200	31.7.84	Possession
160	Rio Negro	138.9004	14.12.83	Possession
161	Brejão	471.0500	7.6.91	Possession
162	Labra	75.3513	18.5.89	Possession
163	Escuna	27.3100	8.12.88	Possession
164	Carangueijo I	15.9204	29.6.84	Possession
165	Tombador II	12.8589	4.3.86	Possession
166	Salgado	11.3900		Possession
167	Baixa da Cristalina	458.4242		Possession
168	Calçada	167.9391	11.1.84	Possession
169	Tradição	32.8426	2.10.90	Possession
170	Turquesa	26.1000	24.3.87	Possession
171	Nossa Sra. P. Socorro	0.9600	2.2.93	Possession
	TOTAL Possession SALE CF	9,530.7281		

UNCONTESTED OCCUPATION — COPENER FLORESTAL LTDA.

Ranking	FARM	AREA (HÁ)	POSSESSOR	OCCUPATION DATE	KIND
1	Umbauba	122.36	COPENER	30.03.87	Uncontested Occupation
2	Valentim III	36.456	COPENER	15.02.86	Uncontested Occupation
3	Reunidas Massaranduba	6.7314	COPENER	10.05.94	Uncontested Occupation
4	Brejada - Lote C / G	0.1166	COPENER	20.09.90	Uncontested Occupation
5	Brejada - Lote H	0.095	COPENER	26.03.90	Uncontested Occupation
6	Brejada - Lote E	0.0361	COPENER	26.03.90	Uncontested Occupation
7	Brejada - Lote F	0.036	COPENER	26.03.90	Uncontested Occupation
8	Brejada	339.4936	COPENER		Uncontested Occupation

TOTAL Possession **505.3247**

**UNCONTESTED
OCCUPATION CF**

SALE CONTRACT — BAHIA SPECIALTY CELLULOSE S.A.

Ranking	FARM	AREA (HÁ)	POSSESSOR	PURCHASE DATE	KIND
1	Reunidas Monte Gordo	356.62	BSC	21.05.99	Heritage assignment
2	Jaboticaba	195.9643	BSC	21.05.99	Heritage assignment
3	Cardoso VIII	2.234	BSC	21.05.99	Possession

TOTAL Possession SALE BSC **554.8183**

EXHIBIT IV TO THE LEGAL OPINION DATED AS OF NOVEMBER 26, 2010**ENCUMBRANCES ON THE REAL ESTATE PROPERTIES**

1. The real estate property owned by Bahia Specialty Cellulose and located at Rua Alfa, 1.033, at the Polo Industrial de Camaçari, State of Bahia is object of a 1st priority mortgage to guarantee an amount of US\$350,000.00, (which release is pending), and a 2nd priority mortgage to guarantee an amount of US\$470,000.00, registered in the enrolment certificate nr.1823 of the Real State Registry Office of Camaçari State of Bahia, issued on November, 8, 2010.
2. The real estate property named Altamira da Direita Farm is object of a mortgage to guarantee the delivery of wood in favor of Companhia de Ferro Ligas da Bahia S.A- FEBRASA, according to the enrolment certificate nr. 164 of the Real Estate Registry Office of Conde, State of Bahia, issued on June 10, 2010.

Note: The legal opinion on Brazil properties cited in this valuation report is extracted from the legal opinion prepared by the Group's Brazil legal advisors.

The following is the text of a letter and independent technical report prepared for the purpose of incorporation in this prospectus received from AMEC Forest Industry Consulting, an independent technical consultant, in connection with our wood plantations in Brazil.

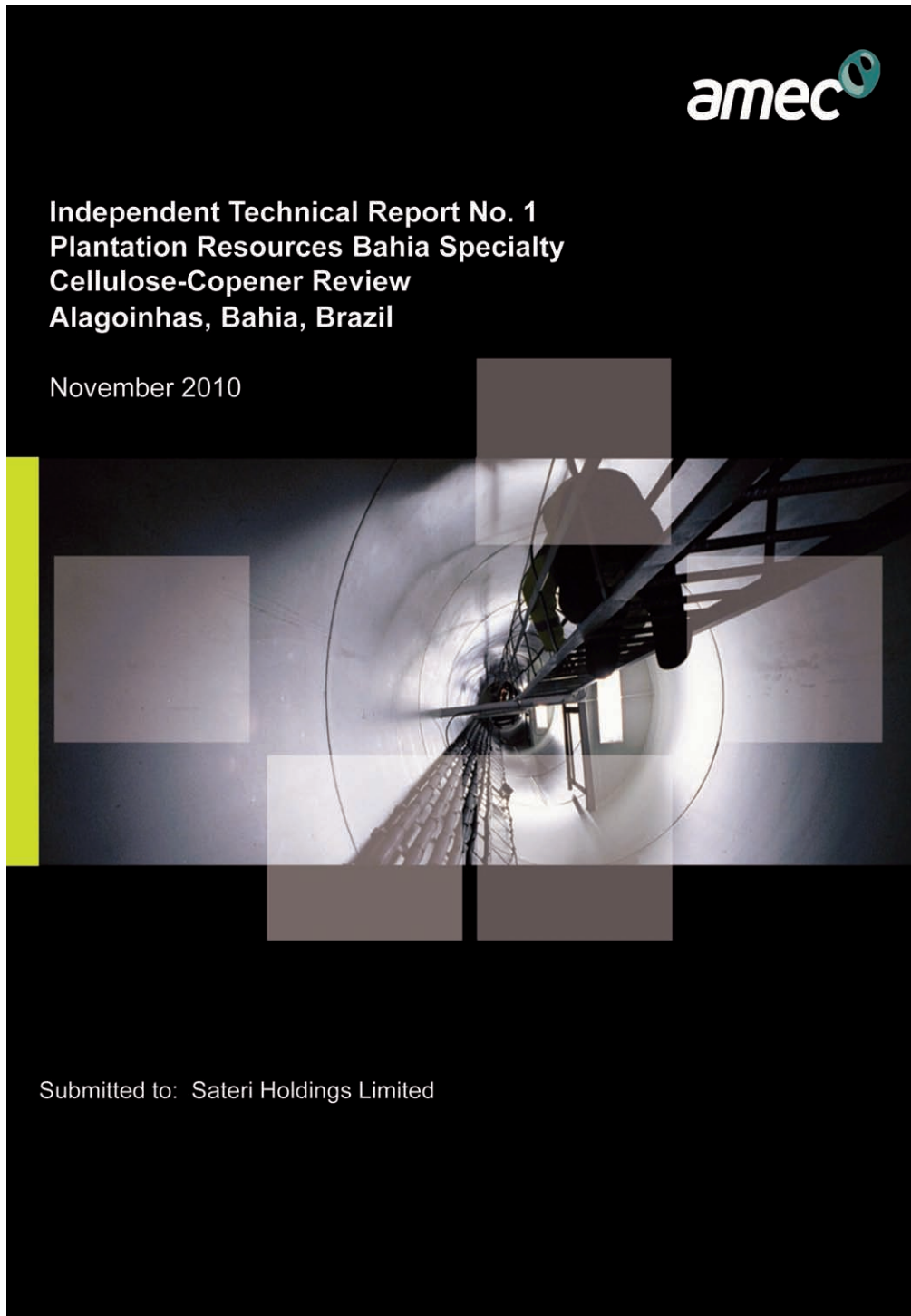


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EXECUTIVE SUMMARY

In May 2010, AMEC was commissioned to review the wood supply strategy of Bahia Specialty Cellulose and Copener (the operations in Brazil). AMEC used 2008 as the first period of review as the period between 2007 and 2008 was prior to both the global financial crisis, which affected the Group's plantation and pulp operations, and the commissioning and ramp-up of the second production line at the Bahia Specialty Cellulose mill, which affected pulp production patterns. The timeframe selected also served as a suitable reference point to observe how much wood was required and how many trees have been planted to meet the incremental requirements of the Bahia Specialty Cellulose mill following the commissioning of the second production line. The key observations are:

- The Brazilian operations reduced plantings on own land in 2009 from the planned 12,000 ha to an actual 6,600 ha;
- Community Planting Program ("CPP") only totals 5,600 ha in 2009 and needs to increase its annual expansion to 4,000 ha per year for the next two years to reach its target of 15,000 ha in 2012; and
- All things being as they are today, the Brazilian operations will in 2015, consume all of the available surplus mature fibre and in subsequent years will have a maximum surplus margin of approximately 200,000m³/year (7%).

The primary conclusions and recommendations of this assignment are:

- Planting must get back to the pre-2009 levels of 12,000 to 15,000 ha per year;
- The Brazilian operations should identify options for additional supply (purchased land, CPP and open market sources) to mitigate any shortfall risk; and
- The R&D planned investment should go forward to support the Genetic Improvement Program.

Notwithstanding the above, the Brazilian operations has sufficient fibre available to sustain the current design capacity of the mill of 465,000 metric tons per year as well as expansion to 485,000 metric tons per year. This conclusion is based on a mathematical calculation driven by pulp production, pulp yield, eucalyptus growth rate and density, and planting area on an annual basis.

1.0 GROUP OVERVIEW

The Brazilian operations is part of the Sateri Group, which acquired Bahia Specialty Cellulose and Copener in 2003. The management team, with a few senior changes, has been in place now for 7 years and a review of the efficacy of the plans in place is warranted.

The Brazilian operations commenced management of the approximately 150,000 ha of land and eucalypt plantations that had originally been established for energy production and were subsequently converted to pulpwood supply for Bahia Specialty Cellulose's predecessor company in the mid 1990s.

Of the plantations acquired in 2003, as of September 30, 2010, 4,623 ha of these original plantations remain (1,180 ha in first rotation and 3,444 ha under a coppice regime). In 2010 and 2011, the remainder of 4,623 ha is expected to be completely harvested and replaced with superior growing stock; due to the coppice management regime, the remaining 997 ha won't be harvested and replaced with superior growing stock until 2016.

2.0 BASIS OF THE REPORT

In the preparation of this report, AMEC relied upon the Group for the timely delivery of accurate information prior to field investigations and subsequent independent analysis of the information.

The Group's co-operation in the provision of the requested information has been faultless.

3.0 AMEC QUALIFICATIONS

AMEC PLC is a publically listed company on the London Stock Exchange with a market capitalization of GBP2.5 billion (March 2010). It is a global leader in providing services and engineering solutions to the world's infrastructure, manufacturing and process industries. AMEC has an annual revenue of over £2.5 billion (2009), more than 20,000 employees and offices in more than 40 countries. Neither AMEC PLC nor any of its subsidiaries actively invests in client companies nor do they actively promote investment activity or financing efforts of their client companies. As such, the reviews undertaken for their client companies are independent.

AMEC Forest Industry Consulting (FIC), a division of AMEC Americas Limited, has been providing technology and management consulting services to operating companies, investors, financial institutions, government agencies and others since the 1970s. It has carried out numerous plantation reviews for companies listed on the London and New York Stock Exchanges and has experience in all global forest regions in the world.

The staff involved in the review of the Group's plantation assets have over 100 years' combined experience in the forest products sector and have held positions as professional foresters, senior executives and senior operating officers in operating companies. Although no guidelines are issued by any recognized professional bodies on conducting reviews of plantation assets by technical consultants, the methodology employed by AMEC in its review of the Group's plantation assets is well accepted and proven.

4.0 STUDY METHODOLOGY

- Advance provision to the company's team of AMEC's detailed data request.
- Presentation and discussion of AMEC requested information with the company's team at Copener's office in Alagoinhas.
- Tour of Copener's nursery and research facilities at Inhambupe.
- Tour of representative plantations including harvesting operations in the Brazilian plantations.
- Independent analysis of the data and discussions with Copener's Forestry Director and key operational managers.
- Follow-up information requests and timely receipt of same.
- Review of consultants key findings.
- Final report preparation in Vancouver, BC, Canada.

5.0 PLANTATION OPERATIONS

The Brazilian operation's plantations (the "Fibre Estate") are located in the extreme Northeastern coastal region (Litoral) of Bahia State and serviced by an established rural infrastructure including communications, energy supply, developed service centers, agricultural communities and highway access from the plantations to the mill and the port of Salvador.

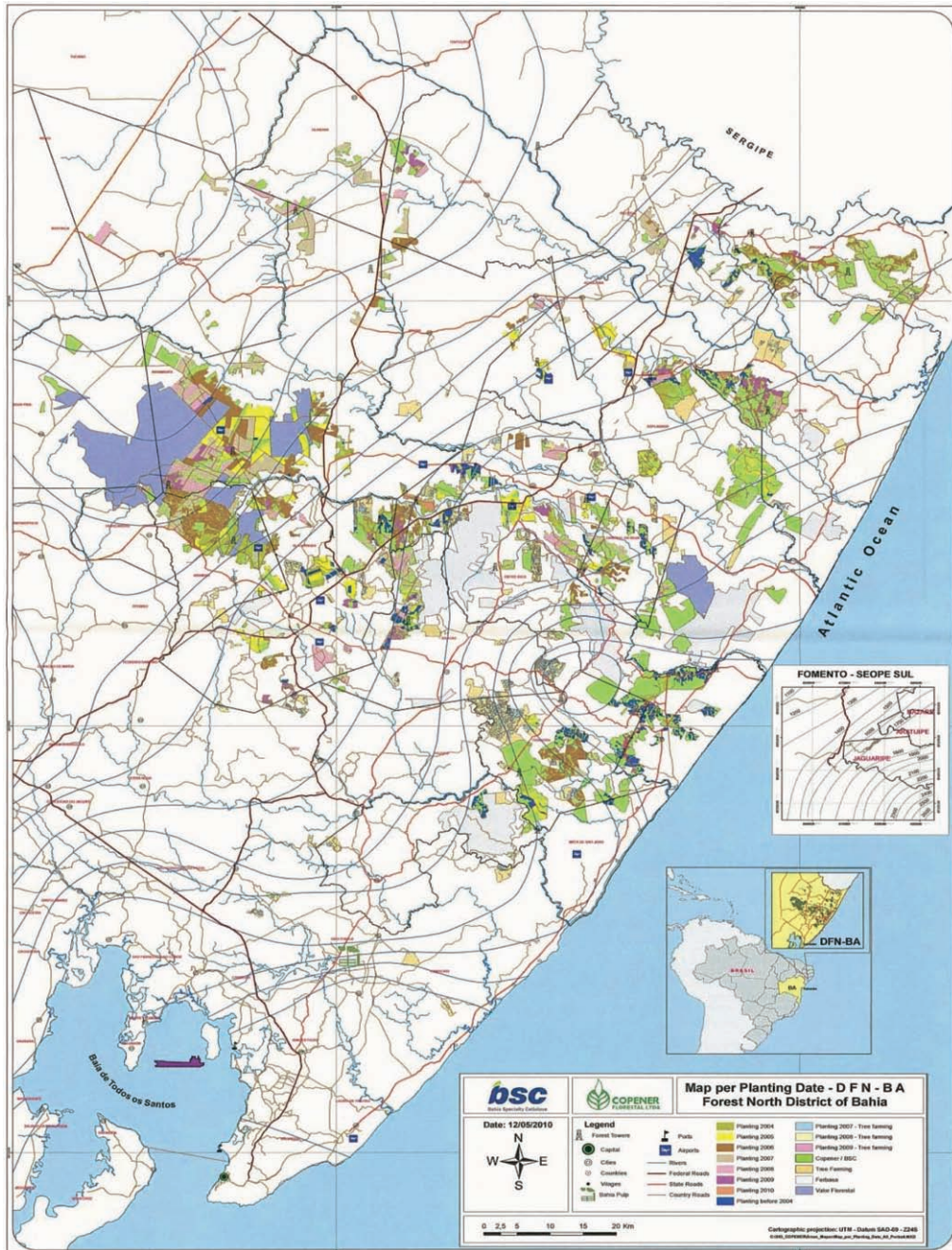
5.1 Land and Pulpwood Resources

The Fibre Estate encompasses approximately 150,492 ha of land which 55% or 82,484 ha are productive and/or plantable. The remaining 68,008 ha is composed of the following:

- Legal Reserves, Permanent Preservation Areas, Infrastructure, etc. account for 66,569 ha (44%).
- Nursery, R&D and Cutting Collection Area account for the remaining 1,439 ha (1%).

Productive and plantable lands are generally located on benches (disused rangelands) with slopes of less than 5%. Steeper slopes, gullies, watercourses, Litoral Forest remnants etc. are excluded. The prevailing soils and climatic conditions are conducive to the maintenance of fast growing species in plantations.

In addition to the Fibre Estate, the CPP provides the Brazil operations with cooperative, fee based access to plantable former range lands owned by third parties. As of 31 December 2009, the CPP program added 5,604 ha of land to the Brazilian operation’s accessible land for plantation. The Brazilian operations plans to add another 490 ha by 31 December 2010 and must increase its annual expansion to about 4,000 ha per year for the years 2011 and 2012 to reach its goal of 15,000 ha by 31 December 2012, which may represent a challenge given the complexity of the process.



As of September 30, 2010, the Brazilian operations' productive lands, including CPP, totaled 88,577 ha, of which 2,417 ha are currently fallow and available for planting. The Brazilian operations targets to have a projected 100,000 ha of eucalypt to be planted by 2010-11. The shortfall is as a result of reducing plantings on the Brazilian operations own plantation lands from approximately 15,000 ha per year to 6,700 ha in 2009 and the shortfall in the CPP program. This was a decision made to preserve cash as a result of the financial crisis. More importantly, the Brazilian operations expects to get back to its plan to plant approximately 13,500 ha this year (although only 9,370 ha have been planted as of September 30, 2010), and to approximately 15,000 ha for the foreseeable future. The Brazilian operations has demonstrated its ability in the past to achieve planting levels of as much as 17,000 ha in 2006 and 21,500 ha in 2007.

5.2 Species and Age Profile

The plantation is predominantly stocked with selected hybrid clones known as "urograndis". Generic diversity is ensured through the use of many different hybrid clones.

Eucalypts other than the "urograndis" hybrid are grown throughout the Fibre Estate and provide additional genetic diversity.

The hybrid genetic material employed by the Brazilian operations is essentially the same as that which is found in the plantations of Fibria, Veracel, and Bahia Sul.

There appears to be sufficient mature stands (age 6-10 yrs) to meet pulp mill requirements based on the Brazilian operations' planting program for up to 485,000 metric tons annual capacity. Over the past several years the stock that has been planted by Copener is of a type that will mature in 6 to 7 years and in fact, a more normal distribution of age class is planned for 2010 harvesting — 6 to 7 years compared to the wood harvested in the past.

6.0 OPERATIONAL PRACTICES

6.1 Nursery and Plantation Establishment

The propagation and delivery of planting stock takes place at the Brazilian operations' own nursery centrally located adjacent to its research facility at Inhambupe. The majority of the labour force is supplied by independent contractors under Brazilian operations' supervision.

The nursery has an area of approximately 21 ha and its capacity is 40 million plants/year from eucalypt cuttings. It has been operating at about 30 million plants/year in recent years. The genetic material for the plants comes from the Brazilian operations.

The nursery modernization scheduled for in 2008/09, at a cost of R\$17.2 million has been delayed to 2010/11 due to the decision taken to preserve cash after the financial crisis of 2008/2009 and worldwide recession. The Brazilian operations now forecasts that a total of R\$20.0 million will be invested in the nursery modernization program, of which approximately R\$7.0 million will be invested in 2010. The modernization will involve an upgrade in technology used in the nursery to replace macro cutting with micro cutting propagation which will dramatically improve productivity.

Planting is done by established, experienced contractors under the Brazilian operations' supervision. Survival rates average 98-99%. Since assuming control of the Fibre Estate, the Brazilian operations has planted/replanted approximately 86,999 ha with genetically improved eucalypts.

AMEC believes that Brazilian operations' establishment and maintenance costs are in line with the Brazilian average for high quality, fast growing eucalypt plantations given the volatility of variables such as fuel which are beyond the Brazilian operations' control.

6.2 Growth and Yield

Harvesting is still concentrated in existing stands where growth and yield is low compared to that which is expected from the hybrid clones now being developed in accord with the Genetic Improvement Program.

Genetic Improvement Program (GIP)

	2008 Stands	2010 Stands	GIP Stands (Target)	
			2011	2015
Plantation Growth (m ³ /ha/yr)	29.3	28.9	29.0	35.0
Wood Density (kg/m ³)	501	478	501	530
Pulp Mill Consumption (m ³ /ADt)	5.1	5.2	5.1	4.8
Pulp Equivalent of Plantations (ADt/ha/yr).	5.8	5.6	5.7	7.3

Source: The Group, AMEC

Density varies greatly with the age of the trees harvested — lower density in younger trees. The age of the trees harvested in 2008 and 2010 are 8.2 and 6.6 years respectively and accounts for the decline in the density from 2008 to 2010.

Note that the Mill reported consumption (m³/ADt) and the forestry figures differ because:

- Mill figures are after chipping and screening;
- Forestry figures include a small proportion of bark that isn't removed in the harvesting process; and
- Forestry figures are “delivered” volume from the harvesting operation roadside to the mill.

The data above indicate the GIP appears to be about 3-5 years behind the schedule developed in 2008. Given the GIP goal of 7.3 ADt/ha/year and 88,000 ha plantation, maximum sustainable production in the future would be 642,000 ADt/yr in 2015 and beyond.

6.3 Harvesting and Delivery to the Mill

All phases of harvesting and delivery, including road construction and maintenance, are conducted by independent contractors operating under Brazilian operations' supervision.

In 2008, the Brazilian operations planned to have all harvesting converted from the traditional semi-mechanized system to full mechanization by 2010. In fact semi-mechanized has been reduced from about 50,000 ha per month in April 2008 to about 5,000 ha per month in January 2010 and now the Company has completely converted to full mechanization.

At the same time, transport to the mill has been upgraded to 35 to 40 ton loads from 27.5 ton loads in 2008. The haul distance in 2008 averaged 126 km, mostly on public roads, this has increased to about 155 km in 2010, but is expected to decrease to 140 km in 2011 and remain constant at this distance through 2015.

The capacity of the fully mechanized system now contracted for, is about 250,000 m³ per month on a three shift basis (10.0 months to meet pulp mill demand of about 2,500,000 m³/yr.) and is currently operating at a level of approximately 228,253 m³ per month which appears adequate at current mill production levels.

Following harvesting, about 600,000 m³ (three months) of mill pulpwood demand is inventoried at roadside. As well as saving space at the mill, pulpwood moisture content declines thus reducing transport costs on the well maintained road network.

The Brazilian operations forecasted in 2008 that when fully operational (i.e. 2009-2010), the cost of harvesting and transport would decline from R\$42/m³ to R\$34/m³. Despite relatively high and volatile fuel costs, harvesting and transport costs averaged about R\$30/m³ in 2009 and are expected to be about R\$32/m³ in 2010.

Brazilian operations' data show that in 2008 the total cost of wood delivered to the mill, including the compounded stumpage costs at 9.24% per year, was R\$68/m³ and declined to R\$62/m³ in 2009. However, the Brazilian operations forecasts an increase to about R\$72/m³ for 2010. The increase is primarily driven by the fact that harvesting in 2010 is concentrated on the lower productivity stands planted by the previous owner and slightly higher labour costs as a result of a change in law requiring the Brazilian operations to operate different operator shifts. The trees with lower productivity are the last trees from projects planted by the previous owner, and going forward, the Brazilian operations will be harvesting trees with higher productivity which it planted in 2004.

Excluding interest on capital employed in growing the pulpwood, the delivered wood cost for Brazilian operations pulpwood was R\$55/m³ and R\$50/m³ in 2008 and 2009 respectively.

6.4 Plantation Risk Management

The major hazards threatening plantation yields are:

Drought — Fire — Insects — Diseases

The potential for fire damage has proven to be the most serious hazard. Consequently, an effective fire detection and suppression system has been put in place in order to reduce risk of loss.

Despite the high fire hazard during the dry season (~Oct. to Feb), efficient risk management has kept 9 year cumulative loss to 0.2% of the plantation area. There were also areas of “blow-down” observed and being recovered as fire wood for the local ceramic building block industry. “Blow-down” occurs when extremely high winds pass through a stand of immature trees. The Brazilian operations has experienced an estimated total of 30 ha of “blow-down” damage and the occurrence of which is very rare.

More recently in the western regions of the estates, a caterpillar and red gum lerp psyllid have been observed. In 2008, approximately 20,500 ha were affected (98% of the area affected by caterpillar and 2% of the area affected by red gum lerp psyllid), by 2009 this had been reduced to 17,700 ha and is expected to decline to approximately 15,888 ha by the end of 2010. The primary means of control is biological using *Bacillus thuringiensis* and as a secondary control, the insecticide Decis is used. *Bacillus thuringiensis* diluted in water is sprayed on the leaves of the trees; it infects the caterpillar after they ingest the leaves and mortality results within hours. Both means are approved for eucalyptus plantations in Brazil, and if the insecticide is necessary, advance communication is issued to any communities in the vicinity to ensure the areas to be treated are vacated.

As a contingency against non-recoverable loss, an additional 3% has been added to annual pulp mill requirement when plantation management plans are prepared which corresponds to the standard Brazil practices. This contingency is well above recorded loss experience at the Fibre Estate.

