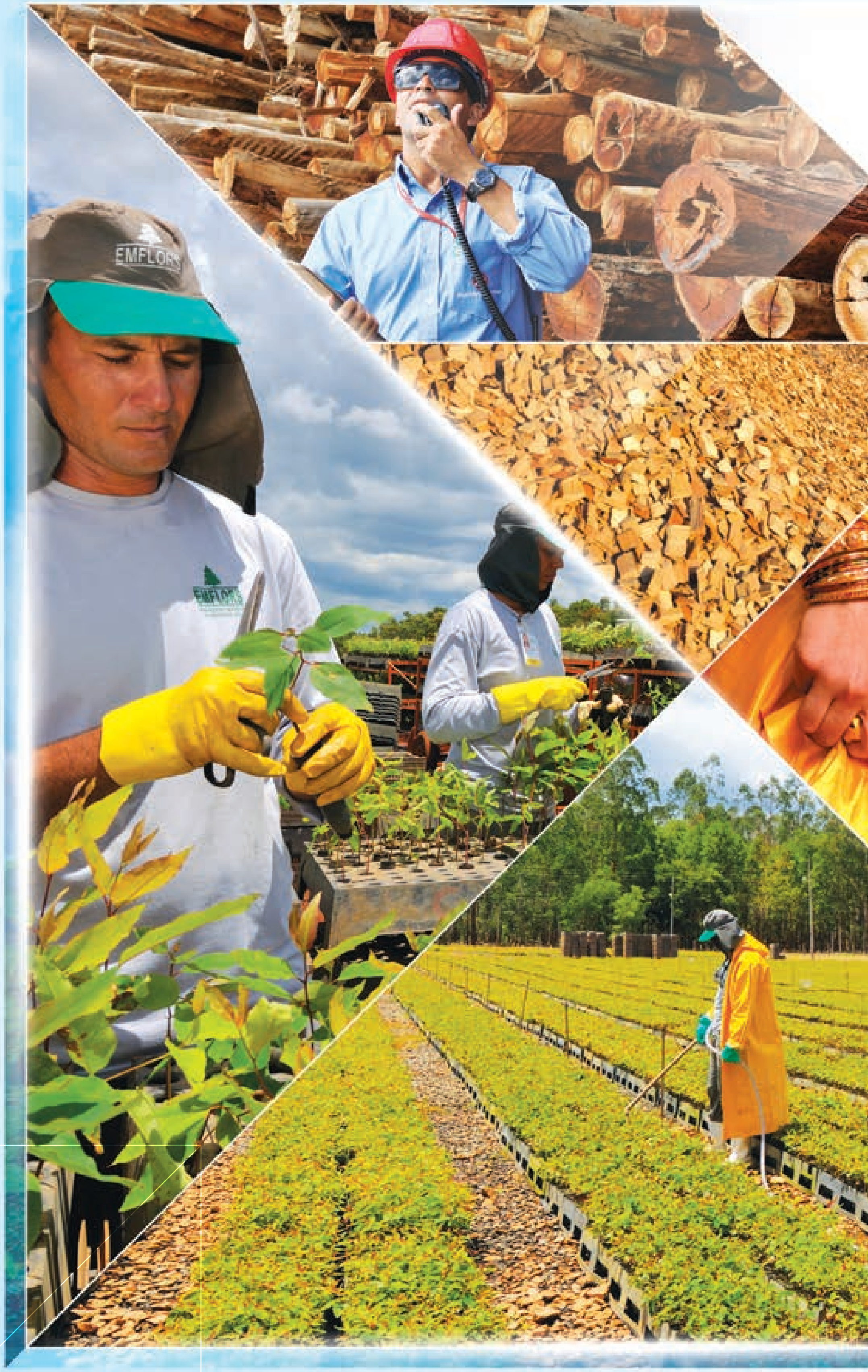
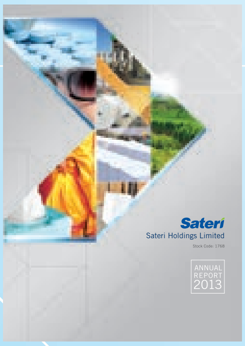
Sateri Holdings Limited

Stock Code: 1768

ANNUAL REPORT 2013





Cover Design of 2013 Annual Report

Sateri attaches high priority to its social and sustainability responsibilities and is committed to preserve and protect the environment in every aspect of its operations. Its products are made from plantation trees, which are natural and renewable resources. The concept of the tangram symbolizes Sateri's products which are used to manufacture a diverse range of everyday items. The edge of the arrow on the cover showing its timberland in Brazil echoes Sateri's edge in access to sustainable source of raw materials in the production of its specialty cellulose products.

ABOUT Sateri

Listed on the Hong Kong Stock Exchange, Sateri Holdings Limited ("Sateri"; stock code: 1768) is one of the largest specialty cellulose producers in the world. Sateri produces different grades of high-purity dissolving wood pulp and viscose staple fiber, which are natural raw materials and key ingredients to a diverse range of everyday items from textiles, baby wipes and eyeglass frames, to soft ice-cream, sausage casings and pharmaceuticals, as well as industrial products such as high performance tire cords.

Sateri has a vertically integrated business. Its upstream operations in Brazil consist of a secure renewable plantation that grows eucalyptus trees on its 150,000 hectares of freehold land, and a state-of-the-art mill to produce high-purity dissolving wood pulp. Sateri's downstream business in China consists of production facilities that use dissolving wood pulp to produce viscose staple fiber to capture the fast growing consumer market demand in China.

Sateri attaches high priority to its social and sustainability responsibilities and is committed to preserve and protect the environment in every aspect of its operations. Sateri has corporate offices located in Shanghai and Hong Kong.

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WHAT WE DO – OUR INTEGRATED VALUE CHAIN

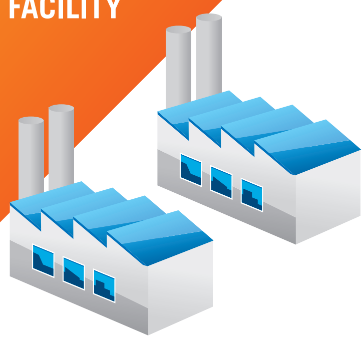
Sateri Holdings Limited is a leading global specialty cellulose company. The Group produces dissolving wood pulp ("DWP") at its Bahia Specialty Cellulose plant in Brazil using wood resources grown from its captive eucalyptus plantations, and viscose staple fiber ("VSF") in Jiangxi and Fujian, China using DWP as its main raw material feedstock. The Group manufactures and sells DWP and VSF to customers across China, other parts of Asia, Americas and Europe.

PLANTATIONS

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

WOOD CHIPS

DISSOLVING WOOD PULP FACILITY



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

Bahia

BRAZIL

SPECIALTY-GRADE PULP

End Product Applications

Acetate eyeglass frames

Pharmaceutical tablets

High-performance tire cords

RAYON-GRADE PULP

Other viscose staple fiber manufacturers

VISCOSE STAPLE FIBER

End Product Applications

Textile products

Non-woven products

Viscose Staple Fiber Facility

Jiangxi

- Four production lines in Jiangxi, China with an annual design production capacity of 160,000 metric tons

Fujian

- Four production lines in Fujian, China with an annual design production capacity of 200,000 metric tons

CHINA

INFORMATION FOR INVESTORS

Listing Information

Listing:	Stock Exchange of Hong Kong
Stock code:	1768
Ticker symbol:	1768.HK (Reuters)
	1768 HK Equity (Bloomberg)

Key Dates

13 August 2013
(Announcement of 2013 Interim Results)

17 March 2014
(Announcement of 2013 Annual Results)

20 May 2014
(Annual General Meeting)

Registrar & Transfer Offices

Principal

Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Hong Kong Branch

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Share Information

Board lot size:
500 shares

Shares outstanding as at 31 December 2013:
3,420,420,250 shares

Market capitalization as at 31 December 2013:
HK$5,609 million (approximately US$719 million)

Investor Relations Contact

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Central, Hong Kong

Websites

www.sateri.com
www.irasia.com/listco/hk/sateri

FINANCIAL HIGHLIGHTS

Year ended 31 December US$ Million	2013	2012	Change
Revenue	**646**	720	(10)%
Cost of sales	**428**	500	(14)%
Gross profit	**218**	220	(1)%
Gross profit margin	**34%**	31%	
EBITDA[(1)]	**206**	200	3%
EBITDA margin	**32%**	28%	
Profit attributable to shareholders	**33**	56	(40)%
Net profit margin	**5%**	8%	
Earnings per share (US cents)	**1.0**	1.6	
Dividend per share (HK cents)	**2.5**	2.5	

At 31 December US$ Million	2013	2012	Change
Total assets	**2,577**	2,392	8%
Total liabilities	**819**	669	22%
Net assets	**1,758**	1,723	2%
Total debt	**666**	497	34%
Cash and cash equivalents	**166**	195	(15)%
Net debt	**500**	302	65%
Current ratio	**2.4x**	1.4x	
Net gearing[(2)]	**28%**	18%	

Notes:

(1) EBITDA is calculated as profit before income tax, finance costs, depreciation, amortization of intangible assets and changes in the value of forestation and reforestation assets.

(2) Net gearing 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)

CHAIRMAN'S STATEMENT

In 2013, we achieved a major strategic milestone with the commencement of operations at our new 200,000 metric ton viscose staple fiber plant in Fujian, China. Our vision is to be a leading global producer of specialty cellulose products, leveraging a vertically integrated business platform that is balanced between our extensive freehold timberland and dissolving wood pulp production capabilities in Brazil and our viscose staple fiber facilities in Fujian and Jiangxi. In addition to completing our production expansion, we ended the year by making significant quality improvements in our specialty-grade pulp and strengthening our footprint in that sector.

John Jeffrey YING
Chairman

Despite the persistently weak pricing environment throughout 2013, I am pleased to report that Sateri Holdings Limited continues to make great strides towards our strategic vision of becoming a leading global producer of specialty cellulose products, leveraging a vertically integrated business platform that is balanced between our extensive freehold timberland and dissolving wood pulp production capabilities in Brazil and our viscose staple fiber facilities in Fujian and Jiangxi. Our high purity, renewable, versatile and organic resource continues to enjoy strong demand driven by basic consumer needs, and our products are key ingredients in a wide variety of consumer goods ranging from textiles, baby wipes and eyeglass frames to cosmetics, ice cream, pharmaceuticals and tire cords.

The Company represents a powerful combination: a low-cost, high quality and flexible world-class production base with a major market position in China, the world's fastest growing consumer market with continuing robust demand growth for our specialty cellulose products.

Sateri is well-positioned within our industry, particularly as we have in 2013 achieved balance between our upstream operations in Brazil and downstream operations in China with the start-up of our Fujian viscose staple fiber ("VSF") plant. We now combine 150,000 hectares (370,700 acres) of freehold timberland and advanced, low-cost dissolving wood pulp ("DWP") production in Brazil with a state-of-the-art 200,000 metric ton VSF plant in Fujian and a 160,000 metric ton VSF plant in Jiangxi. Pivotal to our strategy for achieving stable, premium pricing for a growing proportion of our revenues, we also improved the quality and increased our penetration into the specialty-grade pulp segments. The Company represents a powerful combination: a low-cost, high quality and flexible world-class production base with a major market position in China, the world's fastest growing consumer market with continuing robust demand growth for our specialty cellulose products.

In 2013, the Company continued to be impacted by weak product pricing in the rayon-grade pulp and VSF markets that resulted in our revenues declining by 10% to US$646 million from US$720 million in 2012. We continued, however, to focus on optimizing our operational efficiencies and cost competitiveness. As a result, our EBITDA margin expanded to 32% from 28% in 2012, and our gross profit margin expanded to 34% from 31% in 2012. Our total cost of sales decreased by 14% to US$428 million from US$500 million in 2012, despite some operational issues at our mill in Brazil during the second half of 2013. The depreciation of the Brazilian Reais in 2013 resulted in a non-cash adverse impact arising from fair value adjustments to our forestation assets in Brazil, and resulting profit attributable to shareholders decreased by 40% to US$33 million from US$56 million in 2012.

CHAIRMAN'S STATEMENT

The Board of Directors continues to work towards international best practices, to best serve the interests of all our shareholders and other stakeholders. We are pleased that our achievements in corporate governance continue to be recognized by the market and garner awards in 2013.

We continue to manage our balance sheet conservatively. Despite the challenging market conditions, the Company successfully refinanced our original US$470 million syndicated loan, arranged before our IPO in 2010, with a US$500 million dual-tranche syndicated facility that extended the tenor of our loan profile. At 31 December 2013, our balance sheet remains healthy with US$166 million of cash and cash equivalents against total debt of US$666 million, compared to US$195 million and US$497 million, respectively, in 2012.

