# Sateri Holdings Limited

Stock Code: 1768

# 2011 Annual Report

## About Sateri

Listed on the Hong Kong Stock Exchange, Sateri Holdings Limited ("Sateri"; stock code: 1768) is a leading global specialty cellulose company, producing dissolving wood pulp and viscose staple fiber in its mills in Brazil and China, namely Bahia Specialty Cellulose and Sateri (Jiangxi) Chemical Fiber, respectively. The Company currently has an annual design capacity of 485,000 tons of dissolving wood pulp, and is one of the leading global suppliers of specialty-grade pulp. Sateri attaches high priority to its social and sustainability responsibilities. Its products are made from plantation trees, which are natural, renewable resources and the processes throughout the value chain are achieved with the environment in mind. Sateri is a constituent of the Morgan Stanley Capital International (MSCI) Hong Kong Small Cap Index.

Sateri has corporate offices located in Shanghai and Hong Kong. It also owns and operates its own wood plantations in Brazil, ensuring a secure and stable supply of wood, the principal raw material used in production of dissolving wood pulp. The Group distributes its dissolving wood pulp and viscose staple fiber to customers across Asia, Americas and Europe. According to 2011 statistics from China Customs, Sateri was the largest supplier of dissolving wood pulp by import volume to China, the world's largest dissolving wood pulp market.

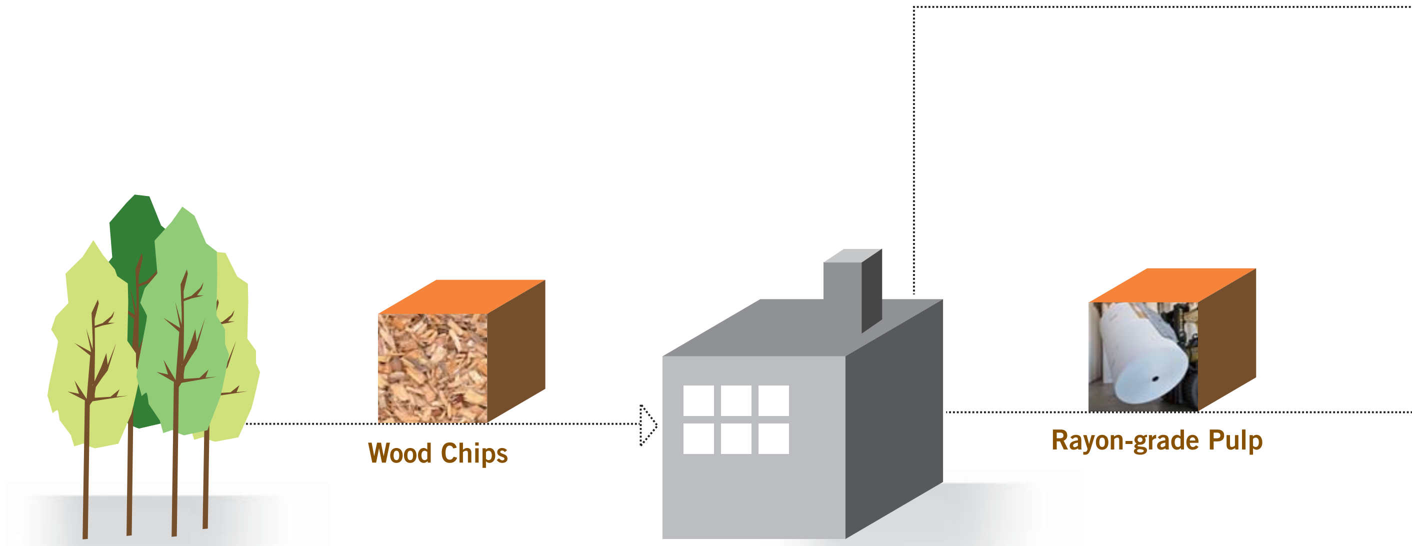

### Cover Design of 2011 Annual Report

To succeed on the world stage, it is imperative we have a solid foundation for sustained growth. Over the years, Sateri has worked relentlessly to build a unique business model that houses a fully integrated operation with fast growing tree plantations in Brazil to state of the art manufacturing facilities to cater for the fast growing consumer market in China and beyond.

We produce different grades of a high purity organic material, which is a key ingredient to improve the performance of everyday items from textiles, baby wipes and sunglass frames to pharmaceuticals and industrial products such as tires. Come rain or shine, we firmly believe that Sateri has the right building blocks in place to support our business, which will give rise to long-term successes for our stakeholders.

# Contents

# What We Do — Our Integrated Value Chain

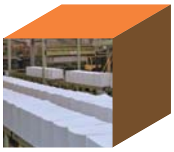



### Plantations

- Over 150,000 hectares of freehold timberland in Bahia, Brazil, of which 84,000 hectares are planted with eucalyptus trees
- Average harvest cycle of six to seven years

### Dissolving Wood Pulp Facility

- Two production lines in Bahia, Brazil with an annual design production capacity of 485,000 tons
- Flexibility to switch production between rayon and specialty grades of pulp
- Strategically located near our wood source



## Specialty-grade Pulp

Acetate frames

Sausage Casings

Medicinal Tablets

## Viscose Staple Fiber Facility

- Four production lines in Jiangxi, China with an annual design production capacity of 160,000 tons
- Building new greenfield project in Fujian, China with an annual design production capacity of 200,000 tons

## Viscose Staple Fiber

High quality textiles

Baby Wipes

Underwear

## End Product Applications

Other viscose staple fiber manufacturers

# Highlights of the Year

## Connecting fast-growing tree plantations in Brazil with the fast-growing consumer markets in China

### Brazil — A global leading dissolving wood pulp producer and largest rayon-grade pulp supplier to China.

Completed de-bottleneck project in Bahia Specialty Cellulose, Brazil and raised annual design capacity of dissolving wood pulp from 465,000 metric tons to 485,000 metric tons. (March 2011)

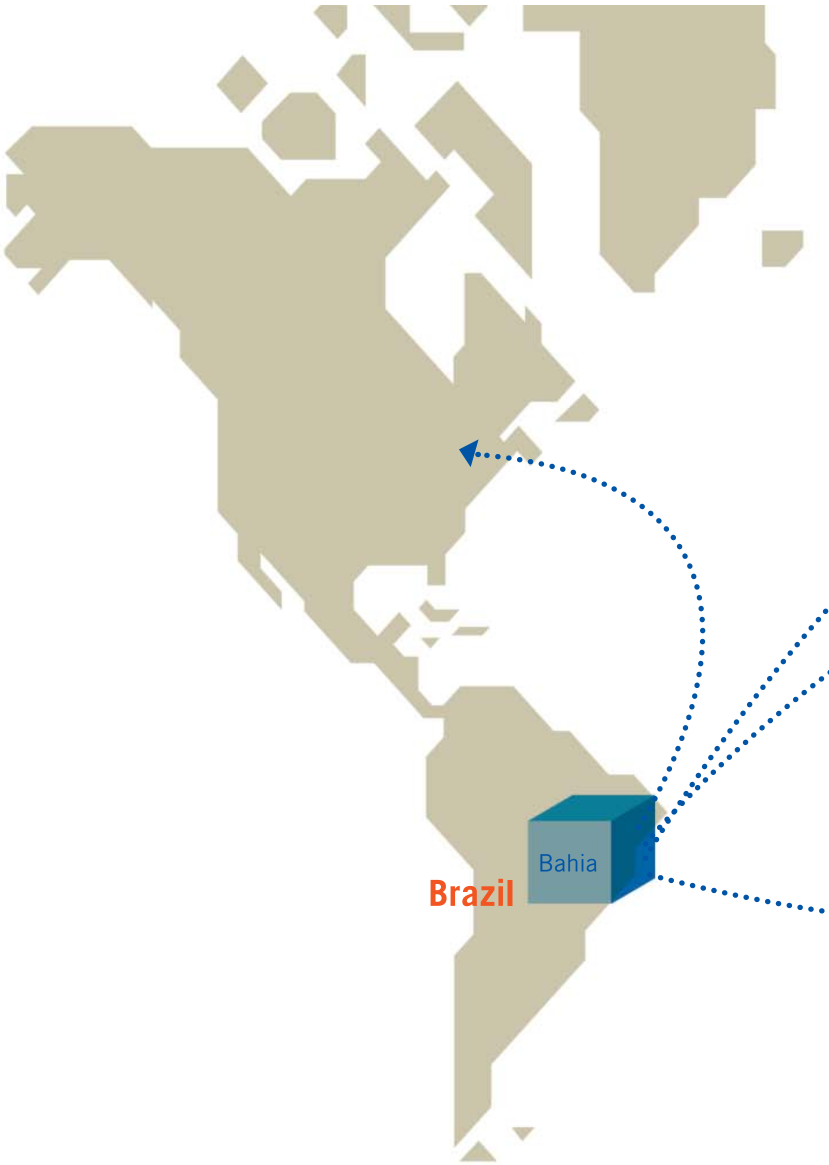
Increased sales volume of specialty-grade pulp by 60% to 92,231 metric tons, making Sateri a leader in the global specialty-grade market.

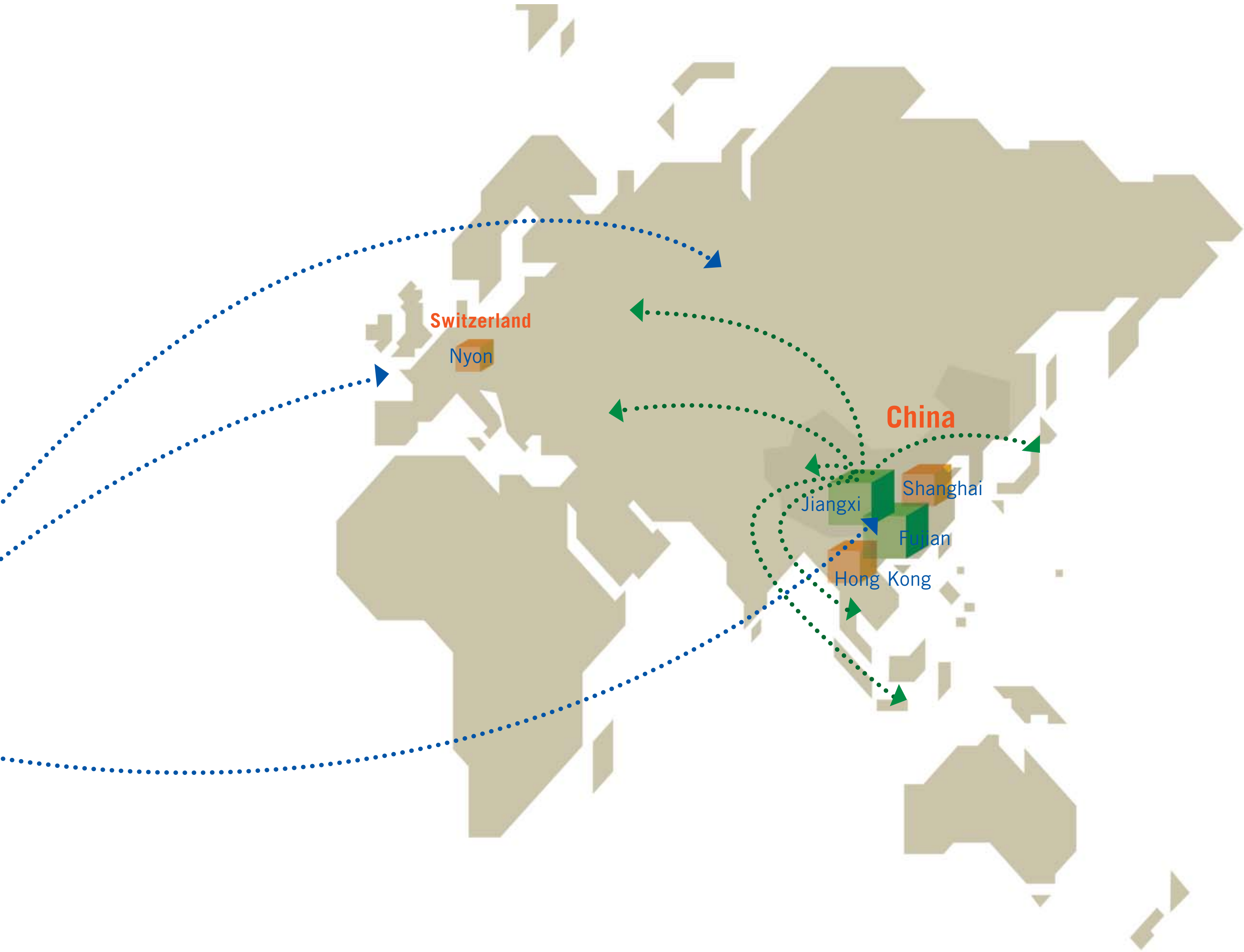
Achieved up to 6,000 hectares of Community Planting Program in Brazil.

### China — The world's largest market for dissolving wood pulp.

**- Jiangxi**
Annual design capacity of viscose staple fibers at Sateri Jiangxi, China increased from 130,000 metric tons to 160,000 metric tons through process improvements. (June 2011)

**- Fujian**
All necessary approvals successfully obtained for construction of the new 200,000-ton capacity viscose staple fiber mill in Putian. (October 2011)






**Legend:**

- Dissolving wood pulp manufacturing operations
- Viscose staple fiber manufacturing operations
- Non-manufacturing operations

# Financial Highlights

| Year ended 31 December<br>US$ Million | Audited<br>2011 | Adjusted[1]<br>2010 | Change |
|---|---|---|---|
| **Revenue** | **807** | 802 | 1% |
| **Gross profit** | **323** | 389 | (17)% |
| **Gross profit margin (%)** | **40** | 49 | |
| **EBITDA[2]** | **288** | 383 | (25)% |
| **EBITDA margin (%)** | **36** | 48 | |
| **Profit attributable to shareholders prior to non-cash items[3]** | **191** | 232 | (18)% |
| **Profit attributable to shareholders** | **155** | 262 | (41)% |
| **Net profit margin (%)** | **19** | 33 | |
| **Earnings per share (US$)** | **0.05** | 0.09 | (50)% |
| **Dividend per share (HK cents)** | **2.5** | — | |

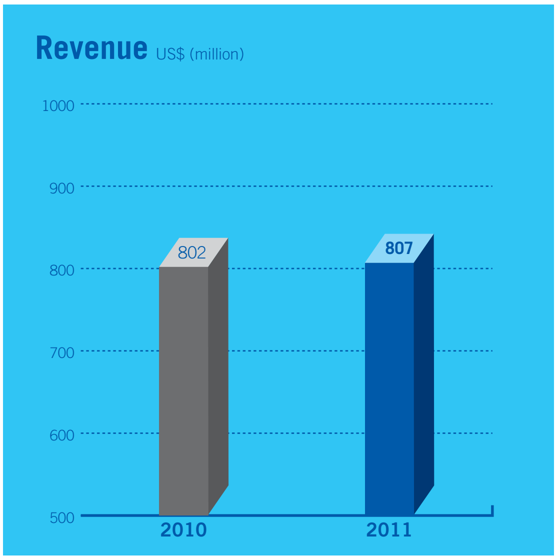
| At 31 December<br>US$ Million | Audited<br>2011 | Audited<br>2010 | Change |
|---|---|---|---|
| **Total assets** | **2,522** | 2,447 | 3% |
| **Total liabilities** | **845** | 964 | (12)% |
| **Net assets** | **1,677** | 1,483 | 13% |
| **Total debt** | **578** | 664 | (13)% |
| **Cash and cash equivalents** | **329** | 436 | (25)% |
| **Net debt** | **249** | 228 | 9% |
| **Net gearing ratio (%)** | **15** | 15 | |

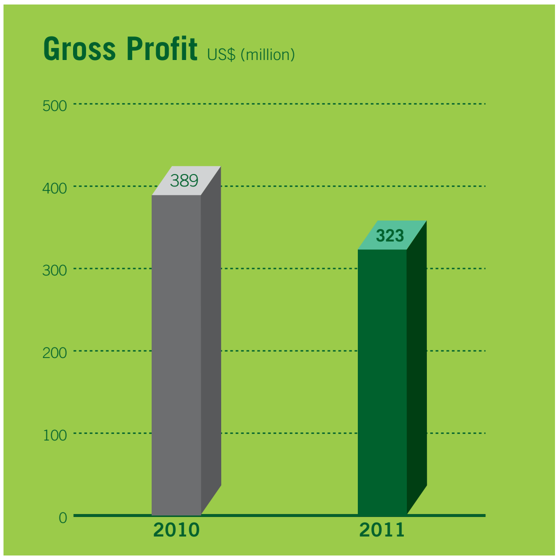
*Notes:*

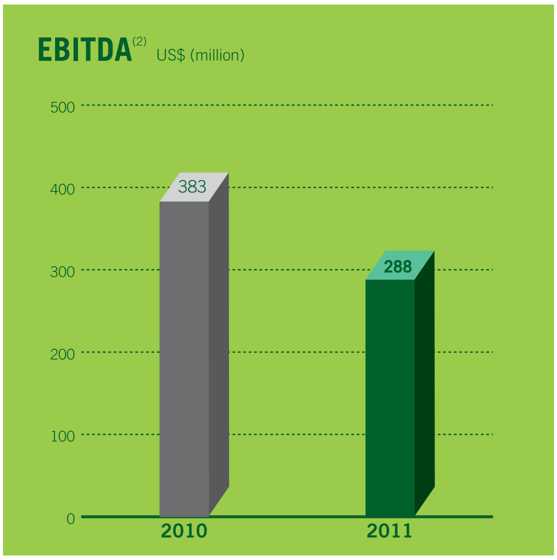
(1) Adjusted financials for the year ended 31 December 2010 exclude results of the DP Macao trading business disposed of on 30 September 2010. Adjusted figures provide a like-for-like comparison to the audited financials for the year ended 31 December 2011.

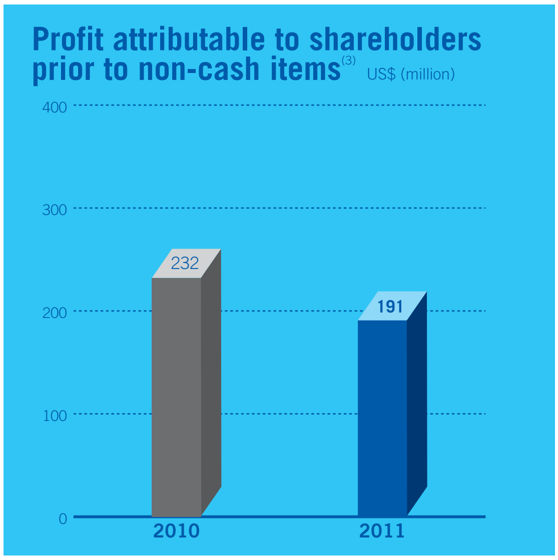
(2) EBITDA (Earnings before interest, tax, depreciation and amortization) is being calculated as profit before tax, excluding finance costs, imputed interest expense on advance from a related party, depreciation of property, plant and equipment and investment properties, amortization, decrease due to harvest, reversal of impairment loss in respect of property, plant and equipment, recovery of loss recognized in respect of property, plant and equipment and (decrease)/increase in fair value of forestation and reforestation assets.

(3) Non-cash items comprise changes in fair value of derivative financial instruments and changes in fair value of forestation and reforestation assets, net of income tax.


Revenue US$ (million)
1000
900
800
700
600
500
802
807
2010
2011


Gross Profit US$ (million)
500
400
300
200
100
0
389
323
2010
2011


EBITDA(2) US$ (million)
500
400
300
200
100
0
383
288
2010
2011


Profit attributable to shareholders prior to non-cash items(3) US$ (million)
400
300
200
100
0
232
191
2010
2011

# Chairman's Statement

**John Jeffrey Ying**
*Chairman*

**Completing our first full year as a public company, I am pleased to report that despite challenging market conditions, Sateri Holdings Limited has continued to progress substantially in realizing its strategic vision of building a vertically-integrated, leading global producer of a high purity, renewable, versatile, organic resource — cellulose — whose demand in differing forms is driven by fundamental consumer needs. Our product is an essential ingredient in a wide variety of products, ranging from textiles, baby wipes, cosmetics and sunglass frames to ice cream, vitamins, pharmaceuticals and tire cords.**

Sateri's integrated business platform strategically combines upstream assets in Brazil of 150,000 hectares (370,700 acres) of plantation that enjoy favorable climate conditions and whose products are natural, renewable and cost-competitive; a midstream technologically-advanced and energy-efficient dissolving wood pulp (pulp) production plant that is strategically located to minimize transportation costs; and a strongly-positioned, modern downstream producer of viscose staple fiber (VSF) with maximum proximity to major customers in the rapidly growing Chinese market. This configuration provides the powerful combination of a cost competitive, high quality and flexible world-class production base together with a very significant market position at the heart of the world's fastest growing consumer market.

Despite confronting both price and demand volatility during 2011 for one of our major products, rayon-grade pulp, as well as operational challenges at our facility in Brazil, the Company finished the year with respectable — though still disappointing to the Board of Directors and management — financial results. Spot prices for rayon-grade pulp, our standard grade intermediate product, ranged from US$2,600 per metric ton in the first quarter to US$1,100 per metric

**"The results validate our belief that our continuing strategic efforts to create a capacity-balanced, vertically-integrated value chain and to increase the production and sales of specialized products will lower our dependence on sales in the spot markets, resulting in more predictable revenues and more stable margins in the future."**

ton by year end, resulting in 51% lower sales by volume to third parties and higher inventory levels at year end for this grade. Offsetting these declines, our downstream VSF operations increased their uptake of our rayon-grade pulp by 100% in volume as their sales volume increased 81% and revenues grew 85%, and our specialty-grade pulp sales increased 60% by volume with relatively stable pricing and margins. The weakening of the Brazilian Reais against the US Dollar at year end also gave rise to unrealized foreign exchange losses on open currency hedging positions of US$31 million. Though the overall impact of these factors led to flat revenues on a comparable basis and lower margins and profitability for the Company, we believe they also validate our belief that our continuing strategic efforts to create a capacity-balanced, vertically-integrated value chain and to increase the production and sales of specialized products will lower our dependence on sales in the spot markets, resulting in more predictable revenues and more stable margins in the future.

For the fiscal year ended 31 December 2011, Sateri increased revenues 1% to US$807 million from US$802 million in 2010, while EBITDA decreased 25% to US$288 million from US$383 million in 2010. Resulting profit attributable to shareholders decreased 41% to US$155 million from US$262 million in 2010. Excluding non-cash items resulting from exchange rate movement between the Brazilian Reais and the US Dollar and the revaluation of our forestation and reforestation assets, profit attributable to shareholders decreased 18% to US$191 million from US$232 million. As a note, these results exclude the impact from the DP Macao trading business, which was divested in September 2010 prior to our initial public offering. Our balance sheet as at 31 December 2011 remains strong with US$329 million of cash and cash equivalents against total debt of US$578 million, compared to US$436 million and US$664 million, respectively, in 2010.

# Chairman's Statement

Going forward, the Company remains focused on executing its two-pronged strategy to create a durable platform across pricing cycles that will generate long-term shareholder value. First, we are continuing to build a capacity-balanced, vertically-integrated value chain by expanding our downstream capacity. Our VSF mill in Jiangxi, China increased its production capacity to 160,000 metric tons from 130,000 metric tons in 2010. Our greenfield VSF project in Fujian, China received all necessary regulatory approvals during 2011, and construction for this 200,000-ton facility is targeted to be completed during the second half of 2013. Second, we are continuing to focus on specialized products, particularly specialty-grade pulp, by increasing production and sales as well as broadening our customer base in North America and Europe while growing our market share in VSF in China. These products have significantly higher barriers to entry and enjoy a superior positioning in the value chain, including more stable market prices than rayon-grade pulp. Continuous efforts to improve operational efficiencies and economies of scale proceed as always.

As Sateri continues to evolve, human resources remain one of the most critical components for our future success. The Company will continue investing in people and will deepen and broaden our team to build a world-class company, in which each individual is valued for bringing different perspectives, complementary experiences and best-in-class skill sets.

The Board of Directors will continue striving to ensure world-class corporate governance standards. Our goal is to adopt international best practices in all aspects of governance, to implement the necessary processes and structures to make decisions that ensure the long-term success of Sateri and to best serve the interests of all our shareholders and other stakeholders. We believe in building mutually beneficial relationships with local communities, safe-keeping the well-being of our environment and laying the necessary foundations for a Sateri that will succeed not only today but in the foreseeable future.

Prospects for the global macroeconomic environment in 2012 and their impact on our business remain uncertain, but in reviewing our strong strategic position, the robust demand for our products, our healthy operating cash flow and the conservative management of our balance sheet, we are confident that Sateri is well positioned to grow organically and to deliver attractive long-term returns to all our shareholders.

Considering our earnings, cash position and confidence in our future prospects, the Board of Directors has recommended initiating the payment of a final dividend of HK2.5 cents per share for the year ended 31 December 2011.

**"We believe in building mutually beneficial relationships with local communities, safe-keeping the well-being of our environment and laying the necessary foundations for a Sateri that will succeed not only today but in the foreseeable future."**

**"In reviewing our strong strategic position, the robust demand for our products, our healthy operating cash flow and the conservative management of our balance sheet, we are confident that Sateri is well positioned to grow organically and to deliver attractive long-term returns to all our shareholders."**

On behalf of the Board of Directors, I would like to thank all Sateri staff for their dedication and hard work during 2011. I am also very grateful to the Directors for their invaluable advice and assistance and to all our customers, business associates and you — our shareholders — for your unwavering support.

**John Jeffrey Ying**
*Chairman*
Hong Kong, 27 March 2012

# Management Discussion and Analysis

Our strategy is to capture the huge growth potential of our markets and maximize long term shareholder value.

To achieve this we are focusing on two key initiatives:

- Building our vertically integrated business model further by expanding downstream capacity, and focusing on operational improvements and deeper integration of our platform.
- Increasing our sales towards specialty-grade pulp in view of the sector's lower cyclicality and superior positioning within the value chain.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# Management Discussion and Analysis

Leading Integrated

Specialty Sustainable

**Sateri Holdings Limited is a leading global specialty cellulose company. The Group produces dissolving wood pulp ("DWP") at its Bahia Specialty Cellulose ("BSC") plant in Brazil using wood resources grown from its captive eucalyptus plantations, and viscose staple fiber ("VSF") in Jiangxi, China using DWP as its main raw material feedstock.**

## Business Review

In the second half of 2011, the economic slow down negatively impacted demand and prices for the Group's products, particularly in the fourth quarter. In this weak business environment, we sold reduced volumes of rayon-grade pulp, which gave rise to elevated inventory levels at the 2011 year end. At BSC, the Group also experienced certain manufacturing process challenges which reduced operational availability and led to a lower level of DWP production than expected. Moreover, the weak exchange rate of the Brazilian Reais against the US Dollar at the year end gave rise to unrealized foreign exchange losses on open currency hedging positions of US$31 million. Profit attributable to shareholders, as a result, declined by 52% to US$155 million on a consolidated basis, or 41% on an adjusted basis excluding the DP Macao trading business disposed of on 30 September 2010.

On the other hand, the Group continued to make good progress during 2011 in executing its two-pronged business strategy — first, in selling more specialty grades of pulp, in view of its lower pricing volatility and superior positioning within the value chain; and second, in further integrating its DWP and VSF manufacturing operations, which uniquely connect fast growing tree plantations in Brazil, with a rapidly expanding consumer market in China.

This business strategy is pursued in order to maximize long term shareholder value from a cost competitive, flexible and profitable business platform which generated industry-leading margins in 2011, and to provide enhanced earnings stability during times of market volatility.

## Segment Review

Management has revised the presentation of the Group's segment results for 2011, and restated the 2010 segment results accordingly, in order to present a more meaningful representation of its business operations, consistent with the Group's long term business strategy, and with how business segment performance is assessed by the Board. Under this revised business segment presentation, the costs of producing rayon-grade pulp by BSC used by our own VSF manufacturing operation are recorded within the VSF Business segment. Previously, those costs, together with the profit realized from inter-segment sales, were recorded in the DWP Business segment.


*Sateri owns and operates eucalyptus plantations in Brazil, taking advantage of the favorable climate and soil conditions. We use advanced, eco-friendly planting techniques to produce a sustainable supply of high quality wood, the main raw material used in making DWP.*

# Management Discussion and Analysis

## DWP Business

| Year ended 31 December | 2011 | Restated 2010 | Change |
|---|---|---|---|
| Production volume[1] *(metric tons)* | **413,990** | 432,328 | (4)% |
| Sales volume[1] *(metric tons)* | **256,627** | 391,346 | (34)% |
| ASP *(US$/metric ton)* | **1,728** | 1,548 | 12% |
| Revenue *(US$'000)* | **443,525** | 605,813 | (27)% |
| Gross profit *(US$'000)* | **237,878** | 331,872 | (28)% |
| Gross profit margin *(%)* | **54** | 55 | |
| EBITDA *(US$'000)* | **206,165** | 342,525 | (40)% |
| EBITDA margin *(%)* | **46** | 57 | |
| Segment profit *(US$'000)* | **115,427** | 248,594 | (54)% |

(1) Production volume represents total production volume of DWP. Sales volume represents sales of DWP to third parties.

The Group's DWP Business segment results comprise rayon-grade pulp and specialty-grade pulp sold to third parties.

### *Rayon-grade pulp*

Rayon-grade pulp is the principal raw material ingredient used for the production of VSF. In 2011, China continued to be the largest rayon-grade pulp market by demand and BSC remained its largest supplier by volume, according to RISI* and China Customs data.

In 2011, the global economic slow down and tight monetary policy in China led to inventory destocking and reduced operating rates by VSF manufacturers, particularly in the fourth quarter. Demand weakened, and the spot market price of rayon-grade pulp declined to approximately US$1,100 per metric ton by the end of 2011, after hitting its record high of approximately US$2,600 per metric ton in the first quarter of 2011.

In view of this rapid deterioration in the trading environment, we sold reduced volumes in the fourth quarter, which gave rise to elevated inventory levels of rayon-grade pulp at the 2011 year end. The volume of rayon-grade pulp sold to third parties decreased by 51% to 164,396 metric tons in 2011, from 333,756 metric tons in 2010. The Group's internal sales of rayon-grade pulp from BSC to Sateri Jiangxi, on the other hand, doubled to 100,070 metric tons in 2011 from 49,683 metric tons in 2010.

A large proportion of the Group's sales of rayon-grade pulp to third parties are derived from spot, rather than long term contracts. Therefore, whilst sales of this grade of DWP have delivered strong profitability in 2010 and 2011, the business is inherently more cyclical than the market for the specialty grades. Accordingly, the Group's strategy is to increase its exposure to the specialty-grade pulp market, and optimize the production and sales mix of rayon grades and specialty grades of pulp in light of prevailing market conditions.

* RISI is a leading information provider for the global forest products industry, headquartered in Boston, USA.

### *Specialty-grade pulp*

Specialty-grade pulp is the natural key ingredient of a wide array of everyday use consumer products. Sateri's products are manufactured to a high degree of purity, and are mostly used to produce applications such as acetate for cigarette filters and eyeglasses frames, and pharmaceutical tablets and tire cord.

Total global demand for specialty grades is currently approximately 1.4 million metric tons annually. Barriers of entry into this market are high due to the advanced technological know-how required to produce the high purity products, and the sophisticated customization required by customers. Market prices of specialty-grade pulp have historically been less susceptible to market volatility, and trended upward at a 6% compound annual growth rate ("CAGR") per annum in the past decade, according to RISI.

In 2011, Sateri firmly established itself as a significant global player in specialty-grade pulp. Sales volume increased by 60% to 92,231 metric tons in 2011 from 57,590 metric tons in 2010. BSC's current design capacity allows it to produce up to approximately 320,000 metric tons of specialty-grade pulp per annum, and our strategy is to expand further in this market.