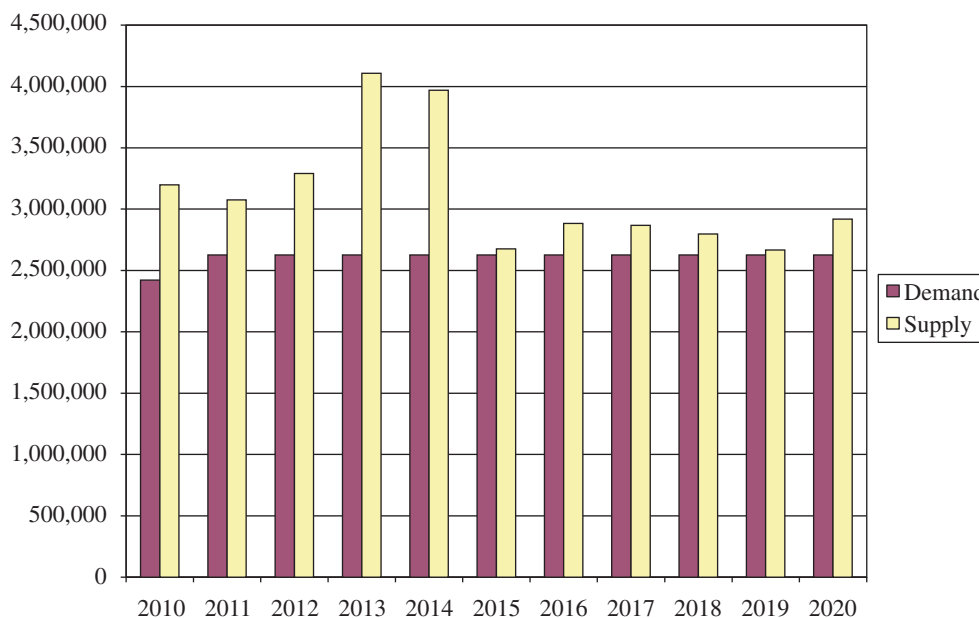
7.0 SUSTAINABLE PULPWOOD SUPPLY

For the purpose of sustainable supply analysis, the following scenario and assumptions has been used:

- a planted area of 88,000 ha (existing plantable area — Brazilian operations owned lands and CPP), net mean annual increment (“MAI”) (excluding waste, breakage and bark) of 29 m³/ha/yr, wood density of 501 kg/m³, planting approximately 13,500 ha per year, pulp mill production of 485,000 metric tons per year and a dissolving wood pulp based MAI of 5.7 metric tons per hectare per year.

In this situation, the reserve builds to about 1.5 million m³ until 2013-14. This reserve will then be consumed in 2015 due to significantly reduced volume available as a result of the curtailed plantings in 2009. The reserve will then basically hold flat from 2016 onwards at about 200,000 m³ greater than demand.

Figure 1 Long Term Wood Supply Balance (including 3% loss margin), m³



Source: Copener

Wood supply sustainability appears adequate, maximum surplus margin of 200,000 m³ is a 7% buffer versus consumption of 2,610,000 m³ per year but could be at risk if any one hazard, such as successive drought years, fire, or insect infestation should occur at a catastrophic level.

8.0 PLANTATION MANAGEMENT CAPABILITY

Based on meetings with key individuals, their capacity to present the requested information and their attention to follow-up requests, the high quality of plantation management and forward planning and the focused pursuit of efficiency improvement across all disciplines, the following observations can be made:

- The team is well qualified, knowledgeable, enthusiastic, and highly motivated to achieve exceptional results both as individuals and as a group.
- The prevailing attitude appears to be to “take ownership” of their respective positions and work hard for the continuing economic advancement of their company.

The judicious employment of specialty consultants and the extensive use of competitively motivated contractors allow managers to manage rather than administer.

9.0 ENVIRONMENTAL PERFORMANCE

The Fibre Estate is managed in accordance with the forest mosaic principle that is also employed by companies such as Fibria, Veracel, and Suzano.



Bahia Specialty Cellulose is certified under ISO 14001: 2004 for the “production and commercialization of bleached pulp, seedlings and eucalyptus wood” in the districts of Brazil in which it and Copener operate. By extension, Copener is also ISO certified for the plantation area held under its name.

The Brazilian operations operates under the following licenses, agreements, and concessions; this is not necessarily an inclusive list but indicative of the major jurisdictions, as of 31 December 2009:

- Bahia Specialty Cellulose
 - License Number 11063, expires 04/06/2014, planted area 6,945 ha
 - License Number 2318, expired and submitted to State Environmental Agency for review and approval, planted area 3,924 ha
- Copener
 - License Number 7536, expires 01/11/2011, planted area 85,050 ha
- Tree Farms
 - Licensed, 1 farm, planted area 880 ha
 - Environmental Agreement Term, 6 farms, planted area 323 ha
 - Free Licenses, 41 farms, planted area 1,904 ha
 - Building Process, 27 farms, planted area 2,525 ha
- Water Use Concessions
 - Nursery — three wells
 - R&D Office — one well
 - Administrative Farm — one well
 - Administrative Office — one well
 - Irrigation System — one well
 - Lakes and Rivers — 1 license applied for and 7 building process licenses applied for

- IBAMA
 - Federal Environmental Agency to allow forestry activities, quarterly renewal
- IMA
 - State Environmental Agency to allow forestry activities, quarterly renewal
- RAF
 - Activity Forest Register (IMA) to allow forest activities, annual renewal

Brazilian operations environmental initiatives, in addition to ISO 14001 certification, include:

- 1,376 ha ecological reserve of Litoral forest, the plan of an additional 10,427 ha by year end 2010, has been submitted to the State Environmental Agency.
- Approximately 90 km of ecological corridor.
- Water course monitoring.
- Waste collection from plantation operations.
- Rehabilitation of degraded areas including eroded slopes.
- Monitoring of birds
- Bee keeping

10.0 BAHIA SPECIALTY CELLULOSE'S WOOD SUPPLY STRATEGY

The wood supply strategy is to optimize dissolving wood pulp yield in terms of metric tons per hectare per year at the plantation level and to do so with proven, cost effective technology.

The key to success is the Genetic Improvement Program being conducted by the R&D Group at Alagoinhas and at the Inhambupe Research Center.

In summary, the objectives of the program are to improve:

- Volumetric yield of the plantations
- Pulpwood density
- dissolving wood pulp yield per m³ of wood consumed

In other words, increase plantation productivity in terms of metric tons of dissolving wood pulp equivalent per hectare per year and to do so at an optimum cost/benefit ratio.

The Brazilian operations has acquired and propagated the genetic material needed to implement its research program to improve the genetic material of its seedlings. The Brazilian operations also has its own nursery to produce its own planting stock. The acquired over mature/low performance eucalypt stands in 2003 have largely been replaced, and the Fibre Estate is efficiently managed and protected.

The system for mechanical harvesting and delivery of the pulpwood is now effectively complete. AMEC observed two coppice stands (one 4 years old and one 7 years old) and noted that at least 1 in 4 stumps had at least 2 stems growing from it. Field management commented on the reduced yield and the impaired ability to mechanically harvest these stands and as such, the Brazilian operations is focusing on reformation (single rotation) rather than coppice (multiple rotation) plantations.

All of the above initiatives are being conducted within the activity impact guidelines defined in legislation and implemented on the ground under the supervision of the Brazilian operations' team.

11.0 CONCLUSIONS

In May 2010, AMEC was commissioned to review the wood supply Strategy of the “Brazilian operations”. AMEC used 2008 as the first period of review as the period between 2007 and 2008 was prior to both the global financial crisis, which affected the Group’s plantation and pulp operations, and the commissioning and ramp-up of the second production line at the Bahia Specialty Cellulose mill, which affected pulp production patterns. The key observations are:

- The Brazilian operations reduced plantings on its own land in 2009 from the planned 12,000 ha to an actual 6,600 ha;
- Land under the CPP only totaled 5,600 ha as of December 2009 and the Brazilian operations needs to increase its annual expansion to 4,000 ha per year for the next two years to reach its target of 15,000 ha in 2012; and
- All things being as they are today, the Brazilian operations will in 2015, consume all of the available surplus mature fibre and in subsequent years will have a maximum surplus margin of approximately 200,000m³/year (7%).

The primary conclusions and recommendations of this assignment are:

- Planting must get back to the pre-2009 levels of 12,000 to 15,000 ha per year;
- The Brazilian operations should identify and quantify options for additional supply (purchased land, CPP and open market sources) to mitigate any risk of shortfall; and
- The R&D planned investment should continue to support its Genetic Improvement Program.

Notwithstanding the above, the Brazilian operations has sufficient fibre available to sustain the current design capacity of the mill of 465,000 ADt/year as well as expansion to 485,000 ADt/year. This conclusion is based on a mathematical calculation driven by pulp production, pulp yield, eucalyptus growth rate and density, and planting area on an annual basis.

A summary of certain Brazilian and PRC laws and regulations applicable to the specialty cellulose industry is set out below.

BRAZIL

Laws and Regulations Regarding Foreign Investments

The basic legislation governing the flow of capital in and out of Brazil is consolidated in Law No. 4131 of September 3, 1962 (“**Law No. 4131**”), as amended. For control and registration purposes, foreign investments are divided into two separate categories: (a) loans/facilities granted to Brazilian residents and (b) foreign direct investment in productive activities, also known as foreign direct investments.

Investments in productive activities or foreign direct investment can be made either through: (a) the remittance of an amount in foreign currency (as a capital contribution to a Brazilian company or as the purchase price of existing equity interests) or (b) the capitalization of companies with goods (that is, equipment or machinery). In both cases, the amount of the currency or the value of such goods is eligible for registration with the Brazilian Central Bank.

The Brazilian Central Bank is also responsible for controlling foreign direct investments, including the repatriation of capital and remittance of profits abroad.

The registration of a foreign direct investment with the Brazilian Central Bank is mandatory if the investor intends to repatriate the capital invested and to make remittances or reinvestments of profits and other forms of remuneration of the capital brought into Brazil into a Brazilian Company under the rules of the Brazilian foreign investment legislations.

Foreign investors may register their investments as foreign direct investment under Law No. 4131 or as portfolio foreign investment registered with the Comissão de Valores Mobiliários (“**CVM**”), pursuant to Resolution No. 2,689/00 of the National Monetary Council (“**Resolution No. 2,689**”), as amended, and CVM Instruction 325/00, as amended. Under Resolution No. 2,689, foreign investors with investments in portfolios may only purchase and sell shares on stock exchanges or in the organized over-the-counter market, except in certain cases, such as the purchase of shares in public offerings, and they are usually entitled to more favorable tax treatment as compared to foreign investors with foreign direct investments.

Foreign direct investments are registered with the electronic registry system of foreign direct investments (Registro Declaratório Eletrônico de Investimentos Externos Diretos) (“**RDE-IED**”) in the currency that has effectively entered Brazil. Profits are remitted in the currency of the country where the investor is a resident or has its head office or where the branch making the investment is located. Reinvestments of profits are registered in the currency of the country to which such profits could have been remitted pursuant to the above rules.

There is no minimum period during which a registered investment must remain in Brazil. Therefore, at any time after the investment is made, the foreign investor may dispose of the assets in Brazil or liquidate the investment and thereafter repatriate the capital.

In principle, the foreign investor may freely repatriate, without the prior approval of the Brazilian Central Bank, the proceeds resulting from the sale of shares/quotas or from the liquidation or winding-up of the investee up to an amount not exceeding the total amount of the registered investment (including original investment and reinvestments) provided that the amount to be repatriated corresponds to the fair market value of the investment sold or liquidated. Repatriation of any amount exceeding the total registered investment may be subject to inspection of the Brazilian Central Bank after remittance of the funds. The Brazilian Central Bank may then request the appraisal confirming that the repatriated amount corresponds to the fair market value of the investment sold or liquidated.

There are no limits as to the transfer of dividends abroad, provided that dividends distributed by the investee shall be paid equitably to Brazilian and foreign shareholders or quota holders. The investee may also receive interest on net equity.

Environmental Regulations

Brazil has extensive environmental laws and regulations relating to air emissions, effluent discharges, solid wastes, odor and reforestation. The Brazilian federal constitution assigns to the federal government, the states, the federal district and the municipalities the responsibility for environmental protection and preservation of Brazilian fauna and flora. The authority to enact laws and issue regulations with respect to environmental protection is exercised concurrently by the federal government, the states and the municipalities. The municipalities have authority to enact laws and issue regulations only with respect to matters of local interest or to supplement federal and state laws.

Federal Law No. 6.938/81, the National Environmental Policy has established that the regular operation of activities causing actual or potential pollutants or using natural resources, or that, in any manner, result or could result in environmental degradation, are subject to previous environmental licensing procedure. In the State sphere, Laws Nos. 10.431/2006 and 11.050/2008, regulated by Decree No. 11.235/08 and CEPAM Resolution No. 3.925/08, also regulate a list of obligations that must be fulfilled before a potential pollutant entrepreneur engages activities in the State of Bahia. This procedure is necessary both for the initial installation of the facility of any project or its expansions, and the licenses obtained must be renewed periodically.

The process for environmental licensing basically comprises the issuance of three licenses: the previous license, the installation license and the operating license. Each of such licenses is issued according to the stage of the project and their validity is contingent upon compliance with conditions established by the licensing environmental agency. Failure to obtain a compulsory environmental license may incur criminal or administrative liabilities, such as fines of up to R\$10.0 million and suspension of the project, irrespective of whether any environmental damages are caused.

For activities with regional environmental impacts or those regulated by the federal government, the authority to issue permits is attributable to IBAMA, the principal environmental enforcement agency in Brazil. Except for cases in which the environmental license is subject to the authority of the IBAMA, state or municipal environmental agencies are responsible for the analysis of the activities and issuance of environmental permits, as well as for the imposition of pertinent control conditions, restrictions and measures.

The state agencies for pollution control in the State of Bahia are the IMA and the Environmental Secretariat (*Secretaria de Meio Ambiente*) (“SEMA”). Pursuant to the pollution control laws of the State of Bahia, as enforced by the IMA, the installation, construction and expansion, as well as the operation of industrial equipment and projects that may cause pollution, must be licensed and are subject to a specific environmental impact assessment by the IMA.

The environmental licensing procedure in Brazil embraces the analysis of documents, projects and environmental studies submitted by the entrepreneur. According to Environment National Council (*Conselho Nacional do Meio Ambiente*) (“CONAMA”), Resolution No. 1/86, the licensing procedure of certain activities deemed to cause significant impact on the environment, depends on the presentation of an Environmental Impact Assessment and the corresponding Environmental Impact Assessment Report (“EIA/RIMA”), to be submitted for the appropriate authorities’ approval before the issuance of the Preliminary License. In any such event, investments are required in order to compensate for the environmental impact. For the process of licensing projects causing significant environmental impact that have been installed as from July 2000, it is necessary, on account of environmental compensation, to allocate up to 0.5% of the total cost estimated for implementation of the project for implementation and maintenance of a preservation unit, as applicable under the National System of Preservation Units (*Sistema Nacional de Unidades de Conservação*).

Any delays or denials by environmental licensing agencies in issuing or renewing licenses, as well as any inability on our part to comply with the requirements established by environmental agencies in the process of environmental licensing, can jeopardize or hinder, as the case may be, the installation and the maintenance of such projects. These operating permits require, among other things, that we periodically report our compliance with certain emissions standards set forth by the appropriate environmental agencies.

We are required to obtain various environmental licenses and permits from the relevant governmental authorities in connection with the operations of our Bahia Specialty Cellulose mill. These licenses and permits provide for a number of technical requirements, such as making periodical reports to the competent environmental agencies and monitoring our industrial activities. We have to comply with such requirements to maintain the validity of the environmental licenses and permits. We have a specialized internal team comprising four professionals responsible for the documentation in relation to the compliance with all the applicable environmental laws and regulations. The four professionals are experts for environmental engineering, forestry engineering, environmental planning and management, and soil and forest nutrition, respectively. They have worked with the Group for approximately 5 years on average. In addition, the environmental laws and regulations require us to comply with strict standards and maintain certain practices with respect to water discharge, air emissions and the use, handling, discharge and disposal of solid waste and hazardous materials. In complying with such environmental laws and regulations, we purchased and installed pollution control equipment or improved our production techniques to limit the impact of our operations on the environment.

Our wood plantation activities are jointly regulated by the federal government and the state government of Bahia. Copener holds a license for operating wood plantation activities, which authorizes the eucalyptus silvicultural activity in an area of approximately 85,000 hectares. Bahia Specialty Cellulose holds a license for operating wood plantation activities from the IMA, which authorizes the eucalyptus silvicultural activity in an area of approximately 7,000 hectares. The licenses are renewable for another five year term upon application. We do not have to make any payment under these licenses other than the usual fees charged for the renewal of such licenses. The planting and cutting of trees can only be conducted in accordance with a sustainable suppression plan, which we shall submit to the IBAMA for approval annually. The approved sustainable suppression plan provides us with a forestry suppression authorization issued by the IMA. In order to prepare such plan, we need to estimate our annual wood requirements based on the expected demands of our Bahia Specialty Cellulose mill. After that, our technical forestry team will submit the plan together with the applicable environmental forms and documents to the IBAMA. If the logging amount exceeds the estimated annual wood requirements as submitted in the approved sustainable suppression plan, we could be subject to administrative penalties as well as criminal and civil liabilities.

Certain Brazilian municipalities have enacted, and others may in the future enact, laws restricting the planting of eucalyptus and other non-Brazilian native vegetations. Several parties affected by such planting restrictions have instituted actions to resist to such restrictions and have obtained preliminary injunctions prohibiting such restrictions, arguing that the municipal legislation is against the Brazilian constitution, since municipalities are not competent to legislate on environmental issues, that do not embrace local interests and are in non-conformity with the federal and state legislation.

The Company's Brazilian legal advisor confirms that to the best of its knowledge, the Group has fully disclosed the relevant rules and regulations in Brazil in relation to the Group's plantation land, including but not limited to whether there are any logging quotas or restrictions in Brazil.

Areas of Permanent Preservation and Legal Forestry Reserve

The Brazilian Forestry Code (*Código Florestal Brasileiro*) does not permit any type of land use in certain permanently protected rural areas, including areas bordering streams and rivers and areas surrounding water springs and reservoirs. Activities may only be undertaken in these areas, known as permanent preservation areas (*Área de Proteção Permanente*) (“APP”), if they are determined to be in the public interest or not to adversely affect the environment. In addition, the Brazilian Forestry Code obligates us to maintain and register a forestry reserve (*Reserva Legal*) (“**Legal Reserve**”) in each of our rural landholdings covering at least 20% of the total area of such land, excluding APPs. This legal forestry reserve must be registered under the enrollment number of the respective property, and its use cannot be changed.

Where the legal forest reserve does not meet the legal minimum, companies are required to provide for the gradual reforestation of at least 1/10th of the total legal forestry reserve area every three years until 100% of the legal forestry reserve (20% of the whole real property) is restored. In addition, non-contiguous land may be offset against the reserve requirement, including land that is jointly-owned in the form of a

condominium, other land owned in the same hydrological region of the state and leased land that is subject to a preservation easement or servitude or ownership interests (quotas) purchased in preservation areas expressly created for this purpose. However, these alternatives may be adopted only if pre-approved by the relevant agency.

When we acquired Bahia Specialty Cellulose and Copener, we inherited some legacy issues in relation to non-compliance with the requirements for the creation and maintenance of legal reserve and permanent preservation areas with respect to our rural properties. In relation to such non-compliance, on July 14, 2009, Bahia Specialty Cellulose and Copener entered into a settlement with the Bahia State Public Prosecutor's Office. Please refer to the section headed "Business — Legal Compliance" of this prospectus for further details.

Deforestation Permits

Federal Decree No. 750/1993 and CONAMA Resolutions Nos. 10/1993 and 005/1994 define and regulate the exploration and suppression of vegetation, restricting the possibility to conduct any sort of suppression to vegetation in medium and advanced state of development. Any interference or suppression of native vegetation is subject to authorization by the competent environmental governmental agency. This authorization is known as a "deforestation permit" and must be issued before any such deforestation takes place. The deforestation of certain areas without a deforestation permit could lead to administrative penalties, such as fines from R\$300.00 to R\$500.00 per hectare, of the affected area, as well as criminal and civil liabilities. We currently do not engage in any deforestation activities.

Conservation Units

The federal, state and municipal governments may also devote areas of natural resources that they deem important to environmental conservation, which are then called Environmental Conservation Units (*Unidades de Conservação*) ("UCs"). UCs may be further classified as Full Protection Units (*Unidades de Proteção Integral*) ("UPIs") in which no human interference is allowed, or Sustainable Use Units (*Unidades de Uso Sustentável*) ("UUSs") in which sustainable use of natural resources is authorized. Failure to observe the rules concerning the use of UCs or causing any damage to such areas, could lead to both administrative and criminal penalties.

We have some plantation land located in a Conservation Unit named Environmental Protection Area — North Coastal Region. According to the management plan of such Conservation Unit, the areas owned by us are located inside an area called Agricultural Zone that allows the silvicultural activity. It is not possible to increase the area reforestations activity in this protected area, but the reforestations in the areas where the vegetation suppression has been conducted in the past is permitted.

Disposal of Hazardous Materials

Brazilian legislation heavily regulates the segregation, collection, storage, transportation, treatment and final disposal of hazardous substances. Companies outsourcing these activities to outside parties can be held jointly and severally liable with the contracted third parties for breaches of these regulations such that the outsourcing company may be held liable even without fault. Violations of legislation regulating the disposal of certain kinds of hazardous substances, such as industrial by-products, can result in civil, criminal and administrative liability.

The operation of our Bahia Specialty Cellulose mill generates some hazardous materials fluorescent lamps, used lubricants oils and batteries. We store such hazardous materials in a pre-determined areas in accordance with the relevant legal requirements and dispose of them by way of co-processing, incineration or recycling.

We recover substantially all of the chemicals used in the production of our dissolving wood pulp. We also re-use certain waste products generated by our production cycle, such as black liquor, bark and boiler ash, for other stages of our dissolving wood pulp production, such as to serve as bio-fuels for dissolving wood pulp plants and as fertilizer in our plantation land.

We dispose of any liquid waste products generated during the production process, which we are unable to re-use, by ourselves or through a comprehensive liquid waste disposal system operated by Cetrel that runs through the Camaçari industrial complex. Cetrel maintains several waste disposal sites throughout the Camaçari industrial complex utilized by us and the other companies located in the Camaçari industrial complex and a distribution system that transports this waste to its large disposal system just outside of the Camaçari industrial complex.

There are several environmental licensing procedures that also apply to final disposal and management of hazardous materials. In disposing of certain residues, companies must hire entities that hold environmental licenses for transporting, disposing of or treating the specific kind of residue being transported. Failure to comply with administrative rules concerning the disposal of residues, whether solid, liquid or gaseous, may result in fines ranging from R\$5,000 to R\$50 million, among other penalties.

Causing any kind of pollution that results or may result in harm to public health is a crime, and shall be punished with penalties ranging from fines to imprisonment.

Use of Water

The use of waterways is also highly regulated under Brazilian environmental laws. The use of bodies of water, including establishing private wells or in connection with the discharge of effluents, often requires a government environmental agency to first grant a right to use these water resources. Failure to obtain a required license could result in the imposition of fines or injunctions against the use of the water source. Utilization of water for typical household use or by companies whose use or discharge occurs directly through the public system, however, is exempted from the requirements to obtain special licenses.

Our Bahia Specialty Cellulose's dissolving wood pulp production requires significant amount of water, although it is not a significant cost component of our raw materials. Bahia Specialty Cellulose obtains its water requirements for its mill from 11 deep wells, which are located within or in close proximity to its production facilities under a grant from the State of Bahia. Copener obtains water for its plantations from two deep wells. Both Bahia Specialty Cellulose and Copener have valid water grants issued by the competent environmental agency.

Environmental Liability

Our operations are subject to various environmental laws and regulations, including those relating to air emissions, effluent discharges, solid waste, odor and reforestation. In Brazil, individuals or legal entities that violate environmental laws can be punished by criminal sanctions that range from fines, imprisonment and confinement, in the case of individuals, or dissolution, in the case of legal entities, irrespective of the obligation of remedying the environmental damages caused. In addition, administrative sanctions that can be imposed include, among others:

- imposition of administrative fines of up to R\$50 million, which can be doubled or tripled in the event of reoccurrence, depending on the economic capacity, criminal record of the violator, and the gravity of the violations;
- partial or total suspension of activities;
- forfeiture or restriction of tax incentives or benefits; and
- forfeiture or suspension of participation in credit lines with official credit establishments.

In addition to criminal and administrative sanctions, the violator must also provide compensation and reimbursement for the damage that was caused to the environment and third parties, pursuant to Brazilian environmental laws. At the civil level, there is joint and strict liability for environmental damages. This means that the obligation to compensate for the damage caused to the environment may affect each and every individual or legal entity directly or indirectly involved, regardless of the existence of actual fault by the agents. As a consequence, the engagement of third parties to carry out any intervention in operations, such

as the final disposal of waste, does not shield the contracting party from eventual damages to the environment caused by the contractor. In addition, environmental laws provide for the possibility of piercing the corporate veil, in relation to the controlling shareholder, whenever such corporate veil is an obstacle for the reimbursement of damages caused to the environment.

Labor Rules and Regulations

Introduction

Brazilian labor relationships follow certain specific principles and are basically governed by the rules provided by the Brazilian Federal Constitution, the Brazilian Labor Code (“**Labor Code**”) and the collective bargaining agreements of each labor category (together, the “**Labor Laws**”).

Employment Relationship — Individual Labor Laws

Working Hours

As a general rule, regular working hours in Brazil are limited to 44 hours per week and eight hours per day, with any additional hours being considered as overtime, which cannot exceed two hours per day. Bahia Specialty Cellulose and Copener limit the weekly working hours of its administrative employees and production workers who work in shifts to 33.6 hours per week, with any additional hours considered as overtime.

Under the Labor Code, employees who work overtime will be compensated for the overtime work as follows:

- (a) the employees will be paid 150% (or 200% on Sundays and public holidays) of their hourly pay for each hour of overtime work, unless otherwise agreed upon in any collective bargaining agreement. Bahia Specialty Cellulose and Copener comply with the rules set forth in their collective bargaining agreements, which provide that employees who work overtime will be paid 175% (or 200% on Sundays and public holidays) of their hourly pay for each hour of overtime work; or
- (b) the employees’ working hours on other days will be correspondingly reduced by the number of hours of overtime work, if that is agreed upon in any collective bargaining agreement. This is not provided for in the collective bargaining agreements for Bahia Specialty Cellulose and Copener. For work performed between the hours of 10:00 p.m. and 5:00 a.m., remuneration must be at a rate which is at least 20% higher than the equivalent rate for the day shift. In addition, every 52.5 minutes of work performed at nighttime (that is, from 10:00 p.m. to 5:00 a.m.) are counted as one hour for compensation purposes. Bahia Specialty Cellulose and Copener comply with these requirements.

Holidays

Each employee is entitled to 30 days of holidays per annum for every 12 months of continuous employment. Employees are entitled to receive remuneration in lieu of holidays in respect of 10 days of their annual holiday entitlement of an amount added by one third of the employee’s monthly remuneration.