Sateri continues to place a premium on human resources as one of the most vital drivers of our future success and will continue to invest in talent and grow the breadth and depth of our team to build a world-class company, one that draws strength from the diversity of its employees, represented by different perspectives, complementary experiences and skill sets.

With our long-term success contingent on meeting the highest standards in corporate governance and sustainability, the Board of Directors continues to work towards international best practices, to best serve the interests of all our shareholders and other stakeholders. We are pleased that our achievements in corporate governance continue to be recognized by the market and garner awards in 2013.

Looking ahead, we believe the VSF market will continue to be challenging. The achievement this year of a balanced, vertically-integrated business platform, combined with a focus on the specialty-grade pulp and high-quality VSF markets, is anticipated to greatly reduce our exposure to pricing fluctuations in the rayon-grade pulp market in the future. We believe our competitive strengths will differentiate us from our peers, giving us a unique and leading position in the global specialty cellulose markets, and position Sateri to deliver attractive long-term value to our shareholders.

After considering our earnings, cash position and future financial needs, I am pleased to report that the Board of Directors has recommended the payment of a final dividend of HK2.5 cents per share for the year ended 31 December 2013.

On behalf of the Board of Directors, I would like to thank all Sateri staff for their commitment and hard work in 2013. On a special note, I would like to thank Mr. John SETO, who retired as Non-Executive Director, for his

> We believe our competitive strengths will differentiate us from our peers, giving us a unique and leading position in the global specialty cellulose markets, and position Sateri to deliver attractive long-term value to our shareholders.

energy and contributions over the past three years and to welcome onboard Mr. LOW Weng Keong, who was appointed as Independent Non-Executive Director during the year. In addition, I am pleased to welcome Mr. TEY Wei Lin as the Chief Executive Officer of the Company. I also would like to extend my fullest gratitude to all the Directors for their invaluable advice and assistance, and to all our shareholders, customers and business associates for their unstinting support.

John Jeffrey YING
Chairman
Hong Kong, 17 March 2014

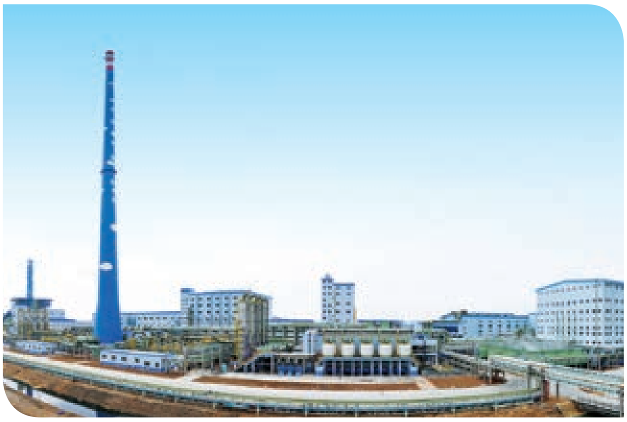
MANAGEMENT DISCUSSION AND ANALYSIS

The Group is focused on the execution of its two-prong business strategy:

- To further penetrate into the specialty-grade pulp market which has more stable and premium pricing than rayon-grade pulp
- To further integrate its operation in Brazil into its VSF business in China

MANAGEMENT DISCUSSION AND ANALYSIS

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



Business Review

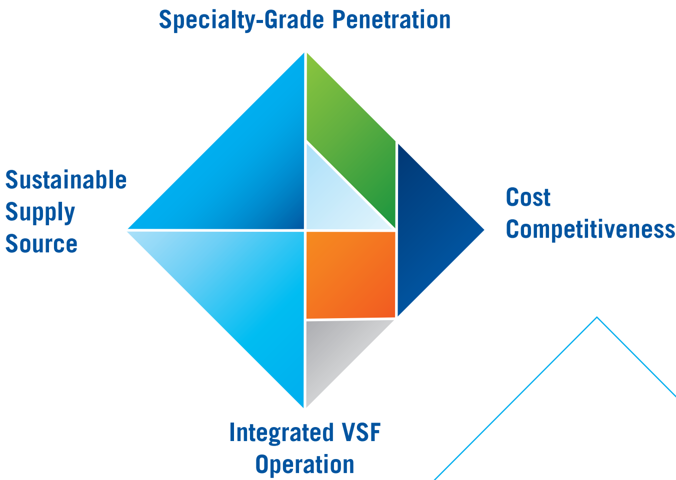
Sateri is a leading global specialty cellulose company. The Group produces dissolving wood pulp ("DWP") at its Bahia Specialty Cellulose ("BSC") plant in Brazil using wood resources grown from its captive eucalyptus plantations, and viscose staple fiber ("VSF") in Jiangxi and Fujian, the People's Republic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

In 2013, market conditions remained challenging. Despite an increase in demand, the continued addition of new rayon-grade DWP capacity kept product prices in a narrow range of US$850 to US$930 per metric ton in 2013. VSF prices also faced downward pressures during the year despite a robust demand increase, owing to China's slower economic growth and a weaker downstream pricing environment, and fell to under US$1,800 per metric ton at the end of 2013.

During the year, the Group increased penetration into the specialty-grade DWP segment. Sales volume for this segment increased by 9% compared to 2012. The Group also made significant product quality improvement which puts Sateri in a good position to further increase its market share going forward.

In 2013, the average selling prices ("ASP") of the Group's rayon-grade DWP and VSF were 16% and 10% respectively lower than the ASPs achieved in 2012. The ASP for specialty-grade DWP, on the other hand, remained fairly stable. As a result of the lower ASPs, the Group's revenue declined to US$646 million, representing a decrease of 10% compared to 2012.

Notwithstanding the challenging market environment and some operational issues at its mill in Brazil in the second half of 2013, the Group recorded a 14% decline in total cost of sales as the Group continued to benefit from a drop in the prices of certain key materials for VSF production, the Group's persistent effort to improve cost competitiveness as well as a weaker Brazilian Reais during the year. This brought about an improved gross profit margin and EBITDA margin of 34% and 32% respectively, compared to 31% and 28% in 2012.



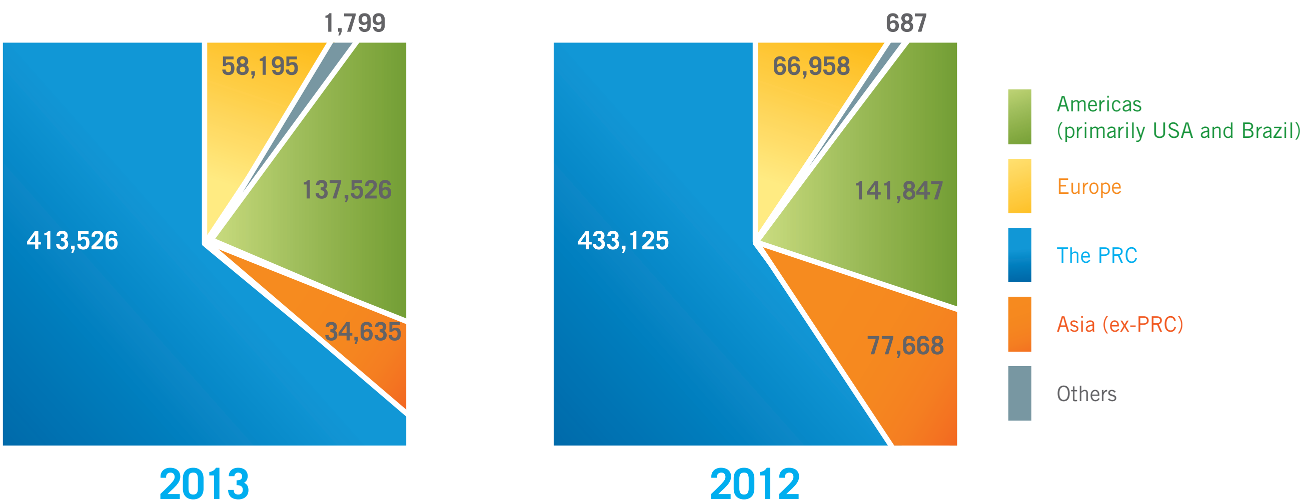
Sateri owns and operates eucalyptus plantations in Brazil, with an average harvest cycle of six to seven years. We employ sustainable, responsible and renewable cultivation techniques which increase water retention and soil fertility while minimizing soil erosion and wood wastage. We intersperse eucalyptus plantations with natural forest reserves to maintain natural flora and fauna biodiversity.

Profit attributable to shareholders declined to US$33 million, representing a decrease of 40% compared to 2012, after taking into account an adverse non-cash impact of US$22 million arising from fair value adjustments relating to forestation assets in Brazil mainly as a result of the depreciation of the Brazilian Reais against the US Dollars in 2013. There was a similar non-cash impact of US$15 million in 2012. Also, the depreciation of the Brazilian Reais against the US Dollars impacted on the deferred income tax assets as well as Brazilian Reais denominated monetary assets of the Group, resulting in a negative non-cash impact on its profit attributable to shareholders.

On 15 February 2013, the Group completed a US$500 million senior secured trade related facility agreement consisting of a five-year term loan of US$440 million and a committed revolving credit facility of US$60 million. The proceeds were used to prepay the outstanding balance of US$336 million of the previous US$470 million international syndicated loan facility, as well as for general working capital purposes.

On 6 November 2013, the Ministry of Commerce of the PRC ("MOFCOM") announced its preliminary ruling on the antidumping investigation commenced in February 2013 and as a result, certain provisional antidumping measures have been imposed against manufacturers of dissolving pulp products from the United States of America, Canada and Brazil, including BSC, a subsidiary of the Group. With effect from 7 November 2013, importers of BSC dissolving pulp products into the PRC which meet the specifications set out in the preliminary

Revenue by Geographical Markets
US$'000



ruling will have to pay a security deposit at the rate of 6.8% of the dutiable value. The Group's position is that BSC has at all times acted in accordance with all applicable laws, and any allegations or provisional findings of product dumping are entirely without merit. The Group will, through its legal advisers, continue to liaise and cooperate with MOFCOM as they work towards a final ruling that is anticipated in April 2014.

In December 2013, the first of four lines (each line with a design capacity of 50,000 metric tons per annum) of the Group's new greenfield VSF project in Fujian, China, commenced production and made good progress in terms of both production volume and product quality. When all four lines are operational and ramped up to full production, the new plant will add an aggregate annual design capacity of 200,000 metric tons, bringing the Group's total annual design capacity of VSF to 360,000 metric tons.

DWP Business

Year ended 31 December	2013	2012	Change
Production volume[Note] (metric tons)	**413,589**	432,102	(4)%
Sales volume[Note] (metric tons)	**259,916**	288,761	(10)%
ASP (US$/metric ton)	**1,201**	1,278	(6)%
Revenue (US$'000)	**312,112**	368,947	(15)%
Gross profit (US$'000)	**131,777**	154,414	(15)%
Gross profit margin (%)	**42%**	42%	
EBITDA (US$'000)	**132,594**	145,875	(9)%
EBITDA margin (%)	**42%**	40%	

Note: Production volume represents total production volume of DWP. Sales volume represents sales of DWP to third parties.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Production volume dropped slightly to 413,589 metric tons in 2013, representing a decrease of 4% compared to 2012, owing to some temporary operational issues at its mill in Brazil in the second half of 2013, most of which have since been satisfactorily resolved.

Rayon-grade pulp

Rayon-grade pulp is the principal raw material ingredient used for the production of VSF. China is the largest rayon-grade pulp market by demand, according to RISI (a leading information provider for the global forest products industry) and China Chemical Fibers and Textiles Consultancy ("CCF").

Demand for rayon-grade pulp remained robust. Current world demand for rayon-grade pulp is approximately 4.7 million metric tons annually, which grew by approximately 10% against the previous year, mainly from China. However, the continued addition of new rayon-grade DWP capacity kept pricing environment under pressure in 2013. Spot market prices remained in a narrow range of US$850 to US$930 per metric ton throughout 2013, compared to a record high of approximately US$2,600 per metric ton in the first quarter of 2011.

In 2013, the Group sold 154,213 metric tons to third parties, a decline of 20% compared to 2012 while 155,194 metric tons were sold internally from BSC to Sateri Jiangxi and Sateri Fujian, an increase of 8% compared to 2012.