## VSF Business

| Year ended 31 December | 2011 | Restated 2010 | Change |
|---|---|---|---|
| Production volume *(metric tons)* | **140,576** | 79,890 | 76% |
| Sales volume *(metric tons)* | **140,260** | 77,468 | 81% |
| ASP *(US$/metric ton)* | **2,588** | 2,528 | 2% |
| Revenue *(US$'000)* | **363,049** | 195,853 | 85% |
| Gross profit *(US$'000)* | **85,195** | 56,883 | 50% |
| Gross profit margin *(%)* | **23** | 29 | |
| EBITDA *(US$'000)* | **89,410** | 62,534 | 43% |
| EBITDA margin *(%)* | **25** | 32 | |
| Segment profit *(US$'000)* | **36,158** | 49,446 | (27)% |

VSF, produced from rayon-grade pulp, is a high purity, high absorbent and biodegradable material typically used in a variety of textile products to enhance comfort and add a silky touch and colour brilliance.

The rapidly expanding consumer market in China makes it both the largest producer and largest consumer of VSF in the world. The majority of customers for Sateri's VSF production are textile manufacturers located in China, South East Asia and Europe. Global demand for VSF has grown by 8% per annum in the past decade according to Fiber Organon*. The VSF producer market is competitive and fragmented, where most producers acquire feedstock raw material supply in the open market, rather than from captive, low cost sources.

The Group's vertically integrated business model delivers enhanced profitability from the sale of VSF, due to its captive low-cost DWP raw material supply.

* Fiber Organon is a monthly statistical journal summarizing confidential producer information on the US manufactured fiber market published by Fiber Economics Bureau in USA.

# Management Discussion and Analysis

Our strategy in this business segment is to invest further in our downstream manufacturing operations, and to expand our production of higher-grade VSF, which would enhance Sateri's competitive positioning in the fragmented VSF market.

In 2011, the Group further increased the integration between its DWP and VSF business operations. The annual production capacity of its VSF mill in Jiangxi, China was expanded to 160,000 metric tons in 2011, from 130,000 metric tons in 2010. Internal consumption of rayon-grade pulp doubled to 100,070 metric tons from 49,683 metric tons year-on-year.

The Group continued to enhance the quality of its VSF products and gained market share during the year. The production volume for VSF increased by 76% to 140,576 metric tons in 2011 from 79,890 metric tons in 2010, whilst sales volume increased by 81% to 140,260 metric tons in 2011 from 77,468 metric tons in 2010, of which 84,728 tons were sold in the second half of 2011.

Although the average selling price ("ASP") for VSF increased by 2% to US$2,588 per metric ton in 2011 from US$2,528 per metric ton in 2010, prices were highly volatile during the year and deteriorated sharply in the fourth quarter — VSF prices went from US$3,700 per metric ton in the first quarter to below US$2,200 per metric ton by the fourth quarter of 2011 as a result of the global economic slowdown.

## Future Development Plan

During 2012, the Group will continue its strategy to produce and sell more specialty-grade pulp, in view of its lower pricing volatility and superior positioning within the value chain. The Group's strategy is to become a global leader in this market, particularly in the acetate segment.

The Group is committed to investing further in its vertically integrated business platform, which it believes is a source of competitive advantage. Despite the pricing volatility experienced in 2011, demand for VSF in China has grown by more than 10% per annum in the past decade according to China Chemical Fibers and Textiles Consultancy ("CCF"), driven by the continuing urbanization of China and rising middle-class consumption, and robust growth is expected to continue.

In 2011, the Group obtained all necessary regulatory licenses to proceed with its greenfield VSF project in Fujian, China, which is expected to be operational in the second half of 2013, with a design capacity of 200,000 metric tons per annum. Management believes that the inception of this new state-of-the-art VSF mill in 2013 will enable the Group to increase the scale and market share of its VSF business in China, thereby positioning it to profitably tap into long-term growth in consumer spending in one of the fastest-growing economies in the world.

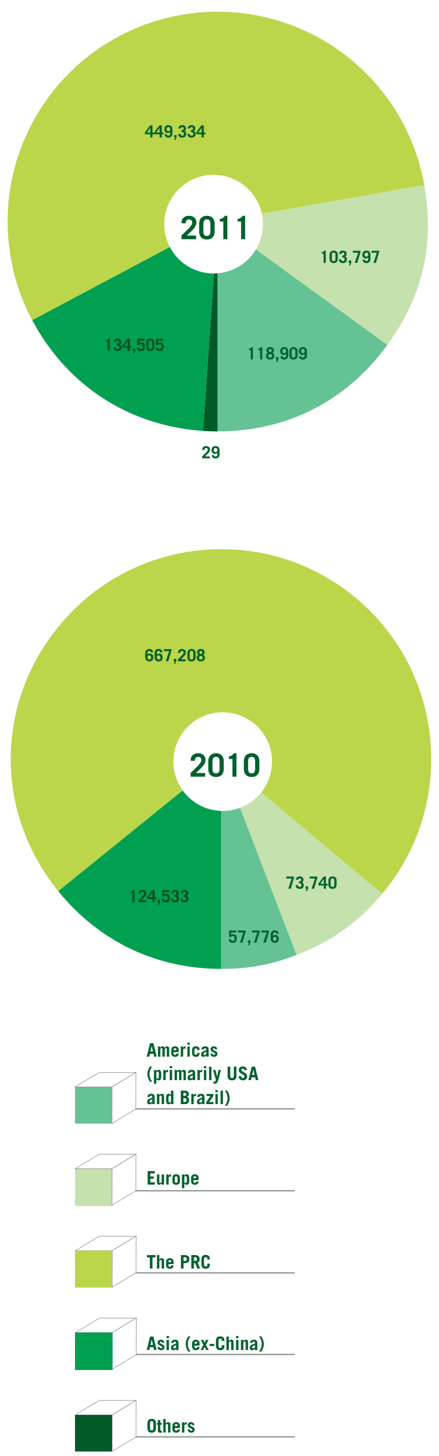
Total capital expenditure on the Fujian project is expected to be approximately RMB3.5 billion in total, of which a majority is expected to be funded by project finance. The Group spent US$38 million on this project in 2011 (2010: US$7 million). As at 31 December 2011, the Group had approximately US$125 million of capital expenditure contracted but not provided for relating to this project in its financial statements.

The Group will continue to manage dynamically the production and sales mix of its DWP and VSF products in order to maximize shareholder value from its integrated business platform. We will continue to

*We are the only DWP producer in Latin America and amongst the top three globally. The process of making DWP begins with cooking wood chips sourced from our own plantations, to separate cellulose fibers from other components. The fibers then undergo a process of washing and bleaching before being dried, packed and shipped to customers.*

# Management Discussion and Analysis

## Revenue by Geographical Markets US$'000




broaden our customer base in North America and Europe in targeted segments for DWP and increase our market share in VSF in China.

We will also continue to explore the feasibility of further greenfield or brownfield expansions, particularly at our existing manufacturing locations, and/or acquisition opportunities, if they meet our stringent strategic and financial return targets.

## Outlook

Current trading conditions remain challenging, with spot market prices in the first quarter of 2012 for rayon-grade pulp and VSF significantly lower than the average selling prices in 2011. Market prices for specialty-grade pulp are broadly similar to those achieved in 2011. Prospects for the global macroeconomic environment in 2012, and their impact on our business, remain unclear.

Nonetheless, the Group is confident that it has the right business strategy in place to position itself optimally to meet the challenges that lie ahead. The Group believes that it is well positioned to operate more profitably than its competitors owing to its flexible and integrated business model, and competitive cost structure. Investment in the Fujian project will also deliver better balance between the Group's DWP and VSF manufacturing capacity. We believe our strong operating cash flow and conservative balance sheet management will support the Group's ability to grow further in future, and deliver attractive long-term returns to all our shareholders.

# Financial Review

## Consolidated Results

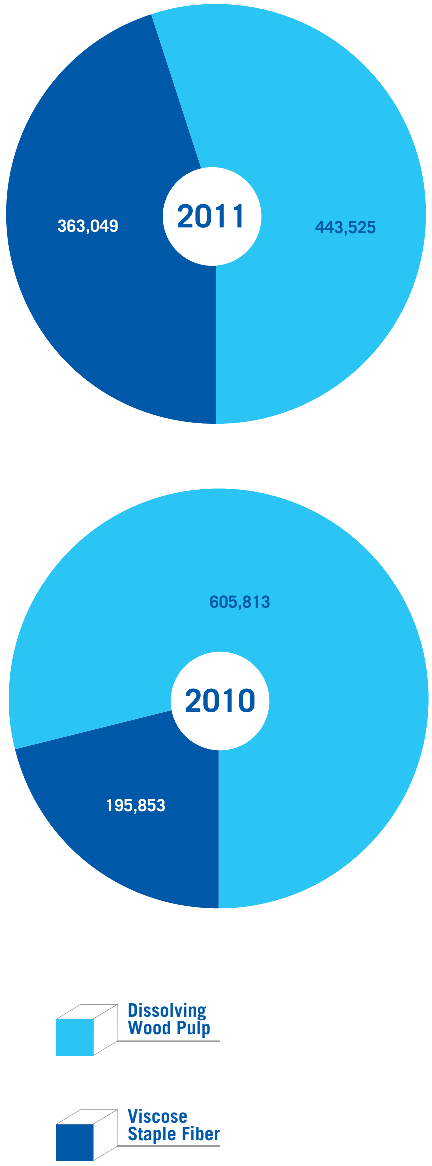
For the year ended 31 December 2011, total revenue increased slightly to US$807 million from US$802 million in 2010 on a like-for-like basis, excluding the results from the DP Macao trading business which was disposed of by the Group on 30 September 2010. Group EBITDA, on the other hand, decreased by 25% year-on-year to US$288 million from US$383 million, and EBITDA margin decreased from 48% to 36%, while profit attributable to shareholders fell to US$155 million from US$262 million on the same basis.

A key reason for the fall in EBITDA and profit attributable to shareholders in 2011 was the substantial non-cash impact arising from the exchange rate of the Brazilian Reais against the US Dollar at 2011 year end. The Group's approach to currency risk is to mitigate the currency fluctuations affecting its operations mainly through non-deliverable forward contracts. The Group does not currently apply hedge accounting under International Accounting Standards and therefore changes in fair value of derivative financial instruments which have been entered into in accordance with the Group's currency risk management policies are recognized as profit or loss in the period to which they relate.

In 2011, the Group recorded a loss of US$31 million in respect of changes in the fair value of unrealized derivative instruments marked-to-market at the year end, versus a gain of US$22 million in 2010.

In addition, profit attributable to shareholders was negatively impacted further in 2011 by a loss of US$8 million on revaluation of the Group's forestation and reforestation assets in Brazil, in contrast to the gain of US$13 million on revaluation in 2010.

**Revenue by Products** US$'000
(excludes DP Macao)



# Management Discussion and Analysis

Excluding the above two non-cash movements, profit attributable to shareholders in 2011 would have decreased by 18%, instead of 35%, to US$191 million, from an equivalent figure of US$232 million in the previous year, excluding the DP Macao trading business which was disposed of on 30 September 2010.

Earnings per share, on a consolidated basis, decreased to US$0.05 for the year ended 31 December 2011, from US$0.11 in 2010. Excluding the results from the DP Macao trading business, earnings per share decreased from US$0.09 to US$0.05.

## Cost of Sales

Cost of sales primarily consists of the cost of planting and harvesting wood, DWP purchased from third parties for the Group's VSF business, chemicals, conversion costs including energy, labor costs and depreciation.

The Group's cost of sales increased by 17% to US$484 million for the year ended 31 December 2011 from US$413 million in 2010, excluding DP Macao. The increase was due to a number of factors. The cost of chemicals rose by 26% in 2011 to US$75 million, conversion costs, including energy, increased by 36% to US$139 million, and labour costs increased by 33% to US$31 million. Sales volume of VSF increased by 81% to 140,260 metric tons in 2011 from 77,468 metric tons in 2010. Cost of sales therefore increased due partly to the year-on-year effect of increased input costs including chemicals, labour and energy, both in Brazil and China, but also because of the increased volume production of VSF. In addition, due to the appreciation of the Brazilian Reais and Chinese Renminbi against the US dollar in the first half of the year, cost of sales measured in US dollars were adversely affected, although the effect was mitigated in the last quarter of 2011 by the rapid depreciation of the Brazilian Reais against the US dollar.

## Other Profit and Loss Account Items

### *Selling and Distribution and Administrative Expenses*

Selling and distribution expenses decreased by U$6 million to US$52 million in 2011, primarily as a result of the decreased transportation charges due to lower sales volumes of DWP during 2011, compared to 2010.

Administrative expenses increased by US$13 million to US$86 million in 2011, of which US$50 million were incurred in Brazil, and US$21 million were incurred in China. The main reasons for the increase were pre-operating costs incurred in respect of the Fujian project, including consultancy fees and salaries and additional provisions relating to legal cases of US$6 million.

### *Finance Costs*

The Group's finance costs increased to US$42 million in 2011 from US$31 million in 2010. The increase was mainly attributable to a year-on-year increase in interest costs incurred on bank borrowings as a result of the draw-down of the Group's US$470 million syndicated loan facility in November 2010. The Group commenced repayment of this syndicated loan in the fourth quarter of 2011, and it is repayable in quarterly installments until 2017.

### *Changes in Fair Value of Derivative Financial Instruments and Gains on Settlement of Derivative Financial Instruments*

In 2011, the Group recorded a loss of US$31 million in respect of changes in the fair value of unrealized derivative instruments marked-to-market at the year end, versus a gain of US$22 million in 2010, primarily due to the exchange rate of the Brazilian Reais against the US Dollar as at 31 December 2011. The combined realized and unrealized loss on derivative instruments was US$19 million in 2011, compared with a gain of US$27 million in 2010.

### *(Decrease)/Increase in Fair Value of Forestation and Reforestation Assets*

Fair value of forestation and reforestation assets is estimated using a 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.

The Group assumes a six-year harvest cycle of trees within this model. Such information gathered and data used requires, to a certain extent, estimates and judgments in determining the amount of forest to be harvested and recoverable in the future. If future expectations at any given period end differ from original estimates, the difference will impact the carrying amount of forestation and reforestation assets in the balance sheet, and be taken as a profit or loss in the period.

The Group recognized a decrease in fair value of forestation and reforestation assets of approximately US$8 million in 2011, compared with an increase of US$13 million in 2010, due primarily to the prevailing exchange rates of the Brazilian Reais against the US Dollar at the respective year ends.

### *Income Tax Credit and Expense*

The Group recorded a small income tax credit of US$7 million for the year ended 31 December 2011, compared to an income tax expense of US$4 million in 2010, mainly due to a movement in deferred taxation which resulted in a higher tax credit in 2011 than in 2010. The Group is subject to taxation at the rates prevailing in the jurisdictions in which each of the Group's entities principally operates. The Group enjoys certain tax exemptions and concessions granted by the appropriate competent authorities in Brazil, the PRC, Macau and Singapore.

## Capital Expenditure

In response to the weak trading environment and poor economic visibility in the second half of 2011, the Group constrained capital expenditure and delayed certain capital outlays related to its long term business expansion, including on its Fujian VSF mill.

Overall, the Group incurred US$188 million in capital expenditure for the year ended 31 December 2011, compared to US$113 million in 2010. Of the US$188 million, US$121 million was incurred in Brazil, including capital expenditure relating to the addition of a further 20,000 metric tons of capacity to reach a total of 485,000 metric tons of annual design capacity at BSC. Of this amount, US$42 million was spent on forestation and reforestation assets.

The remaining capital expenditure was incurred in China. At Sateri Jiangxi, the Group incurred US$29 million of capital expenditure during the year, including the delivering of an additional 30,000 metric tons of capacity to raise annual production capacity to 160,000 metric tons.

As set out in "Future Development Plan" earlier, the Group continued the construction of its new VSF mill at Fujian and incurred US$38 million on this project in 2011.

## Charges on Assets

As at 31 December 2011, certain assets of the Group with an aggregate carrying value of US$1,315 million (2010: US$1,307 million) were pledged with banks for banking facilities used by our subsidiaries.

## Cash Flow, Liquidity and Financial Position

The Group continues to be adequately capitalized, highly liquid and capable of funding its foreseeable capital expenditure requirements with cash flows from operating activities and banking facilities, either currently in place, or under negotiation.

# Management Discussion and Analysis

As at 31 December 2011, the Group's cash and cash equivalents (including bank balances and cash and pledged bank deposits) amounted to US$329 million, compared with US$436 million as at 31 December 2010. Net debt as at 31 December 2011 amounted to US$249 million, compared with US$228 million as at 31 December 2010. The Group's 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)) remained at 15% as at 31 December 2011 — the same as at 31 December 2010.

As at 31 December 2011, the Group had total banking facilities available for draw-down of US$471 million.

Operating cash flows before movements in working capital decreased to US$314 million for the year ended 31 December 2011 from US$421 million in 2010, mainly due to lower operating profit arising from the weak business environment in the second half of 2011.

Inventories increased to US$181 million as at 31 December 2011, from US$89 million a year ago, primarily due to the slower demand for rayon-grade pulp in the fourth quarter of 2011. Trade and bills receivables as at 31 December 2011 increased to US$109 million, compared with US$76 million as at 31 December 2010. Trade and other payables decreased to US$137 million as at 31 December 2011, compared with US$156 million as at 31 December 2010. The current ratio as at 31 December 2011 was 1.7, compared with 1.8 as at 31 December 2010.

## Treasury Policies and Risk Management

The Group has a prudent approach towards treasury management and risk management. Most of the Group's receipts are in US dollars and Chinese Renminbi. Its main costs are denominated in Brazilian Reais and Chinese Renminbi where it has its main production facilities. As above, its approach to currency risk is to mitigate the currency fluctuations affecting its operations mainly through non-deliverable forward contracts. The Group does not issue any put options.

The Group's cash is generally placed in short term deposits denominated in US Dollars, Chinese Renminbi and Hong Kong Dollars. Most of its borrowings are in US Dollars and Chinese Renminbi and largely carry floating interest rates. The Group has entered into interest rate swap agreements to swap its floating interest rate into a fixed interest rate for its US$470 million international syndicated loan drawn down in November 2010.

## Event after the Balance Sheet Date

On 15 February 2012, the Company entered into a subscription agreement with an independent third party who agreed to subscribe for, and the Company agreed to allot and issue 2,038,000 shares of the Company at the subscription price of HK$2.67 per share for a total cash consideration of approximately US$671,000 (equivalent to approximately HK$5,230,000), after deduction of share issue costs payable by the Company.

The purpose of the share issue was to enable the Company to maintain its minimum free float percentage of 16.17% of the issued share capital of the Company following the transfer of shares to satisfy the vesting of certain restricted share units ("RSU") granted by the Company to Directors and directors of the Company's subsidiaries, who are connected persons of the Company and therefore not regarded as members of the public.

# Corporate Social Responsibility

Environment Investors

Employees Community

**Sateri recognizes the long-term importance of our operations to the society, the economy and the environment. Our goal is to maintain a mutually beneficial relationship with our stakeholders and environment to achieve sustainable success of our Company.**

## Environment

We are committed to preserving and protecting the environment in every aspect of our operation. Besides conducting our operations in a manner that will comply with the applicable laws and regulations in each jurisdiction that we operate in, we implement best practices standards throughout our businesses.

In Brazil, we have set aside over 20% of the Group's wood plantation for the Legal Reserve and Permanent Preservation, including a 90-kilometer ecological corridor. The Group uses eco-friendly cultivation techniques, arranges harvesting and transport to increase water retention and soil fertility while minimizing soil erosion and wood wastage. The Mosaic plantation concept is applied, interspersing eucalyptus plantations with natural forest reserves to maintain indigenous flora and fauna biodiversity. We operate our own nursery to cultivate seedlings that are done without any genetic modification techniques, and these are used for replanting our woodlands. The Group also has a strict 'No Burn' policy in our forestry operations.

The Bahia Specialty Cellulose (BSC) mill incorporates state of the art design and the latest chemical recovery system, which recovers and recycles up to 95% of the chemicals used in the manufacturing process, as well as increasing energy efficiency so that the Group becomes less dependent on fossil fuel. As a result, we produce excess electricity, which are sold to national power grids.

To minimize the impact of waste discharged from our plants, we have installed facilities and implemented procedures to carefully treat all the waste discharged during our production processes in Brazil and China. These processes are constantly monitored and regularly checked to ensure that all the national standards are met and impact to the environment is minimized.

In China, Sateri Jiangxi controls all air and water emissions from the facility through scrubbers, condensers, biological treatment and recovery systems. These are closely monitored internally and online by the Chinese government and regulatory bodies.

Sateri Jiangxi also obtained Swiss-based Oeko-tex certification which confirms our viscose staple fiber products are free from harmful substances and complies with the human-ecological requirements under relevant regulations of the European Union.

Sateri was one of the early pioneers in China to sign the "First Manifesto on Establishing Green

Enterprises", and our investment in environmental protection has received several awards and recognition from government agencies, including the Jiujiang Environmental Protection Bureau for seven consecutive years.

Throughout our operations, the Group has actively participated in environmental education. In the past year, we have organized several programs in Brazil for students, teachers and community residents geared towards raising awareness and training to promote preservation and restoration of degraded areas and springs in forests. In Jiangxi, China, we are working hand in hand with local government to promote and elevate environmental consciousness amongst elementary and high school students.

Both BSC and Sateri Jiangxi have been certified under the ISO 14001 for the environmental management systems implemented at our mills in Brazil and China respectively.

## Investors & Shareholders

Sateri believes that communicating with shareholders and investors is very important and the Company seeks to provide them with timely and accurate disclosures.

The Company conducts regular briefings and conference calls for investors and media to explain earnings results and major events. Sateri continues to actively reach out to existing and potential investors, maintaining open dialogue with fund managers as well as analysts via one-to-one meetings, conference

# Corporate Social Responsibility

calls and other investor events. To enhance further understanding of our businesses, Sateri conducted two investor visits to the Group's Jiangxi viscose staple fiber mill in June and November 2011. These visits provided investors a good opportunity to meet operations management and a close-up view of our downstream operation in China.

Through our corporate website (www.sateri.com), investors and shareholders can access Sateri's annual and interim reports, announcements, and news releases. Sateri values ongoing feedback from investors and shareholders, and makes all efforts to handle incoming enquiries and requests in a timely manner.

The Company considers the Annual General Meeting as an important opportunity for face-to face communication between the Board and shareholders. The meeting is conducted in English with simultaneous interpretation in both Mandarin and Cantonese and provides a platform for Board members to address questions raised and to listen to the views of minority shareholders.

## Employees

People are one of the most important assets of Sateri. As at 31 December 2011, the Group's total employee count was over 2,064 with approximately 966 employees working in Brazil, 1,080 in Mainland

China, 11 in Hong Kong and the remaining in other parts of the world. Of this figure, about 87% are operational staff working in our mills in Brazil and Jiangxi.

Remuneration packages, including basic salaries, bonuses and benefits-in-kind are structured by reference to market terms and individual merit and are reviewed annually. In the second half of 2011, the Company granted restricted share units (RSU) to key employees as part of a broader incentive plan.

The Group remained committed to staff development throughout the year, and employees attended various external courses and in-house training programs to improve employee competencies and productivity.

## Community

Wherever we operate, Sateri places top priority to actively maintain our social responsibility to the local communities. This is demonstrated by our partnerships and cooperative programs with local residents, government bodies and non-governmental organizations, all established with the goal to engage stakeholders and improve livelihoods of the residents in these communities.

# Corporate Social Responsibility

In Brazil, the Group has established the Community Planting Program since 2007 where it provides seedlings, fertilizers and technical assistance to farmers near our plantations and they in turn grow trees which are sold back to the Group. The aim is to plant up to 15,000 hectares of farm trees over the next six years and to date, over 6,400 hectares have been planted with eucalyptus trees, giving much needed income to over 70 families covered by this program.

The Group also established the Piassava Program in Brazil, which helps over 300 families to generate additional income from the sales of handicrafts that are made with the Piassava fiber, harvested from the local Piassava palms growing within our land area. We not only provide access for the participants to grow the palms on a re-growth basis between our plantation trees, but we also help to disseminate sustainable management concepts and practices to them.

In addition, the Group's forestry operation has cooperation contracts with beekeepers to install beehives in certain areas of our land to extract honey. Known as the Beekeeper Program, it is a partnership with the Beekeepers' Associations operating in the North Forest District of Bahia that supports up to 400 families living there.

To step up our support to meeting the growing needs of the community in Bahia, Brazil, the Group has started a number of vocational and educational programs in the past year. These include the Planting and Growing Program that started in February 2010, and provides participants access to professional introductory courses for a wide range of rural and industrial activities, which are in strong demand for qualification in this region. Another program offers training for operators and mechanics in the Harvester and Forwarder qualifications, which aims to qualify and improve skills of the workforce to again meet an increasing demand for competent and qualified operators in this area.

Working with SESI, a local organization in Brazil focused on social services for the industry, we have established the SESI Worker Education Program to provide basic education specially designed for workers who previously have not had the chance to complete their studies. The program conducts two-hour long classes five days a week, giving participants personal development opportunities and broaden their career prospects. There are classes for two different grades of elementary school levels and secondary education or high school. Launched in September 2011, this program covers a period of 24 months and is currently benefitting 80 of our nursery employees.

In China, the Group has a long-established financial aid program for students from under-privileged families as well as scholarships for excellent academic performance in Jiangxi province, 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.

During the year, the Group contributed to various charitable causes to benefit the less privileged and the disabled. Going forward, Sateri will continue to actively support the local community and partner with local government bodies and schools on several initiatives to benefit the community.




# Board of Directors

## Chairman

**John Jeffrey Ying,** 49, has been the chairman and an independent non-executive Director of the Company since October 2010. He is also the chairman of the executive committee (the "Executive Committee") and a member of the remuneration committee (the "Remuneration Committee") of the Company. Mr. Ying 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 also been a non-executive director of Tai Ping Carpets International Limited, a global luxury carpet company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), since 1999. He was 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 and ceased both positions in May 2011. 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 was a trustee of the Hong Kong International School between 2002 and 2011 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 1989. He graduated from the Massachusetts Institute of Technology with a bachelor of science degree in electrical engineering in 1984.

## Executive Directors

**Will Hoon Wee Teng,** 48, has been an executive Director and the chief executive officer of the Company since June 2010 and the chief executive officer of Sateri International Co. Ltd ("Sateri International") since 2009. He is also a member of the Executive Committee. Mr. Hoon is responsible for the 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 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 1987. He completed graduate research at the University of Cambridge (Trinity College) in 1989.

**Tey Wei Lin,** 40, has been a non-executive Director of the Company since June 2010. He has been re-designated as an executive Director of the Company with effect from 27 March 2012. Subsequent to his re-designation, Mr. Tey ceased to be a member of the audit committee (the "Audit Committee") of the Company and has been appointed as a member of the Remuneration Committee. He remains a member of the Executive Committee and the Nomination Committee. Mr. Tey is the president of RGE Pte Ltd ("RGE"), a company 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, as president of RGE, he currently has management responsibility for group corporate functions such as corporate finance, treasury and banking, and strategic planning. Since 2006, Mr. Tey has been a director of Pacific Eagle Asset Management Limited ("PEAML"), where he has also been appointed as a responsible officer pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) since 2005. He has been a non-executive director of Asia Pacific Resources International Limited ("APRIL") since 2008. 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 1996.

## Non-Executive Directors

**Loh Meng See,** 62, has been a non-executive Director of the Company since October 2010. He ceased to be the chairman of the Remuneration Committee with effect from 27 March 2012 but remains a member of the Remuneration Committee. Mr. Loh is also a member of the Executive Committee and the Nomination Committee. Mr. Loh has been engaged as a human resources management consultant by RGE and has served as a director of APRIL since 2009. 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 (the "Singapore Exchange"). 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 1972. 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.

# Board of Directors

**John Seto Gin Chung,** 63, has been a non-executive Director of the Company since October 2010. He is also the chairman of the Nomination Committee. Mr. Seto was appointed as a member of the Executive Committee with effect from 27 March 2012. Mr. Seto has been a director of PEAML since 2006. Mr. Seto serves as an independent non-executive director of three companies listed on the Stock Exchange, namely Kowloon Development Company Limited since 2002, China Everbright Limited since 2003 and 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 1973 with a master of business administration degree in finance.

**Rohan Seneka Weerasinghe,** 61, has been a non-executive Director of the Company 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 of the Company (the "Controlling Shareholders") and other entities associated with the Controlling Shareholders, such as RGE and its group 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 1972 and received a master of business administration degree from Harvard Business School and a juris doctor degree from Harvard Law School in 1977. He was admitted to the New York Bar in March 1979.

## Independent Non-Executive Directors

**Jeffrey Lam Kin Fung, *GBS, JP*,** 60, has been an independent non-executive Director of the Company since October 2010. He was appointed as the chairman of the Remuneration Committee, in place of Mr. Loh Meng See with effect from 27 March 2012. He is also a member of the Audit Committee. Mr. Lam is also an independent non-executive director of a number of companies listed on the Stock Exchange, including China Overseas Grand Oceans Group Limited, Wynn Macau, Limited, Hsin Chong Construction Group Limited and CC Land Holdings Limited. Mr. Lam was appointed as an independent non-executive director of Chow Tai Fook Jewellery Group Limited on 17 November 2011. 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, a member of the Advisory Committee on Corruption of the Hong Kong Independent Commission Against Corruption, a member of the board of Airport Authority Hong Kong and a member of the Steering Committee on the Community Care Fund. 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 has also been appointed as a member of the Fight Crime Committee for a term of two years commencing from 1 April 2012.

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. He was awarded the Silver Bauhinia Star Award in 2004 and the Gold Bauhinia Star Award in 2011 respectively. Mr. Lam was conferred university fellow of Tufts University in the US and Hong Kong Polytechnic University in 1997 and in 2000 respectively. He received a bachelor's degree in mechanical engineering from Tufts University in 1974.

**David Yu Hon To,** 64, has been an independent non-executive Director of the Company since October 2010. He is also the chairman of the Audit Committee and a member of the Remuneration Committee. Mr. Yu has extensive experience in the fields of corporate finance, auditing and corporate management, and is the vice chairman of MCL Partners Limited, a Hong Kong-based financial advisory and investment firm. Mr. Yu is a fellow member of the Institute of Chartered Accountants in England and Wales and an associate member of the Hong Kong Institute of Certified Public Accountants. He serves as an independent non-executive director of several other companies listed on the Stock Exchange, namely China Datang Corporation Renewable Power Co., Limited, Great China Holdings Limited, Haier Electronics Group Co., Ltd., China Renewable Energy Investment Limited (formerly known as Hong Kong Energy (Holdings) Limited), Media Chinese International Limited, One Media Group Limited, Playmates Holdings Limited, Synergis Holdings Limited, TeleEye Holdings Limited and VXL Capital Limited. Mr. Yu obtained a bachelor's degree in social sciences from the Chinese University of Hong Kong in 1971.