Benefits

Bahia Specialty Cellulose and Copener provide health insurance, catering, transportation voucher, meal voucher, private pension plan, dental care and life insurance, which are set forth on their collective bargaining agreements as well as the benefits granted by the Brazilian Federal Constitution, that is, a Christmas bonus, paid once a year and which is equivalent to one month’s salary and 30 days of holidays per annum as described above.

Termination of Employment

In accordance with Article 487 of the Labor Code, the employer must give the employee 30 days' prior notice for the termination or one month's salary in lieu of the 30 day notice.

Collective Labor Laws

Trade Unions

Under the Brazilian Constitution, both employers and employees are free to associate in a union in order to protect their economic or professional interests, subject to certain limitations.

Unions are divided into two categories: economic categories (for employers unions) and professional categories (for employees unions). Under Brazilian law, a category is a congregation of employers or employees who perform equal or similar work activities. There must be one single employee union to represent the interests of a specific category per territorial basis.

Employers and employees will each be part of the category correspondent to the main activity of the employer. They will be compulsorily attached to the union that corresponds to their category, not only to pay the union fees but also in order to follow the provisions set forth in the collective bargaining agreement.

It is not a legal requirement for employees in Brazil to be part of a union. Generally speaking, a union in Brazil represents employees in the negotiation of compensation matters, including salaries, overtime payment and mandatory profit sharing payment, and every other year on matters relating to employee benefits and working hours.

Currently, approximately 83% of the employees of Bahia Specialty Cellulose and 44% of the employees of Copener are members of the SINDICELPA — Union of Workers on Paper and Cellulose Entities from the State of Bahia and the Union of Workers on Activities of Plantation and Wood Benefits called SINDIFLORA, respectively.

The collective labor agreements entered into between Bahia Specialty Cellulose and Copener with the labor unions of which our employees in Brazil are part of are negotiated annually in November. All of our employees in Brazil are entitled to the rights and benefits provided in the collective labor agreements. Notwithstanding the collective labor agreements, our management has the right to review and increase our employees' salaries based on our internal appraisal.

Collective Negotiation

A collective bargaining agreement is the result of a negotiation carried on by unions representing the employees and unions representing the employers (that is, collective negotiation) in order to implement specific labor conditions, other than those provided for under Brazilian law, which will apply only to the parties involved. As a result, collective bargaining agreements have the same status as the Brazilian labor law and employers are required to comply with the provisions of such agreements.

In Brazil, the majority of our employees are represented by unions or equivalent bodies and all of our employees are covered by collective bargaining or similar agreements which are subject to periodic renegotiation.

Strikes

Brazilian law, including the Brazilian Constitution, guarantees to employees the freedom to take strike action in order to defend their economic or professional interests. In accordance with the Labor Laws, a legal strike must fulfill certain requirements, such as having been decided by the union and being initiated upon previous notice to the employer, otherwise it will be considered to be abusive.

Labor Security and Medicine

The Brazilian rules concerning safety and medical procedures related to the work environment are set forth in the Labor Code, and also in special administrative rules, which provide that no company can commence its activities without previous inspection by the competent authorities.

Companies are obligated to provide and maintain specialized services related to the safety and medical procedures in the work environment and are required to prepare specific reports, including the PPRA (Environmental Risk Prevention Program), PCMSO (Occupational Health and Medical Control Program), LTCAT (Work Environmental Conditions Technical Report) and an Ergonomic Report.

Pursuant to the Regulatory Standard NR-5 issued by the Brazilian Ministry of Labor and Article 163 of Labor Code, each company is required to implement an Internal Accident Prevention Commission (*Comissão Interna de Prevenção de Acidentes*) (“CIPA”) in accordance with the type of activities carried out by the company.

Other Obligations of Employers

Obligations while employment agreement is in effect

Under the Labor Laws, there is no requirement for an employment agreement and if there is one, it need not be in writing. The terms of employment will be set out in the employee’s employment booklet (*Carteira de Trabalho e Previdência Social — CTPS*) and the employer may also prepare a detailed employment agreement.

If the employee is a foreign person, specific rules will regulate his/her employment relationship and, in such case, a written employment agreement is mandatory. A foreign employee requires either a temporary or permanent visa to work in Brazil. The temporary visa is only used in the case of regular employees who are working in Brazil on a transient basis.

Employees in Brazil are entitled to a number of labor and social security benefits such as severance fund, Christmas bonus and annual holidays. As a result, total payroll costs account for approximately 1.7 times of the direct salary expenses, that is, if an employee’s base salary is R\$1,000 (US\$555), his/her total cost of employment would be approximately R\$1,700 (US\$944).

A summary of the main charges and taxes applicable to payroll is set out below:

- (a) *Social security*: Employers are required to contribute to social security of an amount equivalent to 20% of the monthly base salary of the employee.
- (b) *Employees’ severance fund*: Employers are required to deposit, every month, into a severance fund, an amount equivalent to 8% of the monthly base salary of the employee. When an employee is terminated without cause, a penalty equivalent to 50% of the severance fund balance is also payable to him/her in addition to the employee’s right to withdraw the amounts deposited into the severance fund.
- (c) *Christmas bonus or 13th month salary*: Each employee is paid an additional month’s salary by the end of each calendar year (50% payable before the end of November and the balance 50% before Christmas).
- (d) *Holidays*: Each employee is entitled to 30 days of holidays per annum as described above.
- (e) *Payment for termination without cause*: Each employee is entitled to receive one month’s salary as compensation for termination of his/her employment without cause.

Obligations upon termination of the employment agreement

The Employer may dismiss an employee without cause, that is, without the employee having directly contributed to such dismissal, and as a consequence, the employer shall be liable for the payment of the following:

- (a) the employee's salary equivalent to the number of days worked in the month of dismissal;
- (b) 30 days' prior notice of termination or one month's salary in lieu of the 30 days' prior notice;
- (c) accrued holidays (if the last period was not enjoyed) plus 1/3 additional — one month's salary plus 1/3 additional;
- (d) proportional holidays plus 1/3 additional — one month's salary plus 1/3 additional;
- (e) 13th month salary — proportional to the months worked during the current year of employment (for example, if an employee has worked for two months out of 12 months of a year, he will receive $\frac{2}{12}$ of his monthly salary as his 13th month salary);
- (f) employees' severance fund deposits — 8% of the severance payments plus 8% of the salary of the last month worked prior to dismissal;
- (g) employees' severance fund penalty — corresponding to 50% of the total amount deposited in the employee's severance fund account during the term of his employment agreement; and
- (h) payments under the collective provisions.

The collective bargaining agreements of Bahia Specialty Cellulose and Copener contain certain benefits related to dismissals, which are described below:

(i) *Bahia Specialty Cellulose*

For each year or part of a year in which more than six months of services have been rendered to the company, three days of prior notice in case of dismissal will be owed to this employee proportional to the period of services rendered to the company.

Employees under the pre-retirement period will be eligible, within the 18 months preceding the predetermined date of retirement (according to Brazilian Social Security's criteria), for their full remuneration (which comprises salary, additional allowance for night shift, vacations, Christmas bonus and unemployment compensation fund deposits). The employee must have effectively worked for at least eight years with the company to be eligible for such benefit. In the event the company dismisses the employee during such 18 month period, the remuneration or correspondent indemnification related to such period may be requested by the dismissed employee. Cases of resignation, dismissal with cause or mutual agreement between the parties excludes the obligation of the company to fulfill the employment stability period and, in this specific case, the union shall assist the employee with such dismissal.

(ii) *Copener*

Employees that have been working for the company for at least five years and who are going to retire within one year (according to Brazilian Social Security's criteria) are entitled to work related stability for the remaining period to retirement, except in cases of wilful misconduct (verified through investigation process with the co-participation of the respective union) or cases of extinguishment of all the activities developed by the company at the respective employment location. In the event the company dismisses employees during such one year period, the remuneration or correspondent indemnification related to such period may be requested by the dismissed employee by means of a labor claim.

Dismissals for cause are those derived from the violation by the employee of any legal or contractual obligation which gives the employer the right to terminate the existing employment contract. Events which might give rise to a cause must be classified under those events set forth by the law, pursuant to Article 482 of Labor Code, such as negligence in the performance of his/her duties, act of indiscipline or insubordination and abandonment of job.

In such events, the employee will not be entitled to the employees' severance fund penalty, prior notices, pro rata 13th month salary and holiday pay. The employer will be liable only for the amount already due to the employee, such as the balance of accrued salary and holidays.

In the event of dismissal for cause, the employer has the burden to show sufficient and clear evidence regarding the actions of the employee giving rise to the dismissal.

Furthermore, under certain conditions, the Labor Code grants to certain employees temporary employment stability, which means that the employee cannot be dismissed, except in the event of fair dismissal and/or mutual agreement. Pregnant employees, union and CIPA (Internal Commission to Prevent Accidents) members as well as those withdrawn from work due to accidents or illness, are entitled to temporary employment stability.

Moreover, the collective bargaining agreements may also permit a temporary employment for certain employees, such as those employments who are in the military service or on the eve of the employee's retirement.

Finally, an employment relationship may be terminated due to the employee's resignation and the employer's default. The legal consequences and liabilities of the employer in such events are the same as for a wrongful dismissal, except that in the case of an employee's resignation, the employees' social security fund indemnity and prior notice payment are not payable.

Union dues

An employer must also pay employer's union dues, every January, and the amount of the union due owed by an employer is proportional to the stock capital of the employer. The payment of the union dues is due by all those who belong to a specific economic, occupational or professional category in favor of the union representing the same category or occupation, or in case there is more than one union, in accordance with the terms of Section 591 of the Labor Code.

Withholding tax

All of the above payment obligations are payable out of the employer's own funds.

In addition, the employer is responsible for the withholding of the following taxes which are payable by an employee:

- (a) 7.82% to 11% of the employee's salary payable to the Brazilian Social Security, limited to a maximum amount determined by the Brazilian Social Security;
- (b) income tax in the range of approximately 7.5% to 27.5%, depending on the amount of the salary; and
- (c) 1/30 of each employee's one month's salary (with a base date of March) to the employee's union.

Outsourcing

In principle, according to the Brazilian judicial precedents, a company may outsource services, through services agreements with third party companies, provided that (a) such services do not consist of those within the main core activities of such company and (b) the relationship between the parties does not present the elements which characterize an employment relationship (Articles 2 and 3 of the Labor Code), such as subordination, the work that is not sporadic, personal performance and payment of compensation.

The Brazilian Superior Labor Court ratified this majority understanding by means of Statement 331, according to which (a) the hiring of a worker by an intermediary company is illegal, and the bond is constituted directly with the recipient of the services, except in case of temporary work, (b) there is no employment bond with the receiver of services when these are contracted for security surveillance, cleaning and conservation, as well as specialized services non-linked to the core business of the receiver of services, since there is no individual personal involvement or direct subordination and (c) the default on labor obligations by the employer implies subsidiary liability of the receiver of the services as to such obligation.

CHINA

Regulations on Foreign Investment in the Cellulosic Fiber Industry

According to the latest Catalogue for the Guidance of Foreign Investment Industries (外商投資產業指導目錄) promulgated by the Ministry of Commerce and the National Development and Reform Commission on October 31, 2007, the PRC government encourages foreign investments in the production of certain types of cellulosic fiber, including differentiated cellulosic fiber (差別化化學纖維).

Laws and Regulations Regarding Production Safety

Work Safety Law of the PRC (中華人民共和國安全生產法) promulgated by the Standing Committee of the National People's Congress on June 29, 2002 and amended on August 27, 2009 lays down the framework for the requirement, supervision and enforcement of work safety standards. According to the Provisions on Work Safety Permits (安全生產許可證條例) promulgated by the State Council on January 13, 2004, enterprises engaged in mining, building construction or the manufacturing of dangerous chemicals, firecrackers or explosive equipment for civil use shall obtain a work safety permit before commencing work or production. According to the Work Safety Law and the Provisions on Work Safety Permits, we are required to obtain a work safety permit from Jiangxi Provincial Administration of Work Safety for producing nitrogen, a type of chemical gas which is generated and used in our viscose staple fibers production process. We are in the process of renewing our work safety permit and are not aware of any legal impediment to our obtaining of the renewed permit.

We use dangerous chemicals including certain toxic chemicals, such as sulfuric acid and hydrochloric acid, in our production process. The manufacture, management, storage, transportation and use of dangerous chemicals shall comply with the Provisions on the Safety Administration of Dangerous Chemicals (危險化學品安全管理條例) promulgated by the State Council on January 26, 2002, the Implementary Measures on the Work Safety Permit for Dangerous Chemicals Manufacturing Enterprise (危險化學品生產企業安全生產許可證實施辦法) promulgated jointly by State Administration of Work Safety and State Administration of Coal Mine Safety on May 17, 2004, Administrative Measures on the Registration of Dangerous Chemicals (危險化學品登記管理辦法) promulgated by the former State Economic and Trade Committee on October 8, 2002 and relevant regulations or provisions related to work safety at state or local level.

An enterprise that produces or stores dangerous chemicals, or acts as a dangerous source by using substantive amount of highly toxic chemicals or other dangerous chemicals, shall register the relevant dangerous chemicals with the competent chemical register center at the state or provincial level and obtain the permit for the production, storage or use of dangerous chemicals.

If the enterprise fails to comply with the laws and regulations in relation to work safety, it will be subject to various kinds of penalties, including but not limited to, orders for cessation of business, rectification orders, suspension of production, confiscation of illegal earnings, fines, and possible investigation of the person in charge for administrative or criminal liability, as the case may be.

In compliance with the aforesaid laws and regulations, we have made all the required filings and registration with the Jiujiang Administration of Public Security for the use of the toxic chemicals in our production process.

To ensure full compliance with the applicable legal and regulatory requirements on production safety, we have implemented several internal policies and guidelines in relation to the standard operating procedures, management of certain specialized posts such as electrician, boiler operator, etc., fire protection management, check and examination on work safety, accident management, work safety education, special equipments management, emergency rescue, and distribution of labor protection accessories. Our work safety department is responsible for supervising and ensuring the proper and effective implementation of these internal policies and guidelines.

Laws and Regulations Regarding Environmental Protection

PRC Environmental Protection Law (中華人民共和國環境保護法), PRC Prevention and Treatment of Water Pollution Law (中華人民共和國水污染防治法) and PRC Prevention and Treatment of Air Pollution Law (中華人民共和國大氣污染防治法) lay down the framework for environmental protection in China. The Ministry of Environmental Protection of the PRC supervises and manages environmental protection at national level, while the environmental protection bureaus at or above the county level are responsible for the environmental administration within their respective jurisdictions. According to the Environmental Protection Law of the PRC, the Ministry of Environmental Protection is responsible for establishing national standards for pollutants emission, and provincial environmental protection bureaus may establish supplementary or stricter local standards.

Enterprises that cause pollution and other public hazards shall adopt environmental protection measures into their working plans and establish a responsibility system for environmental protection. Such enterprises shall also take effective measures to prevent and control the pollution and harms caused to the environment by waste gas, waste water, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and radiation generated in the course of production, construction or other activities. Enterprises discharging pollutants shall apply for registration in accordance with the requirements stipulated by Ministry of Environmental Protection of the PRC. Enterprises discharging pollutants in excess of the national or local standards shall pay fees for additional emissions. Installations for the prevention and control of pollution at a construction project must be designed, built and commissioned together with the principal part of the project. No permission shall be given for a construction project to be commissioned or used until its installations for the prevention and control of pollution are examined and approved by the competent department of environmental protection administration that also examined and approved the environmental impact statement.

The PRC government may, according to the circumstances and the extent of the pollution, impose various kinds of administrative penalties on the violators (enterprises or individuals) of the relevant environmental laws. Such penalties, include but are not limited to, warnings, rectification orders, suspension of production, reinstall and put to use pollution treatment facilities that have been dismantled or left idle without prior approval, administrative sanctions on relevant responsible persons or orders for cessation of business. The PRC government may also impose fines in addition to any of the abovementioned administrative penalties. The offending enterprises or individuals may be required to compensate the victim, and the person in-charge may be investigated for administrative or criminal liability, as the case may be.

Under the PRC Environmental Protection Law and the Environmental Impact Assessment Law, we are required to conduct an environmental impact assessment before we can commence the construction of any new mill or production line. We will not be allowed to commence the construction work of any proposed projects if the results of the relevant environmental impact assessment fail to meet the standards set by the competent environmental protection authorities. We have complied with all the applicable legal and regulatory requirements on environmental impact assessment and obtained the approvals from Jiangxi Provincial Administration of Environmental Protection for the construction of the four production lines of Sateri Jiangxi. We have also obtained the approval from Fujian Provincial Administration of Environmental Protection for the construction of our Fujian mill.

Under the PRC Prevention and Treatment of Water Pollution Law and the PRC Prevention and Treatment of Air Pollution Law, we are required to make filings with Jiujiang Municipal Administration of Environmental Protection on a regular basis in relation to the discharge of hazardous substances generated from our production process, for example, COD, SO₂ and certain dusts. Our existing pollutant discharge license was renewed on 30 April 2010 and will be valid for one year.

The Management typically holds monthly internal meetings to discuss on environmental protection matters such as inspection of workshops, conducting sampling test and the pipeline maintenance etc.

Social Welfare Laws and Regulations

In recent years, China successively promulgated the Labor Law (勞動法), Labor Contract Law (勞動合同法), Interim Regulations on the Collection and Payment of Social Insurance Premiums (社會保險費征繳暫行條例), Regulations on Work Injury Insurance (工傷保險條例), Regulations on Unemployment Insurance (失業保險條例), Measures for Maternity Insurance of the Staff and Workers in Enterprises (企業職工生育保險試行辦法), various regulations for pension insurance and many other social welfare regulations. The social insurance system of China is of five parts: pension insurance, unemployment insurance, medical insurance, work-related injury insurance and maternity insurance, details of which vary with the legal requirements of different regions.

An employer is obligated to pay its social security premiums and to withhold and pay its employees' portions to the relevant administrative authorities of the PRC Ministry of Human Resources and Social Security. Any employer who fails to pay its social insurance premiums or withhold payment of the employee's portion may be ordered by the PRC Ministry of Human Resources and Social Security (or its local counterpart) or the PRC tax authorities (or its local counterpart) to make such payments within a statutory period, and may be liable to pay a penalty.

During the Track Record Period and as of the Latest Practicable Date, we have complied with the above PRC labor and social welfare laws and regulations in all material aspects.

Laws and Regulations Regarding Foreign Exchange

Foreign exchange in China is primarily governed by the following rules: The Foreign Currency Administration Rules (外匯管理條例) (the "**Exchange Rules**"), promulgated by the State Council on January 29, 1996 and amended on January 14, 1997 and August 1, 2008, and the Administration Rules of the Settlement, Sale and Payment of Foreign Exchange (結匯、售匯及付匯管理規定) (the "**Administration Rules**"), promulgated by the People's Bank of China on June 20, 1996.

Pursuant to the regulations mentioned above and various regulations issued by SAFE, as well as other relevant PRC government authorities, the Renminbi is freely convertible only to the extent of current account items, such as trade-related receipts and payments, interest and dividends. For example, upon payment of the applicable taxes, foreign investment enterprises may distribute dividends to their foreign investors by converting Renminbi into foreign currencies and remitting such amounts outside of China through their foreign exchange bank accounts at designated foreign exchange banks without prior approval by SAFE. However, capital account items, such as direct equity investments, loans and repatriation of investments require the prior approval of SAFE or its local counterpart for the conversion of Renminbi into a foreign currency, such as U.S. dollars, and remittances of the foreign currency outside China.

Labor Contract Law

The Labor Contract Law of the PRC (中華人民共和國勞動合同法) effective from 1 January 2008 together with its implementing rules govern the employment relationship. According to the Labor Contract Law, a written employment contract is required when an employee is hired. In the event that no written employment contract is signed at the time such employee is hired, a written employment contract shall be

signed within one month after the actual engagement; otherwise the employer shall undertake the following consequences: (1) paying double salary if the non-compliance lasts more than one month but less than one year; and (2) an unfixed-term employment contract to be deemed concluded if the non-compliance lasts for more than one year.

According to the Labor Contract Law, an unfixed-term labor contract may be executed upon agreement between the employer and the employee. Furthermore, except where the employee chooses otherwise, an unfixed-term labor contract shall be executed under certain circumstances and subject to several conditions as listed in the Labor Contract Law.

PRC employers may terminate employment contracts under certain circumstances as specifically stipulated in the Labor Contract Law. If the employers fail to observe these regulations, they shall, at the option of affected employees, either continue the employment contracts or pay severance payment in the prescribed way.

In compliance with the Labor Contract Law and its implementation regulations, we have entered into written employment contracts with all of our employees in China. Our staff handbook has also been amended and updated to incorporate all the amendments to the Labor Contract Law which came into force on 1 January 2008. The staff handbook is distributed to our employees on their first day of employment with the Group.

Laws and Regulations Regarding Trade Union

The Trade Union Law of the PRC (中華人民共和國工會法), promulgated by the National People's Congress on April 3, 1992 and amended in 2001 and 2009, is the basic law for trade union in China. The law establishes the basic principle for the formation and activities of trade unions in the PRC.

Pursuant to the Trade Union Law, all laborers doing physical or mental work in enterprises, public institutions and government organs within Chinese territory who earn their living primarily from wages shall have the right to participate in and form trade union organizations pursuant to the law, regardless of their nationalities, races, sexes, occupations, religious beliefs or educations. No organization or individual may hinder them or restrict them from doing so.

The basic function and duty of the trade unions is to safeguard the legal rights and interests of the employees. While upholding the overall rights and interests of the whole nation, trade unions shall, at the same time, represent and safeguard the rights and interests of employees. Trade unions shall coordinate the labor relations and safeguard the labor rights and interests of the enterprise employees through equal negotiation and collective contract system.

It is our internal policy that our employees' legal rights to participate in and form trade unions should be respected. According to the circular jointly issued by Jiangxi Trade Union and Jiangxi Local Taxation Bureau, Sateri Jiangxi pays a monthly trade union fee which is equivalent to 2% of the total monthly salaries of our staff and employees of Jiangxi mill, to the Jiangxi Trade Union.

A summary of certain anticipated tax consequences of our operations in Brazil, China and Switzerland and of an investment in the Shares under the tax laws of Brazil, China, Bermuda and Hong Kong is set out below. This discussion does not purport to address all possible tax consequences relating to our operations or to an investment in the Shares. Accordingly, you should consult your tax advisor regarding the tax consequences of your investment in the Shares. The following discussion is based upon laws and relevant interpretations thereof in effect as at the date of this prospectus, all of which are subject to change.

BRAZIL TAXATION

Corporate Income Taxes

Our operations are subject to the Brazilian Corporate Income Taxes, or the BCIT, which correspond to the Corporate Income Tax (“**IRPJ**”) and the Social Contributions on Net Profits (“**CSLL**”), which are calculated at a rate of 25% and 9% on the Brazilian taxable profit, respectively. Pursuant to the SUDENE Report 0258/02 and 0182/02, the IRPJ on Copener’s profit from forest operations is entitled to a 25% reduction from January 1, 2004 to December 31, 2008 and a 12.5% reduction from January 1, 2009 to December 31, 2013. The IRPJ on Copener’s profit from wood log processing is entitled to a 75% reduction up to December 12, 2011. In addition, pursuant to relevant regulations, the IRPJ on Bahia Specialty Cellulose’s profit, which is derived from the development and production of soluble cellulose, was fully exempted up to December 31, 2007 and is entitled to a reduction of 75% from 2008 up to 2019.

Transfer Pricing

Cross-border transactions involving import and export of goods, services and rights, as well as loans, carried out between related parties and transactions with parties located in Low Tax Jurisdictions (“**LTJ**”) or Privileged Tax Regimes, are subject to Brazilian transfer pricing rules. Pursuant to the transfer pricing rules, the positive difference between the price effectively adopted by the affiliate and the parameter price determined based on one of the methods provided by law will be either considered as a non-deductible expense (in connection with import transactions) or will be added to the companies taxable revenues (in connection with export transactions).

On June 24, 2008, Law No. 11,727 was enacted establishing the concept of “privileged tax regime”. Pursuant to this new law, a “privileged tax regime” is considered to apply to a jurisdiction that meets any of the following requirements: (i) does not tax income or taxes income at a maximum rate lower than 20.0%; (ii) grants tax advantages to a non-resident entity or individual (a) without requiring substantial economic activity in the jurisdiction of such non-resident entity or individual or (b) to the extent such non-resident entity or individual does not conduct substantial economic activity in the jurisdiction of such non-resident entity or individual; (iii) does not tax income generated abroad, or imposes tax on income generated abroad at a maximum rate lower than 20.0%, or (iv) restricts the ownership disclosure of assets and ownership rights or restricts disclosure about economic transactions.

According to the Brazilian tax laws, a LTJ is deemed to be a jurisdiction that does not tax the income or taxes it at a maximum rate lower than 20%. The Brazilian Revenue Service has issued a list of LTJs and Privileged Tax Regimes by means of Normative Instruction No. 1037/2010. It is important to note that, after the enactment of Law No. 11,727, dated June 22, 2008, the concept of LTJ shall also encompass the jurisdictions which legislation does not permit access to shareholding structure, ownership of quotas or shares of legal entities and beneficial ownership of the income.

As DPMI is considered to be an entity located in the LTJ, the export sales made by Bahia Specialty Cellulose to DPMI would be subject to transfer pricing rules in Brazil. We believe that Bahia Specialty Cellulose has complied with Brazilian transfer pricing laws in all material respects as it has prepared documentation in accordance with the transfer pricing requirements and included transfer pricing adjustments calculated in accordance with transfer pricing law and filed its corporate income tax and social contribution taxes during the Track Record Period, we believe that no penalties or interest would be imposed.

In Brazil, the tax authorities can conduct reviews on a company's tax position (including transfer pricing) within a period of five years after the end of the financial year when the transactions took place. Our Brazilian legal advisor with respect to tax matters, Pinheiro Neto Advogados, is of the view that we are in compliance with the Brazilian transfer pricing regulations.

In Brazil, Bahia Specialty Cellulose has never been questioned by the Brazilian tax authorities in respect of its export sales to DPML.

PIS and COFINS Contributions

Additionally, our gross sales revenues are subject to Contribution for the Social Integration Program (“**PIS**”) and Contribution for the Financing of Social Security (“**COFINS**”) at an aggregate rate of 9.25%, after deduction of credits authorized by the applicable laws (due to the deduction of credits, the effective rate of PIS and COFINS tends to be lower than 9.25%).