With the start-up of the Group's VSF plant in Fujian, China, it is expected that the majority of BSC's rayon-grade pulp will be sold internally moving forward. Where necessary, Sateri Jiangxi and Sateri Fujian may buy rayon-grade pulp from third party suppliers to supplement BSC's production, as the Group remains focused on its strategy of increasing its specialty-grade production and sales.

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 for applications such as acetate for cigarette filters and eyeglass frames, and pharmaceutical tablets and tire cords.

Total global demand for specialty grades is currently approximately 1.6 million metric tons annually, which grew over 5% against the previous year, and is estimated to grow at 4% to 5% per annum from 2013 to 2015, according to RISI. Barriers of entry into this market are high owing to the advanced technological know-how required to produce the high purity products, the stringent customer specifications and long product qualification cycle. As such, the market prices of the specialty-grade pulp trended upward at above 8% compound annual growth rate ("CAGR") in the past decade. Market prices remained fairly stable throughout 2013. However, downward pressure surfaced towards the end of the year as suppliers negotiated their 2014 contracts, due to capacity addition from one of the major industry players coming onstream in the second half of 2013.

In 2013, the Group increased penetration into the specialty-grade pulp market and sold 105,703 metric tons of specialty-grade DWP, representing a 9% increase compared to 2012. The Group continued to make significant product quality improvement that puts it in a good position to further increase its share in the specialty-grade DWP market going forward.

VSF Business

Year ended 31 December	2013	2012	Change
Production volume (metric tons)	**181,858**	168,383	8%
Sales volume (metric tons)	**180,515**	170,634	6%
ASP (US$/metric ton)	**1,848**	2,059	(10)%
Revenue (US$'000)	**333,569**	351,338	(5)%
Gross profit(Note) (US$'000)	**85,771**	65,292	31%
Gross profit margin (%)	**26%**	19%	
EBITDA(Note) (US$'000)	**78,880**	56,930	39%
EBITDA margin (%)	**24%**	16%	

Note: The costs of producing rayon-grade pulp used by the VSF manufacturing operation are recorded within the VSF business segment.

The Group's VSF business segment comprises sales of VSF to third parties. 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, and other non-woven products.

The rapidly expanding consumer market in China makes it both the largest producer and consumer of VSF in the world, according to CCF. 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 approximately 8% per annum and by more than 10% per annum in China in the past decade according to Fiber Organon (a statistical journal published by Fiber Economics Bureau in the United States). In 2013, the demand in China exerted impressive growth of over 20% compared with the previous year according to CCF.

Despite the robust demand growth, VSF capacity was abundant in China and producers were able to ramp up production during the year. Amidst slower China economic growth and a weaker downstream pricing environment, market prices of VSF continued to be under downward pressure in 2013, and spot prices fell under US$1,800 per metric ton at the end of 2013, compared to a record high of approximately US$3,700 per metric ton in the first quarter of 2011. The Group's ASP for VSF declined by 10% year-on-year to US$1,848 in 2013.

The Group's production of VSF during the year increased by 8% from 2012 to 181,858 metric tons and sales volume increased by 6% from 2012 to 180,515 metric tons. The Group's Jiangxi VSF plant produced 179,538 tons, which is significantly above its design capacity, owing to a series of debottlenecking and efficiency optimization efforts. Cost of sales for the segment saw a significant decline during the year as a result of the Group's continuing effort to improve cost competitiveness in both rayon-grade pulp and VSF manufacturing as well as a drop in the prices of certain key materials for VSF production. As a result, the segment gross profit and EBITDA were enhanced significantly to US$86 million and US$79 million respectively.

Future Development Plan

In 2014 and beyond, the Group will continue its strategy to produce and sell more specialty-grade pulp, in view of its lower level of pricing volatility and superior positioning within the value chain. The Group's strategy is to continue strengthening its position as one of the leading global suppliers in this market, particularly in acetates.

As part of the Group's DWP-VSF integration strategy, its greenfield VSF project in Fujian, China, has commenced operation. The Group incurred US$235 million capital expenditure on this project in 2013 (2012: US$107 million) and total capital expenditure up to 31 December 2013 amounted to US$387 million. As at 31 December 2013, the Group had approximately US$65 million of capital expenditure contracted but not provided for relating to this project.

Three of the four production lines of the Fujian VSF mill are now in operation. The additional annual design capacity of 200,000 metric tons of VSF when fully operational will not only increase the Group's integration of its VSF business and its rayon-grade DWP business, it will also increase the scale and improve the competitive positioning of its VSF business in China. Also, the new mill in Fujian, China, will enable the Group to increase its penetration into the specialty VSF markets such as the non-woven sector, thus enhancing Sateri's competitive positioning in the VSF market.

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

Outlook

The Group has made significant progress during the year in the implementation of its two-pronged strategy of penetrating the specialty-grade DWP market as well as further integrating its DWP business with its VSF business by completing the construction of its Fujian mill. As a result, the Group will soon become focused on just two products, namely VSF and specialty-grade DWP and hence be much less exposed to pricing fluctuation in the rayon-grade DWP market.

Going forward, the Group will continue its relentless efforts in further penetrating the specialty-grade DWP market which has more stable and premium pricing than rayon-grade DWP, and achieve better sales mix to maximize profitability from its integrated business platform. On the VSF front, the Group will focus on ramping up the Sateri Fujian plant to design capacity, producing high quality products to target premium prices, and improve the overall profitability of the VSF business. The Group will also constantly strive to sustain its operations with improved efficiency at a competitive cost level. The above, together with its conservative cash flow and balance sheet management, means that the Group is poised to grow further in future and deliver attractive long-term shareholder value.

Financial Review

Consolidated Results

The Group's revenue decreased by 10% to US$646 million for the year ended 31 December 2013 from US$720 million in 2012 mainly as a result of the lower ASPs of rayon-grade DWP and VSF. The impact of lower revenues was partially mitigated by a reduction in the total cost of sales which declined by 14% to US$428 million from US$500 million in 2012.

As a result, gross profit decreased by 1% to US$218 million but gross profit margin improved from 31% to 34%. EBITDA increased by 3% to US$206 million and EBITDA margin also improved from 28% to 32%. However, profit attributable to shareholders decreased by 40% to US$33 million from US$56 million in 2012 and net profit margin dropped from 8% to 5%, while earnings per share decreased to US1.0 cent from US1.6 cents in 2012.

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, and conversion costs including energy, labor costs and depreciation.

The Group's cost of sales decreased by 14% to US$428 million for the year ended 31 December 2013 despite some operational issues at its mill in Brazil in the second half of 2013. The decrease was mainly due to a drop in the prices of certain key materials for production, the Group's continuing effort to improve cost competitiveness as well as a weaker Brazilian Reais during the year compared to 2012.

The average exchange rate depreciated by 11% from US$1:BRL1.95 in 2012 to US$1:BRL2.16 in 2013.

Other Income Statement Items

Selling and Distribution and Administrative Expenses

Selling and distribution expenses decreased by 14% to US$52 million for the year ended 31 December 2013, from US$61 million in 2012, mainly due to the Group's relentless efforts in cost reduction. Administrative expenses, by contrast, increased by 18% to US$76 million as a result of increasing expenses in China as the construction of the Fujian mill continued to take place during the year.

Finance Costs

The Group's finance costs increased to US$33 million for the year ended 31 December 2013 from US$30 million in 2012 as a result of the drawdown of the US$440 million term loan tranche of the US$500 million senior secured trade facility agreement completed on 15 February 2013.

Changes in Fair Value of Derivative Financial Instruments and Loss on Settlement on Derivative Financial Instruments

The Group manages its interest rate risk through the use of interest rate swaps ("IRS"). Since 2010, the Group adopted hedge accounting for its IRS under International Accounting Standard 39 ("IAS 39") whereby (i) the changes in fair value of IRS are recorded in the consolidated statement of comprehensive income, and (ii) the gain/loss on settlement of IRS are included in finance costs.

The Group mitigates the currency fluctuations affecting its operations mainly through a hedging program using plain vanilla non-deliverable forward contracts. Effective from 1 July 2012, the Group adopted hedge accounting for its currency hedging risk management program under IAS 39 whereby (i) the changes in fair value of derivative financial instruments are recorded in the consolidated statement of comprehensive income, and (ii) the gain/loss on settlement of derivative financial instruments are mainly included in cost of sales.

For the year ended 31 December 2013, the decrease in fair value of currency derivative financial instruments amounted to US$5 million. Following the adoption of hedge accounting, this amount is recorded in the consolidated statement of comprehensive income, under the line item "unrealized loss on cash flow hedge". This line item for the year ended 31 December 2013 included an increase in fair value of IRS of US$4 million, resulting in a net decrease of US$1 million.

For the year ended 31 December 2013, the loss on settlement of derivative financial instruments amounted to US$5 million. Following the adoption of hedge accounting, this is mainly recorded under the line item "cost of sales", compared to US$1 million in 2012 that was recorded under the line item "losses on settlement of derivative financial instruments" in the consolidated income statement.

Decrease in Fair Value of Forestation and Reforestation Assets

Fair value of forestation and reforestation assets is estimated by the management of the Group 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 judgements 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 such forestation and reforestation assets in the consolidated statement of financial position, and be taken in the consolidated income statement in the period.

Revaluation of the Group's forestation and reforestation assets is conducted semi-annually at each reporting date. The Group recognized a decrease in fair value of forestation and reforestation assets of US$22 million in 2013, compared with a decrease of US$15 million in 2012, due primarily to the prevailing exchange rates of the Brazilian Reais against the US Dollars at the respective year ends. The exchange rate between Brazilian Reais and US Dollars depreciated from US$1:BRL2.04 as at 31 December 2012 to US$1:BRL2.34 as at 31 December 2013.

Capital Expenditure

The Group continued to exercise careful control over capital expenditure and to constrain expenditure as appropriate during the year.

Overall, the Group incurred US$304 million in capital expenditure for the year ended 31 December 2013, compared to US$206 million in 2012. Of the US$304 million, US$64 million was incurred in Brazil, including US$32 million spent on forestation and reforestation assets, and US$5 million was incurred in Jiangxi.

During the year, the Group's new VSF mill in Fujian commenced operation. The Group incurred US$235 million on this project in 2013 (2012: US$107 million) and total capital expenditure up to 31 December 2013 amounted to US$387 million.

Charge on Assets

As at 31 December 2013, certain assets of the Group with an aggregate carrying value of US$1,073 million (2012: US$1,282 million) were pledged with banks for banking facilities used by its subsidiaries.

Cash Flow, Liquidity and Financial Position

The Group continues to be adequately capitalized and fully capable of funding its foreseeable capital expenditure requirements with cash flows from operating activities and banking facilities.

As at 31 December 2013, the Group's cash and cash equivalents (including bank balances and cash and pledged bank deposits) amounted to US$166 million, compared with US$195 million as at 31 December 2012. Net debt as at 31 December 2013 amounted to US$500 million, compared with US$302 million as at 31 December 2012. 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) was 28% as at 31 December 2013, compared to 18% as at 31 December 2012.

As at 31 December 2013, the Group had total banking facilities available for draw-down of US$387 million.

Net cash from operating activities remained at US$145 million in 2013 (2012: US$145 million).

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 stated 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 and Chinese Renminbi. All of its borrowings are in US Dollars and Chinese Renminbi and largely carry floating interest rates and the Group has entered into interest rate swap agreements to swap part of its floating interest rate borrowing for fixed interest rate to mitigate potential increases in future interest rates.

Events After Balance Sheet Date

In January through March 2014, two more production lines of the Group's new greenfield VSF project in Fujian, China, commenced production and are making good progress in terms of both production volume and product quality. The fourth production line is expected to commence soon. All production lines, totalling new capacity of 200,000 metric tons per annum, are expected to steadily ramp-up towards full production in stages over the next few months in 2014.

CORPORATE SOCIAL RESPONSIBILITY

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 the environment to achieve sustainable success of the Group.

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 business.

In Brazil, we have set aside over 20% of the Group's area for its forestry operations for the Legal Reserve and Permanent Preservation including a 90-kilometer ecological corridor. The Group employs the most advanced eco-friendly cultivation techniques, namely the "Mosaic plantation concept", which arranges harvesting and transport to increase water retention and soil fertility while minimizing soil erosion and wood wastage. This concept also promotes the interspersing eucalyptus plantations with natural forest reserves to maintain natural flora and fauna biodiversity. We operate our own nursery to cultivate eucalyptus 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.