**Lim Ah Doo,** 62, was appointed as an independent non-executive Director of the Company, a member of the Audit Committee and the Nomination Committee with effect from 27 March 2012. Mr. Lim has extensive experience as a former senior banker and corporate executive. He is currently an independent director of EDBI Pte Ltd, PST Management Pte Ltd and U Mobile Sdn Bhd. He is also on the board of several listed entities, acting as an independent director of each of SM Investments Corporation, shares of which are listed on The Philippine Stock Exchange, and Chemoil Energy Limited ("Chemoil"), and independent director and chairman of the audit committees of each of Sembcorp Marine Ltd ("Sembcorp"), GP Industries Ltd ("GP Industries") and ARA-CWT Trust Management (Cache) Limited, trustee manager of listed Cache Logistics Trust. Shares of Chemoil, Sembcorp and GP Industries and units of Cache Logistics Trust are listed on the Singapore Exchange. He is also a member of the Ethics Sub-Committee of the Public Accountants Oversight Committee, Singapore and an adjunct professor of Nanyang Business School, Nanyang Technological University in Singapore. During his 18 years with Morgan Grenfell, he held several key positions including chairing Morgan Grenfell (Asia) Limited. Mr. Lim also chaired the Singapore Investment Banking Association in 1994. From 2003 to 2008, he was the president and then non-executive vice chairman of RGM International Pte Ltd, and concurrently from 2007 to 2008 as acting president and then deputy chairman of AAA Oils and Fats Pte Ltd. Both of RGM International Pte Ltd and AAA Oils and Fats Pte Ltd are companies which are deemed to be controlled by the Tanoto Family, of whom our ultimate Controlling Shareholder is a part and Mr. Lim received remuneration for his employment in these positions. He was formerly an independent commissioner and chairman of the audit committee of PT Indosat, a council member of Singapore-Shandong Business Council and Singapore-Jiangsu Cooperation Council, and served as chairman of EDBV Management Pte. Ltd from 2005 to 2006. Mr. Lim obtained an honours degree in engineering from the Queen Mary College, University of London in 1971 and a master degree in business administration from the Cranfield School of Management, England in 1976.

# Senior Management

## Corporate

**Eugene ANG**, 43, has been the vice president for corporate finance of Sateri since 2007, and is responsible for corporate finance, including capital markets projects and acquisition projects. He is also responsible for strategic planning and corporate development. Mr. Ang has rich experience in finance, tax and banking. With a bachelor's degree in accountancy from the National University of Singapore in 1992, Mr. Ang has been an associate member of Institute of Chartered Accountants in England and Wales since 1997 and a chartered financial analyst with the CFA Institute since 2001.

**Peer DOHRN**, 49, has been the vice president for specialty-grade pulp sales of Sateri since 2010, and is responsible for sales and marketing of Sateri's specialty-grade pulp. Mr. Dohrn is also serving as managing director of Sateri Marketing SA in Switzerland. Mr. Dohrn joined Sateri in May 2007 and was initially in charge of dissolving wood pulp sales in Europe. Before joining Sateri, Mr. Dohrn graduated with a diploma engineer degree from University of Technology in Dresden in 1989 and a master of business marketing degree from Free University of Berlin in 1996. Mr. Dohrn previously worked as sales manager for Europe for Western Pulp Limited in Vancouver, Canada and Buckeye Technologies in Memphis, USA for over 10 years.

**Nick GOWLLAND**, 43, was appointed as senior vice president, finance of Sateri in May 2011. Mr. Gowlland's responsibilities include oversight of Sateri's finance and investor relations departments, and senior participation in the overall financial and strategic planning for the Group. Mr. Gowlland has over 15 years' of extensive experience in the corporate and investment banking industries in Asia and Europe. Prior to joining Sateri, Mr. Gowlland was a managing director at Standard Chartered Bank in Hong Kong, and previously was head of industrials, Asia for Rothschild. Mr. Gowlland qualified as a chartered accountant in 1994, and has been a fellow of the Institute of Chartered Accountants in England and Wales since 2008. He graduated in 1991 with a first class honours degree from Bristol University in the UK.

**Heidi LIU**, 41, has been the vice president for human resources at Sateri since October 2010, and is responsible for developing and implementing Sateri's human resources strategy, aligning human resources with the overall business plan and leading all people management based activities. Ms. Liu has extensive experience in organizational development, strategic staffing and people development. Prior to joining Sateri, Ms. Liu worked as head office HR manager for Schindler Group and then head of group HR at CeDo Group in the UK. Ms. Liu graduated with a master of business administration degree from Rutgers Business School at Newark New Jersey, USA in 2008. She has been a chartered member of the Chartered Institute of Personnel and Development in the United Kingdom since 2011, and was awarded the Chartered Fellow Membership at the beginning of 2012.

**TSIEN Li Lei**, 40, has been the vice president for corporate development of Sateri since July 2011, and is responsible for strategic planning, product development and corporate expansion projects globally. Previously, Mr. Tsien was commercial director of Sateri, a post which he held from 2010. Mr. Tsien has extensive experience in sales, marketing and strategic planning. Prior to joining Sateri, Mr. Tsien had various executive sales and marketing roles with either regional or global responsibilities, most recently in the semiconductor industry based in China. Mr. Tsien started his career at Procter & Gamble in 1995, and worked at the Boston Consulting Group between 1999 and 2000. Mr. Tsien graduated with a master of science degree in electrical engineering from the Université Catholique de Louvain (Belgium) in 1989, and a master of business administration degree from the Wharton School, University of Pennsylvania in 2004.

**SUN Yongning**, 62, has been the associate director for marketing of rayon-grade pulp and viscose staple fiber of Sateri since 2009, and is responsible for sales and marketing of rayon-grade pulp and viscose staple fibers in China. Mr. Sun has 40 years' experience in consultancy, sales and customer service in the viscose staple fiber industry. Mr. Sun joined Sateri as a consultant in the marketing department in 2002, and was appointed as senior manager of sales and customer service for viscose staple fiber in 2007. He graduated with a diploma in economics from Beijing Economic Management College in 1987. Mr. Sun has been a member of China Chemical Fiber Industry Association since 2009.

## Brazil Operations

**Alexandre LANNA**, 43, has been the senior manager for Bahia Specialty Cellulose Operations since September 2011, and is responsible for management of all operations. Mr. Lanna graduated from Federal University of Uberlândia in December 1990 with a bachelor's degree in chemical engineering and with a post-graduate degree in business administration from Fundação Dom Cabral in 1997, and from Kellogg Graduate School of Management in 2008.

**Marcelo LEITE**, 54, 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. Mr. Leite joined Bahia Specialty Cellulose as a process and technology manager in 2006 and was appointed production director in 2008. Prior to that, he held managerial roles in pulp process engineering and technology at Kvaerner Pulping Ltd., Jaakko Poyry Brasil, and Cia. Suzano de Papel e Celulose between 1985 and 2006. Mr. Leite graduated with a bachelor's degree in chemical engineering from São Paulo University in Brazil in 1980.

# Senior Management

**Cotrim PASSOS**, 45, was appointed as head of common services of Bahia Specialty Cellulose in March 2012, and is responsible for overseeing corporate affairs, legal affairs, information technology, health and safety and business improvement functions of Bahia Specialty Cellulose. Mr. Passos was previously finance director of Bahia Specialty Cellulose, and held senior management positions of corporate finance at Prima Empreendimentos S.A. and Griffin do Brasil Ltda. between 1997 and 2007. 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 1994 and a master of business administration degree in finance from Fundação Getulio Vargas in Brazil in 2000. He was a member of the board of the Federation of Industries of the State of Bahia from March 2006 to March 2010.

**Otto WEITZL**, 59, was appointed as finance director of Bahia Specialty Cellulose in March 2012. In this role, Mr. Weitzl is responsible for business control, accounting, bank financing, treasury and tax. Previously, he was vice president, sales & marketing administration and business controller China, based in Shanghai. Prior to joining the company in 2007, Mr. Weitzl was the chief financial officer of TCG Unitech GmbH, a light metal component and module producer in Austria, from 2005 to 2006. Between 1973 and 2005, he worked at Lenzing AG and served as the head of finance and treasury of the group and the chief financial officer for various group entities. Mr. Weitzl has more than 30 years' of experience in finance and the viscose staple fiber industry.

## China Operations

**LIANG Yi**, 51, joined Sateri in April 2011 as head of operations, and is responsible for production and public facilities in Sateri Jiangxi. With more than 28 years of experience in the viscose staple fiber industry, Mr. Liang acted as deputy general manager and executive general manager at various companies before joining the Group. Between January 2006 and July 2009, Mr. Liang worked at Lenzing (Nanjing) Fiber Co. Ltd. as deputy general manager, and was responsible for quality control, environment, health and safety, business development, public relations and project management (design, construction and trial production). Between August 2009 and March 2011, Mr. Liang worked at Nanjing Chemical Fiber Co., Ltd. as executive deputy general manager. Mr. Liang graduated with a bachelor's degree from Beijing Institute of Fashion Technology (formerly known as Beijing Chemical Fiber Institute of Technology) in 1983. He was certified as professorial senior engineer by the Jiangsu provincial government.

**LIN Wu Kun**, 60, has been the senior advisor, technical (viscose staple fiber) of Sateri since April 2010, and is responsible for viscose production technical support and new project process design. Mr. Lin joined Sateri group in 2003 as managing director of Sateri Jiangxi. Mr. Lin has over 33 years' of experience in viscose production. Prior to joining Sateri, he worked in Formosa Chemical & Fiber Corporation in Taiwan as senior administrator. Mr. Lin graduated with a bachelor's degree in chemical engineering from Chinese Culture University in Taiwan in 1976.

**Jeff LIU**, 45, has been the general manager of Sateri Fujian since February 2011, and is responsible for Sateri Fujian operations. Mr. Liu is also the general manager of Sateri Jiangxi, a post he has held since May 2011, and is responsible for its overall operations. He has over 20 years' of experience in production management. Before joining Sateri, Mr. Liu was general manager of Rhodia's plant in Liyang and operations manager of Shell's plant in Tianjin. Mr. Liu graduated with a bachelor's degree in chemical engineering from Tianjin University of Science & Technology in 1989.

**WU Heping**, 45, has been the head of operations of Sateri Fujian since 2011, and is responsible for the supervision and management of the manufacturing operations, maintenance, process engineering and the utility facilities in Sateri Fujian. Mr. Wu joined Sateri Jiangxi in 2003 and was initially in charge of the electronic meters in the company. Mr. Wu was appointed as assistant to the general manager in 2006, and was promoted to the position of senior manager in 2007, production director in 2008, assistant general manager in 2010, all prior to being transferred to Sateri Fujian as head of operations. Mr. Wu graduated with a diploma at Zhongyuan University of Technology (formerly known as Zhengzhou Textile Institute) in 1989.

# Corporate Governance Report

**The Company is committed to achieving and maintaining high standards of corporate governance, as the Board believes that good and effective corporate governance practices are key to obtaining and maintaining the trust of our shareholders and other stakeholders, and are essential for encouraging accountability and transparency so as to sustain the success of the Group and to create long-term value for the shareholders of the Company.**

The Company has adopted its own Corporate Governance Manual. During the year ended 31 December 2011, the Company has complied with the provisions of the Corporate Governance Manual and, in the opinion of the Board, has complied with all the code provisions of the Code of Corporate Governance Practices (the "CG Code") as contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Directors do not have a specific term of appointment. Since all Directors are subject to retirement by rotation at the Company's annual general meetings at least once every three years in accordance with the Bye-laws of the Company, the Company in practice has complied with the relevant code provision of the CG Code.

## The Board

The Board assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs. The Directors are accountable for making decisions objectively in the best interest of the Company. The Board is responsible for making decisions on all major aspects of the Company's affairs, including the approval and monitoring of key policy matters, overall strategies, business plans and annual budgets, internal control and risk management systems, material transactions, major capital expenditure, appointment of Directors and other significant financial and operational matters.

The Board may delegate aspects of its management and administration functions to the management. In particular, the day-to-day management of the Company is delegated to the Chief Executive Officer and his management team.

The Board has a balance of skill and experience appropriate for the requirement of the business of the Group and includes Directors with diverse expertise and experience necessary to guide and develop the Group into a market leader in its business.

The composition of the Board during the year ended 31 December 2011 and up to the date of this report is set out as follows:

### Independent Non-Executive Directors:

John Jeffrey Ying *(Chairman)*
David Yu Hon To
Jeffrey Lam Kin Fung
Lim Ah Doo (appointed on 27 March 2012)

### Executive Directors:

Will Hoon Wee Teng *(Chief Executive Officer)*
Tey Wei Lin (re-designated as an Executive Director on 27 March 2012)
Craig Edward Barker (retired on 12 May 2011)

### Non-Executive Directors:

Loh Meng See
John Seto Gin Chung
Rohan Seneka Weerasinghe

A description of the Directors is set out in the section "Board of Directors" on pages 32 to 35 of the annual report and on the Company's website.

For a Director to be considered independent, the Board must be satisfied that the Director does not have any direct or indirect material relationship with the Group. In determining the independence of Directors, the Board follows the requirements set out in the Listing Rules and considers all of the Independent Non-executive Directors as independent. There are no family or other material relationships among members of the Board.

During the year ended 31 December 2011 and up to the date of this report, the Company had met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors representing not less than one-third of the Board with at least one of the Independent Non-executive Directors possessing appropriate professional qualifications or accounting or related financial management expertise under Rule 3.10 of the Listing Rules. The Board has received from each Independent Non-executive Director an annual confirmation of his independence and considers that all the Independent Non-executive Directors are independent under the guidelines set out in Rule 3.13 of the Listing Rules.

## Roles of Chairman and Chief Executive Officer

The roles of the Chairman and Chief Executive Officer are segregated. The Chairman, John Jeffrey Ying, who is an Independent Non-executive Director, is responsible for leadership of the Board and for ensuring that the Board functions effectively and independently, and for providing expert advice so as to create value for the shareholders of the Company. The Chief Executive Officer, Will Hoon Wee Teng, is responsible for leading the operations of the Group's businesses to achieve their business and financial targets, proposing strategies to the Board and ensuring the effective implementation of the strategies and policies adopted by the Board. The senior management team is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer.

## Supply of and Access to Information for Board Meetings

The Board is responsible for setting up the overall strategy as well as reviewing the operation and financial performance of the Group. The Board is expected to meet regularly and at least four times a year. During the year ended 31 December 2011, five Board meetings were held and attendance of each Director at the Board meetings is set out in the section headed "Board Committees" of this report.

The Directors have full access to information on the Group and independent professional advice at all times whenever deemed necessary by the Directors.

Regular Board meetings each year are scheduled in advance to facilitate maximum attendance of Directors. With respect to regular meetings of the Board, the Directors will be given written notice of the meeting at least 14 days in advance and an agenda with supporting Board papers no less than three days prior to the meeting (and so far as practicable for such other Board meetings). Draft minutes of each Board meeting are circulated to all Directors for their comment before being tabled at the following Board meeting for approval. All minutes are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any Director.

Every Director has right of access to all information including Board papers and related materials, minutes of Board meetings and Board committee meetings at any reasonable time on reasonable notice and has access to the advice and services of the Company Secretary and/or the Vice President, Legal of the Company. Each of the Directors also has separate and independent access to the Company's senior management. Directors will be continuously updated on the major development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practices. In addition, Directors are entitled to seek independent professional advice in appropriate circumstances at the Company's expense to perform their duties.

# Corporate Governance Report

In 2011, the Company had arranged appropriate insurance cover in respect of legal action against its Directors and officers.

Except for those circumstances permitted by the Bye-laws of the Company, a Director who has a material interest in any contract, transaction, arrangement or any other kind of proposal put forward to the Board for consideration, will abstain from voting on the relevant resolution and such Director is not counted for quorum determination purpose.

## Appointments, Re-election and Rotation of Directors

The Directors do not have a specific term of appointment. However, all Directors are subject to retirement by rotation and re-election by shareholders at the Company's annual general meetings at least once every three years in accordance with the Bye-laws of the Company.

A retiring Director is eligible for re-election and re-election of retiring Directors at annual general meetings will be dealt with by separate individual resolutions. Where vacancies arise at the Board, candidates will be proposed and put forward to the Board by the Nomination Committee as set out in the section headed "Nomination Committee".

## Training, Induction, Continuing Development of Directors and Board Visit

Each newly appointed Director receives comprehensive, formal and tailored induction on the first occasion of his appointment so as to help ensuring that he has appropriate understanding of the business and operations of the Company and that he is fully aware of his responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The Company intends to enhance Board effectiveness by facilitating continuous professional development to help the Directors keep abreast of changes relevant to their roles and to ensure that Directors' contribution to the Board remains informed and relevant. Continuing briefing and seminars conducted by professional bodies are provided to the Directors regularly to help ensuring that the Directors are well-informed of the latest changes in the commercial, legal and regulatory environment in which the Group conducts its businesses and to develop and refresh Directors' knowledge and skills.

In December 2011, a group of Directors, including all three Independent Non-executive Directors, namely John Jeffrey Ying, David Yu Hon To and Jeffrey Lam Kin Fung, and two Non-executive Directors, namely John Seto Gin Chung and Rohan Seneka Weerasinghe, accompanied by Chief Executive Officer, Will Hoon Wee Teng, made a visit to Sateri Jiangxi in China, for a deeper understanding of the Group's viscose staple fiber business and operations.

## Model Code for Securities Transactions by Directors and Relevant Employees

The Company has adopted its own Guidelines on Securities Transactions regarding securities transactions by Directors, directors of its subsidiaries, certain employees of the Company and/or its subsidiaries (collectively the "Relevant Employees") who by virtue of their positions may likely be in possession of unpublished price sensitive information of the Company or its securities on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as contained in Appendix 10 of the Listing Rules.

Specific enquiries have been made with the Directors, and all Directors confirmed that they have complied with the required standard set out in the Company's Guidelines on Securities Transactions for the year ended 31 December 2011.

## Board Committees

The Company established an Audit Committee, a Remuneration Committee and a Nomination Committee with its terms of reference approved and adopted on 8 November 2010. An Executive Committee was established on 9 December 2010 with its terms of reference approved and adopted on 24 March 2011.

Copies of minutes of all meetings and resolutions of the committees, which are kept by the Company Secretary, are circulated to all Board members and the committees are required to report back to the Board on their decisions and recommendations where appropriate. The procedures and arrangements for a Board meeting, as mentioned in the section headed "The Board" of this report, have been adopted for the committee meetings so far as practicable.

The individual attendance records of each Director at the meetings of the Board, Audit Committee, Remuneration Committee, Nomination Committee and Executive Committee and the annual general meeting during the year ended 31 December 2011 are set out below:

### Attendance record of Directors and Committee Members in 2011

| | Board | Audit Committee | Remuneration Committee | Nomination Committee | Executive Committee | Annual General Meeting |
|---|---|---|---|---|---|---|
| **Number of Meetings** | 5 | 5 | 2 | 1 | 3 | 1 |
| **Independent Non-Executive Directors** | | | | | | |
| John Jeffrey Ying | 5/5 | — | 2/2 | — | 3/3 | 1/1 |
| Jeffrey Lam Kin Fung | 4/5 | 5/5 | — | — | — | 1/1 |
| David Yu Hon To | 5/5 | 5/5 | 2/2 | — | — | 1/1 |
| **Non-Executive Directors** | | | | | | |
| Loh Meng See | 5/5 | — | 2/2 | 1/1 | 3/3 | 1/1 |
| John Seto Gin Chung | 5/5 | — | — | 1/1 | — | 1/1 |
| Tey Wei Lin(1) | 5/5 | 5/5 | — | 1/1 | 3/3 | 1/1 |
| Rohan Seneka Weerasinghe | 4/5 | — | — | — | — | 0/1 |
| **Executive Directors** | | | | | | |
| Will Hoon Wee Teng | 5/5 | — | — | — | 3/3 | 1/1 |
| Craig Edward Barker(2) | 2/2 | — | — | — | — | 0/1 |

*Notes:*

(1) Mr. Tey Wei Lin had been re-designated as an Executive Director with effect from 27 March 2012.

(2) Mr. Craig Edward Barker retired as an Executive Director at the 2011 Annual General Meeting held on 12 May 2011.

# Corporate Governance Report

## Audit Committee

The Audit Committee comprises the following Directors:

### Independent Non-Executive Directors:

David Yu Hon To *(Chairman of the Audit Committee)*
Jeffrey Lam Kin Fung
Lim Ah Doo (appointed as a committee member on 27 March 2012)

### Executive Director:

Tey Wei Lin (re-designated from a Non-executive Director to an Executive Director and ceased to be a committee member on 27 March 2012)

The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal controls. The terms of reference of the Audit Committee was revised in March 2012 in compliance with the recent amendments of the Listing Rules. The main duties of the Audit Committee shall be:

***Relationship with the Group's auditor***

a) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;

b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;

c) to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

***Review of the Group's financial information***

d) to monitor integrity of the Group's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In this regard, in reviewing these reports before submission to the Board, the Audit Committee should focus particularly on:

  i) any changes in accounting policies and practices;

  ii) major judgmental areas;

  iii) significant adjustments resulting from audit;

  iv) the going concern assumptions and any qualifications;

  v) compliance with accounting standards; and

  vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;

e) Regarding d) above:

  i) members of the Audit Committee should liaise with the Board and the senior management and the Audit Committee must meet, at least twice a year, with the Group's auditors without the presence of management; and

  ii) the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts. It should give due consideration to any matters that have been raised by the Group's staff responsible for the accounting and financial reporting function, compliance officer or auditors;

*Oversight of the Group's financial reporting system and internal control procedures*

f) to review the Group's financial controls, internal control and risk management systems;

g) to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function;

h) to consider major investigations, findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

i) where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Group, and to review and monitor its effectiveness;

j) to review the Group's financial and accounting policies and practices;

k) to review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;

l) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

m) to report to the Board on the Audit Committee's decisions or recommendations on all the matters set out in the terms of reference as considered appropriate, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements); and

n) to consider other topics, as defined by the Board.

*Devising and implementing risk management measures of the Group*

o) to identify the principal risks to the Group and its business and to devise appropriate procedures to monitor and mitigate those risks;

p) to review from time to time adequacy of Group's insurance coverage;

q) to ensure that processes are in place to comply with the Group's policies, codes of conduct, and internal control and risk management processes;

r) to review arrangements employees of the Group can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and

s) to act as the key representative body for overseeing the Group's relations with the external auditor.

The Audit Committee shall meet at least four times a year to discuss the internal controls and other audit, accounting and financial related issues. During the year ended 31 December 2011, five meetings of the Audit Committee were held and the attendances of each member is set out in the section headed "Board Committees" of this report.

In addition to the committee meeting, the Audit Committee also dealt with matters by way of circulation during 2011. In 2011 and up to the date of this report, the Audit Committee's review covered, including but not limited to, the audit plans and findings of the internal auditor and external auditor, external auditor's independence, appointment of external auditor, the

# Corporate Governance Report

Group's accounting principles and practices, Listing Rules and statutory compliance, internal controls, risk management, financial reporting matters and the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programs and budget. The Audit Committee was satisfied that such internal controls system was effective and adequate.

The terms of reference of the Audit Committee are available on the websites of the Stock Exchange and the Company.

## Remuneration Committee

The Remuneration Committee comprises the following Directors:

### Independent Non-Executive Directors:

Jeffrey Lam Kin Fung *(appointed as the Chairman of the Remuneration Committee on 27 March 2012)*
John Jeffrey Ying
David Yu Hon To

### Non-Executive Director:

Loh Meng See (ceased to be the Chairman of the Remuneration Committee on 27 March 2012)

### Executive Director:

Tey Wei Lin (re-designated as an Executive Director and appointed as a committee member on 27 March 2012)

The terms of reference of the Remuneration Committee was revised in March 2012 in compliance with the recent amendments of the Listing Rules. The main duties of the Remuneration Committee shall be:

a) to make recommendations to the Board on the Company's policy and structure for all Directors and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

b) to determine, with delegated responsibility, the remuneration packages of individual Executive Directors and senior management, (this should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment) and make recommendations to the Board on the remuneration of Non-executive Directors;

c) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

d) to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

e) to review and approve compensation payable to Executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

f) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;

g) to review annually the appropriateness and relevance of the remuneration policy;

h) to consult with the Chairman of the Board and/or the Chief Executive Officer about their remuneration proposals for other Executive Directors and have access to independent professional advice if necessary;

i) to ensure that no Director or any of his associates is involved in deciding his own remuneration;

j) to form a view in respect of service contracts of Directors that require shareholders' approval under Rule 13.68 of the Listing Rules and advise shareholders (other than shareholders who are Directors with material interest in the service contracts and their associates) as to whether the terms are fair and reasonable, advise whether such contracts are in the interests of the Company and its shareholders as a whole and advise shareholders on how to vote;

k) to be aware of and advise on any major changes in employee benefit structures throughout the Group;

l) to ensure that all provisions regarding the disclosure of remuneration including pensions, as set out in the relevant provisions of the Listing Rules, are fulfilled; and

m) to be responsible for establishing the selection criteria, selecting, appointing and setting the terms of references for any remuneration consultants who advise the Remuneration Committee and to obtain reliable, up-to-date information about remuneration in other companies.

The Remuneration Committee shall meet as and when appropriate, but at least once a year and otherwise as appropriate. During the year ended 31 December 2011, two meetings of the Remuneration Committee were held and the attendance of each member is set out in the section headed "Board Committees" of this report.

In addition to the committee meetings, the Remuneration Committee also dealt with matters by way of circulation during 2011. In 2011 and up to the date of this report, the Remuneration Committee's works included but were not limited to the review of the policy and structure for the remuneration of Directors and senior management, the review and recommendation for Board approval of proposed Directors' fee to each of Non-executive Directors and Independent Non-executive Directors, the review and determination of remuneration packages of Executive Directors and senior management, and the review and recommendation for Board approval of the granting and/or cancellation of Restricted Share Units (the "RSUs") pursuant to the Pre-IPO RSU Scheme and Post-IPO RSU Scheme.

The terms of reference of the Remuneration Committee are available on the websites of the Stock Exchange and the Company.

## Nomination Committee

The Nomination Committee comprises the following Directors:

### Non-Executive Directors:

John Seto Gin Chung *(Chairman of the Nomination Committee)*
Loh Meng See
Lim Ah Doo (appointed as a committee member on 27 March 2012)

### Executive Director:

Tey Wei Lin (re-designated as an Executive Director on 27 March 2012)

The terms of reference of the Nomination Committee was revised in March 2012 in response to the recent amendments of the Listing Rules. The main duties of the Nomination Committee are as follows:

a) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

b) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

# Corporate Governance Report

c) to assess the independence of Independent Non-executive Directors, having regards to the requirements under the Listing Rules; and

d) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman of the Board and the Chief Executive Officer.

Where vacancy on the Board exists, the Nomination Committee will carry out a selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations, and make recommendations to the Board on the selection of candidates for directorship.

The Nomination Committee shall meet as and when appropriate, but at least once a year and otherwise as appropriate. During the year ended 31 December 2011, one meeting of the Nomination Committee was held and the attendance of each member is set out in the section headed "Board Committees" of this report.

In 2011 and up to the date of this report, the Nomination Committee's works included but were not limited to the review of the Board composition, the retirement of Directors by rotation, the nomination of an Independent Non-executive Director, the re-designation of an Executive Director, and the proposed change of chairman of the Remuneration Committee and composition of respective board committees in response to the recent Listing Rules amendment.

The terms of reference of the Nomination Committee are available on the websites of the Stock Exchange and the Company.

## Executive Committee

The Executive Committee comprises the following Directors:

### Independent Non-Executive Director:

John Jeffrey Ying *(Chairman of the Executive Committee)*

### Non-Executive Directors:

Loh Meng See
John Seto Gin Chung (appointed as a committee member on 27 March 2012)

### Executive Directors:

Will Hoon Wee Teng
Tey Wei Lin (re-designated as an Executive Director on 27 March 2012)

The main duties of the Executive Committee shall be:

a) to monitor the macro business environment and market trends with respect to the Group's current and potential business areas;

b) to evaluate and set the business strategies for ensuring the long-term growth and competitiveness of the Group's core businesses;

c) to formulate corporate strategies for enhancing the Group's long-term development;

d) to plan and allocate resources, human, financial and otherwise, for the execution and implementation of the approved business plans and corporate development strategies;

e) to review the execution of approved strategies and business plans;

f) to review the operating performance and financial position of the Group and its strategic business units on a monthly basis and take appropriate remedial measures, if necessary; and

g) to implement the decisions taken by the Board.

During the year ended 31 December 2011, three meetings of the Executive Committee were held and the attendance of each member is set out in the section headed "Board Committees" of this report.

The terms of reference of the Executive Committee are available on the Company's website.

## Accountability and Audit

### Financial Reporting

The Directors acknowledge their responsibility for the preparation of the financial statements of the Company to ensure that these financial statements give a true and fair presentation in accordance with the International Financial Reporting Standards. The statement by the auditor about their reporting responsibilities is set out in the Independent Auditor's Report on pages 61 and 62.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

### Independent Auditor

The Audit Committee reviews and monitors the independent auditor's independence, objectivity and effectiveness of the audit process. It receives each year a letter from the independent auditor confirming their independence and objectivity and holds meetings with representatives of the independent auditor to consider the scope of its audit, approve its fees, and the scope and appropriateness of non-audit services, if any, to be provided by it. The Audit Committee also makes recommendations to the Board on the appointment and retention of the independent auditor. The remuneration payable to the independent auditor of the Company in respect of audit services and non-audit services for the year ended 31 December 2011 amounted to approximately US$1,000,000 and approximately US$100,000 respectively. The costs incurred for the non-audit services represented professional fees in connection with the services provided as reporting accountant for the listing of the Company's shares on the Stock Exchange.

## Internal Control and Risk Management

The Board has overall responsibility for the Group's system of internal control and assessment and management of risks. In meeting its responsibility, the Board has put in place policies and procedures which provide a framework for the identification and management of risks.

In 2011, the Board engaged PricewaterhouseCoopers to conduct a comprehensive review of the effectiveness of the system of internal control of the Group covering all material financial, operational and compliance controls and risk management functions. The findings were reported to both the Audit Committee and the Board. The implementation of the recommendations will be monitored by the Group's internal audit department (the "Internal Audit") on an ongoing basis. The Board will continue to identify, evaluate and manage the significant risks faced by the Group and to enhance the internal control system of the Group with the assistance of its Internal Audit.

In 2011 and up to the date of this report, the Audit Committee reviewed and considered the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programs and budget. The findings of the Audit Committee have been reported to the Board.

### Internal Audit

Internal Audit is responsible for providing an independent and objective assessment of the Group's system of internal controls and underlying business processes.

Internal Audit adopts a risk based approach to conduct its annual audits and assesses the risk levels faced by the Group and its operations through both its past audit findings, risk assessment and consultations with management and Audit Committee. The scope of work performed by Internal Audit includes both operational, financial and IT audits, special investigations and productivity efficiency reviews. To permit the rendering of impartial and unbiased judgment essential to the proper conduct of audits, Internal Audit is independent of the activities it audits. This does not preclude Internal Audit's proactive involvement with management in planning processes or special assignments that have been approved by either the Chief Executive Officer or its designated representative or the Audit Committee. Internal Audit communicates the results of its projects to senior management and the Audit Committee through its reports on as completed basis as well as quarterly in the Audit Committee meeting.

# Directors' Report

The Directors have pleasure in submitting their Report together with the audited financial statements for the year ended 31 December 2011.

## Principal Activities

The principal activity of Sateri Holdings Limited (the "Company") is investment holding, and the principal activities of its subsidiaries are set out in note 46 to the financial statements.

## Results & Dividend

Results of the Group for the year ended 31 December 2011 are set out in the consolidated statement of comprehensive income on page 63.

The Board has recommended a final dividend of HK2.5 cents per share for the year ended 31 December 2011 (2010: Nil) payable to the shareholders of the Company (the "Shareholders") whose names appear on the register of members of the Company on 31 May 2012.

## Financial Summary

A summary of the results and assets and liabilities of the Group for the past five financial years is set out on page 159 of this annual report.

## Share Capital

Details of the movements in the share capital of the Company during the year are set out in note 35 to the financial statements.

Under the Companies Act of Bermuda (as amended), in addition to retained profits, contributed surplus and share premium are also distributable to the Shareholders.

However, distribution of amount in the share premium account requires approval of the Shareholders.

In addition, the Company cannot declare or pay a dividend or make a distribution if:

(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 hereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

At 31 December 2011, the Company's reserves, including the accumulated losses, contributed surplus and share premium, available for distribution to Shareholders amounted to approximately US$1,645,665,000.

## Reserves

Movements in the reserves of the Group during the year are set out in the Consolidated Statements of Changes in Equity on page 66.