Other Taxes

Our transactions are also subject to other taxes, such as value-added-taxes due to Federal and State Government.

Repatriation of capital: Dividends, Interest on Shareholder's Equity and Capital Reductions

Dividends

Dividends paid by a Brazilian corporation are currently not subject to withholding income tax (“**WHT**”) in Brazil to the extent that such amounts are related to profits generated as of January 1, 1996.

*Interest on Shareholder's Equity (“**JCP**”)*

Law n. 9,249, of December 26, 1995, as amended, allows a Brazilian entity to make distributions to shareholders/quotaholders of JCP and treat those payments as a deductible expense for purposes of calculating BCIT.

For tax purposes, the deductibility of this interest is limited to the daily pro rata variation of the Brazilian long-term interest rate (“**TJLP**”), as determined by the Brazilian Central Bank from time to time, and the amount of the deduction may not exceed the greater of:

- 50% of net income (after social contribution on net profits and before the provision for corporate income tax and the amounts attributable to shareholders as JCP) related to the period in respect of which the payment is made); and
- 50% of the sum of retained profits and profits as of the date of the beginning of the period in respect of which the payment is made.

Payments of JCP to a foreign investor are subject to WHT at the rate of 15%, or 25% if the foreign investor is domiciled in a LTJ.

These payments may be included, at their net value, as part of any mandatory dividend. To the extent payment of JCP is also included, the corporation is required to distribute to shareholders/quotaholders an additional amount to ensure that the net amount received by them, after payment of the applicable withholding income tax, is at least equal to the mandatory dividend.

Capital Reductions

Capital reductions may trigger the recognition of taxable capital gains at a general 15% rate (or at an increased 25% rate, if the recipient is located in a LTJ) whenever the repatriated amount is greater than the amounts originally registered with the Brazilian Central Bank as foreign investment. The capital gain consists of the positive difference between the amount repatriated and the amount corresponding to the registered investment. Although this is a relatively simple definition, there is a certain level of controversy surrounding the concept of acquisition cost for the purposes of determining the taxable capital gain derived by non-residents of Brazil with regards to whether the acquisition cost should be determined in foreign currency or in Brazilian currency (*Reais*).

The remittance of dividends, JCP and funds due upon capital reductions to foreign shareholders requires the implementation of a currency exchange transaction, which is subject to the imposition of IOF/Exchange. IOF/Exchange is due on the conversion of Reais into foreign currency and on the conversion of foreign currency into Reais, at the general 0.38% rate. The IOF/Exchange is due by the Brazilian legal entity carrying out the currency exchange (“FX”) transaction, but shall be collected by the financial institution in charge for the FX transaction. Currently, there are some specific FX transactions in which the IOF/Exchange is reduced to a 0% rate. In any case, the Brazilian government may increase the rate at any time, up to 25.0%. However, any increase in rates may only apply to future transactions.

PRC TAXATION

As our Company is not incorporated in China, your investment in the Shares is largely exempt from PRC tax laws, except as disclosed in the sections headed “Risk Factors — Risks Relating to China — Dividends from our PRC subsidiaries may be subject to withholding tax under the PRC EIT Law” and “Risk Factors — Risks Relating to China — We may be treated as a PRC tax resident enterprise under the PRC EIT Law, which may subject us to PRC income taxes on our worldwide income” in this prospectus. However, as some of our business operations are in China and we carry out these business operations through operating subsidiaries organized under the PRC law, our PRC operations and our operating subsidiaries in China are subject to PRC tax laws and regulations, which indirectly affect your investment in the Shares.

Dividends From Our PRC Operations

Under the PRC Income Tax Law for Foreign-Invested Enterprises and Foreign Enterprises effective prior to January 1, 2008, dividends paid by our PRC subsidiaries or joint ventures to us were exempt from PRC income tax. However, according to the new PRC Enterprise Income Tax Law 《中華人民共和國企業所得稅法》and its implementation rules that became effective on January 1, 2008, dividends payable by foreign invested enterprises, such as subsidiaries and joint ventures in China out of their post-2007 retained earnings, to their foreign investors are subject to a withholding tax at 10% unless any lower tax treaty rate is applicable. The profits earned by foreign-invested enterprises after January 1, 2008 that are distributed to foreign investors shall be subject to enterprise income tax pursuant to the EIT Law.

Under the PRC EIT Law, enterprises established under the laws of foreign jurisdictions but whose “de facto management body” is located in China may be treated as “resident enterprises” for PRC tax purposes and will be subject to PRC income tax at the prevailing rate of 25% on their worldwide income. For such PRC tax purposes, dividends from PRC subsidiaries to their foreign shareholders, if deemed as PRC resident enterprises and meeting the qualifications under PRC tax law, may be exempt from the withholding tax. However, the dividends paid by these foreign shareholders to their foreign investors could be subject to a 10% withholding tax unless any lower tax treaty rate is applicable. Under the implementation rules of the EIT

Law, “de facto management bodies” is defined as the bodies that substantially carry out comprehensive management and control on the business operation, employees, accounts and assets of enterprises. There is uncertainty as to how the EIT Law and its implementation rules will be interpreted or implemented by relevant tax bureaus.

Dividends We Pay to You

Our Company is not incorporated in China so the distribution of dividends to our Company’s overseas investors is not subject to the withholding tax. The EIT Law, imposes a withholding tax at the rate of 10% on dividends paid to overseas investors if the dividends are regarded as income sourced from the PRC. The withholding tax rate may be reduced pursuant to a tax treaty. It is not clear whether you will be subject to this withholding tax as a result given existing uncertainty about how new provisions in the law will be interpreted. If our Company is considered a PRC resident enterprise, the dividends we pay to the overseas investors with respect to the Shares may be treated as their income derived from sources within China and be subject to the withholding tax.

Transfer or Disposition of the Shares

As our Company is not incorporated in China, any transfer or disposition of the Shares by an overseas investor should not trigger PRC tax liabilities on them. Under the EIT Law, however, tax authorities could invoke the Substance Over Form Rule if our Company is deemed to be set up merely to avoid PRC tax. Under such circumstances, PRC tax authorities could re-determine the nature of the transaction by ignoring the existence of the Company or any other offshore vehicles for tax purposes, and may impose a withholding tax at the rate of 10% on capital gains realized by these overseas investors from the disposition of the Shares. It is not clear whether the overseas investors will be subject to such withholding tax when disposing of the Shares. As these are new provisions in the PRC tax law, there are still many uncertainties with respect to how they will be interpreted and their practical effects.

Our Operations in China

Our subsidiaries through which we conduct our business operations in China are subject to PRC tax laws and regulations.

According to the EIT Law, since January 1, 2008, a uniform income tax rate of 25% has been applied towards foreign investment and foreign enterprises which have their actual management organizations in China or have revenue effectively relating to institutions or facilities in China, as well as PRC enterprises. The EIT Law adopts some transitional preferential measures for enterprises established before the promulgation of the EIT Law which, as a result of earlier laws and regulations by PRC central government, enjoy low tax rates or tax reductions and exemptions for a fixed term. According to these transitional measures, those which enjoy low tax rates will continue to receive the preferential treatment for five years starting from January 1, 2008 and will gradually see their tax rate increase to 25%; those which enjoy the fixed term tax reduction or exemption may continue to enjoy the treatment until the fixed term expires. However, for enterprises that are eligible, but have not yet started, to enjoy the fix term reduction or exemption, the period of such preferential income tax treatment will be deemed as starting from year 2008.

Transfer Pricing

In China, the State Administration of Taxation (“SAT”) issued the pilot Administrative Regulations for Special Tax Adjustments (特別納稅調整實施辦法(試行)) (“STA Rules”) on 8 January 2009, which set out the regulations in relation to transfer pricing, contemporaneous documentation, disclosure and compliance of intercompany transactions. In addition, as of 2008, the STA Rules require that companies with annual related party transactions (purchase or sale of goods) over RMB200 million or annual amount of other related party transactions (including services, interest, royalties, etc.) over RMB40 million should prepare transfer pricing contemporaneous documentation. In accordance with the STA Rules, the Group prepared transfer pricing contemporaneous documentation for Sateri Jiangxi for the year 2008 in the form of a report. Based on the

report, it concluded that Sateri Jiangxi's related party transactions were conducted on an arm's length basis. For the year 2009, the Group finalized the required contemporaneous documentation to support the same conclusion for Sateri Jiangxi in May 2010. Based on the transfer pricing report, we concluded that Sateri Jiangxi's related party transactions were conducted on an arm's length basis for 2009.

As Sateri Shanghai did not exceed the exemption threshold for transfer pricing contemporaneous documentation in the relevant tax years, it is therefore not required to prepare any transfer pricing contemporaneous documentation under the PRC transfer pricing regulations. Sateri Shanghai has included a 10% mark-up on the service fee charged to related companies, which is generally considered to a reasonable mark-up for the type of back office services provided by the Group.

Hence, the Company believes that Sateri Jiangxi and Sateri Shanghai are in compliance with the local transfer pricing rules.

BERMUDA TAXATION

Under present Bermuda law, no withholding tax on dividends or other distributions, nor any tax computed on profits or income or on any capital asset, gain or appreciation will be payable by an exempted company or its operations. Nor is there any Bermuda tax in the nature of estate duty or inheritance tax applicable to shares, debentures or other obligations of the company held by non-residents of Bermuda. Furthermore, a company may apply to the Minister of Finance of Bermuda for an assurance under the Exempted Undertakings Tax Protection Act 1966 of Bermuda that no such taxes shall be so applicable until March 28, 2016, although this assurance will not prevent the imposition of any Bermuda tax payable in relation to any land in Bermuda leased or let to the company or to persons ordinarily residing in Bermuda.

An exempted company is exempt from all stamp duties except on transactions involving "Bermuda property". This term relates, essentially, to real and personal property physically situated in Bermuda, including shares in local companies (as opposed to exempted companies). Transfers of shares and warrants in all exempted companies are exempt from Bermuda stamp duty.

HONG KONG TAXATION

Dividends

No tax is imposed in Hong Kong with respect to dividends our Company pays to the Shareholders. Dividends paid to the Shareholders are free of withholding taxes in Hong Kong.

Capital Gains and Profits Tax

No tax is imposed in Hong Kong in respect to capital gains from the sale of the Shares. Trading gains from the sale of the Shares by persons carrying on a business in Hong Kong, where such gains are sourced in Hong Kong and arise from such business, will be chargeable to the Hong Kong profits tax. Currently, the profits tax is imposed on corporations at the rate of 16.5% and on individuals at the rate of 15.0%. Gains from sale of the Shares effected on the Stock Exchange will be considered to be sourced in Hong Kong. Liability for the Hong Kong profits tax would thus arise in respect to trading gains from sale of the Shares effected on the Stock Exchange realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

Stamp Duty

Hong Kong stamp duty will be payable by the purchaser on every purchase, and by the seller on every sale, of the Shares. The duty is charged at the ad valorem rate of 0.1% of the consideration for, or (if greater) the value of, the Shares transferred on each sale and purchase. In other words, a total of 0.2% of stamp duty is currently payable on a typical sale and purchase transaction of the Shares. In addition, any instrument of

transfer (if required) will be subject to a flat rate of stamp duty of HK\$5. Where a sale or purchase of the Shares is effected by a non Hong Kong resident and any stamp duty payable on the contract notes is not paid, the relevant instrument of transfer (if any) will be chargeable with such duty, together with the duty otherwise chargeable thereon, and the transferee will be liable to pay such duty.

Estate Duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on 11th February 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of holders of Shares whose deaths occur on or after February 11, 2006.

OTHER JURISDICTIONS

Transfer Pricing

Switzerland

Switzerland requires that all related party transactions be carried out on an arm's length basis. The Group has obtained a tax ruling from the competent cantonal tax authorities determining that for cantonal as well as Federal income tax purposes Sateri Marketing SA, as a service provider, should earn service income calculated at cost plus 5% in order to meet the arm's length principal. When obtaining the tax ruling, Sateri Marketing SA relied on the practice of the Swiss Federal tax authorities who typically defer to the competent cantonal tax authorities with regard to the assessment of transfer pricing, and therefore, did not obtain an additional tax ruling covering Swiss Federal withholding tax aspects of transfer pricing from the competent Swiss Federal tax authorities.

The tax ruling is binding on the cantonal tax authorities, and with respect to cantonal and Federal income taxes, provided that among other things, the terms of the ruling are complied with, the relevant facts and applicable laws, regulations and administrative practice remain unchanged and full disclosure of the relevant facts and circumstances has been made to the cantonal tax authorities, which Sateri Marketing SA believes to be the case. For the year 2007, Sateri Marketing SA for cantonal and Federal income tax purposes has been assessed on a cost plus 5% basis. For the years 2008 and 2009, Sateri Marketing SA also reported profits which satisfied the cost plus 5% threshold.

Macau

Macau does not have any transfer pricing regulations.

APPENDIX VIII SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND BERMUDA COMPANY LAW

Set out below is a summary of certain provisions of the Memorandum of Association and Bye-laws of our Company and of certain aspects of Bermuda company law.

Our Company was incorporated in Bermuda as an exempted company with limited liability on June 8, 2010 under the Bermuda Companies Act. The Memorandum of Association and the Bye-laws comprise our constitution.

1. MEMORANDUM OF ASSOCIATION

The Memorandum of Association states, *inter alia*, that the liability of members of our Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that our Company is an exempted company as defined in the Bermuda Companies Act. The Memorandum of Association also sets out the objects for which our Company was formed which are unrestricted and that our Company has the capacity, rights, powers and privileges of a natural person. As an exempted company, our Company will be carrying on business outside Bermuda from a place of business within Bermuda.

In accordance with, and subject to, section 42A of the Bermuda Companies Act, the Memorandum of Association empowers our Company to purchase its own shares and, pursuant to our Bye-laws, this power is exercisable by the Board upon such terms and subject to such conditions as it thinks fit.

2. BYE-LAWS

The Bye-laws were conditionally adopted on November 8, 2010 and will become effective upon the Listing. The following is a summary of certain provisions of the Bye-laws:

(a) Directors

(i) Power to allot and issue shares and warrants

Subject to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as our Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Subject to the Bermuda Companies Act, any preference shares may be issued or converted into shares that are liable to be redeemed at a determinable date or at the option of our Company or, if so authorized by the Memorandum of Association, at the option of the holder on such terms and in such manner as our Company before the issue or conversion may by ordinary resolution determine. The Board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of our Company on such terms as it may from time to time determine.

Subject to the provisions of the Bermuda Companies Act, the Bye-laws, any direction that may be given by our Company in general meeting and, where applicable, the rules of any Designated Stock Exchange (as defined in the Bye-laws) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in our Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither our Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being

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a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the Board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of our Company or any of our subsidiaries

There are no specific provisions in the Bye-laws relating to the disposal of the assets of our Company or any of our subsidiaries.

Note: The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by our Company and which are not required by the Bye-laws or the Bermuda Companies Act to be exercised or done by our Company in general meeting.

(iii) Compensation or payments for loss of office

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by our Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are no provisions in the Bye-laws relating to the making of loans to Directors. However, the Bermuda Companies Act contains restrictions on companies making loans or providing security for loans to their directors, the relevant provisions of which are summarized in the section headed “—Bermuda Company Law” below.

(v) Financial assistance to purchase shares of our Company

Neither our Company nor any of our subsidiaries shall directly or indirectly give financial assistance to a person who is acquiring or proposing to acquire shares in our Company for the purpose of that acquisition whether before or at the same time as the acquisition takes place or afterwards, provided that the Bye-laws shall not prohibit transactions permitted under the Bermuda Companies Act.

(vi) Disclosure of interests in contracts with our Company or any of our subsidiaries

A Director may hold any other office or place of profit with our Company (except that of auditor of our Company) in conjunction with his office of Director for such period and, subject to the Bermuda Companies Act, upon such terms as the Board may determine, and may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Bye-laws. A Director may be or become a director or other officer of, or a member of, any company promoted by our Company or any other company in which our Company may be interested and shall not be liable to account to our Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Bye-laws, the Board may also cause the voting power conferred by the shares in any other company held or owned by our Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favor of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Bermuda Companies Act and to the Bye-laws, no Director or proposed or intending Director shall be disqualified by his office from contracting with our Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way

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interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to our Company or the members for any remuneration, profit or other benefits realized by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with our Company shall declare the nature of his interest at the meeting of the Board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the Board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of our Company or any of our subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by our Company or any other company which our Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of our Company by virtue only of his/their interest in shares or debentures or other securities of our Company;
- (ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 per cent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or
- (ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of our Company or of any of our subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vii) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by our Company in general meeting, such remuneration (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the Board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid

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or repaid all traveling, hotel and incidental expenses reasonably incurred or expected to be incurred by them in attending any Board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of our Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of our Company or who performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration provided for by or pursuant to any other Bye-law. A Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The Board may establish or concur or join with other companies (being subsidiary companies of our Company or companies with which it is associated in business) in establishing and making contributions out of our Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with our Company or any of our subsidiaries) and ex-employees of our Company and their dependants or any class or classes of such persons.

The Board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependants, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependants are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the Board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(viii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Note: There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or, subject to authorization by the members in general meeting, as an addition to the existing Board but so that the number of Directors so appointed shall not exceed any maximum number determined from time to time by the members in general meeting. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of Members after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of our Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in our Company by way of qualification.

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A Director may be removed by an ordinary resolution of our Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and our Company) provided that the notice of any such meeting convened for the purpose of removing a Director shall contain a statement of the intention to do so and be served on such Director fourteen (14) days before the meeting and, at such meeting, such Director shall be entitled to be heard on the motion for his removal. Unless otherwise determined by our Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors unless otherwise determined from time to time by members of our Company.

The Board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with our Company for such period (subject to their continuance as Directors) and upon such terms as the Board may determine and the Board may revoke or terminate any of such appointments (but without prejudice to any claim for damages that such Director may have against our Company or vice versa). The Board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the Board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(ix) Borrowing powers

The Board may from time to time at its discretion exercise all the powers of our Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of our Company and, subject to the Bermuda Companies Act, to issue debentures, bonds and other securities of our Company, whether outright or as collateral security for any debt, liability or obligation of our Company or of any third party.

Note: These provisions, in common with the Bye-laws in general, can be varied with the sanction of a special resolution of our Company.

(b) Alterations to Constitutional Documents

The Bye-laws may be rescinded, altered or amended by the Directors subject to the confirmation of our Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association, to confirm any such rescission, alteration or amendment to the Bye-laws or to change the name of our Company.

(c) Alteration of Capital

Our Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Bermuda Companies Act:

- (i) increase our capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of our capital into shares of larger amount than its existing shares;
- (iii) divide our shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares as the Directors may determine;
- (iv) sub-divide our shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association;
- (v) change the currency denomination of our share capital;

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- (vi) make provision for the issue and allotment of shares which do not carry any voting rights; and
- (vii) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

Our Company may, by special resolution, subject to any confirmation or consent required by law, reduce its authorized or issued share capital or, save for the use of share premium as expressly permitted by the Bermuda Companies Act, any share premium account or other undistributable reserve.

(d) Variation of Rights of Existing Shares or Classes of Shares

Subject to the Bermuda Companies Act, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Bye-laws relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons or (in the case of a member being a corporation) its duly authorized representative holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or (in the case of a member being a corporation) its duly authorized representative or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

(e) Special Resolution — Majority Required

A special resolution of our Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Bye-laws), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and not less than ten (10) clear business days has been given.

(f) Voting Rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Bye-laws, at any general meeting on a poll every member present in person or by proxy or (being a corporation) by its duly authorized representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share.

A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll

If a recognized clearing house (or its nominee(s)) is a member of our Company it may authorize such persons as it thinks fit to act as its representative(s) at any meeting of our Company or at any meeting of any class of members of our Company provided that, if more than one person is so authorized, the authorization

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shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognized clearing house (or its nominee(s)) as if such person was the registered holder of the shares held by that clearing house (or its nominee(s)) in respect of the number and class of shares specified in the relevant authorization.

Where our Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Bye-laws), required to abstain from voting on any particular resolution of our Company or restricted to voting only for or only against any particular resolution of our Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for Annual General Meetings

An annual general meeting of our Company must be held in each year other than the year in which its statutory meeting is convened at such time (within a period of not more than 15 months after the holding of the last preceding annual general meeting unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Bye-laws)) and place as may be determined by the Board.

(h) Accounts and Audit

The Board shall cause true accounts to be kept of the sums of money received and expended by our Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of our Company and of all other matters required by the provisions of the Bermuda Companies Act or necessary to give a true and fair view of our Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or, subject to the Bermuda Companies Act, at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right of inspecting any accounting record or book or document of our Company except as conferred by law or authorized by the Board or our Company in general meeting.

Subject to the Bermuda Companies Act, a printed copy of the Directors' report, accompanied by the balance sheet and profit and loss account, including every document required by law to be annexed thereto, made up to the end of the applicable financial year and containing a summary of the assets and liabilities of our Company under convenient heads and a statement of income and expenditure, together with a copy of the auditors' report, shall be sent to each person entitled thereto at least twenty-one (21) days before the date of the general meeting and at the same time as the notice of annual general meeting and laid before our Company at the annual general meeting in accordance with the requirements of the Bermuda Companies Act provided that this provision shall not require a copy of those documents to be sent to any person whose address our Company is not aware of or to more than one of the joint holders of any shares or debentures; however, to the extent permitted by and subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Bye-laws), our Company may send to such persons summarized financial statements derived from our Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on our Company, demand that our Company sends to him, in addition to summarized financial statements, a complete printed copy of our Company's annual financial statement and the directors' report thereon.

Subject to the Bermuda Companies Act, at the annual general meeting or at a subsequent special general meeting in each year, the members shall appoint an auditor to audit the accounts of our Company and such auditor shall hold office until the members appoint another auditor. Such auditor may be a member but no Director or officer or employee of our Company shall, during his continuance in office, be eligible to act as an auditor of our Company. The remuneration of the auditor shall be fixed by our Company in general meeting or in such manner as the members may determine.

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The financial statements of our Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than Bermuda. If the auditing standards of a country or jurisdiction other than Bermuda are used, the financial statements and the report of the auditor should disclose this fact and name such country and jurisdiction.

(i) Notices of Meetings and Business to be Conducted Thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any special general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other special general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such.

(j) Transfer of Shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange or in such other form as the Board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the Board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The Board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The Board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in Bermuda or such other place in Bermuda at which the principal register is kept in accordance with the Bermuda Companies Act.

The Board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which our Company has a lien.

The Board may decline to recognize any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Bye-laws) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to our Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the

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relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in an appointed newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Bye-laws), at such times and for such periods as the Board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for Our Company to Purchase Our Own Shares

The Bye-laws supplement our Memorandum of Association (which gives our Company the power to purchase its own shares) by providing that the power is exercisable by the Board upon such terms and conditions as it thinks fit.

(l) Power for Any Subsidiary of Our Company to Own Shares in Our Company

There are no provisions in the Bye-laws relating to ownership of shares in our Company by a subsidiary.

(m) Dividends and Other Methods of Distribution

Subject to the Bermuda Companies Act, our Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board. Our Company in general meeting may also make a distribution to its members out of contributed surplus (as ascertained in accordance with the Bermuda Companies Act). No dividend shall be paid or distribution made out of contributed surplus if to do so would render our Company unable to pay our liabilities as they become due or the realizable value of our assets would thereby become less than the aggregate of our liabilities and our issued share capital and share premium account.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to a member by our Company on or in respect of any shares all sums of money (if any) presently payable by him to our Company on account of calls or otherwise.

Whenever the Board or our Company in general meeting has resolved that a dividend be paid or declared on the share capital of our Company, the Board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit. Our Company may also upon the recommendation of the Board by an ordinary resolution resolve in respect of any one particular dividend of our Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Whenever the Board or our Company in general meeting has resolved that a dividend be paid or declared the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

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All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the benefit of our Company until claimed and our Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the Board and shall revert to the Company.

(n) Proxies

Any member of our Company entitled to attend and vote at a meeting of our Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of our Company or at a class meeting. A proxy need not be a member of our Company. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.

(o) Call on Shares and Forfeiture of Shares

Subject to the Bye-laws and to the terms of allotment, the Board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or installment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the Board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced our Company may pay interest at such rate (if any) as the Board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the Board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect.

Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to our Company all monies which, at the date of forfeiture, were payable by him to our Company in respect of the shares, together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the Board determines.

(p) Inspection of Register of Members

The register and branch register of members shall be open to inspection between 10:00 a.m. and 12:00 noon on every business day by members of the public without charge at the registered office or such other place in Bermuda at which the register is kept in accordance with the Bermuda Companies Act, unless the register is closed in accordance with the Bermuda Companies Act.

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(q) Quorum for Meetings and Separate Class Meetings

For all purposes the quorum for a general meeting shall be two members present in person or (in the case of a member being a corporation) by its duly authorized representative or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(r) Rights of the Minorities in relation to Fraud or Oppression

There are no provisions in the Bye-laws relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of our Company under Bermuda law, as summarized in paragraph 4(e) below.

(s) Procedures on Liquidation

A resolution that our Company be wound up by the court or be wound up voluntarily shall be a special resolution.

If our Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Bermuda Companies Act, divide among the members in specie or kind the whole or any part of the assets of our Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable Members

Our Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, our Company has not during that time received any indication of the existence of the member; and (iii) our Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Bye-laws) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Bye-laws), has elapsed since such advertisement and the Designated Stock Exchange (as defined in the Bye-laws) has been notified of such intention. The net proceeds of any such sale shall belong to our Company and upon receipt by our Company of such net proceeds, it shall become indebted to the former member of our Company for an amount equal to such net proceeds.

(u) Other Provisions

The Bye-laws provide that to the extent that it is not prohibited by and is in compliance with the Bermuda Companies Act, if warrants to subscribe for shares have been issued by our Company and our Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

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The Bye-laws also provide that our Company is required to maintain at its registered office a register of directors and officers in accordance with the provisions of the Bermuda Companies Act and such register is open to inspection by members of the public without charge between 10:00 a.m. and 12:00 noon on every business day.

3. VARIATION OF MEMORANDUM OF ASSOCIATION AND BYE-LAWS

The Memorandum of Association may be altered by our Company in general meeting. The Bye-laws may be amended by the Directors subject to the confirmation of our Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association or to confirm any amendment to the Bye-laws or to change the name of our Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of our Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days' notice specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of twenty-one (21) clear days' notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right.