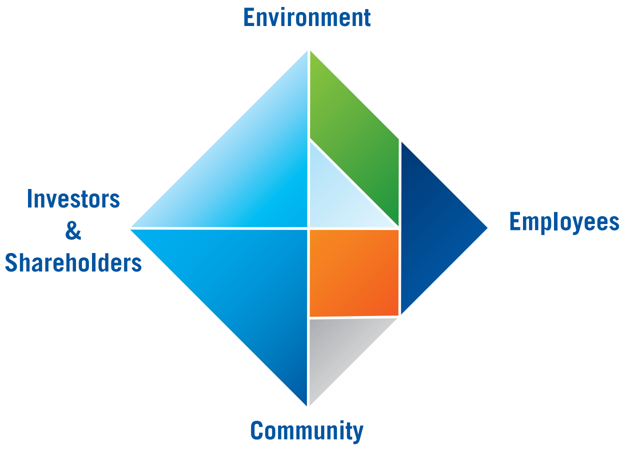
The Bahia Specialty Cellulose mill incorporates state-of-the-art design and the latest chemical recovery system which recovers and recycles up to 95% of the chemicals used in the manufacturing process, as well as increases energy efficiency so that the Group becomes less dependent on fossil fuel. As 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.

Sateri Jiangxi and Sateri Fujian control all gas emissions through their high concentration exhaust condensers, acid bath degassing systems and activated carbon absorption workshops. Sateri Fujian will also adopt the wet sulphur acid system for added efficiency to control gas emissions. In addition, both plants control all their wastewater discharge through their dedicated physiochemical and biochemical systems. These are closely monitored internally and online by the Chinese government regulatory bodies.

Sateri was one of the early pioneers in China to sign the "First Manifesto on Establishing Green Enterprises". Sateri Jiangxi also obtained Swiss-based Oeko-tex certification which confirms its viscose staple fiber products are free from harmful substances and comply with the human-ecological requirements under relevant regulations of the European Union.

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 worked hand in hand with local government to elevate environmental consciousness amongst elementary and high school students. In Fujian, China, we also actively hosted public events in the community to promote environmental protection.



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

Investors & Shareholders

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

The Group maintains continuous communications with shareholders, analysts and the media, ensuring fair disclosure through regular meetings, conference calls, and other investor events. Through our investor relations websites, (www.sateri.com and www.irasia.com/listco/hk/sateri) 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.

During the year, the Group won awards in investor relations and corporate governance arenas. We were awarded "Best Investor Relations Company (China)" and "Asia's Outstanding Company on Corporate Governance (China)" from Corporate Governance Asia Magazine, as well as "The Excellence of Listed Enterprise Awards 2013" from Capital Weekly.

CORPORATE SOCIAL RESPONSIBILITY

The Company considers the Annual General Meeting as an important opportunity for face-to-face communication between the Board and shareholders. The meeting provides a platform for Board members to address questions raised and to listen to the views of our shareholders.

Employees

Our sustainability relies on the growth of trees and people. People are one of the most important assets of Sateri. As at 31 December 2013, the Group's total employee count was 3,137 with 1,250 employees working in Brazil, 1,878 in China and the remaining in other parts of the world. Of this figure, about 98% are operational staff working in our mills in Brazil, Jiangxi and Fujian, China.

Remuneration packages, including basic salaries, bonuses and benefits-in-kind are structured with reference to market terms and individual merit and are reviewed annually. In July 2013, the Company granted restricted share units to key employees as part of a broader incentive plan.

The Group remained committed to staff development throughout the year and the 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.

In Brazil, the Group has established the Community Planting Program since 2006 where it provides for the cultivation of eucalyptus by small rural landowners on their properties, with a commitment to sell the wood back to the Group. The aim is to plant up to 20,000 hectares of farm trees by 2019 and to date, approximately 7,500 hectares have been planted with eucalyptus trees, providing a source of income to over 70 families under this program.

The Group also established the Piassava Program in Brazil, which helps 150 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.

During the year, the Group established a new partnership program to extend its support to women artisans in Brazil. In 2013, over 60 women in the municipalities of Itanagra and Aracas have registered to participate in the project Fibers of the Land, providing them necessary support to generate income. A total of 210 families benefited from this project.

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 approximately 200 beekeepers living there.

To step up our support to meeting the growing needs of the community in Bahia, Brazil, the Group developed programs to promote environmental education in the city and state schools in areas in which the Group operates in Brazil. Through the program, the Group offers guided tours of its environmentally-protected areas and offers workshops about the recovery of damaged areas and restoration of the riparian forest. Ecological Corridor Coconut-tree Coast Institute and University of the State of Bahia are our partners in this project and more than 1,200 students benefited from the program.

Working with SESI, a local organization in Brazil focused on social services for the industry, we have established the Elevation of Schooling 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 classes four 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 benefiting 80 of our staff members.

The Group also implemented a pilot project to strengthen classroom practice and improve student learning outcomes in Apora, Brazil. 120 education professionals and about 2,000 students benefited from this program in 2013.

In Jiangxi province, China, the Group has long-established financial aid programs for students from under-privileged families as well as scholarships for excellent academic performance. In Fujian province, China, the Group provided free medical consultation for the elderly and awarded prominent teachers to promote corporate social responsibility.

During the year, the Group contributed to various charitable causes to benefit the less privileged. For example, it made a donation of RMB4 million to support the earthquake relief efforts at the Lushan and Baoxing counties of the Sichuan Province in China.

Going forward, Sateri will continue to actively support the local community and partner with local government bodies and schools on various initiatives to benefit the community in both Brazil and China.

BOARD OF DIRECTORS

Chairman

John Jeffrey YING, 51, 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 is a non-executive director of Tai Ping Carpets International Limited, a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). 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 the chairman emeritus of The Hong Kong Ballet and a director emeritus of the Graduate Executive Board of The Wharton School. 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 Director

TEY Wei Lin, 42, was appointed as the Chief Executive Officer of the Company with effect from 18 March 2014. He was appointed as a non-executive Director in June 2010 and subsequently re-designated as an executive Director of the Company in March 2012 and appointed as the Acting Chief Executive Officer of the Company in September 2012. He is also a member of the Executive Committee, the Remuneration Committee and the nomination committee (the "Nomination Committee") of the Company. 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") and has held senior management positions with the RGE group of companies since 2001. He is a director and a responsible officer (pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)) of Pacific Eagle Asset Management Limited. 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.

Independent Non-Executive Directors

Jeffrey LAM Kin Fung, GBS, JP, 62, has been an independent non-executive Director of the Company since October 2010. He is also the chairman of the Remuneration Committee. 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. He serves as an independent non-executive director of several other companies listed on the Stock Exchange, namely China Overseas Grand Oceans Group Limited, Wynn Macau, Limited, Hsin Chong Construction Group Limited, CC Land Holdings Limited, Chow Tai Fook Jewellery Group Limited and Shougang Concord Technology Holdings Limited. He is a member of the National Committee of the Chinese People's Political Consultative Conference, a member of the Hong Kong Legislative Council, a non-official member of the Executive 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 board of Airport Authority Hong Kong and a member of the Independent Commission Against Corruption Complaints Committee. 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, the vice chairman of The Hong Kong Shippers' Council and a member of the Fight Crime Committee.

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, 65, has been an independent non-executive Director of the Company since October 2010. He is also the chairman of the audit committee (the "Audit Committee") and a member of the Nomination Committee. Mr. Yu has extensive experience in the fields of corporate finance, auditing and corporate management. He is the chairman of MCL Financial Group Ltd, a Hong Kong-based financial advisory and investment firm. He serves as an independent non-executive director of several other companies listed on the Stock Exchange, namely Great China Holdings Limited, Haier Electronics Group Co., Ltd., China Renewable Energy Investment Limited, Media Chinese International Limited, One Media Group Limited, Playmates Holdings Limited, Synergis Holdings Limited, VXL Capital Limited, China Resources Gas Group Limited, Keck Seng Investments (Hong Kong) Limited and New Century Asset Management Limited (as manager of New Century Real Estate Investment Trust). Mr. Yu obtained a bachelor's degree in social sciences from the Chinese University of Hong Kong in 1971. He 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.

BOARD OF DIRECTORS

LIM Ah Doo, 64, has been an independent non-executive Director of the Company since March 2012. He is also the chairman of the Nomination Committee and a member of the Audit Committee. Mr. Lim has extensive experience as a former senior banker and corporate executive. He is currently an independent director and chairman of the audit committee of U Mobile Sdn Bhd. Mr. Lim is also on the board of several listed entities, acting as an independent director of SM Investments Corporation, a company listed on the Philippine Stock Exchange, and an independent director and chairman of the audit committees of each of Sembcorp Marine Ltd ("Sembcorp"), GP Industries Ltd ("GP Industries"), Linc Energy Limited ("Linc") and ARA-CWT Trust Management (Cache) Limited, trustee manager of listed Cache Logistics Trust. Shares of Sembcorp and GP Industries and units of Cache Logistics Trust are listed on the Stock Exchange of Singapore (the "Singapore Stock Exchange"). Shares of Linc are listed on the Singapore Stock Exchange and the OTCQX (USA). Mr. Lim 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 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.

LOW Weng Keong, 61, has been an independent non-executive Director of the Company since April 2013. He is also a member of the Audit Committee and the Remuneration Committee. Mr. Low has extensive experience in accounting, taxation and advisory services. He is currently an independent director of UOL Group Limited and Riverstone Holdings Limited, both of which are companies listed on the Singapore Stock Exchange. He is also a director of the Singapore Institute of Accredited Tax Professionals Limited, a director of the Confederation of Asian and Pacific Accountants, a councillor of the Singapore Division of CPA Australia, a former global president and chairman of CPA Australia Limited and a member of the Singapore Goods and Services Tax Board of Review. He was a former head of tax services as well as country managing partner and head of Ernst & Young Singapore from which firm he retired in 2005 after 19 years of service. Prior to that he was the far east area tax manager for Brown & Root Inc., a US Fortune 500 company. Mr. Low is a life member of CPA Australia, a fellow member of the Institute of Chartered Accountants in England & Wales and the Institute of Singapore Chartered Accountants, an associate member of the UK Chartered Institute of Taxation and an accredited tax advisor of the Singapore Institute of Accredited Tax Practitioners.

Sateri's products are known for their high purity, minimal organic pollutants, optimal whiteness and viscosity; highly desirable properties that make them suitable for use in many applications.

SENIOR MANAGEMENT

Corporate

ANG Eugene, 45, has been the Vice President for Corporate Finance of Sateri since 2007. Mr. Ang has extensive experience in finance, tax and banking. Prior to joining Sateri in 2004, he was senior vice president at BNP Paribas. Mr. Ang graduated with a bachelor's degree in accountancy from National University of Singapore in 1992. He 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.

AU-YANG Peter, 53, has been the Chief Financial Officer of Sateri since 2013. Mr. Au-Yang has over 17 years of experience in the investment banking industry in Asia and was an executive director and the chief operating officer of The Securities and Futures Commission between 2003 and 2006. Mr. Au-Yang graduated with a bachelor of science degree in business studies from University of Bradford in 1982 and a master of science degree in accounting and finance from the London School of Economics and Political Science in 1983.

DOHRN Peer, 51, has been the Vice President for Specialty-grade Pulp Sales of Sateri since 2010 and he joined Sateri in 2007. Prior to joining Sateri, Mr. Dohrn was sales manager for Europe of Western Pulp Limited in Vancouver, Canada and Buckeye Technologies in Memphis, USA for over 10 years. 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.

POON Wai Yip Ben, 50, has been the Senior Vice President for Commercial of Sateri since 2012. Prior to joining Sateri, Mr. Poon was Asia Pacific managing director for Cookson Electronic-Enthone division. Mr. Poon also spent 21 years at The Dow Chemical Company with his last position as global commercial vice president for MEGlobal. Mr. Poon graduated with a master of business administration degree from University of Louisiana at Monroe in 1988. He is a member of both Chartered Institute of Management Accountants and Hong Kong Institute of Certified Public Accountants.

SIM Sze Kuan, 49, has been the Vice President for Legal Affairs of Sateri since 2012. Mr. Sim was previously the Acting Head, Legal for RGE Pte Ltd until 2011. Prior to then, Mr. Sim was a partner in private practice at Singapore law firm Khattar Wong and Partners from 1992 to 2000, and Director Legal with a Singapore venture-capital fund, Bio-One Capital, from 2001 to 2008. He is a certified lawyer admitted in the jurisdictions of England and Wales, Singapore, Hong Kong and New York. Mr. Sim graduated with a LLB degree from the London School of Economics and Political Science in 1988.