## Pre-emptive Rights

There are no provisions for pre-emptive rights under the Bye-laws of the Company or the laws of Bermuda, which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

## Property, Plant and Equipment

Movements in property, plant and equipment are set out in note 18 to the financial statements.

## Bank Borrowings and Interest

Details of the Group's bank borrowings are set out in note 32 to the financial statements. Bank borrowings repayable within one year or on demand are classified as current liabilities in the financial statements. Bank borrowings repayable over one year are classified as non-current liabilities.

## Major Customers and Suppliers

During the year ended 31 December 2011, the Group's five largest customers accounted for approximately 40.2% of the Group's total revenue and the Group's largest customer for the year accounted for approximately 19.4% of the Group's total revenue. The Group's five largest suppliers accounted for approximately 24.1% of the Group's total purchases, including raw materials, fuels and logistics expenses, while the largest supplier for the year accounted for approximately 7.6% of the Group's total purchases.

To the knowledge of the Directors, save as disclosed in this annual report, none of the Directors or their respective associates or any of the Shareholders who owns more than 5% of the Company's issued share capital has any interest in any of the Group's five largest customers or suppliers.

## Employees

As at 31 December 2011, the Group had 2,064 employees in total. Total staff costs for the year under review amounted to approximately US$71,552,000 and the details are set out in note 13 to the financial statements. Remuneration for employees is based upon their qualification, experience, job nature, performance and market condition.

The Group may also pay discretionary year end bonuses to employees based on individual performance. Other benefits to employees include medical insurance, retirement schemes and training programs. Directors and qualified employees of the Company may be granted share options to subscribe for Shares in the Company as well as restricted share units in accordance with the terms and conditions of the share option scheme and the restricted share unit schemes approved by the Company on 8 November 2010.

## Directors

The Directors of the Company during the year and up to the date of this report were as follows:

### Independent Non-Executive Directors:

John Jeffrey Ying *(Chairman)*
David Yu Hon To
Jeffrey Lam Kin Fung
Lim Ah Doo (appointed on 27 March 2012)

### Executive Directors:

Will Hoon Wee Teng *(Chief Executive Officer)*
Tey Wei Lin (re-designated as an Executive Director on 27 March 2012)
Craig Edward Barker (retired on 12 May 2011)

### Non-Executive Directors:

Loh Meng See
John Seto Gin Chung
Rohan Seneka Weerasinghe

Bye-law 84 of the Company's Bye-Laws provides that at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. In accordance therewith, Loh Meng See, Jeffrey Lam Kin Fung and John Seto Gin Chung shall retire from office by rotation at the forthcoming annual general meeting. Except for Loh Meng See who does not stand for re-election, all the said Directors, being eligible, have offered themselves for re-election.

Bye-law 83 of the Company's Bye-Laws provides that 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 the Company and shall then be eligible for re-election. In accordance therewith, Lim Ah Doo shall retire from office at the forthcoming annual general meeting, being eligible, has offered himself for re-election.

Each Director has entered into a letter of appointment with the Company for an indefinite term, subject to the retirement requirement as set out in the Bye-laws of the Company. 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)).

The emoluments of the Executive Directors of the Company are determined, with delegated responsibility, by the Remuneration Committee, having regard to the Company's operating results and individual performance, while those of the Non-Executive Directors are reviewed and considered by the Board, taking into account responsibility of the role, industry complexity and comparable market statistics.

# Directors' Report

## Independence Confirmation

The Company has received from all of its Independent Non-executive Directors confirmation of their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and considers all of them to be independent.

## Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares of Equity Derivatives and Debentures

As at 31 December 2011, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares of equity derivatives and debentures of the Company or its associated corporations (as defined by Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register of directors' and chief executive's interests and short positions required to be maintained under section 352 of SFO are as follows:

(A) Long position in shares of the Company (the "Shares"): Nil

(B) Long position in shares of the Company's associated corporations: Nil

(C) Long position in underlying Shares and debentures of the Company:

| Name of Director | Capacity | Number of underlying Shares | Approximate % shareholding interest |
|---|---|---|---|
| John Jeffrey Ying ("Mr. Ying") | Beneficial owner | 960,591[1] | 0.029 |
| Will Hoon Wee Teng ("Mr. Hoon") | Beneficial owner | 3,590,970[2] | 0.105 |

*Notes:*

(1) These represent Shares underlying the Restricted Share Units (the "RSUs") granted to Mr. Ying pursuant to the Pre-IPO Restricted Share Unit Scheme ("Pre-IPO RSU Scheme"), subject to vesting conditions.

On 15 February 2012, 288,177 Shares were vested to Mr. Ying.

(2) These represent 3,201,970 Shares and 389,000 Shares underlying the RSUs granted to Mr. Hoon pursuant to the Pre-IPO RSU Scheme and the Post-IPO Restricted Share Unit Scheme ("Post-IPO RSU Scheme") respectively, subject to vesting conditions.

On 15 February 2012, 288,178 Shares were vested and 192,118 Shares under the Pre-IPO RSU Scheme were cancelled and not vested to Mr. Hoon.

(3) Details of the RSUs granted pursuant to the Pre-IPO RSU Scheme and the Post-IPO RSU Scheme to the Directors are set out below:

| Name of Director | Number of RSUs granted under the Pre-IPO RSU Scheme | Vesting Period of RSUs granted under the Pre-IPO RSU Scheme | Number of RSUs granted under the Post-IPO RSU Scheme | Vesting Period of RSUs granted under the Post-IPO RSU Scheme |
|---|---|---|---|---|
| John Jeffrey Ying | 960,591 | 30% on 15 February 2012#<br>30% on 15 February 2013<br>40% on 15 February 2014 | — | |
| Will Hoon Wee Teng | 3,201,970 | 15% on 15 February 2012#<br>15% on 15 February 2013<br>20% on 15 February 2014<br>20% on 15 February 2015<br>30% on 15 February 2016 | 389,000 | 50% on 30 April 2012<br>50% on 30 April 2013 |
| Total | 4,162,561 | | 389,000 | |

# Vesting details are disclosed at Notes 1 and 2 above.

(D) Long position in underlying Shares and debentures of the Company's associated corporations: Nil

As at 31 December 2011, save as disclosed herein, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares of equity derivatives or debentures of the Company or its associated corporations as defined under the SFO as recorded in the register of directors' and chief executive's interests and short positions or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules.

## Restricted Share Unit Schemes and Share Option Scheme

### 1. Restricted Share Unit Schemes

The Company adopted the Pre-IPO Restricted Share Unit Scheme (the "Pre-IPO RSU Scheme") and the Post-IPO Restricted Share Unit Scheme (the "Post-IPO RSU Scheme") on 8 November 2010. The terms of the Pre-IPO RSU Scheme and the Post-IPO Scheme (collectively the "RSU Schemes") are not subject to the provisions of Chapter 17 of the Listing Rules as the RSU Schemes do not involve the grant of options by the Company to subscribe for new Shares.

The RSUs do not carry any right to vote at general meetings of the Company, or any dividend, transfer or other rights (including those arising on the liquidation of the Company).

No grantee shall enjoy any of the rights of a Shareholder by virtue of the grant of an RSU pursuant to the RSU Schemes, unless and until the Share underlying the RSU is actually allotted and issued or transferred (as the case may be) to the grantee upon the vesting of such RSU.

#### *1.1 Pre-IPO RSU Scheme*

As of 31 December 2011, RSUs in respect of 8,165,026 underlying Shares had been granted to 18 grantees pursuant to the Pre-IPO RSU Scheme, of which two of the grantees were Directors and one of the grantees was a retired Director. Total RSUs in respect of 2,465,517 underlying Shares to six grantees (one was a retired Director) had been cancelled. Total RSUs in respect of 5,699,509 underlying Shares to 12 grantees (two were Directors) were still valid as of 31 December 2011.

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.

#### *1.2 Post-IPO RSU Scheme*

At any time during the period within which the Post-IPO RSU Scheme is valid and effective, 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 date of listing of the Company's Shares on the Stock Exchange, which is 8 December 2010 (the "Listing Date"); or (ii) 10% of the Shares in issue as at the New RSU Approval Date (as defined below) (as the case may be) (the "RSU Scheme Mandate Limit"); and

**B** = the maximum aggregate number of Shares underlying the RSUs already granted pursuant to the Post-IPO RSU Scheme.

"New RSU Approval Date" means the date when the Shareholders approve the renewed RSU Scheme Mandate Limit.

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.

# Directors' Report

In addition, pursuant to the listing approval issued by the Stock Exchange on 7 December 2010, the total number of Shares which may be issued under the Post-IPO RSU Scheme must not exceed 336,882,675 Shares, representing 10% of the Company's issued share capital upon listing of the Company's Shares on the Stock Exchange.

As of the date of this report, RSUs in respect of 1,677,276 underlying Shares had been granted to 15 grantees pursuant to the Post-IPO RSU Scheme, of which one of the grantees was a Director. Total RSUs in respect of 160,020 underlying Shares to three grantees (no Director) had been cancelled. Total RSUs in respect of 1,517,256 underlying Shares to 12 grantees (one was a Director) were still valid as of the date of this report.

The grant and vesting of the RSUs granted pursuant to the Post-IPO RSU Scheme are in compliance with Rule 10.08 of the Listing Rules.

For further details of the RSU Schemes, please refer to note 36 of the Notes to the consolidated financial statements for the year ended 31 December 2011.

## 2. Share Option Scheme

The Company also adopted a share option scheme on 8 November 2010 (the "Share Option Scheme").

As at the date of this report, no option has been granted or agreed to be granted by the Company pursuant to the Share Option Scheme.

A summary of the Share Option Scheme disclosed in accordance with the Listing Rules is as follows:

### *(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 the Company.

### *(2) Participants of the Share Option Scheme*

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 the Company's 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) Total number of Shares available for issue under the Share Option Scheme*

At any time during the period within which the Share Option Scheme is valid and effective, 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 Option Approval Date (as defined below) (as the case may be) (the "Option 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 the Company.

"New Option Approval Date" means the date when the Shareholders approve the renewed Option Scheme Mandate Limit.

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 the 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.

In addition, pursuant to the listing approval issued by the Stock Exchange on 7 December 2010, the total number of Shares which may be issued under the Share Option Scheme and any other share option schemes must not exceed 336,882,675 Shares, representing 10% of the issued share capital upon listing of the Company's Shares on the Stock Exchange.

As of 31 December 2011, the total number of Shares available for grant under the Share Option Scheme was 336,882,675, representing 10% of the Company's issued share capital as of 31 December 2011 and approximately 9.86% as of the date of this annual report.

### (4) *Maximum entitlement of each participant*

No participant shall be granted an option if the total number of Shares issued and to be issued upon exercise of the options granted and to be granted to such person under the Share Option Scheme (including exercised, cancelled and outstanding options) in any 12-month period up to and including the date of such further grant (when aggregated with any Shares underlying the options granted during such period under any other share option scheme(s) of the Company other than those options granted pursuant to specific approval by the Shareholders in general meeting with the proposed participant and his associates abstaining from voting) would exceed 1% of the Shares in issue from time to time.

### (5) *Period within which the Shares must be taken up under an option*

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.

### (6) *Minimum period, if any, for which an option must be held before it can be exercised*

There is no specific requirement under the Share Option Scheme that an option must be held for any minimum period before it can be exercised, but the terms of the Share Option Scheme provide that the Board has the discretion to impose a minimum period at the time of grant of any particular option.

# Directors' Report

***(7) Amount payable upon acceptance and the period within which the payments or calls must or may be made or loans for such purposes must be repaid***

An offer of the grant of an option is deemed to be accepted by the Participant (the "Grantee") when the 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 period within which the Share Option Scheme is valid and effective 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.

***(8) Basis of determining the 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.

***(9) Remaining life***

Subject to the early termination of the Share Option Scheme pursuant to the terms thereof, the Share Option Scheme shall remain valid and effective for 10 years commencing on the date of adoption on 8 November 2010.

## Directors' Service Contracts

None of the Directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Group which is not determinable within one year without payment of compensation other than statutory compensation.

## Directors' Interests in Contracts of Significance

No contracts of significance to which the Company, its holding company, or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## Directors' Interests in Competing Businesses

None of the Directors or their respective associates has any competing interests which need to be disclosed pursuant to Rule 8.10 of the Listing Rules.

## Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2011, the following persons, other than the Directors and chief executive of the Company, had interests and short positions in the Shares and underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO:

### Long position in Shares and underlying Shares

| Name of Shareholders | Capacity | Number of ordinary Shares | Approximate % of interest |
|---|---|---|---|
| Gold Silk Holdings Limited ("Gold Silk") (1) | Beneficial owner | 2,863,496,750 | 83.83% |
| Fiduco Trust Management AG ("Fiduco") (1)(2) | Interest in a controlled corporation | 2,863,496,750 | 83.83% |
| Mr. Sukanto Tanoto ("Mr. Tanoto") | Person who set up a discretionary trust | 2,863,496,750 | 83.83% |

*Notes:*

(1) The entire issued share capital of Gold Silk is held by Fiduco, as the trustee of a discretionary trust established by Mr. Tanoto as settlor. The beneficiaries of such discretionary trust include Mr. Tanoto and certain members of his family. Mr. Tanoto is deemed to be interested in the 2,863,496,750 Shares held by Gold Silk pursuant to Part XV of the SFO.

(2) Fiduco is the trustee of a discretionary trust established by Mr. Tanoto as settlor and whose beneficiaries include Mr. Tanoto and certain members of his family.

Save as disclosed above, as of 31 December 2011, the Directors are not aware of any person, other than the Directors whose interests are set out in the section "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares of Equity Derivatives and Debentures" above, who had an interest or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO.

## Purchase, Sale or Redemption of the Company's Securities

The Company has not redeemed any of its Shares for the year ended 31 December 2011. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's securities during the year ended 31 December 2011.

## 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. As the Company was able to achieve a minimum market capitalization of at least HK$10 billion upon the listing of Shares on the Stock Exchange, the Stock Exchange had granted a waiver under Rule 8.08(1)(d) of the Listing Rules to accept a lower public float percentage of 15% (or a higher percentage upon exercise of the Over-allotment Option as defined in the Company's prospectus dated 26 November 2010 (the "Prospectus")) of the Company's issued share capital (the "Company's Minimum Public Float"). Accordingly, the Company's Minimum Public Float upon the Listing Date was 15% and became 16.17% on 3 January 2011 due to the partial exercise of the Over-allotment Option.

# Directors' Report

The Company had entered into a subscription agreement dated 15 February 2012 (the "Subscription Agreement") to issue 2,038,000 shares (the "Subscription Shares") for the purposes of enabling the Company to maintain the Company's Minimum Public Float following the transfer of Shares to satisfy the vesting of certain RSUs granted by the Company to Directors and directors of the Company's subsidiaries, who are connected persons of the Company and therefore not regarded as members of the public pursuant to the Listing Rules.

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained sufficient public float as required under the Listing Rules.

## Continuing Connected Transactions

Set out below is information in relation to the continuing connected transactions entered into by the Group and required under the Listing Rules to be disclosed in the annual report of the Company (the "CCTs"):

### 1. Agency Agreement with DP Macao

On 3 November 2010, the Company, through its subsidiary, SC International Macao Commercial Offshore Limited ("SC International Macao"), entered into an agency agreement (the "Agency Agreement") with DP Marketing International Limited — Macao Commercial Offshore ("DP Macao"), a dissolving wood pulp and paper pulp trading company which was the Company's subsidiary until 30 September 2010 and which is now controlled by Mr. Tanoto, the ultimate controlling shareholder of the Company. Pursuant to the Agency Agreement, SC International Macao acts as the agent of DP Macao with a right of first offer for the sale of dissolving wood pulp owned 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.

The Agency Agreement was entered into by the Company in the ordinary and usual course of the Company's 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 SC International Macao than) that payable under similar agreements between independent third parties.

The Agency Agreement will be effective until 31 December 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.

SC International Macao has commission receivable of US$3,880,000 from DP Macao under the Agency Agreement for the year ended 31 December 2011. The annual caps for the maximum amount of commission payable to SC International Macao by DP Macao under the Agency Agreement for the years ending 31 December 2011 and 2012 have been set pursuant to the requirement of the Listing Rules at US$5,280,000 and US$5,610,000 respectively.

### 2. Sales Framework Agreement with DP Macao

On 3 November 2010, Sateri (Jiangxi) Chemical Fibre Co., Ltd. ("Sateri Jiangxi") and Sateri (Fujian) Fibre Co., Ltd. ("Sateri Fujian"), both being subsidiaries of the Company, entered into a sales framework agreement (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. 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 the Company's 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 Sateri Jiangxi and Sateri Fujian 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 year ended 31 December 2011 was US$75,355,000. The annual caps for the maximum amount payable by Sateri Jiangxi and Sateri Fujian to DP Macao under the Sales Framework Agreement for the years ending 31 December 2011 and 2012 have been set pursuant to the requirement of the Listing Rules at US$87,673,600 and US$98,175,000 respectively.

The Sales Framework Agreement will be effective until 31 December 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.

The CCTs have been reviewed by the Independent Non-executive Directors of the Company who have confirmed that the transactions have been entered into:

(1) in the ordinary and usual course of business of the Company;

(2) on normal commercial terms; and

(3) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

In addition, the auditors of the Company have confirmed that:

(1) nothing has come to their attention that causes them to believe that the CCTs have not been approved by the Board;

(2) for the CCTs involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the CCTs were not, in all material respects, in accordance with the pricing policies of the Company;

(3) nothing has come to their attention that causes them to believe that the CCTs were not entered into, in all material respects, in accordance with the relevant agreements governing such CCTs; and

(4) with respect to the aggregate amount of each of the CCTs, nothing has come to their attention that causes them to believe that the CCTs have exceeded the relevant annual caps disclosed above in this section.

## Related Party Transactions

Details of the significant related party transactions undertaken in the normal course of business are provided under note 43 to the financial statements. Other than those transactions disclosed in the section headed "Continuing Connected Transactions" above, none constitutes a discloseable connected transaction as defined under the Listing Rules.

# Directors' Report

## Deed of Non-Competition

The Company entered into a Deed of Non-Competition with Gold Silk, Fiduco, Mr. Tanoto (Gold Silk, the Trustee and Mr. Tanoto are hereinafter collectively referred to as the "Controlling Shareholders") and Pinnacle Company Limited ("Pinnacle") on 19 November 2010 so as to maintain a clear delineation of the respective businesses of the Group and those of the 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 of the Shares on the Stock Exchange.

The Independent Non-executive Directors have reviewed compliance by the Controlling Shareholders and Pinnacle and confirm that based on confirmations and information provided by each of the Controlling Shareholders and Pinnacle, they were in compliance with the Deed of Non-Competition during the period from 1 January 2011 to 31 December 2011.

The Independent Non-executive Directors were not required to review any matter in relation to compliance and enforcement of the Deed of Non-Competition during the period from 1 January 2011 to 31 December 2011.

## AUDITOR

The consolidated financial statements for the year ended 31 December 2011 have been audited by Deloitte Touche Tohmatsu.

On behalf of the Board

**John Jeffrey Ying**
*Chairman*

Hong Kong, 27 March 2012

# Independent Auditor's Report

Deloitte.
德勤

**TO THE MEMBERS OF SATERI HOLDINGS LIMITED**
*(incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of Sateri Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 63 to 158, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTOR'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

# Independent Auditor's Report

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2011, and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong

27 March 2012

# Consolidated Statement of Comprehensive Income

For the Year ended 31 December 2011

| | NOTES | 2011 US$'000 | 2010 US$'000 |
|---|---|---|---|
| Revenue | 7 | **806,574** | 923,257 |
| Cost of sales | 8 | **(483,501)** | (466,534) |
| Gross profit | | **323,073** | 456,723 |
| Selling and distribution expenses | | **(51,816)** | (58,033) |
| Administrative expenses | | **(86,105)** | (72,965) |
| Other income and gains/(losses) | 10 | **17,223** | (489) |
| Commission income from a related party | | **3,880** | 801 |
| Finance costs | 11 | **(42,267)** | (31,077) |
| Changes in fair value of derivative financial instruments | 28 | **(30,712)** | 21,521 |
| Gain on settlement of derivative financial instruments | 28 | **12,161** | 5,392 |
| (Decrease)/increase in fair value of forestation and reforestation assets | 17 | **(8,349)** | 12,704 |
| Reversal of impairment loss in respect of property, plant and equipment | 18 | **6,762** | — |
| Recovery of loss recognized in respect of property, plant and equipment | 18 | **—** | 12,236 |
| Imputed interest expense on advance from a related party | 42(b) | **—** | (4,316) |
| Listing expenses | | **—** | (10,215) |
| Profit before tax | | **143,850** | 332,282 |
| Income tax credit/(expense) | 12 | **6,675** | (4,192) |
| Profit for the year | 13 | **150,525** | 328,090 |
| Profit for the year attributable to: | | | |
| Owners of the Company | | **154,713** | 323,881 |
| Non-controlling interests | | **(4,188)** | 4,209 |
| | | **150,525** | 328,090 |
| Earnings per share | | | |
| — basic (US$) | 16 | **0.05** | 0.11 |
| — diluted (US$) | 16 | **0.05** | 0.11 |
| Other comprehensive income/(expense) | | | |
| Exchange differences arising on translation of foreign operations | | **10,699** | 5,278 |
| (Loss)/gain on cash flow hedge | | **(7,767)** | 4,346 |
| | | **2,932** | 9,624 |
| Total comprehensive income for the year | | **153,457** | 337,714 |
| Total comprehensive income attributable to: | | | |
| Owners of the Company | | **158,283** | 333,195 |
| Non-controlling interests | | **(4,826)** | 4,519 |
| | | **153,457** | 337,714 |

# Consolidated Statement of Financial Position

At 31 December 2011

| | NOTES | 2011 US$'000 | 2010 US$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Forestation and reforestation assets | 17 | **187,797** | 192,192 |
| Property, plant and equipment | 18 | **1,455,966** | 1,384,070 |
| Prepaid lease payments — non-current portion | 19 | **29,199** | 7,340 |
| Investment properties | 20 | **1,867** | 1,880 |
| Intangible assets | 21 | **675** | 775 |
| Derivative financial instruments | 28 | **—** | 4,346 |
| Other long-term assets | 22 | **69,265** | 50,913 |
| Deferred tax assets | 24 | **105,496** | 111,576 |
| | | **1,850,265** | 1,753,092 |
| **Current assets** | | | |
| Inventories | 25 | **180,590** | 88,636 |
| Trade, bills and other receivables | 26 | **153,232** | 108,736 |
| Bills receivables discounted | 27 | **8,119** | 39,452 |
| Derivative financial instruments | 28 | **—** | 21,521 |
| Prepaid lease payments — current portion | 19 | **612** | 153 |
| Pledged bank deposits | 29 | **5,294** | 8,071 |
| Bank balances and cash | 30 | **323,705** | 427,794 |
| | | **671,552** | 694,363 |
| **Current liabilities** | | | |
| Trade and other payables | 31 | **136,574** | 156,136 |
| Advance drawn on bills receivables discounted | 27 | **8,119** | 39,452 |
| Derivative financial instruments | 28 | **30,712** | — |
| Income tax payable | | **31,079** | 28,424 |
| Bank borrowings — due within one year | 32 | **198,403** | 153,816 |
| Obligations under finance leases — due within one year | 33 | **1,170** | 2,165 |
| | | **406,057** | 379,993 |
| **Net current assets** | | **265,495** | 314,370 |
| **Total assets less current liabilities** | | **2,115,760** | 2,067,462 |

# Consolidated Statement of Financial Position

At 31 December 2011

| | NOTES | 2011 US$'000 | 2010 US$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Bank borrowings — due after one year | 32 | **379,970** | 510,483 |
| Derivative financial instruments | 28 | **3,421** | — |
| Deferred tax liabilities | 24 | **55,245** | 71,623 |
| Obligations under finance leases — due after one year | 33 | **589** | 1,646 |
| | | **439,225** | 583,752 |
| | | **1,676,535** | 1,483,710 |
| **Capital and reserves** | | | |
| Share capital | 35 | **170,794** | 168,441 |
| Share premium and reserves | | **1,474,871** | 1,279,573 |
| Equity attributable to owners of the Company | | **1,645,665** | 1,448,014 |
| Non-controlling interests | | **30,870** | 35,696 |
| | | **1,676,535** | 1,483,710 |

The consolidated financial statements on pages 63 to 158 were approved and authorized for issue by the Board of Directors on 27 March 2012 and are signed on its behalf by:

**John Jeffrey Ying**
*DIRECTOR*

**Will Hoon Wee Teng**
*DIRECTOR*

# Consolidated Statement of Changes in Equity

For the Year ended 31 December 2011

| | Attributable to owners of the Company | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Ordinary shares US$'000 | Preference shares US$'000 | Share premium US$'000 | Special reserve US$'000 (Note a) | Other non-distributable reserves US$'000 (Note b) | Translation reserve US$'000 | Cashflow hedging reserve US$'000 | Shares held under awarded shares compensation scheme US$'000 | Awarded shares compensation reserve US$'000 | Accumulated profits US$'000 | Total US$'000 | Non-controlling interests US$'000 | Total US$'000 |
| At 1 January 2010 | — | 409,009 | 436,597 | 28,698 | 3,423 | 19,049 | — | — | — | 257,581 | 1,154,357 | 31,177 | 1,185,534 |
| Profit for the year | — | — | — | — | — | — | — | — | — | 323,881 | 323,881 | 4,209 | 328,090 |
| Exchange difference arising on translation of foreign operations | — | — | — | — | — | 4,968 | — | — | — | — | 4,968 | 310 | 5,278 |
| Gain on cash flow hedge | — | — | — | — | — | — | 4,346 | — | — | — | 4,346 | — | 4,346 |
| Total comprehensive income for the year | — | — | — | — | — | 4,968 | 4,346 | — | — | 323,881 | 333,195 | 4,519 | 337,714 |
| Imputed interest on advance from a related party | — | — | — | 10,071 | — | — | — | — | — | — | 10,071 | — | 10,071 |
| Redemption of preference shares | — | (27,210) | (436,597) | — | — | — | — | — | — | — | (463,807) | — | (463,807) |
| Arising on group reorganization | 143,174 | (381,799) | — | 238,625 | — | — | — | — | — | — | — | — | — |
| Issue of new shares (Note 35) | 25,267 | — | 403,338 | — | — | — | — | — | — | — | 428,605 | — | 428,605 |
| Cost of issuing new shares | — | — | (14,604) | — | — | — | — | — | — | — | (14,604) | — | (14,604) |
| Awarded shares compensation reserve (Note 36) | — | — | — | — | — | — | — | — | 197 | — | 197 | — | 197 |
| At 31 December 2010 | 168,441 | — | 388,734 | 277,394 | 3,423 | 24,017 | 4,346 | — | 197 | 581,462 | 1,448,014 | 35,696 | 1,483,710 |
| Profit for the year | — | — | — | — | — | — | — | — | — | 154,713 | 154,713 | (4,188) | 150,525 |
| Exchange difference arising on translation of foreign operations | — | — | — | — | — | 11,337 | — | — | — | — | 11,337 | (638) | 10,699 |
| Loss on cash flow hedge | — | — | — | — | — | — | (7,767) | — | — | — | (7,767) | — | (7,767) |
| Total comprehensive income for the year | — | — | — | — | — | 11,337 | (7,767) | — | — | 154,713 | 158,283 | (4,826) | 153,457 |
| Issue of new shares (Note 35) | 2,353 | — | 37,524 | — | — | — | — | — | — | — | 39,877 | — | 39,877 |
| Cost of issuing new shares | — | — | (1,328) | — | — | — | — | — | — | — | (1,328) | — | (1,328) |
| Awarded shares compensation reserve (Note 36) | — | — | — | — | — | — | — | — | 1,778 | — | 1,778 | — | 1,778 |
| Forfeiture of awarded shares compensation scheme | — | — | — | — | — | — | — | — | (53) | 53 | — | — | — |
| Purchase of shares for the purpose of awarded shares compensation scheme (Note 36) | — | — | — | — | — | — | — | (959) | — | — | (959) | — | (959) |
| At 31 December 2011 | 170,794 | — | 424,930 | 277,394 | 3,423 | 35,354 | (3,421) | (959) | 1,922 | 736,228 | 1,645,665 | 30,870 | 1,676,535 |

Notes:

a. Special reserve represents deemed contribution of US$38,769,000 from shareholders arising from interest-free advances, and also the excess of the aggregate nominal amount of the share capital and share premium of a subsidiary acquired by the Company upon the Reorganization (defined in Note 1) over the nominal amount of shares of the Company issued to the then shareholders amounting to US$238,625,000.

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 (the "PRC") 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 2011 and 2010 as the relevant subsidiaries incurred accumulated losses for the years.

# Consolidated Statement of Cash Flows

For the Year ended 31 December 2011

| | 2011 US$'000 | 2010 US$'000 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Profit before tax | 143,850 | 332,282 |
| Adjustments for: | | |
| Amortization of intangible assets | 100 | 100 |
| Release of prepaid lease payments | 551 | 20 |
| Depreciation of property, plant and equipment | 69,962 | 66,078 |
| Depletion charge on forestation and reforestation assets | 37,654 | 36,084 |
| Depreciation of investment properties | 109 | 104 |
| Loss on disposal of property, plant and equipment | 130 | 327 |
| Gain on settlement of derivative financial instruments | (12,161) | (5,392) |
| Recovery of loss recognized in respect of property, plant and equipment | — | (12,236) |
| Reversal of impairment loss in respect of property, plant and equipment | (6,762) | — |
| Impairment loss on inventories | 529 | 1,017 |
| Impairment loss recognized in respect of other receivables | — | 1,772 |
| Decrease/(increase) in fair value of forestation and reforestation assets | 8,349 | (12,704) |
| Changes in fair value of derivative financial instruments | 30,712 | (21,521) |
| Awarded shares compensation expense | 1,778 | 197 |
| Interest income | (2,673) | (416) |
| Finance costs | 42,267 | 31,077 |
| Imputed interest expense on advance from a related party | — | 4,316 |
| Operating cash flows before movements in working capital | 314,395 | 421,105 |
| Increase in inventories | (92,483) | (36,476) |
| Increase in trade, bills and other receivables | (44,496) | (15,843) |
| (Decrease)/increase in trade and other payables | (7,484) | 85,280 |
| Change in derivative financial instruments | 33,682 | (4,469) |
| Increase in value-added-tax recoverable included in other long-term assets | (17,792) | (5,405) |
| Purchase of shares for the purpose of awarded shares compensation scheme | (959) | — |
| Net cash generated from operations | 184,863 | 444,192 |
| Income taxes paid | (968) | (2,093) |
| **NET CASH FROM OPERATING ACTIVITIES** | 183,895 | 442,099 |

# Consolidated Statement of Cash Flows

For the Year ended 31 December 2011

| | NOTES | 2011 US$'000 | 2010 US$'000 |
|---|---|---|---|
| **INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment | | **(136,810)** | (61,805) |
| Placement of pledged bank deposits | | **(1,059,990)** | (135,436) |
| Additions of forestation and reforestation assets | | **(41,608)** | (37,881) |
| Purchase of prepaid lease payments | | **(17,994)** | (6,576) |
| Additions of unlisted investments (included in other long-term assets) | | **(3,580)** | (3,409) |
| Compensation received for recovery of loss recognized in respect of property, plant and equipment | | **—** | 12,236 |
| Withdrawal of pledged bank deposits | | **1,063,125** | 176,784 |
| Interest received | | **2,673** | 416 |
| Proceeds from disposal of property, plant and equipment | | **21** | 3,016 |
| Advance to a related party | 42(b) | **—** | (205,610) |
| Deposit paid for acquisition of prepaid lease payment (included in other long-term assets) | | **—** | (3,020) |
| Disposal of a subsidiary | 38 | **—** | (149) |
| Acquisition of subsidiaries | 37 | **—** | 3 |
| **NET CASH USED IN INVESTING ACTIVITIES** | | **(194,163)** | (261,431) |
| **FINANCING ACTIVITIES** | | | |
| Repayments of bank borrowings | | **(236,669)** | (408,627) |
| Interest paid | | **(37,903)** | (35,159) |
| Repayments of obligations under finance leases | | **(2,052)** | (2,230) |
| New bank borrowings raised | | **141,906** | 619,671 |
| Proceeds from issue of new shares, net of share issue costs | | **38,549** | 414,001 |
| Redemption of preference shares | 42(b) | **—** | (395,226) |
| **NET CASH (USED IN)/FROM FINANCING ACTIVITIES** | | **(96,169)** | 192,430 |
| **NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS** | | **(106,437)** | 373,098 |
| **EFFECT OF FOREIGN EXCHANGE RATE CHANGES** | | **2,348** | (4,692) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR** | | **427,794** | 59,388 |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR,** represented by bank balances and cash | | **323,705** | 427,794 |

# Notes to the Consolidated Financial Statements

For the Year ended 31 December 2011

## 1. GENERAL

Sateri Holdings Limited (the "Company") was incorporated on 8 June 2010 and registered as an exempted company with limited liability in Bermuda under the Companies Act 1981 of Bermuda (as amended) and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 8 December 2010. The Company is controlled by Gold Silk Holdings Limited ("Gold Silk"), a limited liability company incorporated in the Cayman Islands and 100% owned and controlled by Mr. Sukanto Tanoto and certain members of his family (the "Major Shareholder"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in Note 46.