4. BERMUDA COMPANY LAW

Our Company is incorporated in Bermuda and, therefore, operates subject to Bermuda law. Set out below is a summary of certain provisions of Bermuda company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Bermuda company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Share Capital

The Bermuda Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account", to which the provisions of the Bermuda Companies Act relating to a reduction of share capital of a company shall apply as if the share premium account were paid up share capital of the company except that the share premium account may be applied by the company:

- (i) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;
- (ii) in writing off:
 - (aa) the preliminary expenses of the company; or
 - (bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; or
- (iii) in providing for the premiums payable on redemption of any shares or of any debentures of the company.

In the case of an exchange of shares the excess value of the shares acquired over the nominal value of the shares being issued may be credited to a contributed surplus account of the issuing company.

The Bermuda Companies Act permits a company to issue preference shares and subject to the conditions stipulated therein to convert those preference shares into redeemable preference shares.

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The Bermuda Companies Act includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. Where provision is made by the memorandum of association or bye-laws for authorizing the variation of rights attached to any class of shares in the company, the consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required, and where no provision for varying such rights is made in the memorandum of association or bye-laws and nothing therein precludes a variation of such rights, the written consent of the holders of three-fourths of the issued shares of that class or the sanction of a resolution passed as aforesaid is required.

(b) Financial Assistance to Purchase Shares of a Company or Its Holding Company

A company is prohibited from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares unless there are reasonable grounds for believing that the company is, and would after the giving of such financial assistance be, able to pay its liabilities as they become due. In certain circumstances, the prohibition from giving financial assistance may be excluded such as where the assistance is only an incidental part of a larger purpose or the assistance is of an insignificant amount such as the payment of minor costs.

(c) Purchase of Shares and Warrants by a Company and Its Subsidiaries

A company may, if authorized by its memorandum of association or bye-laws, purchase its own shares. Such purchases may only be effected out of the capital paid up on the purchased shares or out of the funds of the company otherwise available for dividend or distribution or out of the proceeds of a fresh issue of shares made for the purpose. Any premium payable on a purchase over the par value of the shares to be purchased must be provided for out of funds of the company otherwise available for dividend or distribution or out of the company's share premium account. Any amount due to a shareholder on a purchase by a company of its own shares may (i) be paid in cash, (ii) be satisfied by the transfer of any part of the undertaking or property of the company having the same value or (iii) be satisfied partly under sub-paragraph (i) and partly under sub-paragraph (ii). Any purchase by a company of its own shares may be authorized by its board of directors or otherwise by or in accordance with the provisions of its bye-laws. Such purchase may not be made if, on the date on which the purchase is to be effected, there are reasonable grounds for believing that the company is, or after the purchase would be, unable to pay its liabilities as they become due. The shares so purchased may either be cancelled or held as treasury shares. Any purchased shares that are cancelled will, in effect, revert to the status of authorized but unissued shares. If shares of the company are held as treasury shares, the company is prohibited to exercise any rights in respect of those shares, including any right to attend and vote at meetings, including a meeting under a scheme of arrangement, and any purported exercise of such a right is void. No dividend shall be paid to the company in respect of shares held by the company as treasury shares and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) shall be made to the company in respect of shares held by the company as treasury shares. Any shares allotted by the company as fully paid bonus shares in respect of shares held by the company as treasury shares shall be treated for the purposes of the Bermuda Companies Act as if they had been acquired by the company at the time they were allotted.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Bermuda law that a company's memorandum of association or its bye-laws contain a specific provision enabling such purchases.

Under Bermuda law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. The holding company is, however, prohibited from giving financial assistance for the purpose of the acquisition, subject to certain circumstances provided by the Bermuda Companies Act. A company, whether a subsidiary or a holding company, may only purchase its own shares if it is authorized to do so in its memorandum of association or bye-laws pursuant to section 42A of the Bermuda Companies Act.

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(d) Dividends and Distributions

A company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realizable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts. Contributed surplus is defined for purposes of section 54 of the Bermuda Companies Act to include the proceeds arising from donated shares, credits resulting from the redemption or conversion of shares at less than the amount set up as nominal capital and donations of cash and other assets to the company.

(e) Protection of Minorities

Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda. The Bermuda courts, however, would ordinarily be expected to permit a shareholder to commence an action in the name of a company to remedy a wrong done to the company where the act complained of is alleged to be beyond the corporate power of the company or is illegal or would result in the violation of the company's memorandum of association and bye-laws. Furthermore, consideration would be given by the court to acts that are alleged to constitute a fraud against the minority shareholders or, for instance, where an act requires the approval of a greater percentage of the company's shareholders than actually approved it.

Any member of a company who complains that the affairs of the company are being conducted or have been conducted in a manner oppressive or prejudicial to the interests of some part of the members, including himself, may petition the court which may, if it is of the opinion that to wind up the company would unfairly prejudice that part of the members but that otherwise the facts would justify the making of a winding up order on just and equitable grounds, make such order as it thinks fit, whether for regulating the conduct of the company's affairs in future or for the purchase of shares of any members of the company by other members of the company or by the company itself and in the case of a purchase by the company itself, for the reduction accordingly of the company's capital, or otherwise. Bermuda law also provides that the company may be wound up by the Bermuda court, if the court is of the opinion that it is just and equitable to do so. Both these provisions are available to minority shareholders seeking relief from the oppressive conduct of the majority, and the court has wide discretion to make such orders as it thinks fit.

Except as mentioned above, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in Bermuda.

A statutory right of action is conferred on subscribers of shares in a company against persons, including directors and officers, responsible for the issue of a prospectus in respect of damage suffered by reason of an untrue statement therein, but this confers no right of action against the company itself. In addition, such company, as opposed to its shareholders, may take action against its officers including directors, for breach of their statutory and fiduciary duty to act honestly and in good faith with a view to the best interests of the company.

(f) Management

The Bermuda Companies Act contains no specific restrictions on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Furthermore, the Bermuda Companies Act requires that every officer should comply with the Bermuda Companies Act, regulations passed pursuant to the Bermuda Companies Act and the bye-laws of the company. The directors of a company may, subject to the bye-laws of the company, exercise all the powers of the company except those powers that are required by the Bermuda Companies Act or the bye-laws to be exercised by the members of the company.

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(g) Accounting and Auditing Requirements

The Bermuda Companies Act requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Furthermore, it requires that a company keeps its records of account at the registered office of the company or at such other place as the directors think fit and that such records shall at all times be open to inspection by the directors or the resident representative of the company. If the records of account are kept at some place outside Bermuda, there shall be kept at the office of the company in Bermuda such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each three month period, except that where the company is listed on an appointed stock exchange, there shall be kept such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each six month period.

The Bermuda Companies Act requires that the directors of the company must, at least once a year, lay before the company in general meeting financial statements for the relevant accounting period. Further, the company's auditor must audit the financial statements so as to enable him to report to the members. Based on the results of his audit, which must be made in accordance with generally accepted auditing standards, the auditor must then make a report to the members. The generally accepted auditing standards may be those of a country or jurisdiction other than Bermuda or such other generally accepted auditing standards as may be appointed by the Minister of Finance of Bermuda under the Bermuda Companies Act; and where the generally accepted auditing standards used are other than those of Bermuda, the report of the auditor shall identify the generally accepted auditing standards used. All members of the company are entitled to receive a copy of every financial statement prepared in accordance with these requirements, at least five (5) days before the general meeting of the company at which the financial statements are to be tabled. A company the shares of which are listed on an appointed stock exchange may send to its members summarized financial statements instead. The summarized financial statements must be derived from the company's financial statements for the relevant period and contain the information set out in the Bermuda Companies Act. The summarized financial statements sent to the company's members must be accompanied by an auditor's report on the summarized financial statements and a notice stating how a member may notify the company of his election to receive financial statements for the relevant period and/or for subsequent periods.

The summarized financial statements together with the auditor's report thereon and the accompanied notice must be sent to the members of the company not less than twenty-one (21) days before the general meeting at which the financial statements are laid. Copies of the financial statements must be sent to a member who elects to receive the same within seven (7) days of receipt by the company of the member's notice of election.

(h) Auditors

At each annual general meeting, a company must appoint an auditor to hold office until the close of the next annual general meeting; however, this requirement may be waived if all of the shareholders and all of the directors, either in writing or at the general meeting, agree that there shall be no auditor.

A person, other than an incumbent auditor, shall not be capable of being appointed auditor at an annual general meeting unless notice in writing of an intention to nominate that person to the office of auditor has been given not less than twenty-one (21) days before the annual general meeting. The company must send a copy of such notice to the incumbent auditor and give notice thereof to the members not less than seven (7) days before the annual general meeting. An incumbent auditor may, however, by notice in writing to the secretary of the company waive the requirements of the foregoing.

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Where an auditor is appointed to replace another auditor, the new auditor must seek from the replaced auditor a written statement as to the circumstances of the latter's replacement. If the replaced auditor does not respond within fifteen (15) days, the new auditor may act in any event. An appointment as auditor of a person who has not requested a written statement from the replaced auditor is voidable by a resolution of the shareholders at a general meeting. An auditor who has resigned, been removed or whose term of office has expired or is about to expire, or who has vacated office is entitled to attend the general meeting of the company at which he is to be removed or his successor is to be appointed; to receive all notices of, and other communications relating to, that meeting which a member is entitled to receive; and to be heard at that meeting on any part of the business of the meeting that relates to his duties as auditor or former auditor.

(i) Exchange Control

An exempted company is usually designated as "non-resident" for Bermuda exchange control purposes by the Bermuda Monetary Authority. Where a company is so designated, it is free to deal in currencies of countries outside the Bermuda exchange control area which are freely convertible into currencies of any other country. The permission of the Bermuda Monetary Authority is required for the issue of shares and securities by the company and the subsequent transfer of such shares and securities. In granting such permission, the Bermuda Monetary Authority accepts no responsibility for the financial soundness of any proposals or for the correctness of any statements made or opinions expressed in any document with regard to such issue. Before the company can issue or transfer any further shares and securities in excess of the amounts already approved, it must obtain the prior consent of the Bermuda Monetary Authority.

The Bermuda Monetary Authority has granted general permission for the issue and transfer of shares and securities to and between persons regarded as resident outside Bermuda for exchange control purposes without specific consent for so long as any equity securities, including shares, are listed on an appointed stock exchange (as defined in the Bermuda Companies Act). Issues to and transfers involving persons regarded as "resident" for exchange control purposes in Bermuda will be subject to specific exchange control authorization.

(j) Taxation

Under present Bermuda law, no Bermuda withholding tax on dividends or other distributions, nor any Bermuda tax computed on profits or income or on any capital asset, gain or appreciation will be payable by an exempted company or its operations, nor is there any Bermuda tax in the nature of estate duty or inheritance tax applicable to shares, debentures or other obligations of the company held by non-residents of Bermuda. Furthermore, a company may apply to the Minister of Finance of Bermuda for an assurance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, that no such taxes shall be so applicable until March 28, 2016, although this assurance will not prevent the imposition of any Bermuda tax payable in relation to any land in Bermuda leased or let to the company or to persons ordinarily resident in Bermuda.

(k) Stamp Duty

An exempted company is exempt from all stamp duties except on transactions involving "Bermuda property". This term relates, essentially, to real and personal property physically situated in Bermuda, including shares in local companies (as opposed to exempted companies). Transfers of shares and warrants in all exempted companies are exempt from Bermuda stamp duty.

(l) Loans to Directors

Bermuda law prohibits the making of loans by a company to any of its directors or to their families or companies in which they hold more than a twenty per cent. (20%) interest, without the consent of any member or members holding in aggregate not less than nine-tenths of the total voting rights of all members having the right to vote at any meeting of the members of the company. These prohibitions do not apply to (a) anything done to provide a director with funds to meet the expenditure incurred or to be incurred by him

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for the purposes of the company, provided that the company gives its prior approval at a general meeting or, if not, the loan is made on condition that it will be repaid within six months of the next following annual general meeting if the loan is not approved at or before such meeting, (b) in the case of a company whose ordinary business includes the lending of money or the giving of guarantees in connection with loans made by other persons, anything done by the company in the ordinary course of that business, or (c) any advance of moneys by the company to any officer or auditor under section 98(2)(c) of the Bermuda Companies Act which allows the company to advance moneys to an officer or auditor of the company for the costs incurred in defending any civil or criminal proceedings against them, on condition that the officer or auditor shall repay the advance if any allegation of fraud or dishonesty is proved against them. If the approval of the company is not given for a loan, the directors who authorized it will be jointly and severally liable for any loss arising therefrom.

(m) Inspection of Corporate Records

Members of the general public have the right to inspect the public documents of a company available at the office of the Registrar of Companies in Bermuda which will include the company's certificate of incorporation, its memorandum of association (including its objects and powers) and any alteration to the company's memorandum of association. The members of the company have the additional right to inspect the bye-laws of a company, minutes of general meetings and the company's audited financial statements, which must be presented to the annual general meeting. Minutes of general meetings of a company are also open for inspection by directors of the company without charge for not less than two (2) hours during business hours each day. The register of members of a company is open for inspection by members of the public without charge. The company is required to maintain its share register in Bermuda but may, subject to the provisions of the Bermuda Companies Act, establish a branch register outside Bermuda. Any branch register of members established by the company is subject to the same rights of inspection as the principal register of members of the company in Bermuda. Any person may on payment of a fee prescribed by the Bermuda Companies Act require a copy of the register of members or any part thereof which must be provided within fourteen (14) days of a request. Bermuda law does not, however, provide a general right for members to inspect or obtain copies of any other corporate records.

A company is required to maintain a register of directors and officers at its registered office and such register must be made available for inspection for not less than two (2) hours in each day by members of the public without charge. If summarized financial statements are sent by a company to its members pursuant to section 87A of the Bermuda Companies Act, a copy of the summarized financial statements must be made available for inspection by the public at the registered office of the company in Bermuda.

(n) Winding Up

A company may be wound up by the Bermuda court on application presented by the company itself, its creditors or its contributors. The Bermuda court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Bermuda court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where, on a voluntary winding up, a majority of directors make a statutory declaration of solvency, the winding up will be a members' voluntary winding up. In any case where such declaration has not been made, the winding up will be a creditors' voluntary winding up.

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In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators within the period prescribed by the Bermuda Companies Act for the purpose of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice published in an appointed newspaper in Bermuda.

In the case of a creditors' voluntary winding up of a company, the company must call a meeting of creditors of the company to be summoned on the day following the day on which the meeting of the members at which the resolution for winding up is to be proposed is held. Notice of such meeting of creditors must be sent at the same time as notice is sent to members. In addition, such company must cause a notice to appear in an appointed newspaper on at least two occasions.

The creditors and the members at their respective meetings may nominate a person to be liquidator for the purposes of winding up the affairs of the company provided that if the creditors nominate a different person, the person nominated by the creditors shall be the liquidator. The creditors at the creditors' meeting may also appoint a committee of inspection consisting of not more than five persons.

If a creditors' winding up continues for more than one year, the liquidator is required to summon a general meeting of the company and a meeting of the creditors at the end of each year to lay before such meetings an account of his acts and dealings and of the conduct of the winding up during the preceding year. As soon as the affairs of the company are fully wound up, the liquidator must make an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon shall call a general meeting of the company and a meeting of the creditors for the purposes of laying the account before such meetings and giving an explanation thereof.

5. GENERAL

Conyers Dill & Pearman, our Company's legal advisors on Bermuda law, have sent to our Company a letter of advice summarizing certain aspects of Bermuda company law. This letter, together with a copy of the Bermuda Companies Act, is available for inspection as referred to in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection — Documents Available for Inspection" in Appendix X to this prospectus. Any person wishing to have a detailed summary of Bermuda company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT THE GROUP**1. Incorporation of Our Company**

We were incorporated in Bermuda under the Bermuda Companies Act as an exempted company with limited liability on June 8, 2010. We have established a principal place of business in Hong Kong at 2709 Gloucester Tower, The Landmark, 15 Queen's Road, Central, Hong Kong and were registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part XI of the Companies Ordinance on July 23, 2010. Ms. Yim Sau Ping has been appointed the authorized representative of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As we are incorporated in Bermuda, our corporate structure and Bye-laws are subject to the relevant laws and regulations of Bermuda. A summary of the relevant laws and regulations of the Bermuda and of the Bye-laws is set out in the section headed "Summary of the Constitution of Our Company and Bermuda Company Law" in Appendix VIII to this prospectus.

2. Changes in the Share Capital of Our Company

As of the date of incorporation of our Company, our Company had an authorized share capital of US\$10,000, divided into 10,000 shares of US\$1.00 each.

On June 14, 2010, 100 shares with a nominal value of US\$1.00 each were issued to Gold Silk.

On November 8, 2010, (a) the authorized share capital of our Company was increased from US\$10,000 to US\$750,000,000 by the creation of an additional 749,990,000 shares with a nominal value of US\$1.00 each and (b) each issued and unissued share with a nominal value of US\$1.00 each in the capital of our Company was subdivided into 20 Shares.

On November 23, 2010, we allotted and issued to Gold Silk 750 Shares and 2,863,494,000 Shares credited as fully paid in consideration for the transfer and exchange for 100 ordinary shares and 381,799,200 class 1 preference shares in the capital of Sateri International, respectively, owned by Gold Silk.

Immediately following the completion of the Global Offering and assuming the Over-allotment Option is not exercised, the issued share capital of our Company will be US\$168,441,337.50, divided into 3,368,826,750 Shares, all fully paid or credited as fully paid and 11,631,173,250 Shares will remain unissued.

Save as disclosed above and in the section headed "— Resolutions in Writing of the Sole Shareholder of Our Company Passed on November 8, 2010" below, there has been no alteration in the share capital of our Company since our incorporation.

3. Resolutions in Writing of the Sole Shareholder of Our Company Passed on November 8, 2010

Pursuant to the written resolutions passed by the sole Shareholder on November 8, 2010, among others:

- (a) our Company approved and adopted the Bye-laws conditional upon Listing;
- (b) the authorized share capital of our Company was increased from US\$10,000 to US\$750,000,000 by the creation of an additional 749,990,000 shares with a nominal value of US\$1.00 each;
- (c) each issued and unissued share with a nominal value of US\$1.00 each in the capital of our Company was subdivided into 20 Shares;
- (d) conditional on (1) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus, (2) the Offer Price being fixed on the Price Determination Date and (3) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms therein or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreements:
 - (i) the Global Offering was approved and the Directors were authorized to allot and issue the new Shares pursuant to the Global Offering;

- (ii) the granting of the Over-allotment Option was approved;
- (iii) the proposed Listing was approved and the Directors were authorized to implement the Listing;
- (iv) a general unconditional mandate was granted to the Directors to allot, issue and deal with Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such convertible securities and to make or grant offers, agreements or options which would or might require the exercise of such powers, provided that the aggregate nominal value of Shares allotted or agreed to be allotted by the Directors other than pursuant to (a) a rights issue, (b) any scrip dividend scheme or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Bye-laws, (c) the vesting of RSUs granted pursuant to the RSU Schemes, (d) the exercise of options granted pursuant to the Share Option Scheme or (e) a specific authority granted by the Shareholders in general meeting, shall not exceed the aggregate of (1) 20% of the total nominal value of the share capital of our Company in issue immediately following the completion of the Global Offering (but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option) and (2) the total nominal value of the share capital of our Company repurchased by our Company (if any) under the general mandate to repurchase Shares referred to in paragraph (v) below, such mandate to remain in effect during the period from the passing of the resolution until the earliest of the conclusion of our next annual general meeting, the end of the period within which we are required by any applicable law or the Bye-laws to hold our next annual general meeting and the date on which the resolution is varied or revoked by an ordinary resolution of the Shareholders in general meeting (the “**Applicable Period**”); and
- (v) a general unconditional mandate was granted to the Directors to exercise all powers of our Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose Shares with a total nominal value of not more than 10% of the total nominal value of the share capital of our Company in issue immediately following completion of the Global Offering (but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option), such mandate to remain in effect during the Applicable Period.
- (e) conditional on (1) the Listing Committee granting the listing of, and permission to deal in, the new Shares underlying the RSUs which may be granted pursuant to the Pre-IPO RSU Scheme and (2) the commencement of trading of the Shares on the Main Board of the Stock Exchange, (i) the adoption of the Pre-IPO RSU Scheme was approved and (ii) the Board was authorized to grant awards of RSUs pursuant to the Pre-IPO RSU Scheme and to allot and issue Shares, direct and procure the RSU Trustee (as defined below) to transfer Shares and otherwise deal with Shares underlying the RSUs granted pursuant to the Pre-IPO RSU Scheme as and when the RSUs vest;
- (f) conditional on (1) the Listing Committee granting the listing of, and permission to deal in, the new Shares underlying the RSUs which may be granted pursuant to the Post-IPO RSU Scheme and (2) the commencement of trading of the Shares on the Main Board of the Stock Exchange, (i) the adoption of the Post-IPO RSU Scheme was approved, (ii) the Board was authorized to grant awards of RSUs pursuant to the Post-IPO RSU Scheme and to allot and issue Shares, direct and procure the RSU Trustee to transfer Shares and otherwise deal with Shares underlying the RSUs granted pursuant to the Post-IPO RSU Scheme as and when the RSUs vest and (iii) the Board was authorized to grant awards of RSUs pursuant to the Post-IPO RSU Scheme in respect of a maximum number of new Shares equal to the Scheme Mandate Limit (as defined below) during the Applicable Period and to allot, issue and deal with Shares underlying the RSUs granted pursuant to the Post-IPO RSU Scheme during the Applicable Period as and when the RSUs vest; and

- (g) conditional on (1) the Listing Committee granting the listing of, and permission to deal in, the Shares to be issued pursuant to the exercise of any options which may be granted pursuant to the Share Option Scheme and (2) the commencement of trading of the Shares on the Main Board of the Stock Exchange, (i) the adoption of the Share Option Scheme was approved and (ii) the Board was authorized to allot, issue and deal with Shares pursuant to the exercise of any options granted pursuant to the Share Option Scheme.

4. Our Corporate Reorganization

The companies comprising the Group underwent the Reorganization in preparation for the Listing. Please refer to the section headed “History and Reorganization” in this prospectus for further details.

5. Changes in the Share Capital of Our Subsidiaries

Our subsidiaries are referred to in the Accountants’ Report, the text of which is set out in Appendix I to this prospectus. Save for the subsidiaries mentioned in the Accountants’ Report, we do not have any other subsidiaries.

On December 31, 2009, Sateri Specialty Cellulose allotted and issued 183,939,550 ordinary shares with a nominal value of US\$0.01 each to Sateri International for a cash consideration of US\$1.00 per share.

Save as disclosed above, there have been no alterations in the share capital of our subsidiaries within the two years immediately preceding the date of this prospectus.

6. Repurchases By Our Company Of Our Own Securities

This section sets out information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Company of our own securities.

(a) Provisions of the Listing Rules

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their own securities on the Stock Exchange subject to certain restrictions, the more important of which are summarized below:

(i) Shareholders’ Approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

(ii) Source of Funds

Repurchases must be funded out of funds legally available for the purpose in accordance with the Memorandum of Association and Bye-laws of our Company and the Listing Rules and the applicable laws of Bermuda. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Subject to the foregoing, any repurchases by our Company may be made out of our Company’s funds which would otherwise be available for dividend or distribution or out of the proceeds of a new issue of Shares made for the purpose of the repurchase. Any amount of premium payable on the purchase over the par value of the Shares to be repurchased must be out of the funds which would otherwise be available for dividend or distribution or from sums standing to the credit of our Company’s share premium account.

(iii) Trading Restrictions

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange. The Listing Rules also prohibit a listed company from repurchasing its securities if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

(iv) Status of Repurchased Shares

All repurchased securities (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those securities must be cancelled and destroyed.

(v) Suspension of Repurchase

A listed company may not make any repurchase of securities after a price sensitive development has occurred or has been the subject of a decision until such time as the price sensitive information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of (a) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and (b) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the Listing Rules.

(vi) Reporting Requirements

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such repurchases, where relevant, and the aggregate prices paid.

(vii) Connected Persons

A listed company is prohibited from knowingly repurchasing securities on the Stock Exchange from a "connected person", that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or their associates and a connected person is prohibited from knowingly selling his securities to the company.

(b) Reasons for Repurchases

The Directors believe that the ability to repurchase Shares is in the interests of our Company and the Shareholders. Repurchases may, depending on the circumstances, result in an increase in the net assets and/or earnings per Share. The Directors sought the grant of a general mandate to repurchase Shares to give our Company the flexibility to do so if and when appropriate. The number of Shares to be repurchased on any occasion and the price and other terms upon which the same are repurchased will be decided by the Directors at the relevant time having regard to the circumstances then pertaining.

(c) Funding of Repurchases

In repurchasing securities, our Company may only apply funds lawfully available for such purpose in accordance with its Memorandum of Association and Bye-laws, the Listing Rules and the applicable laws of Bermuda.

There could be a material adverse impact on the working capital or gearing position of our Company (as compared with the position disclosed in this prospectus) in the event that the repurchase mandate were to be carried out in full at any time during the share repurchase period. However, the Directors do not propose to exercise the general mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for our Company.

(d) General

The exercise in full of the repurchase mandate, on the basis of 3,368,826,750 Shares in issue immediately following the completion of the Global Offering and assuming the Over-allotment Option is not exercised and without taking into account any Shares which may be issued pursuant to the exercise of any options which may be granted pursuant to the Share Option Scheme or any Shares underlying the RSUs granted or to be granted pursuant to the RSU Schemes, could accordingly result in up to approximately 336,882,675 Shares being repurchased by our Company during the period prior to:

- (i) the conclusion of our next annual general meeting; or
- (ii) the end of the period within which we are required by any applicable law or our Bye-laws to hold our next annual general meeting; or
- (iii) the date when the repurchase mandate is varied or revoked by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to our Company.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the repurchase mandate in accordance with the Listing Rules and the applicable laws in Hong Kong.

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (the "**Takeovers Code**"). Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the repurchase mandate.

Any repurchase of Shares that results in the number of Shares held by the public being reduced to less than 15% (or a higher percentage upon completion of the exercise of the Over-allotment Option) of the Shares then in issue could only be implemented if the Stock Exchange agreed to waive the Listing Rules requirements regarding the public shareholding referred to above. It is believed that a waiver of this provision would not normally be given other than in exceptional circumstances.