SUN Yongning, 64, has been the Associate Director for Marketing of Rayon-grade Pulp and Viscose Staple Fiber of Sateri since 2009 and he joined Sateri in 2002. Mr. Sun has more than 40 years of experience in consultancy, sales and customer service in the viscose staple fiber industry. Mr. Sun graduated with a diploma in economics from Beijing Economic Management College in 1987. He has been the vice president of China Chemical Fiber Industry Association since 2009.

Brazil Operations

LEITE Marcelo, 56, has been the Technical Director of Bahia Specialty Cellulose since 2009 and he joined Bahia Specialty Cellulose in 2006. Prior to then, 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.

LINDBLOM Per, 48, has been the Managing Director of Bahia Specialty Cellulose since 2012. Mr. Lindblom worked for more than 10 years in Asia Pacific Resources International Limited, a member of the RGE group, with his last position as business unit head for Riau Pulp, one of the largest pulp mills in the world. Mr. Lindblom graduated with a master's degree in mechanical engineering from Lulea University in Sweden in 1990.

WEITZL Otto, 61, has been the Finance Director of Bahia Specialty Cellulose since 2012 and he joined Sateri in 2007. He has more than 30 years of experience in finance and the viscose staple fiber industry. Prior to joining Sateri, Mr. Weitzl was 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 as head of finance and treasury of the group and chief financial officer for various group entities.

China Operations

CHEN Xiaorong, 46, has been a General Manager of Sateri Jiangxi since 2012. Mr. Chen has more than 20 years of experience in manufacturing operations including more than 13 years of operation management experience in US companies. He was a quality manager of ABB Zhongshan for more than 4 years, a quality and operation system manager of Kohler Foshan for 3 years, and a plant director of PGI non-woven company for more than 6 years. Mr. Chen graduated with a bachelor of electric degree from Hunan University in 1992. He was certified for six-sigma black belt in 2002, with experience in six-sigma and lean manufacturing for cost saving.

LIN Wu Kun, 62, has been the Senior Advisor, Technical (viscose staple fiber) of Sateri since 2010 and he joined Sateri in 2003. Mr. Lin has over 35 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.

LIU Jeff, 47, has been a General Manager of Sateri Fujian since 2011. He has over 20 years of experience in production management. Prior to 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, 47, has been the Acting General Manager of Sateri Fujian since 2012 and he joined Sateri in 2003. He has 25 years of experience in viscose area. Prior to joining Sateri, he worked in Jiujiang Chemical Fibre Company. Mr. Wu graduated with a diploma from 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.

During the year ended 31 December 2013, the Company has applied the principles of, and complied with, its Corporate Governance Manual and the applicable code provisions of the Corporate Governance Code and Corporate Governance Report (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"), save for the deviation as disclosed below:

Code provision A.4.1 of the CG Code stipulates that non-executive directors should be appointed for a specific term, subject to re-election. Our Non-executive Directors (including Independent Non-executive Directors) are not appointed for a specific term but are subject to retirement by rotation and re-election by shareholders of the Company (the "Shareholders") 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

Board Leadership

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, corporate governance practices and procedures, and other significant financial and operational matters.

The Board may delegate aspects of its management and administration functions to the management by giving clear directions as to the management's powers. In particular, the day-to-day management of the Company is delegated to the Chief Executive Officer (or the Acting Chief Executive Officer, as the case may be) 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 Company has arranged appropriate Directors' and officers' liabilities insurance coverage for the Directors and officers of the Company.

Composition

The composition of the Board during the year ended 31 December 2013 and up to the date of this report is set out as follows:

Independent Non-executive Directors:

John Jeffrey YING (Chairman)
Jeffrey LAM Kin Fung
David YU Hon To
LIM Ah Doo
LOW Weng Keong (appointed on 2 April 2013)

Executive Director:

TEY Wei Lin (Acting Chief Executive Officer)

Mr. John SETO Gin Chung retired as a Non-executive Director with effect from the conclusion of the annual general meeting held on 21 May 2013.

Biographical details of the Directors are set out in the section "Board of Directors" on pages 26 to 28 of the annual report for the year ended 31 December 2013 (the "2013 Annual Report") and on the Company's website. There are no family or other material relationships among members of the Board. The Company has maintained on the websites of the Stock Exchange and the Company an updated list of its Directors and their roles and functions. All Independent Non-executive Directors are identified as such in the updated list and in all corporate communications that disclose the names of the Directors.

Changes in Directors' Information

Each Director has informed the Company in a timely manner of any change, the number and nature of offices held in public companies or organizations and other significant commitments. The Company will disclose the changes, if any, in accordance with regulatory and statutory requirements.

Changes in information of Directors which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, since the publication of the Company's interim report for the six months ended 30 June 2013, are set out below:

(a) Mr. LOW Weng Keong, an Independent Non-executive Director, (i) ceased to be a director of CPA Australia Limited with effect from 30 September 2013; (ii) ceased to be an independent director of Pan Pacific Hotels Group Limited with effect from 31 October 2013; and (iii) was appointed as a director of the Confederation of Asian and Pacific Accountants with effect from 21 November 2013;

(b) Mr. Jeffrey LAM Kin Fung, an Independent Non-executive Director, (i) was appointed as an independent non-executive director of Shougang Concord Technology Holdings Limited with effect from 24 October 2013; and (ii) was appointed as a member of the Independent Commission Against Corruption Complaints Committee for a term of two years with effect from 1 January 2014;

(c) Mr. David YU Hon To, an Independent Non-executive Director, retired as an independent non-executive director of TeleEye Holdings Limited with effect from 25 October 2013;

(d) Mr. LIM Ah Doo, an Independent Non-executive Director, (i) was appointed as an independent director and chairman of the audit committee of Linc Energy Limited with effect from 22 November 2013, a company which is currently listed on the Singapore Stock Exchange and the OTCQX (USA); and

(e) Mr. TEY Wei Lin, the Acting Chief Executive Officer and Executive Director, was appointed as the Chief Executive Officer of the Company with effect from 18 March 2014.

Independence of Independent Non-executive Directors

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. The Board has received from each Independent Non-executive Director an annual written confirmation of his independence and is of the view that all the Independent Non-executive Directors meet the guidelines for assessing independence as set out in Rule 3.13 of the Listing Rules and are independent.

Roles of Chairman and Chief Executive Officer

The roles of the Chairman and Chief Executive Officer are segregated. The Chairman, who is an Independent Non-executive Director, is responsible for leadership of the Board, for ensuring that the Board functions effectively and independently. The Chief Executive Officer (or the Acting Chief Executive Officer, as the case may be) 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 (or the Acting Chief Executive Officer, as the case may be).

Board Meetings and Supply of and Access to Information

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 with at least 14 days' notice. Additional meetings with reasonable notice will be held as and when the Board considers appropriate. Regular Board meetings each year are scheduled in advance to maximize attendance of Directors. During the year ended 31 December 2013, five Board meetings were held.

Draft agenda for each Board meeting is circulated to all Directors to enable them to include matters in the agenda as appropriate. The agenda, together with Board papers, are sent to all Directors no less than three days prior to the regular Board meeting (and so far as practicable for such other Board meetings).

The Company Secretary records in sufficient detail the matters considered, decision reached and any concerns raised or dissenting views expressed by the Directors. Draft minutes of each Board meeting are circulated to all Directors within a reasonable time after each meeting for their comment before being tabled at the following Board meeting for approval. All Board minutes are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any Director.

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 the purpose of determining quorum.

Every Director has right of access to information on the Group 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 Affairs of the Company. Each of the Directors also has separate and independent access to the Company's senior management and is entitled to seek independent professional advice in appropriate circumstances at the Company's expense to perform their duties.

The Board has been provided, on a monthly basis, with the Group's monthly management information updates of major business operations, which present a balanced and understandable assessment of the Group's performance, position and prospects.

Details of Directors' attendance at the Board meetings, the Board committees meetings, and the general meetings held in 2013 are set out below:

Directors' attendance at meetings

	Board	Audit Committee	Remuneration Committee	Nomination Committee	Executive Committee	Annual General Meeting
Number of Meetings held	5	4	2	2	6	1
			Meetings Attended/Held			
Independent Non-executive Director						
John Jeffrey YING	5/5	–	2/2	–	6/6	1/1
Jeffrey LAM Kin Fung(1)	5/5	3/3	2/2	–	–	1/1
David YU Hon To(2)	5/5	4/4	1/1	2/2	–	1/1
LIM Ah Doo	5/5	4/4	–	2/2	–	1/1
LOW Weng Keong(3)	3/3	3/3	1/1	–	–	1/1
Non-executive Director						
John SETO Gin Chung(4)	3/3	–	–	–	2/2	1/1
Executive Director						
TEY Wei Lin	5/5	–	2/2	2/2	6/6	1/1

Notes:

1. Mr. Jeffrey LAM Kin Fung ceased to be a member of the Audit Committee with effect from 13 August 2013.
2. Mr. David YU Hon To ceased to be a member of the Remuneration Committee with effect from 13 August 2013.
3. Mr. LOW Weng Keong was appointed as an Independent Non-executive Director and a member of each of the Audit Committee and the Remuneration Committee with effect from 2 April 2013.
4. Mr. John SETO Gin Chung retired as a Non-executive Director and ceased to be a member of the Executive Committee after the conclusion of the AGM held on 21 May 2013.

Appointment, Re-election and Rotation of Directors

Each Director has entered into a service contract with the Company and is subject to retirement by rotation and re-election by Shareholders at the AGM(s) 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 AGM(s) 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" of this report.

Induction, Board Visit and Continuous Professional Development of Directors

Each newly appointed Director receives a comprehensive, formal and tailored induction on the first occasion of his appointment so as to help ensure that he has an 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 the relevant legal and regulatory requirements.

The Company Secretary from time to time provides updated materials to Directors and organizes in-house seminars conducted by professional organizations in relation to the latest development and changes to the Listing Rules and the relevant legal and regulatory requirements relating to Directors' duties and responsibilities in the discharge of their duties. Form time to time, Directors also attend corporate events or visits as arranged by the Company for a deeper understanding of the Group's business operations.

The Directors have provided to the Company their records of continuous professional development during the year 2013, a summary of which is set out below:

Directors' participation in Continuous Professional Development

Name of Directors	Corporate governance or regulatory development related	Business or management related
Independent Non-executive Directors		
John Jeffrey YING	✓	✓
Jeffrey LAM Kin Fung	✓	✓
David YU Hon To	✓	✓
LIM Ah Doo	✓	✓
LOW Weng Keong	✓	✓
Non-executive Director		
John SETO Gin Chung(1)	✓	✓
Executive Director		
TEY Wei Lin	✓	✓

Note:

1. Mr. John SETO Gin Chung retired as a Non-executive Director after the conclusion of the AGM held on 21 May 2013.

Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted its own Guidelines on Securities Transactions regarding securities transactions by Directors, directors of subsidiaries, and relevant employees who are likely be in possession of unpublished price-sensitive or inside 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. Reminders are sent during each year to Directors, directors of subsidiaries, and relevant employees that they should not deal in the securities of the Company during the "black-out period" specified in the Model Code.

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 and the Model Code regarding Directors' securities transactions for the year ended 31 December 2013.

Corporate Governance Functions

The Board is responsible for performing the corporate governance functions as set out under code provision D.3.1 of the CG Code. For the year ended 31 December 2013 and up to the date of this report, significant corporate governance matters reviewed and discussed by the Board include the regular review of policies and practices on corporate governance and compliance, review of training and continuous professional development of Directors, adoption of the Board Diversity Policy, and disclosure in this report.

Board Committees

The Board has established the Audit Committee, the Remuneration Committee, the Nomination Committee and the Executive Committee with written terms of reference approved by the Board.

Each of the above Board committees is chaired by an Independent Non-executive Director. 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 Board committee chairmen shall report formally to the Board on the Board committee's decisions and recommendations where appropriate.

Audit Committee

The Audit Committee is chaired by an Independent Non-executive Director and comprises only Independent Non-executive Directors, at least one of whom possesses the appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules. The current composition of the Audit Committee is as follow:

Independent Non-executive Directors:

David YU Hon To (Chairman of the Audit Committee)
LIM Ah Doo
LOW Weng Keong (appointed as a committee member on 2 April 2013)

Mr. Jeffrey LAM Kin Fung ceased to be a member of the Audit Committee with effect from 13 August 2013.

The primary duties of the Audit Committee are to review the financial reporting process and internal controls. The Audit Committee has the responsibility of overseeing the relationship between the Company and its external auditors, reviewing the Group's financial results, overseeing the Group's financial reporting system and internal control procedures, and devising and implementing the risk management measures of the Group.