The consolidated financial statements are presented in United States dollar ("USD"), which is the functional currency of the Company.

Under a group reorganization scheme ("Reorganization") to rationalize the structure of the Group in preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the Group on 23 November 2010. Sateri International Co. Ltd ("Sateri International"), the holding company of the Group prior to the Reorganization, was solely held directly by Gold Silk, a company owned by the Major Shareholder. Upon completion of the Reorganization, Sateri International became a wholly owned subsidiary of the Company.

The principal steps of the Reorganization, which involved the exchange of shares, were as follows:

(i) On 27 October 2010, a netting and novation deed was entered into among Sateri International, RGE Inc., General Rank Limited, all of which are companies under common control of the Major shareholder, and Gold Silk, relating to the netting and novation of the related amount due from RGE Inc. of approximately US$205,610,000 and the loan balance due to General Rank Limited of approximately US$137,029,000 and resulted in Gold Silk owing an amount of approximately US$68,581,000 to Sateri International after the netting and novation effected by the deed.

# Notes to the Consolidated Financial Statements

For the Year ended 31 December 2011

## 1. GENERAL (continued)

(ii) 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 approximately US$68,581,000 of the redemption price was settled by offsetting against the amount due from Gold Silk and the remaining amount of approximately US$395,226,000 was settled by cash.

(iii) On 23 November 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.

The Group resulting from the above mentioned reorganization is regarded as a continuing entity. Accordingly, the consolidated financial statements of the Group have been prepared using the principles of merger accounting as if the group structure under the group reorganization had been in existence throughout the year ended 31 December 2010, or since their respective dates of incorporation/establishment, where there is a shorter period.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

In the current year, the Group has applied the following new and revised IFRSs issued by the International Accounting Standards Board ("new and revised IFRSs").

| | |
|---|---|
| IFRSs (Amendments) | Improvements to IFRSs issued in 2010 |
| IAS 24 (Revised) | Related Party Disclosures |
| IAS 32 (Amendment) | Classification of Rights Issues |
| IFRIC — Int 14 (Amendment) | Prepayments of a Minimum Funding Requirement |
| IFRIC — Int 19 | Extinguishing Financial Liabilities with Equity Instruments |

The application of the new and revised IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

### New and revised IFRSs issued but not yet effective

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

| | |
|---|---|
| Amendments to IFRS 7 | Disclosures — Transfers of Financial Assets[1] |
| | Disclosures — Offsetting Financial Assets and Financial Liabilities[2] |
| Amendments to IFRS 7 and IFRS 9 | Mandatory Effective Date of IFRS 9 and Transition Disclosures[3] |
| IFRS 9 | Financial Instruments[3] |
| IFRS 10 | Consolidated Financial Statements[2] |
| IFRS 11 | Joint Arrangements[2] |
| IFRS 12 | Disclosure of Interests in Other Entities[2] |
| IFRS 13 | Fair Value Measurement[2] |
| Amendments to IAS 1 | Presentation of Items of Other Comprehensive Income[5] |
| Amendments to IAS 12 | Deferred Tax — Recovery of Underlying Assets[4] |
| IAS 19 (as revised in 2011) | Employee Benefits[2] |
| IAS 27 (as revised in 2011) | Separate Financial Statements[2] |
| IAS 28 (as revised in 2011) | Investments in Associates and Joint Ventures[2] |
| Amendments to IAS 32 | Offsetting Financial Assets and Financial Liabilities[6] |
| IFRIC — Int 20 | Stripping Costs in the Production Phase of a Surface Mine[2] |

1 Effective for annual periods beginning on or after 1 July 2011.
2 Effective for annual periods beginning on or after 1 January 2013.
3 Effective for annual periods beginning on or after 1 January 2015.
4 Effective for annual periods beginning on or after 1 January 2012.
5 Effective for annual periods beginning on or after 1 July 2012.
6 Effective for annual periods beginning on or after 1 January 2014.

# Notes to the Consolidated Financial Statements

For the Year ended 31 December 2011

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

### Amendments to IFRS 7 Disclosures — Transfers of Financial Assets

The amendments to IFRS 7 "Disclosures — Transfers of Financial Assets" increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

### IFRS 9 Financial Instruments

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" are 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. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

IFRS 9 was revised in October 2010. The revised version adds the requirements for the classification and measurement of financial liabilities and for derecognition. One major change on the classification and 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 IFRS 9, 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 presented 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 1 January 2015, with earlier application permitted.

### IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and SIC-Int 12 Consolidation — Special Purpose Entities. IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

### IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 "Financial Instruments: Disclosures" will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

### Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

The Group is in the process of making an assessment of what the impact these new and revised IFRSs is expected to be in the period of initial application. So far, it was concluded that they are relevant to the Group's financial statements but the adoption is unlikely to have a material impact on the Group's results and financial position.

# Notes to the Consolidated Financial Statements
For the Year ended 31 December 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange and Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for the forestation and reforestation assets 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. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements 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 acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements 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 in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

***Allocation of total comprehensive income to non-controlling interests***

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance (effective from 1 January 2010 onwards).

### Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Business combinations (continued)

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12 "Income Taxes" and IAS 19 "Employee Benefits" respectively;

- liabilities or equity instruments related to share-based payment transactions of the acquiree or share-based payment arrangements of the Group entered into replace share-based payment arrangements are measured in accordance with IFRS 2 "Share-based Payment" at the acquisition date (see accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another standard.

### Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognized in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

# Notes to the Consolidated Financial Statements

For the Year ended 31 December 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Merger accounting for business combination involving entities under common control (continued)

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

### 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.

Services income is recognized when services are provided.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income 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 consolidated statement 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 (other than financial assets or financial liabilities at fair value through profit or loss) 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

***Financial assets*** (continued)

*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 ("FVTPL")*

Financial assets at 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 and is included in the "changes in fair value of derivative financial instruments" line item in the consolidated statement of comprehensive income. Fair value is determined in the manner described in Note 6c.

*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 value-added-tax recoverables, trade, bills and other receivables, bills receivables discounted, pledged bank deposits and bank balances and cash) are carried at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

# Notes to the Consolidated Financial Statements
For the Year ended 31 December 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

***Financial assets*** (continued)

*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 considered to be 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;
- breach of contract, such as default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, 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, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

***Financial liabilities and equity instruments***

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with 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 payments (including all fee 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 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 bank borrowings, trade payables and advance drawn on bills receivables discounted 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.

Shares held under awarded shares compensation scheme are recorded at the consideration paid, net of direct attributable incremental costs.

***Derivative financial instruments and hedging***

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 unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

*Hedge accounting*

The Group designates certain derivatives as hedges of highly probable forecast transactions for interest rate risk exposure. At the inception of the hedging relationship the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

# Notes to the Consolidated Financial Statements
For the Year ended 31 December 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

***Derivative financial instruments and hedging*** (continued)

*Cash flow hedges*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss as other income and gains/(losses).

Amounts previously recognized in other comprehensive income and accumulated in equity (cash flow hedging reserve) are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line of the consolidated statement of comprehensive income as the recognized hedged item. However, when the hedge forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

***Derecognition***

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognize the asset to the extent of its continuing involvement and recognizes an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, 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 and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

***Derecognition*** (continued)

The Group derecognizes financial liability when, and only when, the Group's obligations are discharged, cancelled or expire. 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. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

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 which 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.

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).

# Notes to the Consolidated Financial Statements
For the Year ended 31 December 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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 in consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

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. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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.

Investment properties are initially 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 recognized 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) 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 (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately.

# Notes to the Consolidated Financial Statements
For the Year ended 31 December 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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 consolidated statement 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 consolidated financial statements 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, 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. Current and 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 current and deferred tax is also recognized in other comprehensive income or directly in equity respectively.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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 these consolidated financial statements, 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 under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss.

### 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 terms.

# Notes to the Consolidated Financial Statements
For the Year ended 31 December 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Leasing (continued)

***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 consolidated statement of financial position as obligations under finance leases.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately to profit or loss.

Operating lease payments are recognized as an expense on a straight line basis over the lease terms. Benefits received and receivable as an incentive to enter into an operating lease are recognized as a reduction of rental expense over the lease terms on a straight line basis.

### Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortized over the lease terms on a straight line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment or investment property.

### 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 recognized as expenses when employees have rendered service entitling them to the contribution.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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, and a reliable estimate can be made of the amount of the 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 of time value of money is material).

### Share-based payment transactions

***Equity-settled share-based payment transactions***

*Share award scheme*

The fair value of services received determined by reference to the fair value of shares awarded at the grant date is expensed on a straight line basis over the vesting period, with a corresponding increase in awarded shares compensation reserve.

When trustee purchases the Company's shares from the open market, the consideration paid, including any directly attributable incremental costs, is presented as shares held under awarded shares compensation scheme and deducted from total equity. No gain or loss is recognized on the transactions of the Company's own shares.

When the trustee transfers the Company's shares to grantees upon vesting, the related costs of the granted shares vested are reversed from shares held for share purchase scheme. Accordingly, the related expense of the granted shares vested is reversed from awarded shares compensation reserve. The difference arising from such transfer is debited/credited to accumulated profits.

When the share awards are forfeited, the amount previously recognized in awarded shares compensation reserve will be transferred to accumulated profits.

*Share options scheme*

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight line basis over the vesting period or recognized as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

When the share options are exercised, the amount previously recognized in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in share options reserve will be transferred to accumulated profits.

# Notes to the Consolidated Financial Statements

For the Year ended 31 December 2011

## 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 are related to certain unused tax losses of the Group. The realizability of the deferred tax assets mainly depend 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 28, management of the Company uses their judgment in selecting an appropriate valuation technique for derivative financial instruments not quoted in an active market. 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 a settlement prices and interest rates. Actual results may differ when the assumptions and selections of valuation technique changes.

### Estimated impairment of value-added-tax ("VAT") recoverable

In determining whether there is any impairment loss on VAT 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.

### Estimated impairment of trade, bills and other 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.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

### 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 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.

### Fair value of forestation and reforestation assets

As described in Note 17, 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 most 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.

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. Details of the assumptions are listed in Note 17. If the expectation on assumptions 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.

### Provisions

The Group made provisions for all loss contingences when information available prior to the issuance of these consolidated financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of these consolidated financial statements 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.

# Notes to the Consolidated Financial Statements

For the Year ended 31 December 2011

## 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 from prior year.

The capital structure of the Group consists of net debt, which includes the advance drawn on bills receivables discounted, bank borrowings and obligations under finance leases disclosed in Notes 27, 32 and 33, 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

| | 2011<br>US$'000 | 2010<br>US$'000 |
|---|---|---|
| **Financial assets** | | |
| Loans and receivables | | |
| (including cash and cash equivalents) | 501,662 | 588,801 |
| Unlisted available-for-sale investment | 14,133 | 10,553 |
| Fair value through profit or loss | | |
| Derivative financial instruments | — | 25,867 |
| **Financial liabilities** | | |
| Amortized cost | 654,382 | 787,100 |
| Fair value through profit or loss | | |
| Derivative financial instruments | 34,133 | — |

### 6b. Financial risk management objectives and policies

The Group's major financial instruments include derivative financial instruments, trade, bills and other receivables, bills receivables discounted, other long-term assets, trade payables, pledged bank deposits, bank balances, advance drawn on bills receivables discounted and bank borrowings. 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. It is the Group's policy to closely monitor the market conditions and devise suitable strategies against these risks. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

# 6. FINANCIAL INSTRUMENTS (continued)

## 6b. Financial risk management objectives and policies (continued)

***Market risk management***

*(i) Foreign currency risk management*

Several subsidiaries of the Company have foreign currency sales, which expose the Group to foreign currency risk. Also, certain trade, bills and other receivables, trade and other payables, bank balances, bank borrowings, obligations 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 USD is the functional currency of the Company and its Brazilian operating subsidiaries. These contracts were arranged with maturities spread over the months in 2012. Details of the outstanding forward foreign exchange contracts are listed in Note 28.

The Group is primarily exposed to currencies of Brazilian Reais, Renminbi, USD and Hong Kong dollars ("HKD"). The carrying amounts of these monetary assets and monetary liabilities at the end of each reporting period are as follows:

| | 2011<br>US$'000 | 2010<br>US$'000 |
|---|---|---|
| **Assets** | | |
| Brazilian Reais | 120,339 | 63,536 |
| Renminbi | 117,307 | — |
| USD | 8,181 | 10,210 |
| HKD | 473 | 178,186 |
| **Liabilities** | | |
| Brazilian Reais | 62,478 | 65,339 |
| USD | 42,013 | 15,106 |

*Sensitivity analysis*

The group entities are mainly exposed to the effects of fluctuation in Brazilian Reais, USD and Renminbi. As the functional currency of one of the group entities is Renminbi, the Group is exposed to the effects of fluctuation in USD. The functional currency of the group entity with HKD denominated monetary assets is USD. As HKD is pegged to USD, the management considered that the Group does not have material currency risk in this regard.

# Notes to the Consolidated Financial Statements

For the Year ended 31 December 2011

## 6. FINANCIAL INSTRUMENTS (continued)

### 6b. Financial risk management objectives and policies (continued)

***Market risk management*** (continued)

*(i)* *Foreign currency risk management* (continued)

*Sensitivity analysis* (continued)

The following table details the increase and decrease by 5% (2010: 5%) in the functional currency of relevant group entity against Brazilian Reais, USD and Renminbi with other variables held constants. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end. A 5% (2010: 5%) strengthening of USD and Renminbi (functional currencies) against the Brazilian Reais, USD and Renminbi (foreign currencies) will give rise to the following impact to post-tax profit/loss for the year.

| | USD Impact (Note i) | | Brazilian Reais Impact (Note ii) | | Renminbi Impact (Note iii) | |
|---|---|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| | **US$'000** | US$'000 | **US$'000** | US$'000 | **US$'000** | US$'000 |
| Increase/(decrease) in post-tax profit for the year | **1,480** | 214 | **(1,909)** | 59 | **(5,865)** | — |

For a 5% (2010: 5%) weakening of USD and Renminbi, there would be an equal and opposite impact.

Notes:

(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, bills and other receivables, bank balances, payables, obligations under finance leases and bank borrowings at the year end.

(iii) This is mainly attributable to exposure on Renminbi denominated bank balances.

# 6. FINANCIAL INSTRUMENTS (continued)

## 6b. Financial risk management objectives and policies (continued)

***Market risk management*** (continued)

*(i)* *Foreign currency risk management* (continued)

*Sensitivity analysis* (continued)

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% (2010: 5%), the potential effect on post-tax profit for the year, as a result of the changes in the market ask foreign currency forward exchange rate of USD against Brazilian Reais is as follows:

| | 2011<br>US$'000 | 2010<br>US$'000 |
|---|---|---|
| Decrease in post-tax profit for the year | 11,191 | 14,367 |

For a 5% (2010: 5%) weakening of USD against Brazilian Reais, there would be an equal and opposite impact on the profit/loss.

The sensitivity analysis is unrepresentative of the market risk as the year end exposure does not reflect the exposure during the year.

*(ii)* *Interest rate risk management*

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank borrowings which are based on LIBOR plus an applicable margin (see Note 32 for details of these borrowings). 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 minimize its exposure to interest rate risk. At 31 December 2011, the outstanding interest rate swaps have been designated as highly effective hedging instruments. The critical terms of these interest rate swaps are similar to those of hedged borrowings (see Note 34 for details). 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 deposits and bank balances.

***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 the agreed notional principal amounts. The Group's cash flow interest rate risk changed from variable-rate to fixed rate. 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 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.

# Notes to the Consolidated Financial Statements

For the Year ended 31 December 2011

## 6. FINANCIAL INSTRUMENTS (continued)

### 6b. Financial risk management objectives and policies (continued)

***Market risk management*** (continued)

*(ii) Interest rate risk management*

*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 and bank balances (2010: pledged bank deposits, bank balances, bank borrowings that are not under cash flow hedge). The analysis has been prepared assuming these financial instruments outstanding at the end of the reporting period were outstanding for the whole year.

At 31 December 2011, interest rates increased by 50 (2010: 50) basis point with all other variables held constant, the potential effect on post-tax profit for the year is as follows:

| | **2011**<br>**US$'000** | 2010<br>US$'000 |
|---|---|---|
| Increase in post-tax profit for the year | **1,645** | 1,436 |

If interest rates decreased by 50 (2010: 50) basis points with all other variables held constant, these would be an equal and opposite impact on the profit.

The sensitivity analysis is unrepresentative of the interest rate risk as the year end exposure does not reflect the exposure during the year.

***Credit risk management***

As at 31 December 2011, 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 consolidated statement 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.

## 6. FINANCIAL INSTRUMENTS (continued)

### 6b. Financial risk management objectives and policies (continued)

***Credit risk management*** (continued)

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 33% (2010: 34%) of the Group's total trade receivables as at 31 December 2011. 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 does not have any significant concentration of credit risk on other receivables.

***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 liabilities. 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 liabilities are prepared based on the contractual maturities as management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

# Notes to the Consolidated Financial Statements
For the Year ended 31 December 2011

## 6. FINANCIAL INSTRUMENTS (continued)

### 6b. Financial risk management objectives and policies (continued)

***Liquidity risk management*** (continued)

| | Weighted average effective interest rate % | 0-90 days US$'000 | 91-365 days US$'000 | 1-2 years US$'000 | 2-3 years US$'000 | Over 3 years US$'000 | Total undiscounted cash flows US$'000 | Carrying amount US$'000 |
|---|---|---|---|---|---|---|---|---|
| **At 31 December 2011** | | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | | |
| Trade and other payables | | 67,890 | — | — | — | — | 67,890 | 67,890 |
| Advance drawn on bills receivables discounted | 8.5 | 8,289 | — | — | — | — | 8,289 | 8,119 |
| Bank borrowings | | | | | | | | |
| — Fixed rate | 6.3 | 2,232 | 97,992 | 20,728 | 22,795 | 14,345 | 158,092 | 142,783 |
| — Variable rate | 4.1 | 4,405 | 120,600 | 118,241 | 113,944 | 123,721 | 480,911 | 435,590 |
| Obligations under finance leases | 18.5 | 335 | 936 | 731 | — | — | 2,002 | 1,759 |
| | | 83,151 | 219,528 | 139,700 | 136,739 | 138,066 | 717,184 | 656,141 |
| **Derivative financial liabilities** | | | | | | | | |
| Forward foreign exchange contracts | | 5,504 | 25,813 | 494 | — | — | 31,811 | 30,712 |
| Interest rate swap | | 381 | 1,033 | 1,094 | 746 | 460 | 3,714 | 3,421 |
| | | 5,885 | 26,846 | 1,588 | 746 | 460 | 35,525 | 34,133 |

| | Weighted average effective interest rate % | 0-90 days US$'000 | 91-365 days US$'000 | 1-2 years US$'000 | 2-3 years US$'000 | Over 3 years US$'000 | Total undiscounted cash flows US$'000 | Carrying amount US$'000 |
|---|---|---|---|---|---|---|---|---|
| **At 31 December 2010** | | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | | |
| Trade and other payables | | 83,349 | — | — | — | — | 83,349 | 83,349 |
| Advance drawn on bills receivables discounted | 5.2 | 39,958 | — | — | — | — | 39,958 | 39,452 |
| Bank borrowings | | | | | | | | |
| — Fixed rate | 5.6 | 1,649 | 121,360 | 4,398 | — | — | 127,407 | 120,488 |
| — Variable rate | 5.2 | 7,029 | 58,971 | 149,905 | 144,312 | 272,276 | 632,493 | 543,811 |
| Obligations under finance leases | 21.5 | 637 | 1,684 | 1,283 | 738 | — | 4,342 | 3,811 |
| | | 132,622 | 182,015 | 155,586 | 145,050 | 272,276 | 887,549 | 790,911 |

# 6. FINANCIAL INSTRUMENTS (continued)

## 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 these consolidated financial statements approximate their fair values.

***Fair value measurements recognized in the consolidated statement 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).

# Notes to the Consolidated Financial Statements

For the Year ended 31 December 2011

## 6. FINANCIAL INSTRUMENTS (continued)

### 6c. Fair value of financial instruments (continued)

***Fair value measurements recognized in the consolidated statement of financial position*** (continued)

| | Level 1<br>US$'000 | Level 2<br>US$'000 | Level 3<br>US$'000 | Total<br>US$'000 |
|---|---|---|---|---|
| **2011** | | | | |
| **Financial assets** | | | | |
| Derivative financial instruments | — | — | — | — |
| **Financial liabilities** | | | | |
| Derivative financial instruments | — | **34,133** | — | **34,133** |
| **2010** | | | | |
| **Financial assets** | | | | |
| Derivative financial instruments | — | 25,867 | — | 25,867 |
| **Financial liabilities** | | | | |
| Derivative financial instruments | — | — | — | — |

## 7. REVENUE

| | **2011**<br>**US$'000** | 2010<br>US$'000 |
|---|---|---|
| Manufacture and sales of Dissolving Wood Pulp ("DWP") ("DWP Business") | **443,525** | 605,813 |
| Manufacture and sales of Viscose Staple Fiber ("VSF") ("VSF Business") | **363,049** | 195,853 |
| Sales of paper pulp and DWP ("DP Macao Trading Business") | **—** | 121,591 |
| | **806,574** | 923,257 |

## 8. COST OF SALES

| | 2011<br>US$'000 | 2010<br>US$'000 |
|---|---|---|
| Wood | **100,353** | 109,537 |
| Pulp products | **80,218** | 111,371 |
| Chemicals | **74,602** | 59,386 |
| Conversion | **139,301** | 102,762 |
| Labor costs | **30,822** | 23,112 |
| Depreciation | **58,205** | 60,366 |
| | **483,501** | 466,534 |

## 9. 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 for the purposes of IFRS 8 as it collectively makes strategic decisions in allocating the Group's resources and assessing performance.

In previous years, the Group reported its primary segment information based on two major operating divisions as follows:

— Manufacture and sales of cellulose products
— Manufacture and sales of viscose staple fibers

During the current year, management has changed the presentation of the information provided to the Board of Directors, in order to present a more meaningful representation of its business operations, consistent with the Group's long-term business strategy, and with how performance is assessed by the Board of Directors. The Group is now organized into the following two major operating divisions, each of which represents an operating and reportable segment of the Group:

| | |
|---|---|
| DWP Business | This segment derives its revenue from selling rayon-grade pulp and specialty-grade pulp, which are manufactured by the Group, to third parties. |
| VSF Business | This segment derives its revenue from selling VSF, which are manufactured by the Group. DWP feedstock used to produce VSF is sourced internally, from related parties, and from third parties at prevailing market prices. |

# Notes to the Consolidated Financial Statements
For the Year ended 31 December 2011

## 9. SEGMENT INFORMATION (continued)

Under the revised segment presentation, profit arising from the inter-segment sales of DWP to the Group's VSF manufacturing operation is included in the VSF Business segment. Previously it was included in the DWP Business segment. In addition, sales of paper pulp and DWP by DP Marketing International Limited - Macao Commercial Offshore ("DP Macao") were previously included in "Manufacture and sale of cellulose products" segment but are now excluded from the "DWP Business" segment. Eliminations of intercompany revenue and unrealized profit are recorded within the VSF Business segment.

Information regarding the above segments is reported below. Amounts reported for the prior year have been restated to conform to the current year's basis of segmentation.

### Segment revenues and results

The following is an analysis of the Group's revenue and results by operating and reportable segments.

***For the year ended 31 December 2011***

| | DWP Business US$'000 | VSF Business US$'000 | Consolidated US$'000 |
|---|---|---|---|
| Segment revenue from external customers | 443,525 | 363,049 | 806,574 |
| Segment gross profit | 237,878 | 85,195 | 323,073 |
| Segment profit | 115,427 | 36,158 | 151,585 |
| Unallocated income | | | 9,375 |
| Unallocated expenses | | | (17,110) |
| Profit before tax | | | 143,850 |

Inter-segment sales are charged at prevailing market prices.

In the year ended 31 December 2011, the Group's VSF Business acquired 49,713 metric tons of rayon-grade pulp from DP Macao, a related party as explained in Note 43, for an average price of US$1,516 per ton.

## 9. SEGMENT INFORMATION (continued)

### Segment revenues and results (continued)

*For the year ended 31 December 2010 (Restated)*

| | DWP Business US$'000 | VSF Business US$'000 | DP Macao Trading Business US$'000 (Note) | Consolidated US$'000 |
|---|---|---|---|---|
| Segment revenue from external customers | 605,813 | 195,853 | 121,591 | 923,257 |
| Segment gross profit | 331,872 | 56,883 | 67,968 | 456,723 |
| Segment profit | 248,594 | 49,446 | 61,532 | 359,572 |
| Unallocated income | | | | 575 |
| Unallocated expenses | | | | (23,485) |
| Imputed interest expense on advance from a related party | | | | (4,316) |
| Finance costs | | | | (64) |
| Profit before tax | | | | 332,282 |

Inter-segment sales are charged at prevailing market prices.

Note: The Group disposed of DP Macao, an entity engaged in trading of paper pulp and DWP, which are not produced by the Group itself, on 30 September 2010. Management believes that in the restated segment reporting for 2010, it is more appropriate to separate out the results for DP Macao from other operating segments, since its inclusion within the DWP and VSF Business operating segments would not provide meaningful comparable data to the readers of the consolidated financial statements.

In the year ended 31 December 2010, the Group's VSF Business acquired 15,644 metric tons of rayon-grade pulp from DP Macao, for an average price of US$1,586 per ton.

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment profit represents the profit earned by each segment without allocation of other income and gains/(losses) (including primarily rental income, and certain bank interest income), imputed interest on advance from a related party, listing expenses, certain finance costs, income tax (credit)/expense and certain general and administrative expenses.

# Notes to the Consolidated Financial Statements
For the Year ended 31 December 2011

## 9. SEGMENT INFORMATION (continued)

### Segment revenues and results (continued)

Management does not provide an analysis of segment assets and liabilities to the Group's Board of Directors after the change in the operating and reportable segments in the current year, as it is not practicable or meaningful to produce such information. Evaluation of the Group's assets and liabilities is undertaken on a consolidated basis. Therefore under the terms of IFRS 8, the allocation of total assets and liabilities for each operating and reportable segment is not required to be presented.

### Other segment information

***For the year ended 31 December 2011***

| | DWP Business US$'000 | VSF Business US$'000 | Unallocated US$'000 | Consolidated US$'000 |
|---|---|---|---|---|
| Additions to non-current assets (Note) | 87,096 | 100,733 | 50 | 187,879 |
| Release of prepaid lease payments | — | 551 | — | 551 |
| Loss on disposal of property, plant and equipment | 6 | 123 | 1 | 130 |
| Depreciation of property, plant and equipment | 33,947 | 29,237 | 101 | 63,285 |
| Depreciation of investment properties | — | — | 109 | 109 |
| Decrease due to harvest | 26,585 | 10,367 | — | 36,952 |
| Amortization of intangible assets | — | — | 100 | 100 |
| Impairment losses on inventories | — | 529 | — | 529 |
| Reversal of impairment loss in respect of property, plant and equipment | — | (6,762) | — | (6,762) |
| Decrease in fair value of forestation and reforestation assets | 6,007 | 2,342 | — | 8,349 |
| Finance costs | 24,199 | 18,068 | — | 42,267 |
| Bank interest income | (383) | (1,192) | (1,098) | (2,673) |

## 9. SEGMENT INFORMATION (continued)

### Other segment information (continued)

*For the year ended 31 December 2010 (Restated)*

| | DWP Business US$'000 | VSF Business US$'000 | DP Macao Trading Business US$'000 | Unallocated US$'000 | Consolidated US$'000 |
|---|---|---|---|---|---|
| Additions to non-current assets (Note) | 62,896 | 50,446 | — | — | 113,342 |
| Release of prepaid lease payments | — | 20 | — | — | 20 |
| Loss on disposal of property, plant and equipment | 178 | 149 | — | — | 327 |
| Depreciation of property, plant and equipment | 49,665 | 16,312 | — | 101 | 66,078 |
| Depreciation of investment properties | — | — | — | 104 | 104 |
| Decrease due to harvest | 32,019 | 4,065 | — | — | 36,084 |
| Amortization of intangible assets | — | — | — | 100 | 100 |
| Impairment losses on inventories | — | 1,017 | — | — | 1,017 |
| Impairment loss in respect of other receivables | 1,572 | 200 | — | — | 1,772 |
| Recovery of loss recognized in respect of property, plant and equipment | — | (12,236) | — | — | (12,236) |
| Increase in fair value of forestation and reforestation assets | (11,273) | (1,431) | — | — | (12,704) |
| Finance costs | 23,519 | 6,379 | 1,115 | 64 | 31,077 |
| Bank interest income | (36) | (362) | — | (18) | (416) |

Note: Non-current assets exclude derivative financial instruments, 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.

# Notes to the Consolidated Financial Statements
For the Year ended 31 December 2011

## 9. SEGMENT INFORMATION (continued)

### Geographical information

The Group's customers are mainly located in the United States of America ("USA"), Brazil, the PRC, other Asian countries 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:

| | 2011<br>US$'000 | 2010<br>US$'000 |
|---|---|---|
| Americas (primarily USA and Brazil) | **118,909** | 57,776 |
| Europe (primarily the United Kingdom, Germany, Austria) | **103,797** | 73,740 |
| The PRC | **449,334** | 667,208 |
| Asia (primarily Indonesia and excluding the PRC) | **134,505** | 124,533 |
| Others | **29** | — |
| | **806,574** | 923,257 |

The Group's non-current assets by geographical location are detailed below:

| | 2011<br>US$'000 | 2010<br>US$'000 |
|---|---|---|
| Americas (primarily Brazil) | **1,247,396** | 1,230,752 |
| Europe (primarily Switzerland) | **49** | 67 |
| The PRC | **428,022** | 355,438 |
| Asia (excluding the PRC) | **37** | — |
| | **1,675,504** | 1,586,257 |

Note: Non-current assets exclude derivative financial instruments, other long-term assets and deferred tax assets.

# 9. SEGMENT INFORMATION (continued)

### Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

| | 2011<br>US$'000 | 2010<br>US$'000 |
|---|---|---|
| Customer A | 156,656 | 93,562 |
| Customer B | * | 112,545 |
| Customer C | * | 108,334 |

* The corresponding revenue did not contribute over 10% of the total sales of the Group.

Revenue from Customers A, B and C are derived from the DWP Business.