No connected person of our Company has notified our Company that he or she has a present intention to sell Shares to our Company, or has undertaken not to do so, if the repurchase mandate is exercised.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company or its subsidiaries within the two years preceding the date of this prospectus and are or may be material:

- (a) the Hong Kong Underwriting Agreement;
- (b) the share transfer agreement dated August 24, 2010 between Sateri Specialty Cellulose and Blue Dot relating to the sale by Sateri Specialty Cellulose of the entire issued share capital of DP Macao to Blue Dot for a consideration representing the net book value of DP Macao as of the effective date of the share transfer (the “**DP Macao Share Transfer Agreement**”);
- (c) the supplemental agreement to the DP Macao Share Transfer Agreement dated October 1, 2010 between Sateri Specialty Cellulose and Blue Dot relating to certain supplements to the DP Macao Share Transfer Agreement, including a supplement that the share transfer price is MOP13,229,521 (US\$1,655,410) being the net book value of DP Macao as of September 30, 2010;
- (d) the share transfer agreement dated July 7, 2010 between Sateri Marketing International and Alloy Capital Group Ltd relating to the acquisition by Sateri Marketing International of the entire issued share capital of Alloy Universal Trading (Macao Commercial Offshore) Limited (now known as SC International Macao) for a cash consideration of MOP100,000;
- (e) the sale and purchase agreement dated September 13, 2010 between Sateri Specialty Cellulose and Hibiscus Bay relating to the acquisition by Sateri Specialty Cellulose of the entire issued share capital of Sateri Marketing International from Hibiscus Bay for a consideration of US\$1.00;
- (f) the share exchange agreement dated November 23, 2010 between Gold Silk and our Company relating to the transfer by Gold Silk of 100 ordinary shares and 381,799,200 class 1 preference shares in the capital of Sateri International to our Company in exchange for 750 Shares and 2,863,494,000 Shares, respectively, which were allotted and issued by our Company to Gold Silk credited as fully paid;
- (g) the netting and novation deed dated October 27, 2010 between Sateri International, RGE Inc., General Rank Limited and Gold Silk relating to the netting and novation of the debtor and creditor positions of the parties under certain loans and advances and resulting in Gold Silk owing an amount of US\$68,581,192 to Sateri International after the netting and novation effected by the deed;
- (h) the Non-Competition Deed;
- (i) the Deed of Indemnity;
- (j) the Agency Agreement; and
- (k) the Sales Framework Agreement.



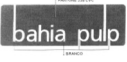

2. Intellectual Property Rights of the Group

As of the Latest Practicable Date, we have registered or have applied for the registration of the following intellectual property rights which are material in relation to our business.


(a) *Trademarks*

As of the Latest Practicable Date, members of our Group had registered the following trademarks which are material in relation to our business:

(i) *Bahia Specialty Cellulose S.A. (formerly known as Bahia Pulp S.A.)*

No.	Trademark	Type and Class	Registered Owner	Place of Registration	Registration Number	Registration Date
1.	BAHIAPULP	Word Mark 1 : 60	Bahia Pulp S.A.	Brazil	810.955.873	February 28, 1984
2.	BAHIA PULP	Word Mark NCL (8) 01	Bahia Pulp S.A.	Brazil	826.003.516	November 13, 2007
3.	BAHIA PULP 	Combined Mark NCL (8) 01	Bahia Pulp S.A.	Brazil	826.292.321	January 22, 2008
4.	BAHIA PULP	Word Mark NCL (8) 01	Bahia Pulp S.A.	Brazil	826.770.347	January 29, 2008
5.	BAHIA PULP	Word Mark NCL (8) 16	Bahia Pulp S.A.	Brazil	826.770.355	January 29, 2008
6.	BAHIA PULP	Word Mark NCL (8) 42	Bahia Pulp S.A.	Brazil	826.770.363	January 29, 2008
7.	BAHIA PULP 	Combined Mark NCL (8) 01	Bahia Pulp S.A.	Brazil	826.871.852	July 22, 2008
8.	BAHIA PULP 	Combined Mark NCL (8) 44	Bahia Pulp S.A.	Brazil	826.871.879	June 10, 2008
9.	BAHIA PULP 	Combined Mark NCL (8) 16	Bahia Pulp S.A.	Brazil	826.871.860	April 7, 2009
10.	SOLUCELL	Word Mark 23 : 10	Bahia Pulp S.A.	Brazil	818.890.096	June 30, 1998
11.	SOLUCELL	Word Mark 37 : 30	Bahia Pulp S.A.	Brazil	818.890.088	August 11, 1998
12.	SOLUCELL	Word Mark 01 : 60	Bahia Pulp S.A.	Brazil	818.890.177	September 22, 1998

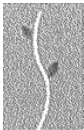
(ii) *Copener Florestal Ltda.*

No.	Trademark	Type and Class	Registered Owner	Place of Registration	Registration Number	Registration Date
1.	COPENER 	Combined Mark 37 : 30	Copener Florestal Ltda.	Brazil	811.519.953	September 17, 1985

(iii) *Sateri International Co. Ltd.*

No.	Trademark	Type and Class	Registered Owner	Place of Registration	Registration Number	Registration Date
1.	 Sateri	Combined Mark 22	Sateri International Co. Ltd	China	3788373	October 7, 2006
2.	 Sateri	Combined Mark 17	Sateri International Co. Ltd	China	5491440	October 7, 2009
3.	 Sateri	Combined Mark 1	Sateri International Co. Ltd	China	5575469	December 14, 2009
4.	 Sateri	Combined Mark 17, 23	Sateri International Co. Ltd	European Union	5375456	October 11, 2006
5.	 Sateri  Sateri	Combined Mark 17	Sateri International Co. Ltd	Japan	5103518	January 11, 2008
6.	 Sateri	Combined Mark 22	Sateri International Co. Ltd	Japan	4830419	January 7, 2005
7.	 Sateri  Sateri	Combined Mark 22	Sateri International Co. Ltd	Singapore	T0314537C	September 10, 2003
8.	 Sateri  Sateri	Combined Mark 17	Sateri International Co. Ltd	Singapore	T06094381	May 18, 2006

No.	Trademark	Type and Class	Registered Owner	Place of Registration	Registration Number	Registration Date
9.	 Sateri	Combined Mark 22	Sateri International Co. Ltd	South Korea	0626596	July 29, 2005
10.	 Sateri	Combined Mark 17	Sateri International Co. Ltd	South Korea	40-0724963	October 1, 2007
11.	 Sateri	Combined Mark 22	Sateri International Co. Ltd	Taiwan	1142532	March 1, 2005
12.	 Sateri	Combined Mark 17	Sateri International Co. Ltd	Taiwan	1262889	May 16, 2007
13.	 Sateri	Combined Mark 22	Sateri International Co. Ltd	USA	3,130,563	August 15, 2006
14.	SATERI	Word Mark 22	Sateri International Co. Ltd	China	3788355	October 7, 2006
15.	SATERI	Word Mark 17	Sateri International Co. Ltd	China	5491441	October 7, 2009
16.	SATERI	Word Mark 1	Sateri International Co. Ltd	China	5575470	December 14, 2009
17.	SATERI	Word Mark 17, 23	Sateri International Co. Ltd	European Union	5375415	October 11, 2006
18.	SATERI	Word Mark 22	Sateri International Co. Ltd	Japan	4830418	January 7, 2005
19.	SATERI	Word Mark 17	Sateri International Co. Ltd	Japan	5103517	January 11, 2008
20.	SATERI	Word Mark 22	Sateri International Co. Ltd	Singapore	T0314536E	September 10, 2003

No.	Trademark	Type and Class	Registered Owner	Place of Registration	Registration Number	Registration Date
21.	SATERI	Word Mark 17	Sateri International Co. Ltd	Singapore	T0609435D	May 18, 2006
22.	SATERI	Word Mark 22	Sateri International Co. Ltd	South Korea	0626602	July 29, 2005
23.	SATERI	Word Mark 17	Sateri International Co. Ltd	South Korea	40-0724962	October 1, 2007
24.	SATERI	Word Mark 22	Sateri International Co. Ltd	Taiwan	1142531	March 1, 2005
25.	SATERI	Word Mark 17	Sateri International Co. Ltd	Taiwan	1262888	May 16, 2007
26.	SATERI	Word Mark 22	Sateri International Co. Ltd	USA	3,060,980	February 21, 2006
27.	Sateri 赛得利	Combined Mark 22	Sateri International Co. Ltd	China	3302146	December 21, 2003
28.		Logo Mark 22	Sateri International Co. Ltd	China	3494164	January 14, 2005
29.	赛得利	Word Mark 22	Sateri International Co. Ltd	China	3788354	October 7, 2006
30.	赛得利	Word Mark 17	Sateri International Co. Ltd	China	5491439	October 7, 2009
31.	赛得利	Word Mark 1	Sateri International Co. Ltd	China	5575468	October 21, 2009
32.	赛得利	Word Mark 22	Sateri International Co. Ltd	Taiwan	1142533	March 1, 2005

No.	Trademark	Type and Class	Registered Owner	Place of Registration	Registration Number	Registration Date
33.	赛得利	Word Mark 17	Sateri International Co. Ltd	Taiwan	1262890	May 16, 2007
34.	Sateri Sateri	Combined Mark 1, 17, 22, 23	Sateri International Co. Ltd.	Hong Kong	301638162	November 5, 2010
35.	Sateri	Combined Mark 17, 22, 23, 35	Sateri International Co. Ltd	Switzerland	606815	October 20, 2010
36.	VISIL	Word Mark 22	Sateri International Co. Ltd	USA	1758405	March 16, 1993
37.	VISIL	Word Mark 22	Sateri International Co. Ltd	European Union	111500	May 22, 1998
38.	VISIL	Word Mark 22	Sateri International Co. Ltd	Hong Kong	300415593	May 05, 2005
39.	VISIL	Word Mark 22	Sateri International Co. Ltd	Taiwan	1221037	August 01, 2006
40.	VISIL	Word Mark 22	Sateri International Co. Ltd	Canada	409336	March 12, 1993

(iv) *Sateri International (Singapore) Pte. Ltd.*

No.	Trademark	Type and Class	Registered Owner	Place of Registration	Registration Number	Registration Date
1.	 Sateri	Combined Mark 22	Sateri International (Singapore) Pte. Ltd.	European Union	3540201	March 7, 2005
2.	SATERI	Word Mark 22	Sateri International (Singapore) Pte. Ltd.	European Union	3537941	November 12, 2003




(v) *Norcell S.A.*

No.	Trademark	Type and Class	Registered Owner	Place of Registration	Registration Number	Registration Date
1.	NORCELL	Wood, plants and seeds	Norcell S.A.	Brazil	814657028	December 4, 2000
2.	NORCELL	Pulp and pulp derivatives	Norcell S.A.	Brazil	814657010	December 26, 2000
3.	NORCELL	Paper products	Norcell S.A.	Brazil	814657036	December 26, 2000
4.	NORCELL	Energy coal and energy oil	Norcell S.A.	Brazil	814657079	December 26, 2000

As of the Latest Practicable Date, members of our Group had applied for the registration of the following trademarks:

No.	Trademark	Name of Applicant	Type and Class	Application Date	Application Number	Place of Application
1.	Sateri	Sateri International Co. Ltd	Combined Mark 1, 17, 22, 23	August 30, 2010	1380616	Australia
2.	Sateri	Sateri International Co. Ltd	Mark 1	September 3, 2010	830,754,792	Brazil
3.	Sateri	Sateri International Co. Ltd	Mark 17	September 3, 2010	830,754,784	Brazil
4.	Sateri	Sateri International Co. Ltd	Mark 22	September 3, 2010	830,754,806	Brazil
5.	Sateri	Sateri International Co. Ltd	Mark 23	September 3, 2010	830,754,822	Brazil

No.	Trademark	Name of Applicant	Type and Class	Application Date	Application Number	Place of Application
6.	Sateri	Sateri International Co. Ltd	Wares - same as for Hong Kong trademarks Service -Manufacturing and selling dissolving wood pulp and viscose staple fibers	September 27, 2010	1,497,340	Canada
7.	Sateri	Sateri International Co. Ltd	Combined Mark 1	August 31, 2010	8624845	China
8.	Sateri	Sateri International Co. Ltd	Combined Mark 17	August 31, 2010	8624844	China
9.	Sateri	Sateri International Co. Ltd	Combined Mark 22	August 31, 2010	8624796	China
10.	Sateri	Sateri International Co. Ltd	Combined Mark 23	August 31, 2010	8624795	China
11.	Sateri	Sateri International Co. Ltd	Combined Mark 17, 22, 23	August 2, 2010	9289422	European Union
12.	Sateri	Sateri International Co. Ltd	Combined Mark 17, 22	September 10, 2010	061861/2010	Japan
13.	Sateri Sateri	Sateri International Co. Ltd	Combined Mark 17, 22	August 3, 2010	T 1009869E	Singapore
14.	Sateri	Sateri International Co. Ltd	Combined Mark 17, 22	August 31, 2010	40-2010-45423	South Korea
15.	Sateri	Sateri International Co. Ltd	Combined Mark 17, 22	September 1, 2010	99043308	Taiwan

No.	Trademark	Name of Applicant	Type and Class	Application Date	Application Number	Place of Application
16.	Sateri	Sateri International Co. Ltd	Combined Mark 22	August 2, 2010	85097849	USA
17.	BSC BAHIA SPECIALTY CELLULOSE 	Bahia Pulp S.A.	Combined Mark NCL (9) 01	May 18, 2010	830.541.217	Brazil
18.	BSC BAHIA SPECIALTY CELLULOSE 	Bahia Pulp S.A.	Combined Mark NCL (9) 16	May 18, 2010	830.541.225	Brazil
19.	BSC BAHIA SPECIALTY CELLULOSE 	Bahia Pulp S.A.	Combined Mark NCL (9) 44	May 18, 2010	830.541.233	Brazil

(b) *Domain Names*

As of the Latest Practicable Date, members of our Group had registered the following domain names:

No.	Domain Name	Registrant	Date of Registration	Expiry Date
1.	bahiacellularose.com.br	Bahia Pulp S.A.	February 22, 2010	February 22, 2011
2.	bahiacelullose.com.br	Bahia Pulp S.A.	March 3, 2010	March 3, 2011
3.	bahiapulp.com.br	Bahia Pulp S.A.	September 25, 2003	September 25, 2013
4.	bahiasc.com.br	Bahia Pulp S.A.	February 22, 2010	February 22, 2011
5.	bahiaspeccell.com.br	Bahia Pulp S.A.	March 30, 2010	March 30, 2011

No.	Domain Name	Registrant	Date of Registration	Expiry Date
6.	bahiaspecialtycellulose.com.br	Bahia Pulp S.A.	February 22, 2010	February 22, 2011
7.	copener.com.br	Copener Florestal Ltda.	May 16, 2000	May 16, 2011
8.	sateri.com.sg	Sateri International (Singapore) Pte Ltd	October 22, 2010	November 2, 2012
9.	sateri.ch	Sateri Marketing SA	December 31, 2004	December 31, 2010
10.	dppulp.com	Sateri Shanghai	August 28, 2007	August 28, 2012
11.	dppulpm.com	Sateri Shanghai	August 28, 2007	August 28, 2012
12.	visilfibers.com	Sateri Shanghai	January 28, 2005	January 28, 2012
13.	赛得利.com	Sateri Shanghai	August 29, 2008	August 29, 2013
14.	sateri.com	Sateri Shanghai	August 26, 2002	August 26, 2012
15.	赛得利化纤.com	Sateri Shanghai	September 16, 2004	September 16, 2012
16.	sateri.com.cn	Sateri Shanghai	September 4, 2002	September 4, 2014
17.	sateri.biz	Sateri Shanghai	October 21, 2010	October 21, 2013
18.	sateri.co.uk	Sateri Shanghai	October 21, 2010	October 21, 2012
19.	sateri.com.tw	Sateri Shanghai	October 21, 2010	October 21, 2013

(c) *Patents*

As of the Latest Practicable Date, Sateri International had registered the following patents:

No.	Title of Invention	Registration Number	Place of Registration	Filing Date	Expiration Date
1.	Product containing silicon dioxide and a method for its preparation	91778	Finland	December 31, 1991	December 31, 2011
2.	Product containing silicon dioxide and a method for its preparation	619848 EPO	Austria	December 29, 1992	December 29, 2012

No.	Title of Invention	Registration Number	Place of Registration	Filing Date	Expiration Date
3.	Product containing silicon dioxide and a method for its preparation	619848 EPO	Germany	December 29, 1992	December 29, 2012
4.	Product containing silicon dioxide and a method for its preparation	619848 EPO	Spain	December 29, 1992	December 29, 2012
5.	Product containing silicon dioxide and a method for its preparation	619848 EPO	United Kingdom	December 29, 1992	December 29, 2012
6.	Product containing silicon dioxide and a method for its preparation	619848 EPO	Sweden	December 29, 1992	December 29, 2012
7.	Product containing silicon dioxide and a method for its preparation	71493	Taiwan	January 14, 1993	January 13, 2013
8.	Product containing silicon dioxide and a method for its preparation	5,417,752	USA	June 28, 1994	May 23, 2012
9.	Product containing silicon dioxide and a method for its preparation	3,179,104	Japan	June 29, 1994	December 29, 2012
10.	A method for manufacturing silicate-containing fiber	119327	Finland	June 2, 2004	June 30, 2024
11.	A method for manufacturing silicate-containing fiber	298090	Taiwan	June 1, 2005	June 20, 2026
12.	A method for manufacturing silicate-containing fiber	24273	Egypt	June 1, 2005	June 1, 2025
13.	A method for manufacturing silicate-containing fiber	ID P 0023934	Indonesia	June 1, 2005	June 1, 2025
14.	A method for manufacturing silicate-containing fiber	ZL200580018205.1	China	June 1, 2005	June 1, 2025
15.	A method for manufacturing silicate-containing fiber	2382838	Russia	June 1, 2005	June 1, 2025
16.	A method for manufacturing silicate-containing fiber	1753900 EPO	Austria	June 1, 2005	June 1, 2025
17.	A method for manufacturing silicate-containing fiber	1753900 EPO	Germany	June 1, 2005	June 1, 2025
18.	A method for manufacturing silicate-containing fiber	1753900 EPO	Spain	June 1, 2005	June 1, 2025
19.	A method for manufacturing silicate-containing fiber	1753900 EPO	United Kingdom	June 1, 2005	June 1, 2025

No.	Title of Invention	Registration Number	Place of Registration	Filing Date	Expiration Date
20.	A method for manufacturing silicate-containing fiber	1753900 EPO	Turkey	June 1, 2005	June 1, 2025

As of the Latest Practicable Date, members of our Group had applied for the registration of the following patents:

No.	Registrant	Title of Invention	Application Number	Place of Application	Filing Date
1.	Sateri International	A method for manufacturing silicate-containing fiber	480/2005	Pakistan	May 30, 2005
2.	Sateri International	A method for manufacturing silicate-containing fiber	101068	Thailand	May 31, 2005
3.	Sateri International	A method for manufacturing silicate-containing fiber	PI 0511682-1	Brazil	June 1, 2005
4.	Sateri International	A method for manufacturing silicate-containing fiber	3342/KOLNP/2006	India	June 1, 2005
5.	Sateri International	A method for manufacturing silicate-containing fiber	2007-513989	Japan	June 1, 2005
6.	Sateri International	A method for manufacturing silicate-containing fiber	11/628,466	USA	June 1, 2005
7.	Bahia Specialty Cellulose S.A.	Method and system for high alpha dissolving pulp production	2010118498	Russia	May 4, 2010

<u>No.</u>	<u>Registrant</u>	<u>Title of Invention</u>	<u>Application Number</u>	<u>Place of Application</u>	<u>Filing Date</u>
8.	Bahia Specialty Cellulose S.A.	Method and system for high alpha dissolving pulp production	10-2010-0042681	Korea	May 6, 2010
9.	Bahia Specialty Cellulose S.A.	Method and system for high alpha dissolving pulp production	12/789,307	USA	May 27, 2010
10.	Bahia Specialty Cellulose S.A.	Method and system for high alpha dissolving pulp production	2,707,330	Canada	June 14, 2010
11.	Bahia Specialty Cellulose S.A.	Method and system for high alpha dissolving pulp production	2010202496	Australia	June 15, 2010
12.	Bahia Specialty Cellulose S.A.	Method and system for high alpha dissolving pulp production	586,177	New Zealand	June 15, 2010
13.	Bahia Specialty Cellulose S.A.	Method and system for high alpha dissolving pulp production	32,789	Uruguay	July 14, 2010
14.	Bahia Specialty Cellulose S.A.	Method and system for high alpha dissolving pulp production	PCT/US10/45929	Patent Cooperation Treaty	August 18, 2010
15.	Bahia Specialty Cellulose S.A.	Method and system for high alpha dissolving pulp production	2010-1005	Chile	September 27, 2010

No.	Registrant	Title of Invention	Application Number	Place of Application	Filing Date
16.	Bahia Specialty Cellulose S.A.	Method and system for pulp processing using cold caustic extraction with alkaline filtrate reuse	12/789,265	USA	May 27, 2010
17.	Bahia Specialty Cellulose S.A.	Method and system for pulp processing using cold caustic extraction with alkaline filtrate reuse	PCT/US10/45926	Patent Cooperation Treaty	August 18, 2010

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of Interests

(a) *Interests of the Directors and the Chief Executive of Our Company*

Immediately following the completion of the Global Offering and without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option, the interests or short positions of the Directors and chief executive of our Company in the shares, underlying shares and debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to in that section, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to our Company and the Stock Exchange, once the Shares are listed, will be as follows:

Long Positions in the Shares and Underlying Shares

Name of Director	Capacity/Nature of Interest	Number of Underlying Shares ⁽¹⁾	Approximate % shareholding interest immediate following the completion of the Global Offering ⁽²⁾
Mr. Ying, John Jeffrey	Beneficial owner	960,591	0.028%
Mr. Hoon, Will Wee Teng	Beneficial owner	3,201,970	0.095%
Mr. Barker, Craig Edward	Beneficial owner	128,079	0.004%

Notes:

- (1) These represent Shares underlying the RSUs granted to the relevant Director pursuant to the Pre-IPO RSU Scheme. For further details, please refer to the section headed “— Pre-IPO RSU Scheme — Outstanding RSUs Granted” below.
- (2) The percentage shareholding interest is calculated assuming the Over-allotment Option is not exercised and the vesting of all the RSUs granted pursuant to the Pre-IPO RSU Scheme immediately following the completion of the Global Offering.

(b) *Interests of the Substantial Shareholders*

So far as is known to any Director or chief executive of our Company, immediately following the completion of the Global Offering and without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which may be granted pursuant to the Share Option Scheme or upon the vesting of any RSUs granted or to be granted pursuant to the RSU Schemes, the following persons (other than a Director or chief executive of our Company) will have an interest or short position in the Shares or the underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Long Positions in the Shares and the Underlying Shares

Name	Nature of Interest and Capacity	Immediately following the completion of the Global Offering	
		Number of Shares Held	Approximate % of Interest
Gold Silk ⁽¹⁾	Legal and beneficial owner	2,863,496,750	85.0%
The Trustee ⁽¹⁾	Interest in a controlled corporation and trustee of a discretionary trust	2,863,496,750	85.0%
Mr. Sukanto Tanoto ⁽¹⁾ . . .	Settlor of a discretionary trust	2,863,496,750	85.0%

Note:

- (1) The entire issued share capital of Gold Silk is held by the Trustee, as the trustee of a discretionary trust established by Mr. Sukanto Tanoto as settlor. The beneficiaries of such discretionary trust include the Tanoto Family. Mr. Sukanto Tanoto is deemed to be interested in the 2,863,496,750 Shares held by Gold Silk immediately following the completion of the Global Offering pursuant to Part XV of the SFO.

(c) *Interests in Other Members of the Group*

Name of Subsidiary	Name of Shareholder	Registered Capital	Approximate % of Interest
Sateri Jiangxi	Kuitu Oy	US\$21,500,100	18.9%

2. Directors' Service Contracts

Each Director has entered into a letter of appointment with our Company for an indefinite term, subject to the retirement requirement as set out in the Bye-laws. Save as disclosed above, none of the Directors has entered into a service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

3. Directors' Remuneration

The aggregate remuneration (including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses) paid to the Directors for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010 were approximately US\$218,000, US\$337,000, US\$749,000 and US\$526,000 respectively.

Save as disclosed above, no other payments have been made or are payable, in respect of the years ended December 31, 2007, 2008 and 2009 or the six months ended June 30, 2010, by any of member of the Group to any of the Directors.

Under the arrangements currently in force, we estimate the aggregate remuneration, excluding discretionary bonus, of the Directors for the year ending December 31, 2010 to be approximately US\$0.9 million.

4. Directors' Competing Interests

None of our Directors are interested in any business apart from the Group's business which competes or is likely to compete, directly or indirectly, with the business of the Group.

5. Disclaimers

Save as disclosed in this prospectus:

- (a) none of the Directors or chief executive of our Company has any interests or short positions in the shares, underlying shares and debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have taken under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to in that section, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to our Company and the Stock Exchange, once the Shares are listed on the Stock Exchange;
- (b) so far as is known to any Director or chief executive of our Company, no person has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group;
- (c) none of the Directors nor any of the persons listed in the section headed "— Other Information — Qualification of Experts" below is interested in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this prospectus, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (d) none of the Directors is materially interested in any contract or arrangement with the Group subsisting at the date of this prospectus which is unusual in its nature or conditions or which is significant in relation to the business of the Group;
- (e) save in connection with Underwriting Agreements, none of the persons listed in the section headed "— Other Information — Qualification of Experts" below has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;

- (f) save for the Underwriting Agreements, none of the persons listed in the section headed “— Other Information — Qualification of Experts” below is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole; and
- (g) none of the Directors has entered or has proposed to enter into any service agreements with our Company or any member of the Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

D. PRE-IPO RSU SCHEME

The following is a summary of the principal terms of the Pre-IPO RSU Scheme conditionally approved and adopted by the sole Shareholder on November 8, 2010. The terms of the Pre-IPO RSU Scheme are not subject to the provisions of Chapter 17 of the Listing Rules as the Pre-IPO RSU Scheme does not involve the grant of options by our Company to subscribe for new Shares.