Details of the duties of the Audit Committee are set out in the terms of reference of the Audit Committee, which is available at the websites of the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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 2013, the Audit Committee held four meetings and met with the external auditor twice at pre-meeting sessions in the absence of the management of the Company. The attendance of each member of the Audit Committee is set out in the section headed "The Board" of this report.

For the year ended 31 December 2013 and up to the date of this report, the Audit Committee's review mainly covers audit plans and findings of the internal and external auditors, the external auditor's independence, re-appointment of the external auditor, the Group's accounting principles and practices, the Listing Rules and statutory compliance, internal controls, risk management, financial reporting matters and the adequacy of resources, qualification 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 the internal controls system was effective and adequate.

Remuneration Committee

The Remuneration Committee is chaired by an Independent Non-executive Director and comprises a majority of Independent Non-executive Directors. The current composition of the Remuneration Committee is as follow:

Independent Non-executive Directors:

Jeffrey LAM Kin Fung (Chairman of the Remuneration Committee)
John Jeffrey YING
LOW Weng Keong (appointed as a committee member on 2 April 2013)

Executive Director:

TEY Wei Lin

Mr. David YU Hon To ceased to be a member of the Remuneration Committee with effect from 13 August 2013.

The Remuneration Committee is responsible for making recommendations to the Board on the Company's policy and structure for the remuneration of the Directors and the senior management of the Company. It shall determine, with delegated responsibility, the remuneration packages of the Executive Director and the senior management of the Company. It shall also make recommendations to the Board on the remuneration of Non-executive Directors, including Independent Non-executive Directors. No Director is involved in deciding his own remuneration.

Details of the duties of the Remuneration Committee are set out in the terms of reference of the Remuneration Committee, which is made available at the websites of the Company and the Stock Exchange.

The Remuneration Committee shall meet at least once a year. During the year ended 31 December 2013, two meetings of the Remuneration Committee were held. The attendance of each member of the Remuneration Committee is set out in the section headed "The Board" of this report. In addition to the committee meetings, the Remuneration Committee also dealt with matters by way of circulation during 2013.

For the year ended 31 December 2013 and up to the date of this report, the Remuneration Committee's duties performed mainly covered the review of the policy and structure for the remuneration of Directors and the senior management of the Company, the review and recommendation for Board approval of proposed Directors' fees to each of the Executive Director, Non-executive Director and Independent Non-executive Directors, the review and determination of remuneration packages of the Executive Director and the senior management of the Company, the review of the Remuneration Policy of the Company, 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.

For the year ended 31 December 2013, details of the remuneration of Directors on individual-name basis and the senior management of the Company by band are set out in note 10 of the notes to the consolidated financial statements on pages 97 and 98 of the 2013 Annual Report.

Nomination Committee

The Nomination Committee is chaired by an Independent Non-executive Director and comprises a majority of Independent Non-executive Directors. The current composition of the Nomination Committee is as follow:

Independent Non-executive Directors:

LIM Ah Doo (Chairman of the Nomination Committee)
David YU Hon To

Executive Director:

TEY Wei Lin

The Nomination Committee is responsible for reviewing the balance of skills, experience and diversity of the Board and making recommendations to the Board on the appointment and re-appointment of Directors to complement the Company's corporate strategy.

Details of the duties of the Nomination Committee are set out in the terms of reference of the Nomination Committee, which is available at the websites of the Company and the Stock Exchange.

As set out in the Board Diversity Policy adopted by the Company in August 2013, the Company considers the Board should have a balance of skills, experience and diversity of perspectives. The Nomination Committee will consider a number of factors, such as gender, age, cultural and educational background, professional experience and skills, and knowledge, in the selection of Directors to the Board. The Nomination Committee and the Board will review the Board Diversity Policy, at least annually, to ensure its continued effectiveness.

The Nomination Committee shall meet at least once a year. During the year ended 31 December 2013, two meetings of the Nomination Committee were held. The attendance of each member of the Nomination Committee is set out in the section headed "The Board" of this report. In addition to the committee meetings, the Nomination Committee also dealt with matters by way of circulation during 2013.

For the year ended 31 December 2013 and up to the date of this report, the Nomination Committee's duties performed included the review of the structure, size and composition of the Board, the review of the independence of Independent Non-executive Directors, the nomination of a new Independent Non-executive Director and the nomination of Directors retiring by rotation and their re-election, recommendations to the Board on changes of composition of the relevant Board committees, the adoption of the Board Diversity Policy, and review of the revised terms of reference of the Nomination Committee.

Executive Committee

The Executive Committee is chaired by an Independent Non-executive Director who is also the Board Chairman and comprises two Directors. The current composition of the Executive Committee is as follow:

Independent Non-executive Director:

John Jeffrey YING (Chairman of the Executive Committee)

Executive Director:

TEY Wei Lin

Mr. John SETO Gin Chung ceased to be a member of the Executive Committee upon his retirement as a Non-executive Director with effect from 21 May 2013.

During the year ended 31 December 2013, six meetings of the Executive Committee were held. The attendance of each member of the Executive Committee is set out in the section headed "The Board" of this report.

The Executive Committee performed its duties and responsibilities under its terms of reference, including reviewing the operating performance and financial position of the Group and evaluating the business strategies of the Group.

Details of the duties of the Executive Committee are set out in the terms of reference of the Executive Committee, which is made available at the website of the Company.

Accountability and Audit

Financial Reporting

The Directors acknowledge their responsibility for the preparation of the financial statements of the Company to ensure that the financial statements give a true and fair presentation in accordance with the International Financial Reporting Standards. The statement by the independent auditor about their reporting responsibilities is set out in the Independent Auditor's Report on pages 56 and 57 of the 2013 Annual Report.

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 their audit, approve their fees, and the scope and appropriateness of non-audit services, if any, to be provided by them. 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 and non-audit services provided to the Group for the year ended 31 December 2013 amounted to approximately US$1,100,000 and approximately US$100,000 respectively. The non-audit services mainly consist of tax advisory services in Brazil and the PRC.

Internal Controls and Risk Management

The Board has overall responsibility for the Group's system of internal controls 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.

The Group regards internal audit as an important part of the Board's oversight function. The Group's internal audit department (the "IA department") is authorized by the Board to have access to all records, people and physical properties relevant to the performance of internal audit. The IA department has unrestricted access to the chairman of the Audit Committee and reports directly to the Audit Committee for direction and accountability. This reporting relationship enables the IA department to provide an objective assurance to the effectiveness of the internal control system of the Group.

The IA department prepares and submits an internal audit plan to the Audit Committee for approval on an annual basis, according to a risk-based audit priority weighting policy. Reports to the management are prepared after completion of the audit work, and are summarized for review at each Audit Committee meeting. Continual follow-up work is undertaken by the IA department to establish the extent of completion of remedial actions taken by the management, with follow-up results and available resources reviewed by the Audit Committee at each committee meeting.

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 the IA department on an ongoing basis.

For the year ended 31 December 2013 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

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

The IA department adopts a risk based approach to conduct its annual audits and assesses the risk levels faced by the Group and its operations through its past audit findings, risk assessment and consultations with both the management and Audit Committee. The scope of work performed by the IA department includes operational, financial and IT audits, special investigations and productivity efficiency reviews. To permit the rendering of impartial and unbiased judgement essential to the proper conduct of audits, the IA department is independent of the activities it audits. This does not preclude the IA department's proactive engagement of the management of the Company in planning processes or special assignments that have been approved by either the Chief Executive Officer (or the Acting Chief Executive Officer, as the case may be) or the Audit Committee. The IA department communicates the results of its projects to the senior management of the Company through its reports on an as-completed basis as well as to the Audit Committee on a regular basis in the Audit Committee meetings.

Whistleblowing Policy

The Company has established a whistleblowing policy and system for employees as well as customers and suppliers to raise concerns, in confidence, about possible improprieties in any matter related to the Group.

Company Secretary

The Company Secretary is a full time employee of the Company and has day-to-day knowledge of the Company's affairs. The Company Secretary reports to the Chairman of the Board and is responsible for ensuring Board meeting procedures are followed, advising the Board on governance matters, and facilitating induction and continuous professional development of the Directors. During 2013, the Company Secretary undertook over 15 hours of professional training to update her skills and knowledge.

Constitutional Documents

No changes were made to the Company's constitutional documents during the year ended 31 December 2013. The Memorandum of Association and Bye-laws of the Company are available on the websites of the Company and the Stock Exchange.

Communication with Shareholders

The Board recognizes the significance and importance of providing clear and full information of the Group to the Shareholders. The Company has adopted a Shareholders' Communication Policy and will review the same on a regular basis to ensure its effectiveness.

The Company's website provides a channel for the Shareholders and interested parties to access information about the Group. The Group's key corporate governance policies and supporting documents, including the terms of reference of the various Board committees, financial reports, press releases and announcements are available on the Company's website.

The Company's AGM is a valuable forum for the Board to communicate directly with the Shareholders. For the AGM, notice to Shareholders must be sent at least 20 clear business days in advance, and for all other general meetings, at least 10 clear business days in advance. The Chairman, together with the chairmen of the Audit Committee, Remuneration Committee and Nomination Committee and the external auditor are required to attend the AGM. The Chairman provides an explanation of the detailed procedures for conducting a poll to the Shareholders at the commencement of the meeting and answers questions from Shareholders in relation to voting by poll. The Company follows the procedure of proposing a separate resolution for each substantive issue, including the election of individual Directors. The Company's Hong Kong branch share registrar acts as scrutineer to monitor and count the poll votes cast at the AGM. The results of the voting by poll are published on the websites of the Company and the Stock Exchange.

The last AGM was held on 21 May 2013. Details of the matters to be resolved at the AGM were set out in the circular to the Shareholders. All resolutions put to the Shareholders at the AGM were passed.

Shareholders may direct their questions about their shareholdings to the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited. Shareholders and the investment community, including potential investors and analysts reporting and analyzing the Company's performance may at any time make a request for the Company's information to the extent such information is publicly available, or make any query in respect of the Company. The designated contact details are set out in the section headed "Information for Investors" of the 2013 Annual Report.

Shareholders' Rights

Procedures for Shareholders to convene a SGM

Pursuant to bye-law 58 of the Bye-laws of the Company (the "Bye-laws") and Section 74 of the Companies Act 1981 of Bermuda (the "Act"), registered Shareholder(s) holding not less than one-tenth of the paid-up capital of the Company carrying voting rights at general meetings of the Company (the "SGM Requisitionist(s)") can request the convening of a special general meeting (the "SGM") by written requisition. The written requisition, with the proposed object(s) of the SGM, must be signed and validly deposited at the registered office of the Company, which is situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda (the "Registered Office") for the attention of the Board or the Company Secretary.

If the Board does not within 21 days from the date of deposit of the written requisition proceed to convene a SGM, the SGM Requisitionist(s), or any of them representing more than one-half of the total voting rights of all of them, may themselves convene a SGM, but any SGM so convened shall not be held after the expiration of three months from the date of the deposit of the written requisition.

Procedures for Shareholders to make enquiries to the Board

Shareholders may at any time send their enquiries to the Board in writing through the Investor Relations Department with contact details as shown in the section headed "Information for Investors" of the 2013 Annual Report. Shareholders may also make enquiries with the Board at the general meetings of the Company.

Procedures for Shareholders to put forward proposals at a general meeting

Pursuant to Sections 79 and 80 of the Act, either any number of the registered Shareholders holding not less than one-twentieth of the paid-up capital of the Company carrying the voting right at general meetings of the Company, or not less than 100 of such registered Shareholders (the "Requisitioner(s)"), can request the Company in writing to (i) give to Shareholders entitled to receive notice of the next general meeting notice of any resolution which may properly be moved and is intended to be moved at the meeting; and (ii) circulate to Shareholders entitled to have notice of any general meeting any statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

The written requisition must be signed by all the Requisitioners and be deposited at the Registered Office for attention of the Company Secretary with a sum reasonably sufficient to meet the Company's relevant expenses, not less than six weeks before the meeting in the case of a requisition requiring notice of a resolution, or not less than one week before the meeting in the case of any other requisition. Provided that if any AGM is called for a date six weeks or less after the requisition has been deposited, the requisition though not deposited within the time required shall be deemed to have been properly deposited for the purposes thereof.

Procedures for Shareholders to propose a person for election as a Director

As regards the procedures for proposing a person for election as a Director, details are available at the Company's website as set out in the section headed "the Company – Corporate Governance".

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.

DIRECTORS' REPORT

The Directors present their Report together with the audited financial statements of Sateri Holdings Limited (the "Company") and its subsidiaries (together with the Company, the "Group") for the year ended 31 December 2013.