# 10. OTHER INCOME AND GAINS/(LOSSES)

| | 2011<br>US$'000 | 2010<br>US$'000 |
|---|---|---|
| Rental income | 151 | 174 |
| Bank interest income | 2,673 | 416 |
| Foreign currency exchange gain | 11,385 | 4,903 |
| Service income from a related party | — | 1,094 |
| Impairment loss in respect of other receivables | — | (1,772) |
| Donation | (5) | (4,590) |
| Loss on disposal of property, plant and equipment | (130) | (327) |
| Others | 3,149 | (387) |
| | 17,223 | (489) |

# Notes to the Consolidated Financial Statements

For the Year ended 31 December 2011

## 11. FINANCE COSTS

| | 2011<br>US$'000 | 2010<br>US$'000 |
|---|---|---|
| Interest on: | | |
| — bank borrowings wholly repayable within five years | **27,438** | 24,691 |
| — bank borrowings not wholly repayable within five years | **2,122** | 84 |
| — advance from a related party | **—** | 24 |
| — obligations under finance leases | **633** | 636 |
| | **30,193** | 25,435 |
| Other finance costs (Note) | **12,074** | 9,724 |
| Total borrowing costs | **42,267** | 35,159 |
| Less: amounts capitalized | **—** | (4,082) |
| | **42,267** | 31,077 |

Borrowing costs capitalized during the year ended 31 December 2010 arose on the general borrowing pool and are calculated by applying a capitalization rate of 5.95% per annum, to expenditure on qualifying assets.

Note: Other finance costs represent primarily the transaction cost charged by banks for discounting bills receivable, the loss on settlement of interest rate swap which was designated as hedging instrument under hedge accounting amounted to US$4,392,000 (2010: Nil) and the amortization of syndicated loan's upfront structure fee amounted to US$4,364,000 (2010: US$534,000).

## 12. INCOME TAX (CREDIT)/EXPENSE

| | 2011<br>US$'000 | 2010<br>US$'000 |
|---|---|---|
| The income tax (credit)/expense comprises: | | |
| Current tax: | | |
| — Current year | **4,323** | 9,609 |
| — Over-provision in prior year | **(843)** | — |
| | **3,480** | 9,609 |
| Deferred taxation (Note 24) | **(10,155)** | (5,417) |
| | **(6,675)** | 4,192 |

## 12. INCOME TAX (CREDIT)/EXPENSE (continued)

Pursuant to the relevant Enterprise Income Tax ("EIT") regulations of the PRC for enterprises with foreign investments and foreign enterprises in the PRC, Sateri (Jiangxi) Chemical Fibre Co. Ltd. ("Sateri Jiangxi"), one of the Company'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. That subsidiary enjoyed full tax exemption for the years 2007 and 2008, and a 50% reduction of EIT for the years 2009, 2010 and 2011.

The EIT rate of the Company's other subsidiaries in the PRC is 25% for the years 2011 and 2010.

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 Federal Government ("SUDENE") Report 0258/02 and 0182/02, the BCT on Copener Florestal Ltda.'s ("Copener"), for a subsidiary incorporated in Brazil, profit from forest plantation operations is entitled to a 12.5% reduction from 1 January 2009 to 31 December 2013. The BCT on Copener's profit from wood log processing is entitled to a 75% reduction. In 2008, Bahia Specialty Cellulose S.A. ("Bahia Specialty Cellulose"), a subsidiary incorporated in Brazil, applied and obtained approval from the SUDENE for a 75% reduction in BCT for a ten years term starting from 1 January 2009 relating to modernization of the existing production line. For the new production line which commenced production in 2008, Bahia Specialty Cellulose applied and obtained approval in 2010 from the SUDENE for a 75% reduction in BCT for a ten years term effective from 2010.

The Group's Macau subsidiary is exempted from Macau Complimentary Tax pursuant to Decree Law No. 58/99/M, Chapter 2, Article 12, dated 18 October 1999.

Pursuant to the approval letter issued by International Enterprise Singapore dated 1 December 2010, the Group's Singapore subsidiary, Specially Cellulose Marketing Pte. Ltd., is entitled to an award of the Global Trader Programme incentive, and hence it is eligible for the preferential income tax rate of 5% for the qualified incomes for two years starting from 1 January 2011.

The corporate income tax rate in Switzerland is 29.0675% (2010: 28.9725%) for the year ended 31 December 2011.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The applicable income tax rates are 16.5% (2010: 16.5%) for group entities incorporated in Hong Kong, and 17% (2010: 17%) for the group entity incorporated in Singapore for the year ended 31 December 2011.

# Notes to the Consolidated Financial Statements

For the Year ended 31 December 2011

## 12. INCOME TAX (CREDIT)/EXPENSE (continued)

The tax (credit)/expense for the year can be reconciled to the profit before tax per consolidated statement of comprehensive income as follows:

| | 2011<br>US$'000 | 2010<br>US$'000 |
|---|---|---|
| Profit before tax | **143,850** | 332,282 |
| Tax at the respective domestic income tax rates applicable to profits in the countries concerned (Note a) | **9,604** | 43,326 |
| Tax effect of expenses that are not deductible in determining taxable profit (Note b) | **10,024** | 7,046 |
| Tax effect of income that is not taxable in determining taxable profit (Note c) | **(4,742)** | (24,556) |
| Tax effect of tax losses not recognized | **2,932** | — |
| Over-provision in respect of prior year | **(843)** | — |
| Effect of tax exemption and concession granted (Note d) | **(23,650)** | (21,624) |
| Tax (credit)/expense for the year | **(6,675)** | 4,192 |

Notes:

a. The domestic income tax rate represents the rate prevailing in the jurisdictions in which each group entity principally operates.

b. Tax effect of expenses not deductible for 2011 mainly represents finance cost in respect of certain bank borrowings and fair value changes of derivative financial instruments. Tax effect of expenses not deductible for 2010 mainly represented finance cost in respect of certain bank borrowings, loan from a related party and imputed interest on advance from a related party.

c. Tax effect of income that is not taxable in 2011 mainly relates to gain on settlement of derivative financial instruments. Tax effect of income that is not taxable in 2010 mainly related to gain on settlement of derivative financial instrument and fair value changes of derivative financial instruments.

d. It arises primarily from tax exemption and concession to Copener, Bahia Specialty Cellulose, Sateri Jiangxi, and SC International Macao Commercial Offshore Limited ("SC International Macao") for 2011. It arose primarily from tax exemption and concession to Copener, Bahia Specialty Cellulose, Sateri Jiangxi, DP Macao and SC International Macao for 2010. The tax exemption and concession was granted by the appropriate competent authorities in Brazil, the PRC and Macau.

Details of deferred taxation are set out in Note 24.

## 13. PROFIT FOR THE YEAR

| | 2011<br>US$'000 | 2010<br>US$'000 |
|---|---|---|
| Profit for the year has been arrived at after charging: | | |
| Directors' remuneration (excluding retirement benefit scheme contributions and awarded shares compensation) | 1,547 | 971 |
| Other staff costs | 65,759 | 50,272 |
| Retirement benefit scheme contributions | 2,468 | 1,081 |
| Awarded shares compensation expense | 1,778 | 197 |
| Total staff costs | 71,552 | 52,521 |
| Auditor's remuneration | 1,231 | 626 |
| Amortization of intangible assets | 100 | 100 |
| Release of prepaid lease payments | 551 | 20 |
| Depreciation of property, plant and equipment | 63,285 | 66,078 |
| Depreciation of investment properties | 109 | 104 |
| Impairment loss on inventories | 529 | 1,017 |
| Cost of inventories recognized as an expense | 483,501 | 466,534 |

# Notes to the Consolidated Financial Statements

For the Year ended 31 December 2011

## 14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

***For the year ended 31 December 2011***

| | Fees US$'000 | Salaries, allowances and other benefits US$'000 | Retirement benefit scheme contributions US$'000 | Awarded shares compensation US$'000 | Total emoluments US$'000 |
|---|---|---|---|---|---|
| **Directors:** | | | | | |
| Will Hoon Wee Teng | — | 917 | 10 | 803 | 1,730 |
| Craig Edward Barker (Note) | — | 182 | — | — | 182 |
| John Jeffrey Ying | 64 | — | — | 308 | 372 |
| Rohan Seneka Weerasinghe | 64 | — | — | — | 64 |
| Jeffrey Lam Kin Fung | 64 | — | — | — | 64 |
| David Yu Hon To | 64 | — | — | — | 64 |
| Tey Wei Lin | 64 | — | — | — | 64 |
| John Seto Gin Chung | 64 | — | — | — | 64 |
| Loh Meng See | 64 | — | — | — | 64 |
| | 448 | 1,099 | 10 | 1,111 | 2,668 |

Note: Craig Edward Barker retired on 12 May 2011.

*For the year ended 31 December 2010*

| | Fees US$'000 | Salaries, allowances and other benefits US$'000 | Retirement benefit scheme contributions US$'000 | Awarded shares compensation US$'000 | Total emoluments US$'000 |
|---|---|---|---|---|---|
| **Directors:** | | | | | |
| Will Hoon Wee Teng | — | 735 | 9 | 77 | 821 |
| Craig Edward Barker | — | 192 | 90 | 4 | 286 |
| John Jeffrey Ying | 11 | — | — | 23 | 34 |
| Rohan Seneka Weerasinghe | 11 | — | — | — | 11 |
| Jeffrey Lam Kin Fung | 11 | — | — | — | 11 |
| David Yu Hon To | 11 | — | — | — | 11 |
| Tey Wei Lin | — | — | — | — | — |
| John Seto Gin Chung | — | — | — | — | — |
| Loh Meng See | — | — | — | — | — |
| | 44 | 927 | 99 | 104 | 1,174 |

## 14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

The director's fee for 2011 and 2010 was determined by a resolution passed on 28 October 2010 by the sole shareholder before the listing of the Company.

### Employees

Of the five highest paid individuals of the Group for the years, the number of directors and employees, and their emoluments, are as follows:

| | 2011 | 2010 |
|---|---|---|
| Directors | 1 | 2 |
| Employees | 4 | 3 |
| | 5 | 5 |

| | 2011<br>US$'000 | 2010<br>US$'000 |
|---|---|---|
| Basic salaries, housing allowances, other allowances and benefits in kind | 2,129 | 1,193 |
| Retirement benefit scheme contributions | 14 | 59 |
| Awarded shares compensation | 297 | 42 |
| | 2,440 | 1,294 |

# Notes to the Consolidated Financial Statements
For the Year ended 31 December 2011

## 14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

The number of these individuals whose emoluments fell within the following band is as follows:

| | 2011 | 2010 |
|---|---|---|
| **Emoluments** | | |
| HK$2,000,001 to HK$2,500,000 | — | 2 |
| HK$2,500,001 to HK$3,000,000 | — | 1 |
| HK$3,500,001 to HK$4,000,000 | 1 | — |
| HK$4,500,001 to HK$5,000,000 | 2 | 1 |
| HK$5,000,001 to HK$5,500,000 | 1 | — |
| HK$5,500,001 to HK$6,000,000 | — | 1 |
| More than HK$6,000,001 | 1 | — |
| | 5 | 5 |

During the years ended 31 December 2011 and 2010, 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 years.

## 15. DIVIDENDS

| | 2011<br>US$'000 | 2010<br>US$'000 |
|---|---|---|
| Proposed final dividend of HK2.5 cents (2010: Nil) per share | 11,000 | — |

At the board meeting held on 27 March 2012, the directors recommended a final dividend of HK2.5 cents (2010: Nil) per share for the year ended 31 December 2011. Such dividend, which will be proposed at the annual general meeting of the Company to be held on 25 May 2012, has not been recognized as liabilities in the consolidated financial statements.

## 16. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

| | 2011<br>US$'000 | 2010<br>US$'000 |
|---|---|---|
| Earnings for the purposes of basic and diluted earnings per share | | |
| Profit for the year attributable to owners of the Company | **154,713** | 323,881 |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **3,415,624,412** | 2,896,723,928 |
| Effect of dilutive potential ordinary shares: | | |
| Awarded shares compensation scheme | **3,468,637** | 827,688 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **3,419,093,049** | 2,897,551,616 |

The number of ordinary shares for the purpose of basic earnings per share for the year ended 31 December 2010 has been adjusted retrospectively assuming that the Reorganization has been effective from 1 January 2010 and accordingly, that the 2,863,496,750 ordinary shares of the Company which were in issue and outstanding immediately after the Reorganization (see Note 1) were issued and outstanding as at 1 January 2010.

## 17. FORESTATION AND REFORESTATION ASSETS

| | 2011<br>US$'000 | 2010<br>US$'000 |
|---|---|---|
| At beginning of the year | **192,192** | 177,691 |
| Additions | **41,608** | 37,881 |
| Decrease due to harvest (i.e. depletion charge) | **(37,654)** | (36,084) |
| (Decrease)/increase in fair value recognized in profit or loss | **(8,349)** | 12,704 |
| At end of the year | **187,797** | 192,192 |

Wood is the principal raw material used in producing DWP, 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 represent the costs incurred for maintaining the forest and planting new trees.

# Notes to the Consolidated Financial Statements
For the Year ended 31 December 2011

## 17. FORESTATION AND REFORESTATION ASSETS (continued)

As at 31 December 2011, the estimated mature plantations are approximately 7,400 (2010: 5,200) hectares and immature plantations are approximately 70,000 (2010: 72,000) hectares. For the year ended 31 December 2011, the wood harvested from the mature plantations is approximately 2.2 million $m^3$ (2010: 2.4 million $m^3$).

At 31 December 2011 and 2010, management of the Group adopted a discounted cash flow model in determined the fair value of forestation and reforestation assets using the prices agreed in the contracts entered into with local farmers as the reference market price for locally sourced wood in the region in Brazil in which the Group's plantation land is situated. The Group's management believes that such reference market prices obtained in this manner provide reliable inputs for the estimate of the fair value. At 31 December 2011 and 2010, the forestation and reforestation assets are stated at fair value less costs to sell of approximately US$187,797,000 (2010: US$192,192,000), with a decrease in fair value of approximately US$8,349,000 (2010: increase in fair value of US$12,704,000) recognized in profit or loss for the year. No external valuation was performed by independent qualified professional valuers as of 31 December 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% (2010: 10%) determined with reference to the market rates;

— the reference wood price of Reais ("R") $33.93 (2010: R$32.28) (equivalent to US$18.09 and US$19.33 respectively) per cubic meter, based on the prices paid under contracts entered into with local farmers during the years ended 31 December 2011 and 2010;

— the wood production rate calculated based on the planting programs during the period from 2006 to 2011;

— the wood consumption rate calculated based on the actual and estimated annual production capacity of the mills, which was 476,000 tons per year for 2011 and 485,400 for 2012 to 2017, respectively;

— the forestry maintenance costs calculated based on the average historical expenses;

— the overhead expenses calculated based on the latest budget, that is, R$10 million (equivalent to US$5.3 million) for 2011 and projected for 2012 to 2017 in a proportional manner to the volume planted annually; and

— an exchange rate between US dollars and Reais (at US$1.00 = R$1.88 as at 31 December 2011 and at US$1.00 = R$1.67 as at 31 December 2010) which is determined as of the end of the respective reporting periods conducting the valuation.

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. The SCP ceased during the year ended 31 December 2010. As at the end of both reporting periods, no forestation and reforestation assets are under this arrangement.

## 18. PROPERTY, PLANT AND EQUIPMENT

| | Freehold land US$'000 (Note i) | Buildings and leasehold improvement US$'000 | Plant and machinery US$'000 | Other tangible assets US$'000 (Note ii) | Construction in progress US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|
| **COST** | | | | | | |
| At 1 January 2010 | 32,167 | 125,255 | 1,235,675 | 20,206 | 142,138 | 1,555,441 |
| Exchange adjustments | — | 511 | 7,627 | 58 | 2,268 | 10,464 |
| Additions | 2,544 | 26 | 3,732 | 2,993 | 59,590 | 68,885 |
| Transfer | 505 | 24,098 | 124,544 | 515 | (149,662) | — |
| Disposal of a subsidiary (Note 38) | — | — | — | (47) | — | (47) |
| Disposals | — | (2,936) | (475) | (368) | — | (3,779) |
| Written off | — | — | — | — | (12,236) | (12,236) |
| At 31 December 2010 | 35,216 | 146,954 | 1,371,103 | 23,357 | 42,098 | 1,618,728 |
| Exchange adjustments | — | 2,012 | 10,584 | 116 | 835 | 13,547 |
| Additions | — | 3,430 | 6,415 | 2,340 | 113,073 | 125,258 |
| Transfer | — | 57,996 | 34,013 | 12,775 | (104,784) | — |
| Reclassified as prepaid lease payments | — | — | — | — | (1,473) | (1,473) |
| Disposals | — | (41) | (10,943) | (102) | — | (11,086) |
| **At 31 December 2011** | **35,216** | **210,351** | **1,411,172** | **38,486** | **49,749** | **1,744,974** |
| **DEPRECIATION AND IMPAIRMENT** | | | | | | |
| At 1 January 2010 | — | 12,245 | 140,361 | 6,436 | 20,013 | 179,055 |
| Exchange adjustments | — | 79 | 1,514 | 38 | 592 | 2,223 |
| Provided for the year | — | 4,886 | 54,916 | 6,276 | — | 66,078 |
| Eliminated on written off (Note iii) | — | — | — | — | (12,236) | (12,236) |
| Eliminated on disposal of a subsidiary | — | — | — | (26) | — | (26) |
| Eliminated on disposals | — | (261) | (108) | (67) | — | (436) |
| At 31 December 2010 | — | 16,949 | 196,683 | 12,657 | 8,369 | 234,658 |
| Exchange adjustments | — | 155 | 2,940 | 71 | (1,607) | 1,559 |
| Provided for the year | — | 6,875 | 61,342 | 1,745 | — | 69,962 |
| Eliminated on disposals | — | (18) | (10,298) | (93) | — | (10,409) |
| Impairment loss reversed in profit or loss (Note iii) | — | — | — | — | (6,762) | (6,762) |
| **At 31 December 2011** | **—** | **23,961** | **250,667** | **14,380** | **—** | **289,008** |
| **CARRYING VALUES** | | | | | | |
| **At 31 December 2011** | **35,216** | **186,390** | **1,160,505** | **24,106** | **49,749** | **1,455,966** |
| At 31 December 2010 | 35,216 | 130,005 | 1,174,420 | 10,700 | 33,729 | 1,384,070 |

# Notes to the Consolidated Financial Statements
For the Year ended 31 December 2011

## 18. PROPERTY, PLANT AND EQUIPMENT (continued)

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 was covered by a construction-all-risk insurance with a reputable insurance company in the PRC. As at 31 December 2010, the insurance claim had been finalized and the Group received compensation of approximately US$12,236,000 which was credited to the consolidated statement of comprehensive income in 2010. During the year ended 31 December 2011, the Company reassessed the remaining infrastructure and equipment and concluded that they can be re-used after repairing them. As a result, a reversal of impairment loss approximately US$6,762,000 was recognized in the statement of comprehensive income.

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 | Shorter of the unexpired term of the relevant lease and their estimated useful lives ranging from 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 31 December 2011 include an amount of US$9,795,000 (2010: US$11,881,000) in respect of assets held under finance leases.

At 31 December 2011, the Group has pledged buildings, plant and machinery and construction in progress having a carrying amount of approximately US$164,146,000 (2010: US$128,320,000) US$1,132,077,000 (2010: US$1,158,080,000) and US$9,315,000 (2010: US$9,416,000) respectively to secure the bank loans borrowed by the Group.

The Group has no capitalized interest expenses (2010: US$4,082,000) in construction in progress for the year ended 31 December 2011.

All the Group’s buildings are situated on the land under medium-term lease outside Hong Kong.

## 19. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

| | 2011<br>US$'000 | 2010<br>US$'000 |
|---|---|---|
| Analyzed for reporting purposes as: | | |
| Non-current assets | 29,199 | 7,340 |
| Current assets | 612 | 153 |
| | 29,811 | 7,493 |

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.

During the year ended 31 December 2011, a piece of land located in the PRC amounted to US$1,473,000 (2010: Nil) was reclassified from construction in progress to prepaid lease payments as the relevant construction was completed and the prepaid lease payments can be separately identifiable from the buildings.

As of 31 December 2011, all relevant land use rights certificates were obtained by the Group.

As of 31 December 2010, the Group was in the process of obtaining the land use rights certificates of certain pieces of land with carrying amount of US$6,576,000. The Group obtained the relevant land use rights certificates in March 2011.

At 31 December 2011, the Group has pledged certain of its prepaid lease payments having a carrying amount of approximately US$2,261,000 (2010: US$797,000) to secure the bank loans borrowed by the Group.

# Notes to the Consolidated Financial Statements

For the Year ended 31 December 2011

## 20. INVESTMENT PROPERTIES

| | US$'000 |
|---|---|
| **COST** | |
| At 1 January 2010 | 2,243 |
| Exchange adjustments | 70 |
| At 31 December 2010 | 2,313 |
| Exchange adjustments | 117 |
| At 31 December 2011 | **2,430** |
| **DEPRECIATION AND IMPAIRMENT** | |
| At 1 January 2010 | 319 |
| Exchange adjustments | 10 |
| Provided for the year | 104 |
| At 31 December 2010 | 433 |
| Exchange adjustments | 21 |
| Provided for the year | 109 |
| At 31 December 2011 | **563** |
| **CARRYING VALUES** | |
| At 31 December 2011 | **1,867** |
| At 31 December 2010 | 1,880 |

The above investment properties are located in Shanghai, the PRC and 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. No valuation had been performed by independent qualified professional valuers at 31 December 2011 and 2010. The valuations performed by the directors of the Company were arrived at by reference to recent market prices for similar properties. The fair value of the Group's investment properties estimated by the Company's directors as at 31 December 2011 was US$3,898,000 (2010: US$3,547,000). 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 31 December 2011, the property rental income earned by the Group from its leasehold property, all of which are leased out under operating leases, amounted to US$151,000 (2010: US$174,000).

All of the Group's investment properties have been pledged to secure banking facilities granted to the Group at 31 December 2011 and 2010.

## 21. INTANGIBLE ASSETS

| | Technical know-how US$'000 (Note) | Patent US$'000 | Total US$'000 |
|---|---|---|---|
| **COST** | | | |
| At 1 January 2010, 31 December 2010 and 31 December 2011 | **1,000** | **441** | **1,441** |
| **ACCUMULATED AMORTIZATION AND IMPAIRMENT** | | | |
| At 1 January 2010 | 125 | 441 | 566 |
| Charge for the year | 100 | — | 100 |
| At 31 December 2010 | 225 | 441 | 666 |
| Charge for the year | 100 | — | 100 |
| At 31 December 2011 | **325** | **441** | **766** |
| **CARRYING VALUES** | | | |
| At 31 December 2011 | **675** | **—** | **675** |
| At 31 December 2010 | 775 | — | 775 |

Note: 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 specialty cellulose in 2008.

## 22. OTHER LONG-TERM ASSETS

| | 2011 US$'000 | 2010 US$'000 |
|---|---|---|
| Tax recoverable (a) | **51,155** | 33,804 |
| Unlisted equity investment (b) | **14,133** | 10,553 |
| Deposit paid (c) | **—** | 3,020 |
| Others | **3,977** | 3,536 |
| | **69,265** | 50,913 |

# Notes to the Consolidated Financial Statements

For the Year ended 31 December 2011

## 22. OTHER LONG-TERM ASSETS (continued)

Note:

(a) The amounts represent mainly VAT 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 end of each reporting period, and are accordingly classified as non-current assets. No impairment is considered necessary by management of the Group in respect of these tax recoverable as the balances are expected to be utilized 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. The Group invested into Cetrel S.A. for strategic reason as Cetrel S.A. provide effluent treatment for Bahia Specialty Cellulose. The unlisted investment is measured at cost less impairment at 31 December 2011 and 2010 as the directors of the Company are of the opinion that the fair value cannot be measured reliably. In the opinion of the directors, no impairment loss is required for the years ended 31 December 2011 and 2010.

(c) The amount in 2010 represented the deposit paid for acquisition of a piece of land located in the PRC for the construction of a new production plant. The amount was classified as non-current asset. The deposit was transferred to prepaid lease payments as the land was acquired by the Group during the year ended 31 December 2011.

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:

| | **2011**<br>**US$'000** | 2010<br>US$'000 |
|---|---|---|
| Brazilian Reais | **69,065** | 47,615 |

## 23. POST-EMPLOYMENT BENEFIT OBLIGATIONS

The Group operates the following defined contribution retirement benefit 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 benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

## 23. POST-EMPLOYMENT BENEFIT OBLIGATIONS (continued)

### (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 consolidated statement of comprehensive income during the year ended 31 December 2011 of US$2,468,000 (2010: US$1,081,000) represent contributions to these schemes by the Group.

Under the defined contribution scheme in Brazil, forfeited contributions (by employers on behalf of employees who leave the scheme prior to vesting fully in such contributions) may be used by the employer to reduce the existing level of contributions. The amount so utilized in 2011 is Nil (2010: US$6,000), and the amount available as at 31 December 2011 for such use is US$155,000 (2010: US$54,800).

## 24. DEFERRED TAX ASSETS AND LIABILITIES

The following are the deferred tax assets/(liabilities) recognized by the Group and the movements thereon during the current and prior years:

| | Accelerated tax depreciation US$'000 | Fair value of forestation and reforestation assets US$'000 | Unrealized profit on inventories US$'000 | Provisions US$'000 | Tax losses US$'000 | Others US$'000 (Note) | Total US$'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2010 | (60,305) | (7,904) | 909 | 2,358 | 91,634 | 7,844 | 34,536 |
| (Charge)/credit to profit or loss for the year | (640) | (2,473) | (1,210) | 400 | 6,570 | 2,770 | 5,417 |
| At 31 December 2010 | (60,945) | (10,377) | (301) | 2,758 | 98,204 | 10,614 | 39,953 |
| Exchange adjustments | — | — | — | — | 50 | 93 | 143 |
| Credit/(charge) to profit or loss for the year | 10,822 | 5,255 | 3,574 | 2,225 | (1,766) | (9,955) | 10,155 |
| At 31 December 2011 | **(50,123)** | **(5,122)** | **3,273** | **4,983** | **96,488** | **752** | **50,251** |

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.

# Notes to the Consolidated Financial Statements
For the Year ended 31 December 2011

## 24. DEFERRED TAX ASSETS AND LIABILITIES (continued)

The following is an analysis of the deferred tax balances for financial reporting purposes:

| | 2011<br>US$'000 | 2010<br>US$'000 |
|---|---|---|
| Deferred tax assets | **105,496** | 111,576 |
| Deferred tax liabilities | **(55,245)** | (71,623) |
| | **50,251** | 39,953 |

At 31 December 2011, the Group has unused tax losses of approximately US$303,815,000 (2010: US$289,630,000) available for offsetting against future profits. The unused tax losses in respect of approximately US$281,843,000 (2010: US$289,630,000) have been recognized as deferred tax assets. The unused tax losses may be carried forward indefinitely.

Under the Enterprise Income Tax Law, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. The aggregate amount of temporary differences associated with undistributed earnings of the Company's PRC subsidiaries for which deferred tax liabilities have not been recognized in these consolidated financial statements amounted to approximately US$13,010,000 (2010: US$34,082,000) 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 be reversed in the foreseeable future.

## 25. INVENTORIES

| | 2011<br>US$'000 | 2010<br>US$'000 |
|---|---|---|
| Raw materials | **109,867** | 71,717 |
| Work in progress | **1,286** | 397 |
| Finished goods | **69,437** | 16,522 |
| | **180,590** | 88,636 |

## 26. TRADE, BILLS AND OTHER RECEIVABLES

The Group allows an average credit period ranging from 30 to 90 days to its customers. The ageing analysis of the Group's trade and bills receivables presented based on the invoice date at the end of the reporting period is as follows:

| | 2011<br>US$'000 | 2010<br>US$'000 |
|---|---|---|
| Trade and bills receivables: | | |
| 0–60 days | **82,743** | 74,123 |
| 61–90 days | **1,429** | 1,761 |
| 91–180 days | **23,156** | — |
| Over 180 days | **1,569** | — |
| | **108,897** | 75,884 |
| Other receivables: | | |
| Prepayments | **5,415** | 2,321 |
| Deposits paid | **14** | 22 |
| Advance to suppliers | **12,320** | 20,888 |
| VAT recoverable | **25,936** | 11,074 |
| Others | **2,422** | 304 |
| | **46,107** | 34,609 |
| Less: Impairment loss recognized in respect of other receivables | **(1,772)** | (1,772) |
| | **44,335** | 32,837 |
| Amount due from a related party (Note) | **—** | 15 |
| Total trade, bills and other receivables | **153,232** | 108,736 |

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 and bills receivables that are neither past due or impaired have the good credit rating and/or good repayment history for the years ended 31 December 2011 and 2010.

# Notes to the Consolidated Financial Statements

For the Year ended 31 December 2011

## 26. TRADE, BILLS AND OTHER RECEIVABLES (continued)

Movement in the allowance for doubtful debts

| | 2011 US$'000 | 2010 US$'000 |
|---|---|---|
| 1 January | **1,772** | — |
| Impairment losses recognized on other receivables | **—** | 1,772 |
| 31 December | **1,772** | 1,772 |

The allowance for doubtful debts is related to the advance to a construction supplier of US$1,772,000 (2010: US$1,772,000) which is currently under severe financial difficulties. The Group does not hold any collateral over the balance.

The Group's trade, bills and other receivables that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

| | 2011 US$'000 | 2010 US$'000 |
|---|---|---|
| Brazilian Reais | **20,829** | 9,303 |
| USD | **4,383** | 9,781 |

Note:

Detail of amount due from a related party is as follows:

| | | | Maximum outstanding amount during the year | |
|---|---|---|---|---|
| | 2011 US$'000 | 2010 US$'000 | 2011 US$'000 | 2010 US$'000 |
| Averis Sdn. Bhd. | **—** | 15 | **15** | 19 |

The balance is trade in nature, unsecured and non-interest bearing. The Company is beneficially owned and controlled by the Major Shareholder.

## 27. BILLS RECEIVABLES DISCOUNTED/ADVANCE DRAWN ON BILLS RECEIVABLES DISCOUNTED

At 31 December 2011, the bills receivables discounted amounting to approximately US$8,119,000 (2010: US$39,452,000) are due for collection within the next six months. The weighted average effective interest rate for bills receivables discounted was 8.5% (2010: 5.2%) per annum for the year ended 31 December 2011. 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 180 days and had been fully settled in the next financial year.

## 28. DERIVATIVE FINANCIAL INSTRUMENTS

### Financial (liabilities)/assets

| | 2011<br>US$'000 | 2010<br>US$'000 |
|---|---|---|
| Fair value: | | |
| — Forward foreign exchange contracts | (30,712) | 21,521 |
| — Interest rate swaps | (3,421) | 4,346 |
| | (34,133) | 25,867 |
| Analyzed as: | | |
| Current assets | — | 21,521 |
| Current liabilities | (30,712) | — |
| Non-current assets | — | 4,346 |
| Non-current liabilities | (3,421) | — |
| Total | (34,133) | 25,867 |

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 also enters into interest rate swaps to swap its exposure to interest rate risk on bank borrowings from variable-rate of interest to fixed-rate of interest. The interest rate swaps for the year ended 31 December 2011 and 2010 were designated as highly effective hedging instruments. Details of interest rate swaps designated as highly effective hedging instruments are set out in Note 34. The instruments purchased are primarily denominated in the currencies of the Group's principal markets.

# Notes to the Consolidated Financial Statements

For the Year ended 31 December 2011

## 28. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

For the year ended 31 December 2011, the change in fair value of the Group's outstanding forward foreign exchange contracts are estimated to be a net loss of US$30,712,000 (2010: a net gain of US$21,521,000), 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. Fair value of interest rate swaps which are designated as hedging instruments in cash flow hedging relationship, 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.