1. Purpose of the Pre-IPO RSU Scheme

The purpose of the Pre-IPO RSU Scheme is to attract skilled and experienced personnel, to incentivize them to remain with the Group and to motivate them to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in our Company.

2. Restricted Share Units

An RSU is a contingent right to receive a Share granted to a participant pursuant to the Pre-IPO RSU Scheme. The RSUs granted under the Pre-IPO RSU Scheme shall be subject to a vesting period.

3. Appointment of RSU Trustee

Our Company may appoint a professional trustee (the “**RSU Trustee**”) to assist with the administration and vesting of RSUs granted pursuant to the Pre-IPO RSU Scheme. Our Company may (i) allot and issue Shares to the RSU Trustee to be held by the RSU Trustee pending the vesting of the RSUs granted and which will be used to satisfy the RSUs upon vesting and/or (ii) direct and procure the RSU Trustee to make on-market purchases of Shares to satisfy the RSUs upon vesting. Our Company shall provide sufficient funds to the RSU Trustee by whatever means as the Board may in its absolute discretion determine to enable the RSU Trustee to satisfy its obligations in connection with the administration and vesting of RSUs granted pursuant to the Pre-IPO RSU Scheme.

4. Principal Terms

The principal terms of the Pre-IPO RSU Scheme are substantially the same as the terms of the Post-IPO RSU Scheme, except for the following principal terms:

- (a) no further grants of an award of RSUs may be made pursuant to the Pre-IPO RSU Scheme with effect from the Listing Date;
- (b) the maximum aggregate number of Shares that may underlie the RSUs granted pursuant to the Pre-IPO RSU Scheme shall be equal to 9,000,000 Shares, representing 0.3% of the Shares in issue on the Listing Date but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option; and
- (c) the provisions relating to the restriction on the time of grant of an award of RSUs shall not apply to the Pre-IPO RSU Scheme.

An application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the new Shares underlying the RSUs that have been granted pursuant to the Pre-IPO RSU Scheme.

5. Outstanding RSUs Granted

As of the date of this prospectus, RSUs were granted pursuant to the Pre-IPO RSU Scheme to certain directors, senior management and employees of the Group to recognize their past contributions to the growth of the Group and to incentivize them to remain with the Group and to motivate them to strive for the future development and expansion of the Group.

As of the date of this prospectus, RSUs in respect of an aggregate of 8,165,026 new Shares, representing approximately 0.2% of the Shares in issue on the Listing Date but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option, had been granted to 18 Grantees pursuant to the Pre-IPO RSU Scheme, of which three of the Grantees are Directors.

The RSUs granted pursuant to the Pre-IPO RSU Scheme are subject to vesting conditions and will vest over a period of three years or five years commencing on February 15, 2012.

Details of the RSUs granted pursuant to the Pre-IPO RSU Scheme to the Directors are set out below:

Name of Director	Number of Shares Underlying the RSUs granted	Vesting Period
Mr. Ying, John Jeffrey	960,591	30% on February 15, 2012 30% on February 15, 2013 40% on February 15, 2014
Mr. Hoon, Will Wee Teng	3,201,970	15% on February 15, 2012 15% on February 15, 2013 20% on February 15, 2014 20% on February 15, 2015 30% on February 15, 2016
Mr. Barker, Craig Edward	128,079	20% on February 15, 2012 30% on February 15, 2013 50% on February 15, 2014
Total	<u>4,290,640</u>	

In respect of the RSUs granted pursuant to the Pre-IPO RSU Scheme to the other Grantees, (a) the RSUs granted to 14 Grantees in respect of 2,273,401 underlying Shares have a vesting period of three years as follows: 20% on February 15, 2012, 30% on February 15, 2013 and 50% on February 15, 2014 and (b) the RSUs granted to one Grantee in respect of 1,600,985 underlying Shares have a vesting period of five years as follows: 10% on February 15, 2012, 10% on February 15, 2013, 20% on February 15, 2014, 20% on February 15, 2015 and 40% on February 15, 2016.

Save for the vesting period of the Shares underlying the RSUs granted and the performance conditions applicable to the vesting of the RSUs granted to certain Grantees, each RSU granted pursuant to the Pre-IPO RSU Scheme has the same terms and conditions.

The grant and vesting of the RSUs granted pursuant to the Pre-IPO RSU Scheme are in compliance with Rule 10.08 of the Listing Rules.

Assuming that all the RSUs granted pursuant to the Pre-IPO RSU Scheme vest during the year ending December 31, 2010 and assuming that 3,376,991,776 Shares had been in issue on January 1, 2010, this would have a dilutive effect on the pro forma forecast earnings per Share for the year ending December 31, 2010 from approximately US\$0.0895 to approximately US\$0.0893. The number of Shares used in this calculation includes Shares in issue as of the date of this prospectus and the Shares to be issued pursuant to the Global

Offering and upon the vesting of all the RSUs granted pursuant to the Pre-IPO RSU Scheme but excludes any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which may be granted pursuant to the Share Option Scheme or upon the vesting of any RSUs which may be granted pursuant to the Post-IPO RSU Scheme.

Assuming the Over-allotment Option is not exercised, and excluding any Shares which may be issued pursuant to the exercise of any options which may be granted pursuant to the Share Option Scheme or upon the vesting of any RSUs which may be granted pursuant to the Post-IPO RSU Scheme, the shareholding structure of our Company prior to and immediately following the vesting of all the RSUs granted pursuant to the Pre-IPO RSU Scheme would be as follows:

Name of Shareholder	Immediately following the completion of the Global Offering and prior to the vesting of all the RSUs granted pursuant to the Pre-IPO RSU Scheme		Immediately following the completion of the Global Offering and the vesting of all the RSUs granted pursuant to the Pre-IPO RSU Scheme	
	Number of Shares	%	Number of Shares	%
Gold Silk	2,863,496,750	85.0%	2,863,496,750	84.8%
Grantees of RSUs granted pursuant to the Pre-IPO RSU Scheme.	—	—	8,165,026	0.2%
Shareholders taking up Shares pursuant to the Global Offering	<u>505,330,000</u>	<u>15.0%</u>	<u>505,330,000</u>	<u>15.0%</u>
Total	<u><u>3,368,826,750</u></u>	<u><u>100.0%</u></u>	<u><u>3,376,991,776</u></u>	<u><u>100.0%</u></u>

Details of the Pre-IPO RSU Scheme, including particulars and movements of the RSUs granted during each financial year of our Company, and our employee costs arising from the grant of the RSUs will be disclosed in our annual report.

E. POST-IPO RSU SCHEME

The following is a summary of the principal terms of the Post-IPO RSU Scheme conditionally approved and adopted by the sole Shareholder on November 8, 2010. The terms of the Post-IPO RSU Scheme are not subject to the provisions of Chapter 17 of the Listing Rules as the Post-IPO RSU Scheme does not involve the grant of options by our Company to subscribe for new Shares.

1. Purpose of the Post-IPO RSU Scheme

The purpose of the Post-IPO RSU Scheme is to attract skilled and experienced personnel, to incentivize them to remain with the Group and to motivate them to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in our Company.

2. Restricted Share Units

An RSU is a contingent right to receive a Share granted to a participant pursuant to the Post-IPO RSU Scheme. The RSUs granted under the Post-IPO RSU Scheme shall be subject to a vesting period.

3. Participants of the Post-IPO RSU Scheme and Basis for Determining the Eligibility of the Participants

The Board may, at its discretion, grant an award of RSUs pursuant to the Post-IPO RSU Scheme (the “Award”) to the Directors (including executive Directors, non-executive Directors and independent non-executive Directors), the directors of our subsidiaries and the employees of the Group who the Board considers, in its absolute discretion, have contributed or will contribute to the Group (the “Participants”).

4. Status of the Post-IPO RSU Scheme

(a) *Conditions of the Post-IPO RSU Scheme*

The Post-IPO RSU Scheme shall take effect subject to (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the new Shares underlying the RSUs which may be granted pursuant to the Post-IPO RSU Scheme and (ii) the commencement of trading of the Shares on the Main Board of the Stock Exchange (the “**Conditions**”).

(b) *Term of the Post-IPO RSU Scheme*

Subject to the Conditions being satisfied, the Post-IPO RSU Scheme shall be valid and effective for a period of 10 years commencing on the date of its conditional adoption by the sole Shareholder (the “**Term**”), after which period no further Awards shall be offered or granted but the provisions of the Post-IPO RSU Scheme shall remain in full force and effect in all other respects. Awards granted during the life of the Post-IPO RSU Scheme shall continue to be valid in accordance with their terms of grant after the end of the Term.

5. Grant of RSUs

(a) *Making an Offer*

An offer of the grant of an Award shall be made to a Participant by a notice of grant requiring the Participant to undertake to hold the Award on the terms on which it is to be granted (which may include a minimum period before an RSU will vest in whole or in part and a performance target that must be reached before an RSU will vest in whole or in part) and to be bound by the terms of the Post-IPO RSU Scheme.

(b) *Acceptance of an Offer*

An offer of the grant of an Award is deemed to be accepted by the Participant (the “**Grantee**”) when our Company receives from the Grantee the duplicate notice of grant duly signed by the Grantee and a remittance of the sum of US\$1.00 or such other amount in any other currency as may be determined by the Board as consideration for the grant of the Award. Such remittance is not refundable in any circumstances. The offer shall remain open for acceptance for such time to be determined by the Board, provided that no such offer shall be open for acceptance after the expiry of the Term or after the termination of the Post-IPO RSU Scheme in accordance with its terms or after the Participant to whom the offer is made has ceased to be a Participant.

(c) *Restrictions on Time of Grant*

A grant of an Award may not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been published by our Company in accordance with the requirements of the Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of:

- (i) the date of the meeting of the Board (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company’s results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and
- (ii) the deadline for our Company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules),

and ending on the date of the results announcement, no Award may be granted; and where a grant of an Award is to a Director, no Award may be granted on any day on which the financial results of our Company are published and during the period of:

- (iii) 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and
- (iv) 30 days immediately preceding the publication date of the quarterly results (if any) and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

(d) *Grant to Connected Persons*

Any grant of an Award to any Director, chief executive or substantial shareholder of our Company, or any of their respective associates, shall be subject to the prior approval of the independent non-executive Directors (excluding the independent non-executive Director who is the proposed Grantee of the Awards in question) and shall otherwise be subject to compliance with the requirements of the Listing Rules.

6. Maximum Number of Shares Underlying the RSUs

(a) *Scheme Mandate Limit*

At any time during the Term, the maximum aggregate number of Shares that may underlie the RSUs granted pursuant to the Post-IPO RSU Scheme shall be calculated in accordance with the following formula:

$$X = A - B$$

where:

- X** = the maximum aggregate number of Shares that may underlie the RSUs granted pursuant to the Post-IPO RSU Scheme;
- A** = such number of Shares representing (i) 10% of the Shares in issue on the Listing Date or (ii) 10% of the Shares in issue as at the New Approval Date (as defined below) (as the case may be) (the “**Scheme Mandate Limit**”); and
- B** = the maximum aggregate number of Shares underlying the RSUs already granted pursuant to the Post-IPO RSU Scheme.

Shares underlying the RSUs cancelled in accordance with the terms of the Post-IPO RSU Scheme will not be counted for the purposes of determining the maximum aggregate number of Shares that may underlie the RSUs granted pursuant to the Post-IPO RSU Scheme.

(b) *Renewal of Scheme Mandate Limit*

The Scheme Mandate Limit may be renewed subject to prior Shareholders’ approval, but in any event, the total number of Shares that may underlie the RSUs granted following the date of approval of the renewed limit (the “**New Approval Date**”) under the limit as renewed must not exceed 10% of the Shares in issue as at the New Approval Date. Shares underlying the RSUs granted pursuant to the Post-IPO RSU Scheme (including those outstanding, cancelled or vested RSUs) prior to the New Approval Date will not be counted for the purpose of determining the maximum aggregate number of Shares that may underlie the RSUs granted following the New Approval Date under the limit as renewed. For the avoidance of doubt, Shares issued prior to the New Approval Date pursuant to the vesting of RSUs granted pursuant to the Post-IPO RSU Scheme will be counted for the purpose of determining the number of Shares in issue as at the New Approval Date.

(c) *Annual Mandate*

If our Company proposes to grant RSUs pursuant to the Post-IPO RSU Scheme during the period between one annual general meeting and the subsequent annual general meeting of our Company which may be satisfied by our Company allotting and issuing new Shares upon the vesting of the RSUs, our Company shall, at the annual general meeting of our Company, propose for the Shareholders to consider and, if thought fit, approve an ordinary resolution granting a mandate specifying:

- (i) the maximum number of new Shares that may underlie the RSUs granted pursuant to the Post-IPO RSU Scheme during the Applicable Period (as defined below); and
- (ii) that the Board has the power to allot, issue and deal with Shares underlying the RSUs granted pursuant to the Post-IPO RSU Scheme during the Applicable Period as and when the RSUs vest.

The above mandate shall remain in effect during the period from the passing of the ordinary resolution granting the mandate until the earliest of:

- (A) the conclusion of the next annual general meeting of our Company;
- (B) the end of the period within which our Company is required by any applicable laws or by the Bye-laws to hold the next annual general meeting of our Company; and
- (C) the variation or revocation of such mandate by an ordinary resolution of the Shareholders in a general meeting,

(the “**Applicable Period**”).

7. Rights Attached to the RSUs

The RSUs do not carry any right to vote at general meetings of our Company, or any dividend, transfer or other rights (including those arising on the liquidation of our Company).

No Grantee shall enjoy any of the rights of a Shareholder by virtue of the grant of an RSU pursuant to the Post-IPO RSU Scheme, unless and until the Shares underlying the RSU are actually allotted and issued or transferred (as the case may be) to the Grantee upon the vesting of such RSU.

8. Rights Attached to the Shares

A Grantee shall not be entitled to any dividends or distributions in respect of any Shares underlying the RSUs granted until such Shares have been allotted and issued or transferred (as the case may be) to the Grantee.

Subject to the foregoing, the Shares to be allotted and issued or transferred (as the case may be) upon the vesting of the RSUs granted pursuant to the Post-IPO RSU Scheme shall be subject to all the provisions of the Memorandum of Association and Bye-laws for the time being in force and shall rank *pari passu* in all respects with, and shall have the same voting, dividend, transfer and other rights (including those rights arising on a liquidation of our Company) as, the existing fully paid Shares in issue on the date on which those Shares are allotted and issued or transferred (as the case may be) upon the vesting of the RSUs granted and, without prejudice to the generality of the foregoing, shall entitle the holders to participate in all dividends or other distributions paid or made on or after the date on which Shares are allotted and issued or transferred (as the case may be), other than any dividends or distributions previously declared or recommended or resolved to be paid or made if the record date thereof shall be before the date on which the Shares are allotted and issued or transferred (as the case may be).

9. Assignment of RSUs

An Award shall be personal to the Grantee and shall not be assignable or transferable by the Grantee, provided that:

- (a) during the validity period of the Award, the Grantee may transfer RSUs to his Family Members (as defined below) by gift or pursuant to a court order relating to the settlement of marital property rights; and
- (b) subject to paragraph 11 below, following the Grantee's death, RSUs may be transferred by will or by the laws of testacy and distribution.

Subject to the foregoing, a Grantee shall not in any way sell, transfer, charge, mortgage, encumber or create any interests in favor of any third party over or in relation to any RSU.

For the purpose of the Post-IPO RSU Scheme, "**Family Members**" means the Grantee's child, stepchild, grandchild, parent, stepparent, grandparent, spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law, including adoptive relationships, a trust in which these persons have more than 50% of the beneficial interest, a foundation in which these persons (or the Grantee) control the management of assets and any other entity in which these persons (or the Grantee) own more than 50% of the voting interests.

10. Vesting of RSUs

(a) *General*

Subject to the terms of the Post-IPO RSU Scheme and the specific terms applicable to each Award, an RSU shall vest on the vesting date in respect of all or such proportion of the Shares underlying the Award. If the vesting of an RSU is subject to the satisfaction of performance or other conditions and such conditions are not satisfied, the RSU shall be cancelled automatically on the date on which such conditions are not satisfied.

RSUs which have vested shall be satisfied within 10 business days of the vesting date, at our Company's absolute discretion, either by:

- (i) our Company allotting and issuing the relevant number of Shares to the Grantee credited as fully paid and issuing to the Grantee (or his custodian agent) share certificates in respect of the Shares so allotted; or
- (ii) our Company directing and procuring the RSU Trustee (as defined below) to transfer to the Grantee the relevant number of Shares (A) which our Company has allotted and issued to the RSU Trustee credited as fully paid or (B) which the RSU Trustee has acquired through on-market purchases of Shares.

Notwithstanding the foregoing, if our Company, the RSU Trustee or any Grantee would or might be prohibited from dealing in the Shares by the Listing Rules or by any other applicable laws, regulations or rules within the period specified above, the date on which the relevant Shares shall be allotted and issued or transferred (as the case may be) to the Grantee shall occur as soon as possible after the date when such dealing is permitted by the Listing Rules or by any other applicable laws, regulations or rules.

(b) *Appointment of RSU Trustee*

Our Company may appoint a professional trustee (the "**RSU Trustee**") to assist with the administration and vesting of RSUs granted pursuant to the Post-IPO RSU Scheme. Our Company may (i) allot and issue Shares to the RSU Trustee to be held by the RSU Trustee pending the vesting of the RSUs granted and which will be used to satisfy the RSUs upon vesting and/or (ii) direct and procure the RSU Trustee to make

on-market purchases of Shares to satisfy the RSUs upon vesting. Our Company shall provide sufficient funds to the RSU Trustee by whatever means as the Board may in its absolute discretion determine to enable the RSU Trustee to satisfy its obligations in connection with the administration and vesting of RSUs granted pursuant to the Post-IPO RSU Scheme.

(c) ***Rights on a Takeover***

In the event a general offer by way of takeover or otherwise (other than by way of scheme of arrangement pursuant to paragraph 10(d) below) is made to all the Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional prior to the vesting date of any RSU, the Board shall, prior to the offer becoming or being declared unconditional, determine at its absolute discretion whether such RSU shall vest and the period within which such RSU shall vest. If the Board determines that such RSU shall vest, it shall notify the Grantee that the RSU shall vest and the period within which such RSU shall vest.

(d) ***Rights on a Scheme of Arrangement***

In the event a general offer for Shares by way of scheme of arrangement is made by any person to all the Shareholders and has been approved by the necessary number of Shareholders at the requisite meetings prior to the vesting date of any RSU, the Board shall, prior to such meetings, determine at its absolute discretion whether such RSU shall vest and the period within which such RSU shall vest. If the Board determines that such RSU shall vest, it shall notify the Grantee that the RSU shall vest and the period within which such RSU shall vest.

(e) ***Rights on a Compromise or Arrangement***

If, pursuant to the Bermuda Companies Act, a compromise or arrangement between our Company and the Shareholders and/or the creditors of our Company is proposed for the purposes of or in connection with a scheme for the reconstruction of our Company or the amalgamation of our Company with any other company or companies prior to the vesting date of any RSU, the Board shall determine at its absolute discretion whether such RSU shall vest and the period within which such RSU shall vest. If the Board determines that such RSU shall vest, it shall notify the Grantee that the RSU shall vest and the period within which such RSU shall vest.

(f) ***Rights on a Voluntarily Winding-up***

In the event a notice is given by our Company to the Shareholders to convene a general meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind-up our Company prior to the vesting date of any RSU, the Board shall determine at its absolute discretion whether such RSU shall vest and the period within which such RSU shall vest. If the Board determines that such RSU shall vest, it shall notify the Grantee that the RSU shall vest and the period within which such RSU shall vest.

11. Cancellation of RSUs

An unvested RSU shall be cancelled automatically upon the earliest of:

- (a) the date of the termination of the Grantee's employment or service by our Company or any of our subsidiaries for Cause (as defined below);
- (b) the date the Grantee:
 - (i) becomes an officer, director, employee, consultant, advisor, partner of, or a stockholder or other proprietor owning more than a 5% interest in, any Competitor (as defined below); or
 - (ii) knowingly performs any act that may confer any competitive benefit or advantage upon any Competitor;

- (c) the date on which the Grantee commits a breach of paragraph 9 above; and
- (d) the date on which the conditions(s) to vesting are not satisfied.

The Board shall have the right to determine what constitutes Cause, whether the Grantee's employment has been terminated for Cause, the effective date of such termination for Cause and whether someone is a Competitor, and such determination by the Board shall be final and conclusive.

If the Grantee's employment or service with our Company or any of our subsidiaries is terminated for any reason other than for Cause (including by reason of resignation, retirement, death, Disability (as defined below) or non-renewal of the employment or service agreement upon its expiration for any reason other than for Cause), the Board shall determine at its absolute discretion and shall notify the Grantee whether any unvested RSU granted to such Grantee shall vest and the period within which such RSU shall vest. If the Board determines that such RSU shall not vest, such RSU shall be cancelled automatically with effect from the date on which the Grantee's employment or service is terminated.

For the purpose of the Post-IPO RSU Scheme:

- (A) "**Cause**" means, with respect to a Grantee, such event which will entitle our Company and/or any of our subsidiaries to terminate the employment or service of the Grantee with immediate notice without compensation under the relevant employment or service agreement or, if it is not otherwise provided for in the relevant employment or service agreement, (I) the commission of an act of theft, embezzlement, fraud, dishonesty, ethical breach or other similar acts or commission of a criminal offence, (II) a material breach of any agreement or understanding between the Grantee and our Company and/or any of our subsidiaries, including any applicable invention assignment, employment, non-competition, confidentiality or other similar agreement, (III) misrepresentation or omission of any material fact in connection with his employment agreement or service agreement, (IV) a material failure to perform the customary duties as an employee of our Company and/or any of our subsidiaries, to obey the reasonable directions of a supervisor or to abide by the policies or codes of conduct of the Group or (V) any conduct that is materially adverse to the name, reputation or interests of the Group;
- (B) "**Competitor**" means any governmental unit, corporation, partnership, joint venture, trust, individual proprietorship, firm or other enterprise (including any of their respective affiliates) that carries on activities for profit or is engaged in or is about to become engaged in any activity of any nature that competes with a product, process, technique, procedure, device or service of our Company or any of our subsidiaries; and
- (C) "**Disability**" means a disability, whether temporary or permanent, partial or total as determined by the Board in its absolute discretion.

The Board may at any time cancel any unvested RSUs granted to a Grantee. Where our Company cancels unvested RSUs and makes a grant of new RSUs to the same Grantee, such grant may only be made with available RSUs to the extent not yet granted (excluding the cancelled RSUs) within the limits prescribed by paragraph 6 above.

12. Reorganization of Capital Structure

(a) *Adjustments*

In the event of an alteration in the capital structure of our Company whilst any RSU has not vested by way of a capitalization of profits or reserves, bonus issue, rights issue, open offer, subdivision or consolidation of shares or reduction of the share capital of our Company in accordance with legal requirements and requirements of the Stock Exchange (other than any alteration in the capital structure of our Company as a result of an issue of Shares as consideration in a transaction to which our Company or any of our subsidiaries is a party or in connection with any share option, restricted share or other equity incentive schemes of our Company), such corresponding adjustments (if any) shall be made to the number or nominal amount of Shares underlying the RSU so far as unvested, provided that any such adjustments give a Grantee

the same proportion of the share capital of our Company as that to which that Grantee was previously entitled. In respect of any such adjustments, our auditors or an independent financial advisor to our Company (as the case may be) must confirm to the Directors in writing that the adjustments are in their opinion fair and reasonable.

(b) *Auditors or Independent Financial Advisor Certification*

Our Company shall engage our auditors or an independent financial advisor to certify in writing, either generally or as regards any particular Grantee, that the adjustments made by our Company under paragraph 12(a) above satisfy the requirements set out therein.

13. Alteration of the Post-IPO RSU Scheme

Save as provided in the Post-IPO RSU Scheme, the Board may alter any of the terms of the Post-IPO RSU Scheme at any time.

Any changes to the authority of the Board in relation to any alteration of the terms of the Post-IPO RSU Scheme shall not be made without the prior approval of Shareholders in general meeting.

Any alterations to the terms and conditions of the Post-IPO RSU Scheme which are of a material nature or any changes to the terms of the RSUs granted must be approved by the Shareholders in general meeting, except where the alterations or changes take effect automatically under the existing terms of the Post-IPO RSU Scheme. The Board's determination as to whether any proposed alteration to the terms and conditions of the Post-IPO RSU Scheme is material shall be conclusive.

14. Termination of the Post-IPO RSU Scheme

Our Company by ordinary resolution in general meeting or the Board may at any time terminate the Post-IPO RSU Scheme and in such event, no further RSUs may be granted but in all other respects the provisions of the Post-IPO RSU Scheme shall remain in full force and effect in respect of RSUs which are granted during the life of the Post-IPO RSU Scheme and which remain unvested immediately prior to the termination of the operation of the Post-IPO RSU Scheme.

15. Administration of the Post-IPO RSU Scheme

The Post-IPO RSU Scheme shall be subject to the administration of the Board whose decision as to all matters arising in relation to the Post-IPO RSU Scheme or its interpretation or effect shall (save as otherwise provided in the Post-IPO RSU Scheme) be final and binding on all parties.

16. General

An application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the new Shares underlying the RSUs which may be granted pursuant to the Post-IPO RSU Scheme.

As of the Latest Practicable Date, no RSU had been granted or agreed to be granted by our Company pursuant to the Post-IPO RSU Scheme. The grant and vesting of any RSUs which may be granted pursuant to the Post-IPO RSU Scheme will be in compliance with Rule 10.08 of the Listing Rules.

Details of the Post-IPO RSU Scheme, including particulars and movements of the RSUs granted during each financial year of our Company, and our employee costs arising from the grant of the RSUs will be disclosed in our annual report.

F. SHARE OPTION SCHEME

The following is a summary of the principal terms of the Share Option Scheme conditionally approved and adopted by the sole Shareholder on November 8, 2010. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules.

1. Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to attract skilled and experienced personnel, to incentivize them to remain with the Group and to motivate them to strive for the future development and expansion of the Group by providing them with the opportunity to acquire equity interests in our Company.