Principal Activities

The principal activity of the Company is investment holding, and the principal activities of its subsidiaries are set out in note 34 of the notes to the consolidated financial statements.

Results and Dividend

The results of the Group for the year ended 31 December 2013 are set out in the consolidated income statement of the Group on page 58 of the annual report for the year ended 31 December 2013 (the "2013 Annual Report").

The Board has recommended a final dividend of HK2.5 cents per share for the year ended 31 December 2013 (2012: HK2.5 cents per share) payable to the shareholders of the Company (the "Shareholders") whose names appear on the register of members of the Company on 27 May 2014.

The Board did not declare any interim dividend for 2013 (2012: nil) and total distribution for the year ended 31 December 2013 will be HK2.5 cents per share (2012: HK2.5 cents per share).

Closure of Register of Members

The register of members of the Company will be closed from 15 May 2014 to 20 May 2014, both days inclusive, during which period no transfer of shares of the Company will be effected. In order to determine the entitlement to attend and vote at the forthcoming annual general meeting (the "AGM"), all transfer forms accompanied by the relevant share certificates of the Company must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 14 May 2014.

The register of members will be closed on 27 May 2014, on which no transfer of shares of the Company will be effected. In order to qualify for the proposed final dividend (subject to Shareholders' approval at the AGM), all transfer forms accompanied by the relevant share certificates of the Company must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 26 May 2014.

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 120 of the 2013 Annual Report.

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group are set out in note 14 of the notes to the consolidated financial statements.

Share Capital

Details of the movements in the share capital of the Company during the year ended 31 December 2013 are set out in note 26 of the notes to the consolidated 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 amounts 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, upon payment of a dividend or making a distribution, be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

Reserves

Details of the movements in the reserves of the Group during the year ended 31 December 2013 are set out in the consolidated statement of changes in equity on page 63 of the 2013 Annual Report.

At 31 December 2013, the Company's reserves, comprising the retained profits, contribution surplus and share premium that are available for distribution to the Shareholders amounted to approximately US$1,249,632,000 (2012: US$1,248,191,000).

Donations

During the year ended 31 December 2013, the Group made donations in the total amount of RMB4,000,000, equivalent to approximately US$646,000 (2012: nil).

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.

Bank Borrowings and Interest

Details of the Group's bank borrowings are set out in note 25 of the notes to the consolidated 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 2013, the Group's five largest customers accounted for approximately 29.4% of the Group's total revenue and the Group's largest customer for the year accounted for approximately 9.9% of the Group's total revenue. The Group's five largest suppliers accounted for approximately 18.1% of the Group's total purchases, including raw materials, fuels and logistics expenses, while the Group's largest supplier for the year accounted for approximately 6.9% of the Group's total purchases.

To the knowledge of the Directors, 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 2013, the Group had 3,137 employees in total. Total staff costs for the year under review amounted to approximately US$74,578,000 (2012: US$75,559,000) and the details are set out in note 7 of the notes to the consolidated 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 (the "Shares") as well as restricted share units (the "RSUs") 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)
Jeffrey LAM Kin Fung
David YU Hon To
LIM Ah Doo
LOW Weng Keong (appointed on 2 April 2013)

Executive Director:

TEY Wei Lin (Acting Chief Executive Officer)

Non-Executive Director:

John SETO Gin Chung (retired on 21 May 2013)

Bye-law 84 of the Company's Bye-laws provides that at each AGM, 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, Messrs. TEY Wei Lin and David YU Hon To shall retire from office by rotation at the AGM and, being eligible, offer themselves for re-election.

Directors' Remuneration

Details of Directors' remuneration are set out in note 10 of the notes to the consolidated financial statements. The emoluments of the Executive Director of the Company are determined, with delegated responsibility, by the Remuneration Committee, having regard to relevant factors, including 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 relevant factors, including responsibility of the role, industry complexity and comparable market statistics.

Directors' Service Contracts

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. None of the Directors, including those Directors who are proposed for re-election at the AGM, has a service contract with any member of the Group which is not determinable within one year without payment of compensation other than statutory compensation.

Directors' Interests in Contracts of Significance

There were 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Independence Confirmation

The Company has received from all of its Independent Non-executive Directors annual confirmation of their independence pursuant to Rule 3.13 of 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 2013, the interests of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") were as follows:

Long positions in the Shares and the underlying Shares

Name of Director	Capacity	Number of Shares held	Number of Shares underlying RSUs granted under the Pre-IPO RSU Scheme	Vesting period of RSUs granted	Approximate % of the issued share capital of the Company
Mr. John Jeffrey YING ("Mr. Ying")(1)	Beneficial owner	576,354	384,237	15 February 2014	0.03%

Note:

1. As at 31 December 2013, 576,354 Shares under the Pre-IPO RSU Scheme were vested to Mr. Ying. On 15 February 2014, 384,237 Shares under the Pre-IPO RSU Scheme were further vested to Mr. Ying.

Save as disclosed above, as at 31 December 2013, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2013, the following persons, other than the Director 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, had the following interests in the Shares or the underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO as follow:

Long positions in the Shares and the underlying Shares

Name	Capacity	Number of Shares held	Approximate % of the issued share capital of the Company
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 at 31 December 2013, no other person, other than the Director 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, had any interests or short positions in the Shares or the underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

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", collectively the "RSU Schemes") on 8 November 2010. The terms of 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 at 31 December 2013, RSUs in respect of 8,165,026 underlying Shares had been granted to 18 grantees (one of which was a Director and two of which were former Directors) pursuant to the Pre-IPO RSU Scheme. Total RSUs in respect of 5,558,619 underlying Shares granted to 9 grantees had been cancelled since the adoption of the Pre-IPO RSU Scheme. Total RSUs in respect of 1,565,767 underlying Shares were vested under the Pre-IPO RSU Scheme, of which a total of 682,021 RSUs were vested during the year ended 31 December 2013. As at 31 December 2013, there were 1,040,640 RSUs outstanding.

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.

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 at 31 December 2013, RSUs in respect of 5,777,276 underlying Shares had been granted to 23 grantees (one of which was a former Director) pursuant to the Post-IPO RSU Scheme. Total RSUs in respect of 1,102,867 underlying Shares granted to 9 grantees had been cancelled since the adoption of the Post-IPO RSU Scheme, of which RSUs in respect of 650,000 underlying Shares granted to 3 grantees had been cancelled during the year ended 31 December 2013. Total RSUs in respect of 1,814,312 underlying Shares were vested under the Post-IPO RSU Scheme, of which a total of 1,180,560 RSUs were vested during the year ended 31 December 2013. As at 31 December 2013, there were 2,860,097 RSUs outstanding.

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 27 of the notes to the consolidated financial statements.

2. Share Option Scheme

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

As at 31 December 2013, 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.

As of 31 December 2013, the total number of Shares available for grant under the Share Option Scheme was 336,882,675, representing 9.85% of the Company's issued share capital as of 31 December 2013.

(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 subject to 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 (the "Option Period") by a Grantee (as defined below) 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.

(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.

Purchase, Sale or Redemption of Securities

During the year ended 31 December 2013, other than the issue of an aggregate of 2,500,000 new ordinary Shares, pursuant to the approval granted to the Directors on 8 November 2010 and the annual mandate, to the trustee of the Sateri Share Incentive (Employees) Trust to hold on trust pending transfer to the employees of the Group to satisfy RSUs granted by the Company to such employees pursuant to the RSU Schemes, details of which are set out in the Company's announcements dated 15 March 2013 and 3 December 2013, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

The 2,500,000 Shares mentioned above were credited as fully paid to the Trustee by capitalizing the amount standing to the credit of the Company's awarded shares compensation reserve account pursuant to bye-law 144(2) of the Bye-laws of the Company. No fund was raised by the Company.

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) 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.

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 the prescribed public float under the Listing Rules.

Continuing Connected Transactions

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

1. Renewed Agency Agreement with DP Macao

On 16 August 2012, the Company's subsidiary, SC International Macao Commercial Offshore Limited ("SC International Macao"), and DP Marketing International Limited – Macao Commercial Offshore ("DP Macao"), a dissolving wood pulp and paper pulp trading company which was a former subsidiary of the Company and is now controlled by Mr. Tanoto, the ultimate controlling shareholder of the Company, renewed an agency agreement (the "Renewed Agency Agreement"). Pursuant to the Renewed Agency Agreement, SC International Macao would act as the agent of DP Macao outside Indonesia for the sale of dissolving wood pulp for a period of three years with effect from 1 January 2013. Save for the renewal of the period of the agency agreement, all other terms of the agency agreement remain unchanged.

Under the Renewed Agency Agreement, DP Macao will pay SC International Macao 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 Renewed Agency Agreement are for its own account.

The Renewed Agency Agreement is on normal commercial terms and the terms of the Renewed Agency Agreement, including the relevant annual caps for the three year contract period, are fair and reasonable and in the interests of the Company and the Shareholders as a whole and the renewal of the Agency Agreement is in the ordinary and usual course of the Company's business.

The Renewed Agency Agreement will be effective until 31 December 2015, and may be further renewed for successive three year periods, subject to the parties complying with the applicable provisions of the Listing Rules in respect of any such renewal.

SC International Macao has commission income of approximately US$1,275,000 from DP Macao under the Renewed Agency Agreement for the year ended 31 December 2013. The annual caps for the maximum amount of commission income to SC International Macao by DP Macao under the Renewed Agency Agreement for each of the years ending 31 December 2014 and 2015 have been both set pursuant to the requirement of the Listing Rules at US$6,026,800.

2. Renewed Sales Framework Agreement with DP Macao

On 16 August 2012, the Company's subsidiaries, Sateri (Jiangxi) Chemical Fibre Co., Ltd. ("Sateri Jiangxi") and Sateri (Fujian) Fibre Co., Ltd. ("Sateri Fujian"), and DP Macao renewed a sales framework agreement (the "Renewed Sales Framework Agreement") that was approved by the independent Shareholders on 28 September 2012. The Renewed Sales Framework Agreement governs the terms on which dissolving wood pulp is sold to Sateri Jiangxi and Sateri Fujian for a period of three years with effect from 1 January 2013. Save for the renewal of the period of the sales framework agreement, all other terms of the sales framework agreement remain unchanged.

Under the Renewed Sales Framework Agreement, all transactions for the sale of dissolving wood pulp by DP Macao to Sateri Jiangxi and Sateri Fujian must 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 Renewed Sales Framework Agreement is on normal commercial terms and the terms of the Renewed Sales Framework Agreement, including the relevant annual caps for the three year contract period, are fair and reasonable and in the interests of the Company and the Shareholders as a whole and the renewal of the Sales Framework Agreement is in the ordinary and usual course of the Company's business.

The Renewed Sales Framework Agreement will be effective until 31 December 2015, and may be further renewed for successive three year periods, subject to the parties complying with the applicable provisions of the Listing Rules in respect of any such renewal.

The value of sales of dissolving wood pulp by DP Macao to Sateri Jiangxi and Sateri Fujian for the year ended 31 December 2013 was approximately US$37,323,000. The annual caps for the maximum amount of purchase by Sateri Jiangxi and Sateri Fujian from DP Macao under the Renewed Sales Framework Agreement for each of the years ending 31 December 2014 and 2015 have been both set pursuant to the requirement of the Listing Rules at US$205,831,080.

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

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

(ii) on normal commercial terms; and

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

In addition, the auditor of the Company, PricewaterhouseCoopers, has confirmed that:

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

(ii) 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;

(iii) 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

(iv) 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 set out in note 31 of the notes to the consolidated 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.

Deed of Non-Competition

The Company entered into a Deed of Non-Competition with Gold Silk, Fiduco, Mr. Tanoto (Gold Silk, Fiduco 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 are in compliance with the Deed of Non-Competition during the period from 1 January 2013 to 31 December 2013.

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 2013 to 31 December 2013.

Corporate Governance

A report on the principal corporate governance practice adopted by the Company is set out in the Corporate Governance Report on pages 32 to 42 of the 2013 Annual Report.

Auditor

Following the retirement of Deloitte Touche Tohmatsu as auditor of the Company from the conclusion of the annual general meeting of the Company in 2012, PricewaterhouseCoopers was appointed as auditor of the Company. The consolidated financial statements of the Group for the year ended 31 December 2013 have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as the auditor of the Company until the conclusion of the next annual general meeting will be proposed at the AGM to be held on 20 May 2014.

On behalf of the Board

John Jeffrey YING
Chairman

Hong Kong, 17 March 2014

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

TO THE SHAREHOLDERS 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 (together, the "Group") set out on pages 58 to 119, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated income statement, 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.