For the year ended 31 December 2011, a gain on settlement of derivative financial instruments of approximately US$12,161,000 (2010: US$5,392,000), arising on forward foreign exchange contracts not designated as hedging instruments has been recognized in the consolidated statement of comprehensive income. In 2010, certain of the Group's derivative transactions were entered into between the Group and the related parties, details are disclosed in Note 43.

### Forward foreign exchange contracts

At 31 December 2011, the details of outstanding forward foreign exchange contracts which the Group is committed are as follows:

| Buy | Sell | Notional amount US$ | Maturity | Contracted exchange rate (per US$1) |
|---|---|---|---|---|
| Brazilian Reais | USD | 22,177,000 | 6 January 2012 to 31 January 2012 | Reais1.6775 to 1.8300 |
| Brazilian Reais | USD | 22,177,000 | 6 February 2012 to 29 February 2012 | Reais1.6775 to 1.8300 |
| Brazilian Reais | USD | 22,177,000 | 6 March 2012 to 30 March 2012 | Reais1.6775 to 1.8300 |
| Brazilian Reais | USD | 22,024,000 | 9 April 2012 to 30 April 2012 | Reais1.6775 to 1.7250 |
| Brazilian Reais | USD | 22,024,000 | 7 May 2012 to 31 May 2012 | Reais1.6775 to 1.7500 |
| Brazilian Reais | USD | 22,024,000 | 6 June 2012 to 29 June 2012 | Reais1.6775 to 1.7500 |
| Brazilian Reais | USD | 22,024,000 | 6 July 2012 to 31 July 2012 | Reais1.6775 to 1.7500 |
| Brazilian Reais | USD | 22,024,000 | 6 August 2012 to 31 August 2012 | Reais1.6775 to 1.7500 |
| Brazilian Reais | USD | 22,024,000 | 6 September 2012 to 28 September 2012 | Reais1.6775 to 1.7500 |
| Brazilian Reais | USD | 22,024,000 | 5 October 2012 to 31 October 2012 | Reais1.6775 to 1.7500 |
| Brazilian Reais | USD | 22,024,000 | 6 November 2012 to 30 November 2012 | Reais1.6775 to 1.7500 |
| Brazilian Reais | USD | 22,024,000 | 6 December 2012 to 30 December 2012 | Reais1.6775 to 1.7500 |

## 28. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

At 31 December 2010, the details of outstanding forward foreign exchange contracts to which the Group is committed are as follows:

| Buy | Sell | Notional amount US$ | Maturity | Contracted exchange rate (per US$1) |
|---|---|---|---|---|
| Brazilian Reais | USD | 23,487,000 | 7 January 2011 to 31 January 2011 | Reais1.7900 to 2.0100 |
| Brazilian Reais | USD | 23,487,000 | 2 February 2011 to 28 February 2011 | Reais1.7900 to 2.0100 |
| Brazilian Reais | USD | 23,487,000 | 3 March 2011 to 30 March 2011 | Reais1.7900 to 2.0100 |
| Brazilian Reais | USD | 23,488,000 | 6 April 2011 to 28 April 2011 | Reais1.7900 to 2.0100 |
| Brazilian Reais | USD | 23,488,000 | 5 May 2011 to 31 May 2011 | Reais1.7900 to 2.0100 |
| Brazilian Reais | USD | 23,463,000 | 3 June 2011 to 29 June 2011 | Reais1.7900 to 2.0100 |
| Brazilian Reais | USD | 23,447,000 | 6 July 2011 to 29 July 2011 | Reais1.7900 to 2.0500 |
| Brazilian Reais | USD | 23,447,000 | 3 August 2011 to 30 August 2011 | Reais1.7900 to 2.0500 |
| Brazilian Reais | USD | 23,447,000 | 8 September 2011 to 29 September 2011 | Reais1.7900 to 2.0500 |
| Brazilian Reais | USD | 23,782,000 | 6 October 2011 to 31 October 2011 | Reais1.7900 to 1.9500 |
| Brazilian Reais | USD | 23,782,000 | 4 November 2011 to 29 November 2011 | Reais1.7900 to 1.9500 |
| Brazilian Reais | USD | 23,782,000 | 5 December 2011 to 29 December 2011 | Reais1.7900 to 1.9500 |

# Notes to the Consolidated Financial Statements

For the Year ended 31 December 2011

## 29. PLEDGED BANK DEPOSITS

The pledged bank deposits represent bank deposits pledged to banks to secure short-term banking facilities granted to the Group and carry interest at the following rates:

| | 2011 | 2010 |
|---|---|---|
| Interest rates per annum | 0.36%–0.5% | 0.36% |

## 30. BANK BALANCES AND CASH

Bank balances of the Group carry interest at market rates which are as follows:

| | 2011 | 2010 |
|---|---|---|
| Interest rates per annum | 0.1%–10.64% | 0.25%–10.13% |

The Group's bank balances and cash that are not denominated in the functional currencies of the relevant group entities are as follows:

| | 2011<br>US$'000 | 2010<br>US$'000 |
|---|---|---|
| Renminbi | 117,307 | — |
| Brazilian Reais | 30,445 | 6,618 |
| USD | 3,798 | 429 |
| Euro | 2,228 | — |
| HKD | 473 | 178,186 |
| Singapore dollars | 340 | — |
| MOP | 269 | 12 |

## 31. 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.

| | 2011<br>US$'000 | 2010<br>US$'000 |
|---|---|---|
| Trade payables: | | |
| 0–90 days | **43,023** | 42,195 |
| 91–180 days | **56** | — |
| Over 180 days | **1,177** | — |
| | **44,256** | 42,195 |
| Other payables: | | |
| Accruals and others | **40,852** | 55,311 |
| Advance from customers | **11,753** | 7,416 |
| Construction payable | **7,621** | 19,699 |
| Other taxes payable (Note i) | **2,556** | 1,948 |
| Provisions (Note ii) | **13,523** | 8,112 |
| | **76,305** | 92,486 |
| Amounts due to related companies (Note iii) | **16,013** | 21,455 |
| | **136,574** | 156,136 |

Notes:

(i) Other taxes payable comprise miscellaneous taxes including stamp duty, construction taxes and others.

(ii) Provisions

| | US$'000 |
|---|---|
| At 1 January 2010 | 6,935 |
| Addition for the year | 3,619 |
| Utilization of provision | (2,442) |
| At 31 December 2010 | 8,112 |
| Addition for the year | 5,411 |
| At 31 December 2011 | **13,523** |

# Notes to the Consolidated Financial Statements

For the Year ended 31 December 2011

## 31. TRADE AND OTHER PAYABLES (continued)

Notes: (continued)

(ii) Provisions (continued)

The provisions represent the Group's liabilities for probable losses on civil, labour 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 a party to certain lawsuits and administrative proceedings in the amount of approximately US$25,679,000 (2010: US$30,881,000), which in accordance with the opinion of the Group's legal advisors, are considered as possible but not probable future losses, including a labour related case concerning Bahia Specialty Cellulose's labour union in the amount of US$5,999,000 in 2010 and the case was settled in 2011. No provision has been made in these consolidated financial statements for these possible losses.

(iii) Details of amounts due to related parties are as follows:

| | 2011 US$'000 | 2010 US$'000 |
|---|---|---|
| DP Macao | **13,951** | 20,890 |
| Averis Sdn. Bhd. | **1,172** | 565 |
| Pec-Tech Engineering and Consulting (Suzhou) Co., Ltd. | **890** | — |
| | **16,013** | 21,455 |

All balances are trade in nature and have a credit term of 30 to 90 days. These amounts are unsecured and non-interest bearing.

In 2010, the Group had advanced an amount of approximately US$205,610,000 to RGE Inc., a company controlled by the Major Shareholder. The amount was subsequently settled through a netting and novation arrangement. Details are set out in Note 42(b).

These companies are beneficially owned and controlled by the Major Shareholder.

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:

| | 2011 US$'000 | 2010 US$'000 |
|---|---|---|
| Brazilian Reais | **52,219** | 61,528 |
| USD | **573** | 3,278 |

## 32. BANK BORROWINGS

| | 2011<br>US$'000 | 2010<br>US$'000 |
|---|---|---|
| Bank borrowings: | | |
| Secured | **569,873** | 584,699 |
| Unsecured | **8,500** | 79,600 |
| | **578,373** | 664,299 |
| Fixed rate | **142,783** | 120,488 |
| Variable rate | **435,590** | 543,811 |
| | **578,373** | 664,299 |
| Carrying amount repayable: | | |
| Within one year | **198,403** | 153,816 |
| More than one year but not more than two years | **122,230** | 127,531 |
| More than two years but not more than five years | **257,740** | 368,670 |
| More than five years | **—** | 14,282 |
| | **578,373** | 664,299 |
| Less: Amount due within one year shown under current liabilities | **(198,403)** | (153,816) |
| Amounts shown under non-current liabilities | **379,970** | 510,483 |

The Group's borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

| | 2011<br>US$'000 | 2010<br>US$'000 |
|---|---|---|
| USD | **41,440** | 11,829 |
| Brazilian Reais | **8,500** | — |

# Notes to the Consolidated Financial Statements

For the Year ended 31 December 2011

## 32. BANK BORROWINGS (continued)

The weighted average effective interest rates per annum were as follows:

| | 2011 | 2010 |
|---|---|---|
| Bank borrowings | 4.7% | 5.3% |

In November 2010, SC International Macao, a wholly-owned subsidiary of the Company entered into a US$470 million syndicated loan as the borrower which was arranged by internationally recognized financial institutions which is guaranteed by Bahia Specialty Cellulose and DP Marketing International Limited, both are subsidiaries of the Company. 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 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 syndicated loan are based on the LIBOR plus an applicable margin. The weighted average effective interest rate in 2011 is 5.1% (2010: 5.1%). The net proceeds from this syndicated loan were used to refinance the funding provided for the expansion of the Group's Bahia Specialty Cellulose mill. The balance outstanding as at 31 December 2011 amounted to approximately US$435,590,000 (2010: US$458,026,000), net of loan raising cost, and the repayment commenced on August 2011 in quarterly instalments and will be fully repaid in November 2017.

As at 31 December 2011, the Group's bank borrowings other than the syndicated loan mentioned in the preceding paragraph, comprise secured loans of US$134,283,000 (2010: US$126,673,000) and unsecured loans of US$8,500,000 (2010: US$79,600,000). They are repayable within one year from the end of the reporting period except for loans of US$51,580,000 (2010: US$75,891,000), of which the repayment is scheduled to commence from 2012 and end 2015. Except for the fixed-rate bank borrowings of US$142,783,000 (2010: US$120,488,000), all the loans bear interest determined based on the prevailing short-term market interest rates in the respective countries in which the subsidiaries operate.

## 33. OBLIGATIONS UNDER FINANCE LEASES

It is the Group's policy to lease certain of its machinery and equipment under finance leases. The average lease term was 3 years (2010: 3 years). Interest rates underlying all obligations under finance leases were fixed at respective contract dates ranging from 16.62% to 18.54% (2010: 10.35% to 21.51%) per annum. These leases had no terms of renewal or purchase options and escalation clauses.

## 33. OBLIGATIONS UNDER FINANCE LEASES (continued)

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **US$'000** | US$'000 | **US$'000** | US$'000 |
| Amounts payable under finance leases | | | | |
| Within one year | **1,271** | 2,321 | **1,170** | 2,165 |
| In more than one year but not more than two years | **731** | 1,283 | **589** | 1,079 |
| In more than two years but not more than three years | **—** | 738 | **—** | 567 |
| | **2,002** | 4,342 | **1,759** | 3,811 |
| Less: Future finance charges | **(243)** | (531) | **N/A** | N/A |
| Present value of lease obligations | **1,759** | 3,811 | **1,759** | 3,811 |
| Less: Amount due for settlement with one year (shown under current liabilities) | | | **(1,170)** | (2,165) |
| Amount due for settlement after one year | | | **589** | 1,646 |

Financial lease obligations are denominated in Brazilian Reais, foreign currency of the relevant group entities.

## 34. OTHER FINANCIAL ASSETS/LIABILITIES

### Cash flow hedges

As at the end of each reporting period, the Group had the following interest rate swaps designated as highly effective hedging instruments in order to minimize its exposure to interest rate risk on bank borrowing.

The terms of the interest rate swaps have been negotiated to match the terms of the respective designated hedged item.

At 31 December 2011, the major terms of the interest rate swaps with notional amount of US$443,200,000 (2010: US$470,000,000) is settled every three months start from 10 February 2011 and expire on 13 November 2017, which match the amount and repayment period of the syndicated loan as disclosed in Note 32.

# Notes to the Consolidated Financial Statements

For the Year ended 31 December 2011

## 34. OTHER FINANCIAL ASSETS/LIABILITIES (continued)

### Cash flow hedges (continued)

Major terms of these contracts are as follows:

***31 December 2011***

| Notional amount US$ | Interest reset date | Contracted fixed interest rate |
|---|---|---|
| 443,200,000 | 10 February 2012 | USD3-month LIBOR to 1.170% and 1.550% p.a. |
| 416,400,000 | 10 May 2012 | USD3-month LIBOR to 1.170% and 1.550% p.a. |
| 389,600,000 | 10 August 2012 | USD3-month LIBOR to 1.170% and 1.550% p.a. |
| 362,800,000 | 13 November 2012 | USD3-month LIBOR to 1.170% and 1.550% p.a. |
| 336,000,000 | 13 February 2013 | USD3-month LIBOR to 1.170% and 1.550% p.a. |
| 309,200,000 | 10 May 2013 | USD3-month LIBOR to 1.170% and 1.550% p.a. |
| 282,400,000 | 12 August 2013 | USD3-month LIBOR to 1.170% and 1.550% p.a. |
| 255,600,000 | 12 November 2013 | USD3-month LIBOR to 1.170% and 1.550% p.a. |
| 228,800,000 | 10 February 2014 | USD3-month LIBOR to 1.170% and 1.550% p.a. |
| 202,000,000 | 12 May 2014 | USD3-month LIBOR to 1.170% and 1.550% p.a. |
| 175,200,000 | 11 August 2014 | USD3-month LIBOR to 1.170% and 1.550% p.a. |
| 148,400,000 | 10 November 2014 | USD3-month LIBOR to 1.170% and 1.550% p.a. |
| 121,600,000 | 10 February 2015 | USD3-month LIBOR to 1.170% and 1.550% p.a. |
| 94,800,000 | 11 May 2015 | USD3-month LIBOR to 1.170% and 1.550% p.a. |
| 68,000,000 | 10 August 2015 | USD3-month LIBOR to 1.170% and 1.550% p.a. |
| 41,190,000 | 10 November 2015 | USD3-month LIBOR to 1.170% and 1.550% p.a. |
| 14,400,000 | 10 February 2016 | USD3-month LIBOR to 1.550% p.a. |
| 12,600,000 | 10 May 2016 | USD3-month LIBOR to 1.550% p.a. |
| 10,800,000 | 10 August 2016 | USD3-month LIBOR to 1.550% p.a. |
| 9,000,000 | 10 November 2016 | USD3-month LIBOR to 1.550% p.a. |
| 7,200,000 | 10 February 2017 | USD3-month LIBOR to 1.550% p.a. |
| 5,400,000 | 10 May 2017 | USD3-month LIBOR to 1.550% p.a. |
| 3,600,000 | 10 August 2017 | USD3-month LIBOR to 1.550% p.a. |
| 1,800,000 | 13 November 2017 | USD3-month LIBOR to 1.550% p.a. |

## 34. OTHER FINANCIAL ASSETS/LIABILITIES (continued)

### Cash flow hedges (continued)

*31 December 2010*

| Notional amount US$ | Interest reset date | Contracted fixed interest rate |
|---:|---|---|
| 470,000,000 | 10 February 2011 | USD3-month LIBOR to 1.170% and 1.550% p.a. |
| 470,000,000 | 10 May 2011 | USD3-month LIBOR to 1.170% and 1.550% p.a. |
| 470,000,000 | 10 August 2011 | USD3-month LIBOR to 1.170% and 1.550% p.a. |
| 470,000,000 | 10 November 2011 | USD3-month LIBOR to 1.170% and 1.550% p.a. |
| 443,200,000 | 10 February 2012 | USD3-month LIBOR to 1.170% and 1.550% p.a. |
| 416,400,000 | 10 May 2012 | USD3-month LIBOR to 1.170% and 1.550% p.a. |
| 389,600,000 | 10 August 2012 | USD3-month LIBOR to 1.170% and 1.550% p.a. |
| 362,800,000 | 13 November 2012 | USD3-month LIBOR to 1.170% and 1.550% p.a. |
| 336,000,000 | 13 February 2013 | USD3-month LIBOR to 1.170% and 1.550% p.a. |
| 309,200,000 | 10 May 2013 | USD3-month LIBOR to 1.170% and 1.550% p.a. |
| 282,400,000 | 12 August 2013 | USD3-month LIBOR to 1.170% and 1.550% p.a. |
| 255,600,000 | 12 November 2013 | USD3-month LIBOR to 1.170% and 1.550% p.a. |
| 228,800,000 | 10 February 2014 | USD3-month LIBOR to 1.170% and 1.550% p.a. |
| 202,000,000 | 12 May 2014 | USD3-month LIBOR to 1.170% and 1.550% p.a. |
| 175,200,000 | 11 August 2014 | USD3-month LIBOR to 1.170% and 1.550% p.a. |
| 148,400,000 | 10 November 2014 | USD3-month LIBOR to 1.170% and 1.550% p.a. |
| 121,600,000 | 10 February 2015 | USD3-month LIBOR to 1.170% and 1.550% p.a. |
| 94,800,000 | 11 May 2015 | USD3-month LIBOR to 1.170% and 1.550% p.a. |
| 68,000,000 | 10 August 2015 | USD3-month LIBOR to 1.170% and 1.550% p.a. |
| 41,190,000 | 10 November 2015 | USD3-month LIBOR to 1.170% and 1.550% p.a. |
| 14,400,000 | 10 February 2016 | USD3-month LIBOR to 1.550% p.a. |
| 12,600,000 | 10 May 2016 | USD3-month LIBOR to 1.550% p.a. |
| 10,800,000 | 10 August 2016 | USD3-month LIBOR to 1.550% p.a. |
| 9,000,000 | 10 November 2016 | USD3-month LIBOR to 1.550% p.a. |
| 7,200,000 | 10 February 2017 | USD3-month LIBOR to 1.550% p.a. |
| 5,400,000 | 10 May 2017 | USD3-month LIBOR to 1.550% p.a. |
| 3,600,000 | 10 August 2017 | USD3-month LIBOR to 1.550% p.a. |
| 1,800,000 | 13 November 2017 | USD3-month LIBOR to 1.550% p.a. |

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.

As at 31 December 2011, the decrease in fair value of US$7,767,000 (2010: increase in fair value of US$4,346,000) have been recognized in other comprehensive income and accumulated in equity and are expected to be released to the consolidated statement of comprehensive income at the time when the hedged transaction occurs.

# Notes to the Consolidated Financial Statements

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## 35. SHARE CAPITAL OF THE COMPANY

| | Number of shares | Amounts US$'000 |
|---|---|---|
| **Authorized:** | | |
| At 8 June 2010, date of incorporation (Note i) (@US$1.00 each) | 10,000 | 10 |
| Increase in authorized share capital (Note ii) | 749,990,000 | 749,990 |
| Shares subdivision (Note ii) | 14,250,000,000 | — |
| At 31 December 2010 and 2011 (@US$0.05 each) | 15,000,000,000 | 750,000 |
| **Issued and fully paid:** | | |
| At June 8, 2010, date of incorporation (Note i) (@US$1.00 each) | 100 | — |
| Shares subdivision (Note ii) | 1,900 | — |
| | 2,000 | — |
| Issued pursuant to the Reorganization (Note iii) | 2,863,494,750 | 143,174 |
| Public issue (Note iv) | 505,330,000 | 25,267 |
| At 31 December 2010 (@US$0.05 each) | 3,368,826,750 | 168,441 |
| Issue of new shares (Note v) | 47,055,500 | 2,353 |
| At 31 December 2011 (@US$0.05 each) | 3,415,882,250 | 170,794 |

Notes:

(i) The Company was incorporated 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.

(ii) Pursuant to a resolution passed by the sole shareholder of the Company on 8 November 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.

(iii) On 23 November 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.

## 35. SHARE CAPITAL OF THE COMPANY (continued)

Notes: (continued)

(iv) On 8 December 2010, the Company issued 505,330,000 shares pursuant to the Company's initial public offering at a price of HK$6.60 per share upon the listing of the shares of the Company on the Stock Exchange. The new shares allotted and issued rank pari passu in all respects with other shares in issue.

(v) On 3 January 2011, the over-allotment shares of 47,055,500 were allotted and issued by the Company at HK$6.60 per share. The Company received net proceeds of approximately US$38 million (equivalent to approximately HK$300 million) from this over-allotment shares, after deduction of share issue cost payable by the Company.

## 36. SHARE-BASED PAYMENT TRANSACTIONS

### Share option scheme

The Company's share option scheme (the "Scheme"), was approved and adopted by the sole shareholder on 8 November 2010 for the primary purpose of attracting 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 the Company.

Under the Scheme, the Board of Directors of the Company may, at its discretion, grant options pursuant to the Scheme to the directors of the Company (including executive directors, non-executive directors and independent non-executive directors), the directors of its 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").

The total numbers of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital must be approved in advance by the Company's shareholders.

The Scheme shall be valid and effective for a period of 10 years commencing on 8 November 2010. Options granted during the life of the Scheme shall continue to be exercisable in accordance with their terms of grant after the end of the term. The exercise price is determined by the directors of the Company, and will not be less than the highest of (i) the closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant, which must be a business day; (ii) 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 (iii) the nominal value of the Company's shares.

During the years ended 31 December 2011 and 2010, there were no options granted under the Scheme by the Company.

# Notes to the Consolidated Financial Statements
For the Year ended 31 December 2011

## 36. SHARE-BASED PAYMENT TRANSACTIONS (continued)

### Pre-IPO Restricted Share Unit ("RSU") Scheme ("Pre-IPO RSU Scheme")

The Pre-IPO RSU Scheme was approved and adopted by the sole shareholder on 8 November 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 the Company to subscribe for new shares.

The purpose of the Pre-IPO RSU Scheme is to attract skilled and experienced personnel, to incentivize participants 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 the Company.

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.

The Company appointed a professional trustee (the "RSU Trustee") to assist with the administration and vesting of RSUs granted pursuant to the Pre-IPO RSU Scheme. The 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. The 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.

The principal terms of the Pre-IPO RSU Scheme are substantially the same as the terms of the Post-IPO RSU Scheme (as described below), 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.

As of the end of the reporting period, RSUs were granted pursuant to the Pre-IPO RSU Scheme to certain directors, senior management and employees of the Group ("Grantees") 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 31 December 2010, RSUs in respect of an aggregate of 8,165,026 new shares had been granted to 18 Grantees pursuant to the Pre-IPO RSU Scheme on 25 November 2010, of which three of the Grantees are directors.

During the year ended 31 December 2011, an aggregate 2,465,517 RSUs granted under Pre-IPO RSU Scheme were forfeited due to resignation of the grantees and no RSUs were exercised and lapsed during the year.

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 the date of grant.

## 36. SHARE-BASED PAYMENT TRANSACTIONS (continued)

### Pre-IPO Restricted Share Unit ("RSU") Scheme ("Pre-IPO RSU Scheme") (continued)

Details of the total movements during the year of the RSUs granted pursuant to the Pre-IPO RSU Scheme to the directors and employees are set out below:

***For the year ended 31 December 2011***

| Grantees | Date of grant | Vesting period | Balance as at 1 January 2011 | Granted during the year | Vested during the year | Forfeited during the year | Expired during the year | Balance as at 31 December 2011 |
|---|---|---|---|---|---|---|---|---|
| Director: | | | | | | | | |
| John Jeffrey Ying | 25 November 2010 | 25 November 2010 – 15 February 2012 | 288,177 | — | — | — | — | 288,177 |
| | 25 November 2010 | 25 November 2010 – 15 February 2013 | 288,177 | — | — | — | — | 288,177 |
| | 25 November 2010 | 25 November 2010 – 15 February 2014 | 384,237 | — | — | — | — | 384,237 |
| Will Hoon Wee Teng | 25 November 2010 | 25 November 2010 – 15 February 2012 | 480,296 | — | — | — | — | 480,296 |
| | 25 November 2010 | 25 November 2010 – 15 February 2013 | 480,296 | — | — | — | — | 480,296 |
| | 25 November 2010 | 25 November 2010 – 15 February 2014 | 640,393 | — | — | — | — | 640,393 |
| | 25 November 2010 | 25 November 2010 – 15 February 2015 | 640,393 | — | — | — | — | 640,393 |
| | 25 November 2010 | 25 November 2010 – 15 February 2016 | 960,592 | — | — | — | — | 960,592 |
| Craig Edward Barker | 25 November 2010 | 25 November 2010 – 15 February 2012 | 25,616 | — | — | (25,616) | — | — |
| | 25 November 2010 | 25 November 2010 – 15 February 2013 | 38,424 | — | — | (38,424) | — | — |
| | 25 November 2010 | 25 November 2010 – 15 February 2014 | 64,039 | — | — | (64,039) | — | — |
| | | | 4,290,640 | — | — | (128,079) | — | 4,162,561 |

# Notes to the Consolidated Financial Statements

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## 36. SHARE-BASED PAYMENT TRANSACTIONS (continued)

### Pre-IPO Restricted Share Unit ("RSU") Scheme ("Pre-IPO RSU Scheme") (continued)

***For the year ended 31 December 2011*** (continued)

| Grantees | Date of grant | Vesting period | Balance as at 1 January 2011 | Granted during the year | Vested during the year | Forfeited during the year | Expired during the year | Balance as at 31 December 2011 |
|---|---|---|---|---|---|---|---|---|
| Employees: | 25 November 2010 | 25 November 2010 – 15 February 2012 | 614,781 | — | — | (307,390) | — | 307,391 |
| | 25 November 2010 | 25 November 2010 – 15 February 2013 | 842,122 | — | — | (381,036) | — | 461,086 |
| | 25 November 2010 | 25 November 2010 – 15 February 2014 | 1,456,893 | — | — | (688,422) | — | 768,471 |
| | 25 November 2010 | 25 November 2010 – 15 February 2015 | 320,197 | — | — | (320,197) | — | — |
| | 25 November 2010 | 25 November 2010 – 15 February 2016 | 640,393 | — | — | (640,393) | — | — |
| | | | 3,874,386 | — | — | (2,337,438) | — | 1,536,948 |
| Total | | | 8,165,026 | — | — | (2,465,517) | — | 5,699,509 |

The fair values of the RSUs are based on the fair value at grant date, they are ranged from US$0.54 to US$0.71 per share.

## 36. SHARE-BASED PAYMENT TRANSACTIONS (continued)

### Pre-IPO Restricted Share Unit ("RSU") Scheme ("Pre-IPO RSU Scheme") (continued)

*For the year ended 31 December 2010*

| Grantees | Date of grant | Vesting period | Balance as at 1 January 2010 | Granted during the year | Vested during the year | Forfeited during the year | Expired during the year | Balance as at 31 December 2010 |
|---|---|---|---|---|---|---|---|---|
| Director: | | | | | | | | |
| John Jeffrey Ying | 25 November 2010 | 25 November 2010 – 15 February 2012 | — | 288,177 | — | — | — | 288,177 |
| | 25 November 2010 | 25 November 2010 – 15 February 2013 | — | 288,177 | — | — | — | 288,177 |
| | 25 November 2010 | 25 November 2010 – 15 February 2014 | — | 384,237 | — | — | — | 384,237 |
| Will Hoon Wee Teng | 25 November 2010 | 25 November 2010 – 15 February 2012 | — | 480,296 | — | — | — | 480,296 |
| | 25 November 2010 | 25 November 2010 – 15 February 2013 | — | 480,296 | — | — | — | 480,296 |
| | 25 November 2010 | 25 November 2010 – 15 February 2014 | — | 640,393 | — | — | — | 640,393 |
| | 25 November 2010 | 25 November 2010 – 15 February 2015 | — | 640,393 | — | — | — | 640,393 |
| | 25 November 2010 | 25 November 2010 – 15 February 2016 | — | 960,592 | — | — | — | 960,592 |
| Craig Edward Barker | 25 November 2010 | 25 November 2010 – 15 February 2012 | — | 25,616 | — | — | — | 25,616 |
| | 25 November 2010 | 25 November 2010 – 15 February 2013 | — | 38,424 | — | — | — | 38,424 |
| | 25 November 2010 | 25 November 2010 – 15 February 2014 | — | 64,039 | — | — | — | 64,039 |
| | | | — | 4,290,640 | — | — | — | 4,290,640 |

# Notes to the Consolidated Financial Statements

For the Year ended 31 December 2011

## 36. SHARE-BASED PAYMENT TRANSACTIONS (continued)

### Pre-IPO Restricted Share Unit ("RSU") Scheme ("Pre-IPO RSU Scheme") (continued)

*For the year ended 31 December 2010* (continued)

| Grantees | Date of grant | Vesting period | Balance as at 1 January 2010 | Granted during the year | Vested during the year | Forfeited during the year | Expired during the year | Balance as at 31 December 2010 |
|---|---|---|---|---|---|---|---|---|
| Employees: | 25 November 2010 | 25 November 2010 – 15 February 2012 | — | 614,781 | — | — | — | 614,781 |
| | 25 November 2010 | 25 November 2010 – 15 February 2013 | — | 842,122 | — | — | — | 842,122 |
| | 25 November 2010 | 25 November 2010 – 15 February 2014 | — | 1,456,893 | — | — | — | 1,456,893 |
| | 25 November 2010 | 25 November 2010 – 15 February 2015 | — | 320,197 | — | — | — | 320,197 |
| | 25 November 2010 | 25 November 2010 – 15 February 2016 | — | 640,393 | — | — | — | 640,393 |
| | | | — | 3,874,386 | — | — | — | 3,874,386 |
| Total | | | — | 8,165,026 | — | — | — | 8,165,026 |

The fair values of the RSUs are based on the fair value at grant date, they are ranged from US$0.54 to US$0.71 per share.

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 fair values were calculated using The Black-Scholes pricing model.

## 36. SHARE-BASED PAYMENT TRANSACTIONS (continued)

### Pre-IPO Restricted Share Unit ("RSU") Scheme ("Pre-IPO RSU Scheme") (continued)

The inputs into the model were as follows:

| | | | RSU vested on | | |
|---|---|---|---|---|---|
| | 15-Feb-2012 | 15-Feb-2013 | 15-Feb-2014 | 15-Feb-2015 | 15-Feb-2016 |
| Number of RSU | 1,408,867 | 1,649,015 | 2,545,568 | 960,591 | 1,600,985 |
| Share Price | HKD6.6 | HKD6.6 | HKD6.6 | HKD6.6 | HKD6.6 |
| Risk-free Rate | 0.3603% | 0.5849% | 0.7983% | 1.1201% | 1.3931% |
| Volatility | 37.7690% | 54.0730% | 54.1501% | 50.0143% | 46.9468% |
| Time-to-maturity | 1.22 year | 2.23 years | 3.23 years | 4.23 years | 5.23 years |

The risk-free rate is based on the yield of Hong Kong Exchange Fund Bill and Note at the valuation date quoted from the Bloomberg.

Expected volatility was determined by using five comparable companies' historical volatility quoted by the Bloomberg. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The fair value of RSUs granted is approximately US$3,328,000 (2010: US$4,741,000) in aggregate. The Group recognized the total expense of US$1,432,000 (2010: US$197,000) for the year ended 31 December 2011 in relation to the Pre-IPO RSU granted by the Company.

### Post IPO Restricted Share Unit ("RSU") Scheme ("Post-IPO RSU Scheme")

The Post-IPO RSU Scheme was approved and adopted by the sole shareholder on 8 November 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 the Company to subscribe for new Shares.