2. Participants of the Share Option Scheme and Basis for Determining the Eligibility of the Participants

The Board may, at its discretion, grant options pursuant to the Share Option Scheme to the Directors (including executive Directors, non-executive Directors and independent non-executive Directors), the directors of our subsidiaries and the employees of the Group who the Board considers, in its absolute discretion, have contributed or will contribute to the Group (the “**Participants**”).

3. Status of the Share Option Scheme

(a) *Conditions of the Share Option Scheme*

The Share Option Scheme shall take effect subject to (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares to be issued pursuant to the exercise of any options to subscribe for Shares pursuant to the Share Option Scheme and (ii) the commencement of trading of the Shares on the Main Board of the Stock Exchange (the “**Conditions**”).

(b) *Term of the Share Option Scheme*

Subject to the Conditions being satisfied, the Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date of its conditional adoption by the sole Shareholder (the “**Term**”), after which period no further options shall be offered or granted but the provisions of the Share Option Scheme shall remain in full force and effect in all other respects. Options granted during the life of the Share Option Scheme shall continue to be exercisable in accordance with their terms of grant after the end of the Term.

4. Grant of Options

(a) *Making an Offer*

An offer of the grant of an option shall be made to a Participant by a notice of grant requiring the Participant to undertake to hold the option on the terms on which it is to be granted (which may include a minimum period for which the option must be held before it can be exercised and a performance target that must be reached before the option can be exercised in whole or in part) and to be bound by the terms of the Share Option Scheme.

(b) *Acceptance of an Offer*

An offer of the grant of an option is deemed to be accepted by the Participant (the “**Grantee**”) when our Company receives from the Grantee the duplicate notice of grant duly signed by the Grantee and a remittance of the sum of US\$1.00 or such other amount in any other currency as may be determined by the Board as consideration for the grant of the option. Such remittance is not refundable in any circumstances.

The offer shall remain open for acceptance for such time to be determined by the Board, provided that no such offer shall be open for acceptance after the expiry of the Term or after the termination of the Share Option Scheme in accordance with its terms or after the Participant to whom the offer is made has ceased to be a Participant.

(c) ***Restrictions on Time of Grant***

A grant of options may not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been published by our Company in accordance with the requirements of the Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of:

- (i) the date of the meeting of the Board (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and
- (ii) the deadline for our Company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules),

and ending on the date of the results announcement, no option may be granted; and where a grant of options is to a Director, no options may be granted on any day on which the financial results of our Company are published and during the period of:

- (iii) 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and
- (iv) 30 days immediately preceding the publication date of the quarterly results (if any) and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

(d) ***Grant to Connected Persons***

Any grant of options to any Director, chief executive or substantial shareholder of our Company, or any of their respective associates, shall be subject to the prior approval of the independent non-executive Directors (excluding the independent non-executive Director who is the proposed Grantee of the options in question).

(e) ***Grant to Substantial Shareholders and Independent Non-Executive Directors***

Where any grant of options to a substantial shareholder or an independent non-executive Director of our Company, or any of their respective associates, would result in the Shares issued and to be issued upon the exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person pursuant to the Share Option Scheme and any other share option schemes of our Company in the 12 month period up to and including the date of grant:

- (i) representing in aggregate over 0.1% of the Shares in issue on the date of grant; and
- (ii) having an aggregate value, based on the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant, in excess of HK\$5 million,

such further grant of options shall be subject to prior approval by the Shareholders in general meeting by way of poll and all connected persons of our Company shall abstain from voting in favor of the resolution relating to the grant of such options at such general meeting.

5. Exercise Price

The price per Share at which a Grantee may subscribe for Shares upon the exercise of an option (the “**Exercise Price**”) shall be determined by the Board in its absolute discretion but in any event shall not be less than the higher of:

- (a) the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant, which must be a business day;
- (b) the average closing price of the Shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and
- (c) the nominal value of the Shares,

provided that for the purpose of determining the Exercise Price where the Shares have been listed on the Stock Exchange for less than five business days, the Offer Price shall be used as the closing price of the Shares for any business day falling within the period before the Listing.

6. Maximum Number of Shares Available for Subscription

(a) *Scheme Mandate Limit*

At any time during the Term, the maximum aggregate number of Shares in respect of which options may be granted pursuant to the Share Option Scheme shall be calculated in accordance with the following formula:

$$X = A - B - C$$

where:

- X** = the maximum aggregate number of Shares in respect of which options may be granted pursuant to the Share Option Scheme;
- A** = such number of Shares representing (i) 10% of the Shares in issue on the Listing Date or (ii) 10% of the Shares in issue as at the New Approval Date (as defined below) (as the case may be) (the “**Scheme Mandate Limit**”);
- B** = the maximum aggregate number of Shares underlying the options already granted pursuant to the Share Option Scheme; and
- C** = the maximum aggregate number of Shares underlying the options already granted pursuant to any other share option schemes of our Company.

Shares in respect of options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option schemes of our Company will not be counted for the purpose of determining the maximum aggregate number of Shares in respect of which options may be granted pursuant to the Share Option Scheme.

(b) *Renewal of Scheme Mandate Limit*

The Scheme Mandate Limit may be renewed subject to prior Shareholders’ approval, but in any event, the total number of Shares in respect of which options may be granted pursuant to the Share Option Scheme and any other share option schemes of our Company following the date of approval of the renewed limit (the “**New Approval Date**”) under the limit as renewed must not exceed 10% of the Shares in issue as at the New Approval Date. Shares in respect of options granted pursuant to the Share Option Scheme and any other share option schemes of our Company (including those outstanding, cancelled, lapsed in accordance with the Share Option Scheme or any other share option schemes of our Company or exercised options) prior to the New Approval Date will not be counted for the purpose of determining the maximum aggregate number of Shares

in respect of which options may be granted following the New Approval Date under the limit as renewed. For the avoidance of doubt, Shares issued prior to the New Approval Date pursuant to the exercise of options granted pursuant to the Share Option Scheme and any other share option schemes of our Company will be counted for the purpose of determining the number of Shares in issue as at the New Approval Date.

(c) *Grant of Options Beyond the Scheme Mandate Limit*

Notwithstanding the foregoing, our Company may grant options beyond the Scheme Mandate Limit to Participants if:

- (i) separate Shareholders' approval has been obtained for granting options beyond the Scheme Mandate Limit to Participants specifically identified by our Company before such Shareholders' approval is sought; and
- (ii) our Company, in connection with the seeking of such separate Shareholders' approval, has first sent a circular to Shareholders containing such information as may be required by the Listing Rules.

(d) *Maximum Number of Shares Issued Pursuant to the Exercise of Options*

At any time, the maximum number of Shares which may be issued upon the exercise of all outstanding options which have been granted and have yet to be exercised pursuant to the Share Option Scheme and any other share option schemes of our Company shall not exceed 30% of the Shares in issue from time to time.

(e) *Grantee's Maximum Holding*

Subject to the paragraph below, the maximum number of Shares issued and to be issued upon the exercise of the options granted to each Participant pursuant to the Share Option Scheme (including both exercised and outstanding options) in any 12-month period shall not (when aggregated with any Shares underlying the options granted during such period pursuant to any other share option schemes of our Company other than those options granted pursuant to a specific approval by the Shareholders in a general meeting) exceed 1% of the Shares in issue for the time being.

Where any further grant of options to a Participant would result in the Shares issued and to be issued upon the exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant (when aggregated with any Shares pursuant to options granted during such period pursuant to any other share option schemes of our Company other than those options granted pursuant to a specific approval by the Shareholders in a general meeting) representing in aggregate over 1% of the Shares in issue, such further grant must be separately approved by Shareholders in general meeting with such Participant and his associates abstaining from voting. Our Company must send a circular to the Shareholders disclosing the identity of the Participant in question, the number and terms of the options to be granted (and options previously granted to such Participant) and such other information required under the Listing Rules.

7. Rights Attached to the Options

The options do not carry any right to vote at general meetings of our Company, or any dividend, transfer or other rights (including those arising on the liquidation of our Company).

No Grantee shall enjoy any of the rights of a Shareholder by virtue of the grant of an option pursuant to the Share Option Scheme, unless and until the Shares underlying the option are actually issued to the Grantee pursuant to the exercise of such option.

8. Rights Attached to the Shares

No dividends or distributions shall be payable in respect of any Shares underlying an option which has not been exercised.

Subject to the foregoing, the Shares which are allotted and issued upon the exercise of an option shall be subject to all the provisions of the Memorandum of Association and Bye-laws for the time being in force and shall rank *pari passu* in all respects with, and shall have the same voting, dividend, transfer and other rights (including those rights arising on a liquidation of our Company) as, the existing fully paid Shares in issue on the date on which those Shares are allotted and issued upon the exercise of the option and, without prejudice to the generality of the foregoing, shall entitle the holders to participate in all dividends or other distributions paid or made on or after the date on which the Shares are allotted and issued, other than any dividends or distributions previously declared or recommended or resolved to be paid or made if the record date thereof shall be before the date on which the Shares are allotted and issued.

9. Assignment of Options

An option shall be personal to the Grantee and shall not be assignable or transferable by the Grantee and the Grantee shall not in any way sell, transfer, charge, mortgage, encumber or create any interest in favor of any other person over or in relation to any option.

10. Exercise of Options

(a) General

The period during which an option may be exercised by a Grantee (the “**Option Period**”) shall be the period to be determined and notified by the Board to the Grantee at the time of making an offer, which shall not expire later than 10 years from the date of grant.

Subject to any restrictions applicable under the Listing Rules, an option may be exercised by the Grantee at any time during the Option Period in accordance with the terms of the Share Option Scheme and the terms on which the option was granted. If the vesting of Shares underlying an option is subject to the satisfaction of performance or other conditions and such conditions are not satisfied, the option shall lapse automatically on the date on which such conditions are not satisfied in respect of the relevant Shares underlying the option.

(b) Rights on a Takeover

In the event a general offer by way of takeover or otherwise (other than by way of scheme of arrangement pursuant to paragraph 10(c) below) is made to all the Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) by any person and such offer becomes or is declared unconditional prior to the expiry date of the relevant option, notwithstanding any other terms on which the option was granted, the Grantee shall be entitled to exercise the option (to the extent not already exercised) to its full extent or to the extent specified in the Grantee’s notice to our Company at any time thereafter and up to the close of such offer (or, as the case may be, revised offer). Subject to the foregoing, the option (to the extent not already exercised) will lapse automatically on the date on which such offer (or, as the case may be, revised offer) closes.

(c) Rights on a Scheme of Arrangement

In the event a general offer for Shares by way of scheme of arrangement is made by any person to all the Shareholders and has been approved by the necessary number of Shareholders at the requisite meetings prior to the expiry date of the relevant option, notwithstanding any other terms on which the option was granted, each Grantee shall be entitled to exercise the option (to the extent not already exercised) to its full extent or to the extent specified in the Grantee’s notice to our Company at any time thereafter and up to the record date for determining entitlements under such scheme of arrangement. Subject to the foregoing and to the scheme of arrangement becoming effective, the option (to the extent not already exercised) will lapse automatically on the record date for determining entitlements under such scheme of arrangement.

(d) *Rights on a Compromise or Arrangement*

If, pursuant to the Bermuda Companies Act, a compromise or arrangement between our Company and the Shareholders and/or the creditors of our Company is proposed for the purposes of or in connection with a scheme for the reconstruction of our Company or the amalgamation of our Company with any other company or companies prior to the expiry date of the relevant option, our Company shall give notice thereof to all the Grantees on the same day as our Company dispatches to the Shareholders and/or the creditors of our Company a notice summoning the meeting to consider such a compromise or arrangement and, notwithstanding any other terms on which the option was granted, each Grantee shall be entitled to exercise the option (to the extent not already exercised) to its full extent or to the extent specified in the Grantee's notice to our Company, such notice to be given not later than three business days prior to the date of the proposed meeting. Our Company shall as soon as possible and in any event no later than one business day immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the Grantee which falls to be issued on such exercise of the option, credited as fully paid and shall issue to the Grantee (or his custodian agent) share certificates in respect of the Shares so allotted. With effect from the date of such meeting, the rights of all Grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse automatically. The Board shall endeavor to procure that the Shares issued upon the exercise of the options in such circumstances shall for the purposes of such compromise or arrangement form part of the issued share capital of our Company on the effective date thereof and that such Shares shall in all respects be subject to such compromise or arrangement. If, for any reason, such compromise or arrangement is not approved by the relevant court (whether upon the terms presented to the relevant court or upon any other terms as may be approved by such court), the rights of the Grantees to exercise their respective options shall, with effect from the date of the making of the order by the relevant court, be restored in full as if such compromise or arrangement had not been proposed by our Company and neither our Company nor the Directors shall be liable for any loss or damage suffered or sustained by any Grantee as a result of the aforesaid suspension of rights.

(e) *Rights on a Voluntary Winding-up*

In the event a notice is given by our Company to the Shareholders to convene a general meeting for the purposes of considering and, if thought fit, approving a resolution to voluntarily wind-up our Company prior to the expiry date of the relevant option, our Company shall give notice thereof to all the Grantees on the same day as our Company dispatches to the Shareholders the notice convening the meeting and, notwithstanding any other terms on which the option was granted, each Grantee shall be entitled to exercise the option (to the extent not already exercised) to its full extent or to the extent specified in the Grantee's notice to our Company, such notice to be given not later than three business days prior to the date of the proposed meeting. Our Company shall as soon as possible and in any event no later than one business day immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the Grantee which falls to be issued on such exercise of the option, credited as fully paid and shall issue to the Grantee (or his custodian agent) share certificates in respect of the Shares so allotted. With effect from the date of such meeting, the rights of all Grantees to exercise their respective options shall forthwith be suspended. On the date of the commencement of the voluntary winding-up of our Company, all options shall, to the extent that they have not been exercised, lapse automatically. If, for any reason, the resolution for the voluntary winding-up of our Company is not approved by the Shareholders, the rights of the Grantees to exercise their respective options shall be restored in full as if such resolution for the voluntary winding-up of our Company had not been proposed by our Company and neither our Company nor the Directors shall be liable for any loss or damage suffered or sustained by any Grantee as a result of the aforesaid suspension of rights.

11. Lapse of Options

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (a) the expiry of the Option Period (subject to the provisions of the Share Option Scheme);

- (b) the date of termination of the Grantee's employment or service by our Company or any of our subsidiaries for Cause (as defined below);
- (c) the date the Grantee:
 - (i) becomes an officer, director, employee, consultant, advisor, partner of, or a stockholder or other proprietor owning more than a 5% interest in, any Competitor (as defined below); or
 - (ii) knowingly performs any act that may confer any competitive benefit or advantage upon any Competitor;
- (d) the expiry of the period for exercising the option referred to in paragraph 10(b) or 10(c) above;
- (e) the date on which the compromise or arrangement referred to in paragraph 10(d) above becomes effective;
- (f) the date of the commencement of the winding-up of our Company;
- (g) the date on which the Grantee commits a breach of paragraph 9 above; and
- (h) (in respect of such Shares which are subject to vesting condition(s)) the date on which the condition(s) to vesting of the relevant Shares underlying the option are not satisfied.

The Board shall have the right to determine what constitutes Cause, whether the Grantee's employment or service has been terminated for Cause, the effective date of such termination for Cause and whether someone is a Competitor, and such determination by the Board shall be final and conclusive.

If the Grantee's employment or service with our Company or any of our subsidiaries is terminated for any reason other than for Cause (including by reason of resignation, retirement, death, Disability or non-renewal of the employment or service agreement upon its expiration for any reason other than for Cause), the Board shall determine at its absolute discretion and shall notify the Grantee whether the Grantee shall be entitled, following such termination of employment or service, to exercise the option (to the extent not already exercised) in respect of vested and unvested Shares as at the date the Grantee's employment or service is terminated and the period during which such option may be exercised. If the Board determines that such option may not be exercised following such termination of employment or service, such option shall automatically lapse with effect from the date on which the Grantee's employment or service is terminated.

For the purpose of the Share Option Scheme:

- (A) "**Cause**" means, with respect to a Grantee, such event which will entitle our Company and/or any of our subsidiaries to terminate the employment or service of the Grantee with immediate notice without compensation under the relevant employment or service agreement or, if it is not otherwise provided for in the relevant employment or service agreement, (I) the commission of an act of theft, embezzlement, fraud, dishonesty, ethical breach or other similar acts or commission of a criminal offence, (II) a material breach of any agreement or understanding between the Grantee and our Company and/or any of our subsidiaries, including any applicable invention assignment, employment, non-competition, confidentiality or other similar agreement, (III) misrepresentation or omission of any material fact in connection with his employment agreement or service agreement, (IV) a material failure to perform the customary duties as an employee of our Company and/or any of our subsidiaries, to obey the reasonable directions of a supervisor or to abide by the policies or codes of conduct of the Group or (V) any conduct that is materially adverse to the name, reputation or interests of the Group;
- (B) "**Competitor**" means any governmental unit, corporation, partnership, joint venture, trust, individual proprietorship, firm or other enterprise (including any of their respective affiliates) that carries on activities for profit or is engaged in or is about to become engaged in any activity of any nature that competes with a product, process, technique, procedure, device or service of our Company or any of our subsidiaries; and
- (C) "**Disability**" means a disability, whether temporary or permanent, partial or total as determined by the Board in its absolute discretion.

12. Cancellation of Options

The Board may at any time cancel options previously granted to but not yet exercised by a Grantee. Where our Company cancels options and offers new options to the same Grantee, the offer of such new options may only be made with available options to the extent not yet granted (excluding the cancelled options) within the limits prescribed by paragraph 6 above.

13. Reorganization of Capital Structure**(a) Adjustments**

In the event of an alteration in the capital structure of our Company whilst any option remains exercisable by way of a capitalization of profits or reserves, bonus issue, rights issue, open offer, subdivision or consolidation of shares or reduction of the share capital of our Company in accordance with legal requirements and requirements of the Stock Exchange (other than any alteration in the capital structure of our Company as a result of an issue of Shares as consideration in a transaction to which our Company or any of our subsidiaries is a party or in connection with any share option, restricted share or other equity incentive schemes of our Company), such corresponding adjustments (if any) shall be made to:

- (i) the number or nominal amount of Shares underlying the option so far as unexercised; or
- (ii) the Exercise Price,

or any combination thereof, provided that:

- (iii) any such adjustments give a Grantee the same proportion of the share capital of our Company as that to which that Grantee was previously entitled; and
- (iv) notwithstanding paragraph 13(a)(iii) above, any adjustments as a result of an issue of securities with a price-dilutive element, such as a rights issue, open offer or capitalization issue, should be based on a scrip factor similar to the one used in accounting standards in adjusting the earnings per share figures,

but no such adjustments shall be to the extent that a Share would be issued at less than its nominal value. In respect of any such adjustments, our auditors or an independent financial advisor to our Company (as the case may be) must confirm to the Directors in writing that the adjustments are in their opinion fair and reasonable.

(b) Auditors or Independent Financial Advisor Certification

Our Company shall engage our auditors or an independent financial advisor to certify in writing, either generally or as regards any particular Grantee, that the adjustments made by our Company satisfy the requirements set out in paragraphs 13(a)(iii) and 13(a)(iv) above.

14. Alteration of the Share Option Scheme

Save as provided in the Share Option Scheme, the Board may alter any of the terms of the Share Option Scheme at any time.

Those specific provisions of the Share Option Scheme which relate to the matters set out in Rule 17.03 of the Listing Rules cannot be altered to the advantage of Participants and changes to the authority of the Board in relation to any alteration of the terms of the Share Option Scheme shall not be made, in either case, without the prior approval of Shareholders in general meeting.

Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any changes to the terms of the options granted must be approved by the Shareholders in general meeting, except where the alterations or changes take effect automatically under the existing terms of the Share Option Scheme. The Board's determination as to whether any proposed alteration to the terms and conditions of the Share Option Scheme is material shall be conclusive.

The Share Option Scheme so altered must comply with Chapter 17 of the Listing Rules.

15. Termination of the Share Option Scheme

Our Company by ordinary resolution in general meeting or the Board may at any time terminate the Share Option Scheme and in such event, no further options may be granted but in all other respects the provisions of the Share Option Scheme shall remain in full force and effect in respect of options which are granted during the life of the Share Option Scheme and which remain unexpired immediately prior to the termination of the operation of the Share Option Scheme.

16. Administration of the Share Option Scheme

The Share Option Scheme shall be subject to the administration of the Board whose decision as to all matters arising in relation to the Share Option Scheme or its interpretation or effect shall (save as otherwise provided in the Share Option Scheme) be final and binding on all parties.

17. General

An application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the new Shares which may be issued pursuant to the exercise of the options which may be granted pursuant to the Share Option Scheme.

As of the Latest Practicable Date, no option had been granted or agreed to be granted by our Company pursuant to the Share Option Scheme.

Details of the Share Option Scheme, including particulars and movements of the options granted during each financial year of our Company, and our employee costs arising from the grant of the options will be disclosed in our annual report.

G. OTHER INFORMATION

1. Litigation

As of the Latest Practicable Date, save as disclosed in the section headed “Business — Legal Proceedings” in this prospectus, no member of the Group was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against the Group, that would have a material adverse effect on its business, financial condition or results of operations.

2. Joint Sponsors

The Joint Sponsors have made an application on behalf of our Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue, the Shares to be issued pursuant to the Global Offering (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option), the Shares to be issued pursuant to the exercise of the options which may be granted pursuant to the Share Option Scheme and the new Shares underlying the RSUs granted or to be granted pursuant to the RSU Schemes. All necessary arrangements have been made to enable such Shares to be admitted into CCASS.

3. No Material Adverse Change

The Directors confirm that there has been no material adverse change in the financial or trading position or prospects of the Group since June 30, 2010 (being the date to which the latest audited combined financial statements of the Group were prepared).

4. Miscellaneous

- (a) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:
- (i) no share or loan capital of our Company or any of its principal subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) neither our Company nor any of our subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;
 - (iv) no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of the Group;
 - (v) no commission has been paid or payable (except commissions to the Underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares;
 - (vi) none of the equity and debt securities of our Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought; and
 - (vii) our Company has no outstanding convertible debt securities.
- (b) Our principal register of members will be maintained by our principal registrar, Codan Services Limited, in Bermuda and our Hong Kong register of members will be maintained by the Hong Kong Share Registrar in Hong Kong. Unless the Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by the Hong Kong Share Registrar and may not be lodged in Bermuda.

5. Qualification of Experts

The following are the qualifications of the experts who have given opinions or advice which are contained in this prospectus:

Name	Qualification
AMEC	Independent technical consultant
CBRE	Independent property valuer
Conyers Dill & Pearman	Bermuda, BVI and Cayman Islands legal advisor
Credit Suisse	Licensed under the SFO to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance), and Type 7 (providing automated trading services) regulated activities
Deloitte Touche Tohmatsu	Certified Public Accountants
King & Wood	PRC legal advisor
Machado Meyer Sendacz e Opice Advogados	Brazilian legal advisor

<u>Name</u>	<u>Qualification</u>
Manuela António — Lawyers and Notaries	Macau legal advisor
Morgan Stanley	Licensed under the SFO to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance), Type 7 (providing automated trading services) and Type 9 (asset management) regulated activities
Pinheiro Neto Advogados	Brazilian legal advisor

6. Consents of Experts

Each of AMEC, CBRE, Conyers Dill & Pearman, Credit Suisse, Deloitte Touche Tohmatsu, King & Wood, Machado Meyer Sendacz e Opice Advogados, Manuela António — Lawyers and Notaries, Morgan Stanley and Pinheiro Neto Advogados has given and has not withdrawn its consent to the issue of this prospectus with the inclusion of its report and/or letter and/or summary of valuations and/or valuation certificates and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

None of the experts named above has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

7. Promoter

Our Company has no promoter for the purpose of the Listing Rules. Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this prospectus.

8. Preliminary Expenses

The preliminary expenses incurred by our Company were approximately US\$12,000 and were payable by us.

9. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance of this prospectus, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies Ordinance insofar as applicable.

10. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**APPENDIX X DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES
AND AVAILABLE FOR INSPECTION**

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) a copy of each of the **WHITE, YELLOW** and **GREEN** Application Forms;
- (b) the written consents referred to in “Statutory and General Information — Other Information — Consents of Experts” in Appendix IX to this prospectus; and
- (c) a copy of each of the material contracts referred to in “Statutory and General Information — Further Information About Our Business — Summary of Material Contracts” in Appendix IX to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Freshfields Bruckhaus Deringer at 11th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) our Memorandum of Association and Bye-laws;
- (b) the Accountants’ Report and the report on the unaudited pro forma financial information prepared by Deloitte Touche Tohmatsu, the texts of which are set out in Appendices I and II to this prospectus, respectively;
- (c) the audited consolidated financial statements of Sateri International and its subsidiaries for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010;
- (d) the letters relating to the profit forecast, the texts of which are set out in Appendix III to this prospectus;
- (e) the letter, summary of valuations and valuation certificate relating to the property interests of the Group prepared by CBRE, the text of which is set out in Appendix IV to this prospectus;
- (f) the technical report on our wood plantations in Brazil prepared by AMEC, the text of which is set out in Appendix V to this prospectus;
- (g) the letter from Conyers Dill & Pearman, our Bermuda legal advisor, summarizing the constitution of our Company and certain aspects of Bermuda company law referred to in the section headed “Summary of the Constitution of Our Company and Bermuda Company Law” in Appendix VIII to this prospectus;
- (h) the Bermuda Companies Act;
- (i) the legal opinion prepared by Machado Meyer Sendacz e Opice Advogados, our Brazilian legal advisor;
- (j) the legal opinion prepared by Pinheiro Neto Advogados, our Brazilian legal advisor on Brazilian tax matters;
- (k) the legal opinions prepared by King & Wood, our PRC legal advisor;
- (l) the legal opinions prepared by Conyers Dill & Pearman, our Bermuda, BVI and Cayman Islands legal advisor;

**APPENDIX X DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES
AND AVAILABLE FOR INSPECTION**

- (m) the legal opinion prepared by Manuela António — Lawyers and Notaries, our Macau legal advisor;
- (n) the material contracts referred to in “Statutory and General Information — Further Information About Our Business — Summary of Material Contracts” in Appendix IX to this prospectus; and
- (o) the written consents referred to in “Statutory and General Information — Other Information — Consents of Experts” in Appendix IX to this prospectus.