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 the Company.

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.

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.

# Notes to the Consolidated Financial Statements

For the Year ended 31 December 2011

## 36. SHARE-BASED PAYMENT TRANSACTIONS (continued)

### Post-IPO Restricted Share Unit ("RSU") Scheme ("Post-IPO RSU Scheme") (continued)

Subject to the conditions being satisfied, the Post-IPO RSU Scheme shall be valid and effective for a period of 10 years commencing on 8 November 2010, 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.

Details of the total movements during the year of the RSUs granted pursuant to the Post-IPO RSU Scheme to the directors and employees are set out below:

***For the year ended 31 December 2011***

| Grantees | Date of grant | Vesting period | Balance as at 1 January 2011 | Granted during the year | Vested during the year | Forfeited during the year | Expired during the year | Balance as at 31 December 2011 |
|---|---|---|---|---|---|---|---|---|
| Director: | | | | | | | | |
| Will Hoon Wee Teng | 5 July 2011 | 5 July 2011 – 30 April 2012 | — | 194,500 | — | — | — | 194,500 |
| | 5 July 2011 | 5 July 2011 – 30 April 2013 | — | 194,500 | — | — | — | 194,500 |
| | | | — | 389,000 | — | — | — | 389,000 |
| Employees: | 5 July 2011 | 5 July 2011 – 15 February 2012 | — | 89,656 | — | (6,404) | — | 83,252 |
| | 5 July 2011 | 5 July 2011 – 30 April 2012 | — | 320,000 | — | (64,000) | — | 256,000 |
| | 5 July 2011 | 5 July 2011 – 15 February 2013 | — | 134,484 | — | (9,606) | — | 124,878 |
| | 5 July 2011 | 5 July 2011 – 30 April 2013 | — | 320,000 | — | (64,000) | — | 256,000 |
| | 5 July 2011 | 5 July 2011 – 15 February 2014 | — | 224,136 | — | (16,010) | — | 208,126 |
| | 30 November 2011 | 30 November 2011 – 30 April 2012 | — | 100,000 | — | — | — | 100,000 |
| | 30 November 2011 | 30 November 2011 – 30 April 2013 | — | 100,000 | — | — | — | 100,000 |
| | | | — | 1,288,276 | — | (160,020) | — | 1,128,256 |
| Total | | | — | 1,677,276 | — | (160,020) | — | 1,517,256 |

## 36. SHARE-BASED PAYMENT TRANSACTIONS (continued)

### Post-IPO Restricted Share Unit ("RSU") Scheme ("Post-IPO RSU Scheme") (continued)

The fair values of the RSUs are based on the fair value at grant date, they are ranged from US$0.27 to US$0.67 per share.

As of the end of the reporting period, RSUs of 1,477,276 and 200,000 new shares were granted to a director and certain employees of the Group pursuant to the Post-IPO RSU Scheme on 5 July 2011 and 30 November 2011 respectively. The estimated fair values of the RSUs granted on those date are US$802,000 and US$56,000 respectively. 160,020 RSUs were forfeited due to resignation of the grantees and no RSUs were exercised and lapsed during the year.

During the year ended 31 December 2010, no RSU was granted under Post-IPO RSU Scheme.

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 Post-IPO RSU Scheme has the same terms and conditions.

The fair values were calculated using The Black-Scholes pricing model.

The inputs into the model were as follows:

| | RSU vested on | | | | | | |
|---|---|---|---|---|---|---|---|
| | Granted on 5 July 2011 | | | | | Granted on 30 November 2011 | |
| | 15-Feb-2012 | 30-Apr-2012 | 15-Feb-2013 | 30-Apr-2013 | 15-Feb-2014 | 30-Apr-2012 | 30-Apr-2013 |
| Number of RSU | 89,656 | 514,500 | 134,484 | 514,500 | 224,136 | 100,000 | 100,000 |
| Share Price | HKD5.87 | HKD5.87 | HKD5.87 | HKD5.87 | HKD5.87 | HKD2.56 | HKD2.56 |
| Risk-free Rate | 0.2730% | 0.3753% | 0.4503% | 0.5132% | 1.0385% | 0.3321% | 0.5285% |
| Volatility | 35.7486% | 35.4067% | 37.8438% | 40.3694% | 55.5895% | 42.2318% | 37.9065% |
| Time-to-maturity | 0.62 year | 0.82 year | 1.62 year | 1.82 year | 2.62 years | 0.42 year | 1.42 year |

The risk-free rate is based on the yield of Hong Kong Exchange Fund Bill and Note at the valuation date quoted from the Bloomberg.

Expected volatility was determined by using five comparable companies' historical volatility quoted by the Bloomberg. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group recognized the total expense of US$346,000 (2010: Nil) for the year ended 31 December 2011 in relation to the Post-IPO RSU granted by the Company.

During the year ended 31 December 2011, 1,900,000 (2010: Nil) shares which approximately US$959,000 (2010: Nil) were purchased from the open market pursuant to the Pre-IPO RSU Scheme and Post-IPO RSU Scheme and held in trust for the Participants.

# Notes to the Consolidated Financial Statements
For the Year ended 31 December 2011

## 37. ACQUISITION OF SUBSIDIARIES

On 13 September 2010, the Group acquired 100% of the issued share capital of Sateri Marketing International Limited ("Sateri Marketing International") and its subsidiary, SC International Macao from Hibiscus Bay Investments Ltd ("Hibiscus Bay"), a company controlled by the Major Shareholder, for a consideration of US$1 which approximate to its net book value at date of acquisition, details of which are set out in Note 43(d). This acquisition has been accounted for using the acquisition method.

### Assets acquired and liabilities recognized at the date of acquisition are as follows:

| | US$'000 |
|---|---|
| Bank balances | 3 |
| Other payable | (3) |
| | — |
| Satisfied by: | |
| Cash | — |

### Net cash outflow on acquisition of Sateri Marketing International

| | US$'000 |
|---|---|
| Cash consideration paid | — |
| Less: cash and cash equivalent balances acquired | (3) |
| | 3 |

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 2 September 2010.

SC International Macao was incorporated in Macau as a commercial offshore institution in Macau and was granted a permit by the Macao Trade and Investment Promotion Institute to operate offshore business in Macau. Since commencing business operations, SC International Macao has been engaged in offshore business in Macau relating to the trading of paper products. Following its acquisition by Sateri Marketing International, SC International Macao ceased its original trading activities and engaged in selling the Group's dissolving wood pulp. SC International Macao was also appointed as DP Macao's agent for the sale of the dissolving wood pulp pursuant to the agency agreement entered into by the two parties effective from 1 October 2010. Details are set out in Note 43(d).

## 37. ACQUISITION OF SUBSIDIARIES (continued)

Revenue of approximately US$113,660,000 was generated by Sateri Marketing International and SC International Macao for the year ended 31 December 2010 subsequent to the acquisition. Included in the profit for the year is US$801,000 commission income for the period from 1 October 2010 to 31 December 2010 arising from agency agreement earned by Sateri Marketing International and SC International Macao.

Had the acquisition been completed on 1 January 2010, total consolidated revenue and profit for the period would not have been materially impacted as the subsidiaries were dormant prior to being acquired by the Group.

## 38. DISPOSAL OF A SUBSIDIARY

On 24 August 2010, the Group entered into a share transfer agreement (which was supplemented by a supplemental agreement dated 1 October 2010) to dispose of its entire shareholding interest in DP Macao with effect from 30 September 2010 to Blue Dot Resources Ltd. ("Blue Dot"), a company controlled by the Major Shareholder, for a cash consideration of MOP13,229,521 (approximately US$1.7 million) which represents the net book value of DP Macao as of 30 September 2010.

The net assets at the date of disposal were as follows:

**Consideration received:**

| | US$'000 |
|---|---|
| Cash received | 1,655 |

**Analysis of assets and liabilities over which control was lost:**

| | US$'000 |
|---|---|
| Property, plant and equipment | 21 |
| Trade and other receivables | 6,291 |
| Bills receivables discounted | 3,236 |
| Bank balances and cash | 1,804 |
| Other payables | (1,463) |
| Amounts due to fellow subsidiaries | (2,971) |
| Amounts due to related companies | (2,027) |
| Advance drawn on bills receivables discounted | (3,236) |
| Net assets disposed of | 1,655 |

# Notes to the Consolidated Financial Statements
For the Year ended 31 December 2011

## 38. DISPOSAL OF A SUBSIDIARY (continued)

### Gain on disposal of a subsidiary:

| | US$'000 |
|---|---|
| Consideration received and receivable | 1,655 |
| Net assets disposed of | (1,655) |
| Gain on disposal | — |

### Net cash outflow arising on disposal:

| | US$'000 |
|---|---|
| Cash consideration | 1,655 |
| Less: bank balances and cash disposed of | (1,804) |
| | (149) |

## 39. PLEDGE OF ASSETS

At the end of each reporting period, the carrying values of assets pledged to various banks for securing bank loans are:

| | 2011<br>US$'000 | 2010<br>US$'000 |
|---|---|---|
| Property, plant and equipment (Note 18) | 1,305,538 | 1,295,816 |
| Prepaid lease payments (Note 19) | 2,261 | 797 |
| Investment properties (Note 20) | 1,867 | 1,880 |
| Bank deposits (Note 29) | 5,294 | 8,071 |
| | 1,314,960 | 1,306,564 |

## 40. OPERATING LEASE ARRANGEMENT/COMMITMENTS

### The Group as lessee

| | 2011 US$'000 | 2010 US$'000 |
|---|---|---|
| Minimum lease payments under operating leases recognized as an expense in the year | 166 | 32 |

At the end of the reporting period, the Group has outstanding commitments under non-cancellable operating leases, which fall due as follows:

| | 2011 US$'000 | 2010 US$'000 |
|---|---|---|
| Within one year | 103 | 172 |
| In the second to fifth year inclusive | 29 | 90 |
| | 132 | 262 |

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 two years with fixed rentals.

### The Group as lessor

Property rental income earned on the investment properties held by the Group was approximately US$151,000 (2010: US$174,000) for the year ended 31 December 2011. The leases are negotiated and fixed for a term of two to three years. The expenses incurred for property rental amounted to US$10,000 (2010: US$8,000) for the year ended 31 December 2011.

At the end of the reporting period, the Group has contracted with tenants for the following future minimum lease receipts:

| | 2011 US$'000 | 2010 US$'000 |
|---|---|---|
| Within one year | 181 | 100 |
| In the second to fifth year inclusive | 270 | 16 |
| | 451 | 116 |

Operating lease receipts represent rentals receivable by the Group for certain of its office properties.

# Notes to the Consolidated Financial Statements

For the Year ended 31 December 2011

## 41. COMMITMENTS

| | 2011 US$'000 | 2010 US$'000 |
|---|---|---|
| Amount contracted for but not provided in the consolidated financial statements in respect of | | |
| — acquisition of property, plant and equipment | **147,330** | 23,567 |
| — capital injections in unlisted investment | **2,596** | 6,376 |
| Amount authorized but not contracted for in respect of | | |
| — acquisition of property, plant and equipment | **101,285** | 5,452 |
| — additions of forestation assets | **—** | 3,551 |

## 42. MAJOR NON-CASH TRANSACTIONS

During the years ended 31 December 2011 and 2010, the Group has entered into the following major non-cash transactions:

(a) During the year ended 31 December 2011, the Group had not entered into any finance lease arrangements in respect of plant and machinery (2010: US$2,998,000).

(b) During the year ended 31 December 2010, the Group had advanced an amount of approximately US$205,610,000 to RGE Inc.. On 27 October 2010, a netting and novation deed was entered into 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. of approximately US$205,610,000 and the outstanding loan balance due to General Rank Limited of approximately US$137,029,000 and resulted in Gold Silk owing an amount of US$68,581,000 to Sateri International after the netting and novation deed.

In November 2010, Sateri International redeemed 22,800,000 Class 1 preference shares of US$1.00 each and 4,410,067 Class 2 preference shares at US$100 each in the capital of Sateri International owned by Gold Silk amounting to US$463,807,000 in aggregate. An amount of approximately US$68,581,000 of the redemption price was settled by offsetting against the amount due from Gold Silk arisen from the netting and novation deed as explained in the preceding paragraph whereas the remaining amount of approximately US$395,226,000 was settled in cash.

During the year ended 31 December 2010, the Group settled the entire outstanding loan principal of US$137,029,000 due to General Rank Limited. The cumulative imputed interest charged on the interest-free loan due to General Rank Limited amounting to US$10,071,000 was accounted for as contribution from the shareholders of the Company and recognized in the consolidated statement of changes in equity as at 31 December 2010.

## 43. RELATED PARTY DISCLOSURES

(a) Details of the balances with related parties are set out in Notes 26 and 31.

(b) During the year, the Group entered into the following significant transactions with the following related parties:

| Name of related parties | Nature of transactions | 2011 US$'000 | 2010 US$'000 |
|---|---|---|---|
| *Companies under common control of the Major Shareholder* | | | |
| PT Toba Pulp Lestari Tbk | Purchase of goods | — | 64,964 |
| DP Macao | Purchase of goods | **75,355** | 21,691 |
| | Commission income | **3,880** | 801 |
| Pec-Tech Engineering and Consulting (Suzhou) Co., Ltd. | Consulting service | **1,787** | — |
| Terry Investments Worldwide Limited | Interest expense on amount due to a related party | — | 24 |
| General Rank Limited | Imputed interest expense on advance from a related party | — | 4,316 |
| Averis Sdn. Bhd. | Service fee expense | **2,625** | 999 |
| April International Marketing Services Ltd. | Service income | — | 1,094 |
| Asian Resources Development Limited | Rental expense | **151** | 25 |

# Notes to the Consolidated Financial Statements

For the Year ended 31 December 2011

## 43. RELATED PARTY DISCLOSURES (continued)

(b) During the year, the Group entered into the following significant transactions with the following related parties: (continued)

Gain or loss arising from the derivative transactions between the Group and the related parties are disclosed as follows:

| | Notes | 2011 US$'000 | 2010 US$'000 |
|---|---|---|---|
| Gain/(loss) on settlement of: | | | |
| — forward foreign exchange contracts | (i) | — | 95 |
| — interest rate swaps | (ii) | — | (2,674) |
| | | — | (2,579) |

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 Major Shareholder, at the prevailing market terms with third party financial institutions ("Financial Institutions") as the ultimate party in previous year. The gain on settlement of these contracts for the year ended 31 December 2010 was approximately US$95,000.

(ii) These interest rate swaps of the Group were entered into by General Rank Limited in previous year at the prevailing market terms with third party financial institution as the ultimate party. The loss on settlement of these interest rate swaps for the year ended 31 December 2010 was US$2,674,000. The interest rate swaps were terminated from 22 October 2010 pursuant to a termination agreement entered into between Sateri International and General Rank Limited.

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 gains/losses on these contracts were earned/incurred by the Group on a back-to-back basis.

On 20 August 2010, a novation agreement was entered into among Sateri International, RGE Inc. and Financial Institutions relating to the transfer of the foreign exchange contracts entered into between RGE Inc. and Financial Institutions to Sateri International. RGE Inc. has agreed to novate those contacts remaining outstanding on 20 August 2010 to Sateri International with the consent of Financial Institutions with effect from 1 September 2010.

## 43. RELATED PARTY DISCLOSURES (continued)

(c) On 24 August 2010, the Group entered into a share transfer agreement (which was supplemented by a supplemental agreement dated 1 October 2010) to dispose of its entire shareholding interest in DP Macao with effect from 30 September 2010 to Blue Dot (see Note 38).

(d) On 13 September 2010, the Group acquired the entire issued share capital of Sateri Marketing International, an investment holding company incorporated in the Cayman Islands, from Hibiscus Bay (see Note 37).

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.

(e) 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.

(f) Compensation of key management personnel

Other than the emoluments paid to directors of the Company as set out in Note 14, who are considered as the key management of the Group, the Group did not have any other significant compensation to key management personnel.

# Notes to the Consolidated Financial Statements
For the Year ended 31 December 2011

## 44. FINANCIAL INFORMATION OF THE COMPANY

The financial information of the Company as at 31 December 2011 and 2010 is as follows:

| | 2011<br>US$'000 | 2010<br>US$'000 |
|---|---|---|
| **Non-current assets** | | |
| Investment in a subsidiary | 983,979 | 949,273 |
| Loan to a subsidiary | 394,062 | — |
| | 1,378,041 | 949,273 |
| **Current assets** | | |
| Other receivables | 132 | 25 |
| Amounts due from subsidiaries | 17,084 | 375,484 |
| Bank balance | 763 | 32,049 |
| | 17,979 | 407,558 |
| **Current liabilities** | | |
| Accrued charges | 863 | 3,674 |
| Amount due to a subsidiary | 1,159 | — |
| | 2,022 | 3,674 |
| **Net current assets** | 15,957 | 403,884 |
| | 1,393,998 | 1,353,157 |
| **Capital and reserves** | | |
| Share capital (Note 35) | 170,794 | 168,441 |
| Share premium and reserves (Note) | 1,223,204 | 1,184,716 |
| | 1,393,998 | 1,353,157 |

## 44. FINANCIAL INFORMATION OF THE COMPANY (continued)

Note:

| | Share premium US$'000 | Contribution surplus US$'000 | Shares held under awarded shares compensation scheme US$'000 | Awarded shares compensation reserve US$'000 | Accumulated losses US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|
| At the date of incorporation | — | — | — | — | — | — |
| Loss for the period | — | — | — | — | (10,314) | (10,314) |
| Arising on reorganization | — | 806,099 | — | — | — | 806,099 |
| Issue of new shares | 403,338 | — | — | — | — | 403,338 |
| Cost of issuing new shares | (14,604) | — | — | — | — | (14,604) |
| Awarded shares compensation reserve | — | — | — | 197 | — | 197 |
| At 31 December 2010 | 388,734 | 806,099 | — | 197 | (10,314) | 1,184,716 |
| Profit for the year | — | — | — | — | 1,473 | 1,473 |
| Issue of new shares | 37,524 | — | — | — | — | 37,524 |
| Cost of issuing new shares | (1,328) | — | — | — | — | (1,328) |
| Awarded shares compensation reserve | — | — | — | 1,778 | — | 1,778 |
| Forfeiture of awarded shares compensation scheme | — | — | — | (53) | 53 | — |
| Purchase of shares for the purpose of awarded shares compensation scheme | — | — | (959) | — | — | (959) |
| At 31 December 2011 | 424,930 | 806,099 | (959) | 1,922 | (8,788) | 1,223,204 |

Contribution surplus represented the difference between the carrying amount of the equity items of Sateri International and the nominal value of the shares issued at the date of the Reorganization.

# Notes to the Consolidated Financial Statements
For the Year ended 31 December 2011

## 45. EVENTS AFTER REPORTING PERIOD

On 15 February 2012, the Company entered into a subscription agreement with an independent third party who agreed to subscribe for, and the Company agreed to allot and issue 2,038,000 shares of the Company at the subscription price of HK$2.67 per share for a total cash consideration of approximately US$671,000 (equivalent to approximately HK$5,230,000), after deduction of share issue costs payable by the Company.

The purpose of the share issue was to enable the Company to maintain its minimum free float percentage of 16.17% of the issued share capital of the Company following the transfer of shares to satisfy the vesting of certain restricted share units ("RSU") granted by the Company to Directors and directors of the Company's subsidiaries, who are connected persons of the Company and therefore not regarded as members of the public.

## 46. LIST OF SUBSIDIARIES

The Company had direct and indirect interests in the following subsidiaries for the years ended 31 December 2011 and 2010:

| Name of subsidiary | Place of incorporation/ establishment/ operation | Issued and fully paid share capital/ paid-in capital | Attributable equity interest of the Company 2011 | Attributable equity interest of the Company 2010 | Principal activities |
|---|---|---|---|---|---|
| Bahia Specialty Cellulose S.A. | Brazil | 3,248,213,308 common shares with no par value<br>380,869,270 preferential shares with no par value | 98.4% | 98.4% | Manufacturing and sales of dissolving wood pulp |
| Copener Florestal Ltda. | Brazil | Ordinary quotas Reais 74,442,000 | 99.8% | 99.8% | Plantation in Brazil |
| DP Marketing International Limited (ix) | British Virgin Islands ("BVI") | Ordinary shares US$1 | 100% | 100% | Marketing and sales of dissolving wood pulp |
| Norcell S.A. | Brazil | 42,800,334 common shares with no par value<br>29,771,891 preferential shares with no par value | 99.8% | 99.8% | Investment holding |

## 46. LIST OF SUBSIDIARIES (continued)

| Name of subsidiary | Place of incorporation/ establishment/ operation | Issued and fully paid share capital/ paid-in capital | Attributable equity interest of the Company 2011 | 2010 | Principal activities |
|---|---|---|---|---|---|
| Sateri Bacell Limited | BVI | Ordinary shares US$30,000,000 | 100% | 100% | Investment holding |
| Sateri China (Hong Kong) Limited | Hong Kong | Ordinary shares HK$10,000 | 100% | 100% | Investment holding |
| Sateri China Investment Limited (iv) | Hong Kong | Ordinary shares HK$1 | 100% | N/A | Investment holding |
| Sateri Copener Limited | BVI | Ordinary shares US$100,000 | 100% | 100% | Investment holding |
| Sateri (Fujian) Fibre Co., Ltd. (ii) | The PRC | Paid-in capital US$67,993,095 (iii) | 100% | 100% | Manufacturing and sales of viscose staple fiber |
| Sateri Forestry (Chongqing) Co., Ltd. (ii & vi) | The PRC | Paid-in capital US$2,100,000 | 100% | N/A | Investment holding |
| Sateri (Hong Kong) Management Limited | Hong Kong | Ordinary shares HK$10,000 | 100% | 100% | Provision of advisory and administrative services |
| Sateri International Co. Ltd | BVI | Ordinary shares US$100<br>Preference shares US$381,799,200 | 100% | 100% | Investment holding |
| Sateri International (Singapore) Pte Ltd | Singapore | Ordinary shares S$22,634,250 | 100% | 100% | Investment holding |
| Sateri (Jiangxi) Chemical Fibre Co., Ltd. (ii) | The PRC | Paid-in capital US$113,957,000 | 81.1% | 81.1% | Manufacturing and sales of viscose staple fiber |
| Sateri Marketing International Limited (v) | Cayman Islands | Ordinary shares US$1 | 100% | 100% | Investment holding |
| Sateri Marketing SA | Switzerland | Ordinary shares CHF100,000 | 100% | 100% | Marketing services for dissolving wood pulp |

# Notes to the Consolidated Financial Statements

For the Year ended 31 December 2011

## 46. LIST OF SUBSIDIARIES (continued)

| Name of subsidiary | Place of incorporation/ establishment/ operation | Issued and fully paid share capital/ paid-in capital | Attributable equity interest of the Company 2011 | 2010 | Principal activities |
|---|---|---|---|---|---|
| Sateri (Shanghai) Management Limited (ii) | The PRC | Paid-in capital US$2,500,000 | 100% | 100% | Provision of advisory and administrative services |
| Sateri Specialty Cellulose Limited | Cayman Islands | Ordinary shares US$183,939,551 | 100% | 100% | Investment holding |
| SC International Macao Commercial Offshore Limited (v) | Macau | Ordinary shares MOP100,000 | 100% | 100% | Marketing and sales of dissolving wood pulp |
| SC Marketing Limited | BVI | Ordinary shares US$100 | 100% | 100% | Marketing and sales of dissolving wood pulp |
| SC Marketing US Inc. (vii) | USA | Ordinary shares US$20,000 | 100% | N/A | Marketing and sales of dissolving wood pulp |
| Specialty Cellulose Marketing Pte. Ltd. | Singapore | Ordinary shares US$100,001 | 100% | 100% | Marketing and sales of dissolving wood pulp |
| Vitória Verde Participações Ltda. (viii) | Brazil | Ordinary quotas Reais 1,000 | 99.8% | N/A | Investment holding |

Notes:

(i) Except for Sateri International Co. Ltd, all of the subsidiaries are indirectly owned subsidiaries of the Company.
(ii) Limited liability company and wholly-foreign owned enterprise established in the PRC.
(iii) The registered capital is US$147,500,000. As at 31 December 2011, the capital has been paid up to US$67,993,095.
(iv) The subsidiary was incorporated by the Group on 5 September 2011.
(v) The subsidiaries were acquired on 13 September 2010. Details are set out in Note 37.
(vi) The subsidiary was incorporated by the Group on 20 December 2011.
(vii) The subsidiary was incorporated by the Group on 14 November 2011.
(viii) The subsidiary was incorporated by the Group on 18 January 2011 and was liquidated on 5 January 2012.
(ix) The subsidiary was liquidated on 13 March 2012.

# Five-Year Finanical Summary

For the year ended 31 December

| | 2011 US$'000 | 2010 US$'000 | 2009 US$'000 | 2008 US$'000 | 2007 US$'000 |
|---|---|---|---|---|---|
| **CONSOLIDATED INCOME STATEMENT** | | | | | |
| Revenue | **806,574** | 923,257 | 551,998 | 382,259 | 272,167 |
| Gross profit | **323,073** | 456,723 | 210,107 | 78,293 | 106,551 |
| Profit/(loss) before taxation | **143,850** | 332,282 | 104,414 | (11,993) | 107,704 |
| Profit/(loss) for the year | **150,525** | 328,090 | 107,430 | (9,461) | 103,499 |
| **Profit/(loss) for the year attributable to:** | | | | | |
| Owners of the Company | **154,713** | 323,881 | 106,867 | (3,979) | 94,966 |
| Non-controlling interests | **(4,188)** | 4,209 | 563 | (5,482) | 8,533 |
| | **150,525** | 328,090 | 107,430 | (9,461) | 103,499 |
| Earnings per share (US$) | **0.05** | 0.11 | 0.04 | (0.00) | 0.03 |
| Dividend per share (HK cents) | **2.50** | — | — | — | — |
| **CONSOLIDATED BALANCE SHEET** | | | | | |
| **Non-current assets** | | | | | |
| Forestation and reforestation assets | **187,797** | 192,192 | 177,691 | 138,544 | 104,426 |
| Property, plant and equipment | **1,455,966** | 1,384,070 | 1,376,386 | 1,350,787 | 1,048,045 |
| Deferred tax assets | **105,496** | 111,576 | 102,745 | 77,883 | 21,612 |
| Other non-current assets | **101,006** | 65,254 | 42,767 | 25,537 | 34,559 |
| | **1,850,265** | 1,753,092 | 1,699,589 | 1,592,751 | 1,208,642 |
| **Current assets** | | | | | |
| Inventories | **180,590** | 88,636 | 53,177 | 68,935 | 42,434 |
| Trade, bills and other receivables | **153,232** | 108,736 | 107,402 | 250,600 | 312,365 |
| Bills receivables discounted | **8,119** | 39,452 | 132,231 | 59,223 | 2,206 |
| Cash and cash equivalents | **328,999** | 435,865 | 108,807 | 74,956 | 60,044 |
| Other current assets | **612** | 21,674 | 5,293 | 20 | 22,670 |
| | **671,552** | 694,363 | 406,910 | 453,734 | 439,719 |
| **Current liabilities** | | | | | |
| Trade and other payables | **136,574** | 156,136 | 77,314 | 126,998 | 132,322 |
| Advance drawn on bills receivables discounted | **8,119** | 39,452 | 132,231 | 59,223 | 2,206 |
| Bank borrowings — due within one year | **198,403** | 153,816 | 177,119 | 153,480 | 82,167 |
| Other current liabilities | **62,961** | 30,589 | 44,756 | 49,823 | 31,252 |
| | **406,057** | 379,993 | 431,420 | 389,524 | 247,947 |
| **Net current assets/(liabilities)** | **265,495** | 314,370 | (24,510) | 64,210 | 191,772 |
| **Non-current liabilities** | | | | | |
| Bank borrowings — due after one year | **379,970** | 510,483 | 277,777 | 310,802 | 316,323 |
| Deferred tax liabilities | **55,245** | 71,623 | 68,209 | 54,105 | 2,088 |
| Other non-current liabilities | **4,010** | 1,646 | 143,559 | 213,778 | 3,072 |
| | **439,225** | 583,752 | 489,545 | 578,685 | 321,483 |
| **Net assets** | **1,676,535** | 1,483,710 | 1,185,534 | 1,078,276 | 1,078,931 |
| **Capital and reserves** | | | | | |
| Share capital | **170,794** | 168,441 | 409,009 | 409,009 | 409,009 |
| Share premium and reserves | **1,474,871** | 1,279,573 | 745,348 | 639,465 | 634,736 |
| Equity attributable to owners of the Company | **1,645,665** | 1,448,014 | 1,154,357 | 1,048,474 | 1,043,745 |
| Non-controlling interests | **30,870** | 35,696 | 31,177 | 29,802 | 35,186 |
| | **1,676,535** | 1,483,710 | 1,185,534 | 1,078,276 | 1,078,931 |

# INFORMATION FOR INVESTORS

## Listing Information

| | |
|---|---|
| Listing: | Stock Exchange of Hong Kong |
| Stock code: | 1768 |
| Ticker Symbol | |
| Reuters: | 1768.HK |
| Bloomberg: | 1768 HK Equity |

## Index Constituent

Morgan Stanley Capital International (MSCI) Hong Kong Small Cap Index

## Key Dates

19 August 2011
Announcement of 2011 Interim Results

27 March 2012
Announcement of 2011 Annual Results

## Share Information

Board lot size: 500 shares

Shares outstanding as at 31 December 2011:
3,415,882,250 shares

Market Capitalization as at 31 December 2011:
HK$8,232 million (approximately US$1,055 million)

## Investor Relations Contact

Lisa Cheong
Vice President, Investor Relations

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Fax: (852) 2865 5499
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Sateri Holdings Limited
Room 2709, Gloucester Tower
The Landmark
15 Queen's Road
Central
Hong Kong

# Corporate Information

## Board of Directors

***Independent Non-Executive Directors:***
John Jeffrey Ying (Chairman)
David Yu Hon To
Jeffrey Lam Kin Fung
Lim Ah Doo

***Executive Directors:***
Will Hoon Wee Teng (Chief Executive Officer)
Tey Wei Lin

***Non-Executive Directors:***
Loh Meng See
John Seto Gin Chung
Rohan Seneka Weerasinghe

## Executive Committee

John Jeffrey Ying (Chairman)
Will Hoon Wee Teng
Loh Meng See
Tey Wei Lin
John Seto Gin Chung

## Remuneration Committee

Jeffrey Lam Kin Fung (Chairman)
Loh Meng See
John Jeffrey Ying
David Yu Hon To
Tey Wei Lin

## Audit Committee

David Yu Hon To (Chairman)
Jeffrey Lam Kin Fung
Lim Ah Doo

## Nomination Committee

John Seto Gin Chung (Chairman)
Loh Meng See
Tey Wei Lin
Lim Ah Doo

## Company Secretary

Winnie Lui Mei Yan

## Authorised Representatives

Will Hoon Wee Teng
Winnie Lui Mei Yan

## Stock Code

1768

## Websites

http://www.sateri.com
http://www.irasia.com/listco/hk/sateri

## Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

## Bermuda Principal Share Registrar and Transfer Office

Codan Services Limited
Clarendan House
2 Church Street
Hamilton HM 11
Bermuda

## Principal Bankers

***Hong Kong***
Banco Santander, S.A.
Bank of China (Hong Kong) Limited
Taishin International Bank

***Singapore***
ABN AMRO Bank N.V.

***China***
Bank of China
Industrial and Commercial Bank of China
China Merchants Bank

***Brazil***
WestLB AG
Banco Santander, S.A.
Banco Itaú BBA, S.A.
Banco Bradesco, S.A.

## Auditor

Deloitte Touche Tohmatsu

## 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

## 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

Sateri Holdings Limited

2709 Gloucester Tower, The Landmark,
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Website: www.sateri.com

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