Directors' 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 Companies Act 1981 of Bermuda 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 judgement, 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 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.

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's 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.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 17 March 2014

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2013

	NOTES	2013 US$'000	2012 US$'000
Revenue	5	**645,681**	720,285
Cost of sales		**(428,133)**	(500,579)
Gross profit		**217,548**	219,706
Selling and distribution expenses		**(52,444)**	(61,268)
General and administrative expenses		**(75,905)**	(64,576)
		89,199	93,862
Other income and (losses)/gains, net			
Losses on settlement of derivative financial instruments		**–**	(1,419)
Decrease in fair value of forestation and reforestation assets	13	**(22,465)**	(14,808)
Others	6	**9,269**	4,358
		(13,196)	(11,869)
Operating profit	7	**76,003**	81,993
Finance costs	8	**(32,693)**	(29,970)
Profit before income tax		**43,310**	52,023
Income tax (expense)/credit	9	**(5,551)**	4,257
Profit for the year		**37,759**	56,280
Profit attributable to:			
Owners of the Company		**33,344**	55,561
Non-controlling interests		**4,415**	719
		37,759	56,280
Earnings per share			
– basic and diluted (US cents)	12	**1.0**	1.6

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	2013 US$'000	2012 US$'000
Profit for the year	**37,759**	56,280
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss		
Currency translation differences	**9,212**	679
Unrealized loss on cash flow hedge	**(1,164)**	(37)
Other comprehensive income for the year	**8,048**	642
Total comprehensive income for the year	**45,807**	56,922
Total comprehensive income attributable to:		
Owners of the Company	**40,371**	55,080
Non-controlling interests	**5,436**	1,842
	45,807	56,922

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	NOTES	2013 US$'000	2012 US$'000
Non-current assets			
Forestation and reforestation assets	13	**161,554**	185,678
Property, plant and equipment	14	**1,737,909**	1,539,447
Prepaid lease payments	15	**33,091**	30,978
Investment properties	16	**1,703**	1,762
Intangible assets		**475**	575
Deferred income tax assets	17	**46,947**	52,783
Other non-current assets	18	**58,091**	89,829
		2,039,770	1,901,052
Current assets			
Inventories	20	**180,954**	143,634
Trade, bills and other receivables	21	**190,659**	151,104
Derivative financial instruments	24	**–**	1,043
Pledged bank deposits		**–**	73
Bank balances and cash	22	**166,046**	195,403
		537,659	491,257
Current liabilities			
Trade and other payables	23	**135,732**	147,267
Current income tax payable		**12,963**	18,780
Derivative financial instruments	24	**4,555**	–
Bank borrowings	25	**72,198**	195,792
Obligations under finance leases		**–**	689
		225,448	362,528
Net current assets		**312,211**	128,729
Total assets less current liabilities		**2,351,981**	2,029,781

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	NOTES	2013 US$'000	2012 US$'000
Non-current liabilities			
Bank borrowings	25	**593,725**	301,980
Derivative financial instruments	24	**67**	4,501
		593,792	306,481
		1,758,189	1,723,300
Capital and reserves			
Share capital	26	**171,021**	170,896
Share premium and reserves		**1,549,020**	1,519,692
Equity attributable to owners of the Company		**1,720,041**	1,690,588
Non-controlling interests		**38,148**	32,712
		1,758,189	1,723,300

The consolidated financial statements on pages 58 to 119 were approved and authorized for issue by the Board of Directors on 17 March 2014 and were signed on its behalf by:

John Jeffrey YING
Director

TEY Wei Lin
Director

STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	NOTES	2013 US$'000	2012 US$'000
Non-current assets			
Investment in a subsidiary	33	**1,016,776**	983,979
Loan to a subsidiary	33	**395,493**	411,415
		1,412,269	1,395,394
Current assets			
Other receivables		**184**	132
Amounts due from subsidiaries	33	**7,758**	42,690
Bank balances		**3,082**	5,231
		11,024	48,053
Current liabilities			
Accrued charges		**285**	297
Amounts due to subsidiaries	33	**2,325**	23,224
		2,610	23,521
Net current assets		**8,414**	24,532
		1,420,683	1,419,926
Capital and reserves			
Share capital	26	**171,021**	170,896
Share premium and reserves	32	**1,249,662**	1,249,030
		1,420,683	1,419,926

The consolidated financial statements on page 58 to 119 were approved and authorized for issue by the Board of Directors on 17 March 2014 and were signed on its behalf by:

John Jeffrey YING
Director

TEY Wei Lin
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Attributable to owners of the Company										
	Share capital US$'000	Share premium US$'000	Special reserve US$'000 (Note a)	Other non-distributable reserves US$'000 (Note b)	Translation reserve US$'000	Cash flow hedging reserve US$'000	Awarded shares compensation reserve US$'000	Retained profits US$'000	Total US$'000	Non-controlling interests US$'000	Total US$'000
At 1 January 2013	170,896	425,521	277,394	3,438	34,910	(3,458)	839	781,048	1,690,588	32,712	1,723,300
Profit for the year	–	–	–	–	–	–	–	33,344	33,344	4,415	37,759
Currency translation differences	–	–	–	–	8,191	–	–	–	8,191	1,021	9,212
Unrealized loss on cash flow hedge	–	–	–	–	–	(1,164)	–	–	(1,164)	–	(1,164)
Total comprehensive income for the year	–	–	–	–	8,191	(1,164)	–	33,344	40,371	5,436	45,807
Transactions with owners											
Issue of new shares (note 26)	125	630	–	–	–	–	(755)	–	–	–	–
Appropriations	–	–	–	2,814	–	–	–	(2,814)	–	–	–
Dividend (note 11)	–	–	–	–	–	–	–	(11,000)	(11,000)	–	(11,000)
Awarded shares compensation expense (note 27)	–	–	–	–	–	–	(54)	136	82	–	82
Total transactions with owners	125	630	–	2,814	–	–	(809)	(13,678)	(10,918)	–	(10,918)
At 31 December 2013	171,021	426,151	277,394	6,252	43,101	(4,622)	30	800,714	1,720,041	38,148	1,758,189
At 1 January 2012	170,794	424,930	277,394	3,423	35,354	(3,421)	963	736,228	1,645,665	30,870	1,676,535
Profit for the year	–	–	–	–	–	–	–	55,561	55,561	719	56,280
Currency translation differences	–	–	–	–	(444)	–	–	–	(444)	1,123	679
Unrealized loss on cash flow hedge	–	–	–	–	–	(37)	–	–	(37)	–	(37)
Total comprehensive income for the year	–	–	–	–	(444)	(37)	–	55,561	55,080	1,842	56,922
Transactions with owners											
Issue of new shares (note 26)	102	610	–	–	–	–	–	–	712	–	712
Cost of issuing new shares	–	(19)	–	–	–	–	–	–	(19)	–	(19)
Appropriations	–	–	–	15	–	–	–	(15)	–	–	–
Dividend (note 11)	–	–	–	–	–	–	–	(11,000)	(11,000)	–	(11,000)
Awarded shares compensation expense (note 27)	–	–	–	–	–	–	(124)	274	150	–	150
Total transactions with owners	102	591	–	15	–	–	(124)	(10,741)	(10,157)	–	(10,157)
At 31 December 2012	170,896	425,521	277,394	3,438	34,910	(3,458)	839	781,048	1,690,588	32,712	1,723,300

Notes:

(a) Special reserve represents the sum of the deemed contribution of US$38,769,000 from shareholders mainly arising from the waiver of interest-free advances and the excess of the aggregate nominal amount of the share capital and share premium of a subsidiary acquired by the Company over the nominal amount of shares of the Company issued to the then shareholders amounting to US$238,625,000 in 2010.

(b) Other non-distributable reserves mainly 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 annually by the respective boards of directors of the subsidiaries, but must not be less than 10% of the net profit after tax of the subsidiaries, 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.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	NOTE	2013 US$'000	2012 US$'000
Cash flows from operating activities			
Net cash generated from operations	30	145,788	146,945
Income taxes paid		(1,283)	(1,554)
Net cash from operating activities		144,505	145,391
Cash flows from investing activities			
Purchase of property, plant and equipment		(258,782)	(122,517)
Additions of forestation and reforestation assets		(32,474)	(36,788)
Additions to prepaid lease payments		(1,591)	(1,308)
Additions of unlisted investments		–	(1,855)
Decrease in pledged bank deposits		73	5,221
Interest received		1,628	3,042
Proceeds on disposals of property, plant and equipment		276	363
Proceeds on disposal of a subsidiary		–	2,701
Net cash used in investing activities		(290,870)	(151,141)
Cash flows from financing activities			
Drawdown of bank borrowings		592,982	202,483
Repayment of bank borrowings		(440,760)	(287,267)
Interest paid		(25,022)	(26,820)
Repayment of obligations under finance leases		(689)	(1,070)
Net proceeds from issuance of shares		–	693
Payment of dividend		(11,000)	(11,000)
Net cash generated from/(used in) financing activities		115,511	(122,981)
Net decrease in cash and cash equivalents		(30,854)	(128,731)
Foreign exchange differences		1,497	429
Cash and cash equivalents at beginning of the year		195,403	323,705
Cash and cash equivalents at end of the year			
Represented by bank balances and cash		166,046	195,403

1 General information

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). The Company is controlled by Gold Silk Holdings Limited, a limited liability company incorporated in Cayman Islands and 100% owned and controlled by Mr. Sukanto TANOTO and certain members of his family (the "Major Shareholder"). The address of the principal place of business of the Company is 21/F, China Building, 29 Queen's Road Central, Central, Hong Kong.

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are set out in note 34.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

These consolidated financial statements are presented in United States Dollars ("US$" or "USD"), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 17 March 2014.

2 Summary of significant accounting policies

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board. These consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the rules governing the Listing of Securities on the Stock Exchange.

They have been prepared under the historical cost convention, as modified by the forestation and reforestation assets which are carried at fair value less estimated costs to sell, and derivative financial instruments which are carried at fair value.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

In 2013, the Group adopted the new standards and amendments of IFRS below, which are relevant to its operations.

IAS 1 (Amendment)	Presentation of Financial Statements
IAS 27	Separate Financial Statements
IFRS 10	Consolidated Financial Statements
IFRS 12	Disclosures of Interests in Other Entities
IFRS 13	Fair Value Measurements
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transition Guidance
IFRS 7 (Amendment)	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities

Annual improvements published in May 2012

Amendment to IAS 1	Presentation of Financial Statements
Amendment to IAS 16	Property, Plant and Equipment
Amendment to IAS 32	Financial Instruments: Presentation
Amendment to IAS 34	Interim Financial Reporting

The adoption of these new standards and amendments has no significant impact on the Group's results and financial position nor any substantial changes in the Group's accounting policies, presentation and disclosures of the financial statements except for certain disclosure requirement by IAS 1 (Amendment) and IFRS 13.

New standards and amendments that have been issued and relevant to the Group but are not yet effective:

New standards and amendments		Effective for accounting periods beginning on or after
IAS 32 (Amendment)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities	1 January 2014
IAS 36 (Amendment)	'Impairment of assets' on Recoverable Amount Disclosures	1 January 2014
IFRS 7 and IFRS 9 (Amendments)	Mandatory Effective Date and Transition Disclosures	1 January 2015
IFRS 9	Financial Instruments	1 January 2015

The Group has not early adopted the above standards and amendments. Management has made a preliminary assessment that the adoption of these new standards and amendments is not expected to have a significant impact on the Group's consolidated financial statements.

2 Summary of significant accounting policies (continued)

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceased.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognized in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

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.

(i) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in the consolidated income statement.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 either in the consolidated income statement or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

2 Summary of significant accounting policies (continued)

(b) Basis of consolidation (continued)

(i) Business combinations (continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the consolidated income statement.

(ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in the consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to the consolidated income statement.

(c) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2 Summary of significant accounting policies (continued)

(d) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

(e) 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.

(i) Revenue from sale of goods is recognized when the goods are delivered and title has passed.

(ii) Commission income is recognized when services are provided.

(iii) Interest income is recognized on a time-proportion basis using the effective interest method.

(iv) Rental income, including rentals invoiced in advance, from investment properties let under operating leases is recognized in the consolidated income statement on a straight line basis over the period of the respective leases.

(v) Revenue from sale of electricity is recognized when the electricity is delivered.

(f) 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 the consolidated income statement.

2 Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

(i) Financial assets

The Group's financial assets comprise loans and receivables, available-for-sale financial assets and derivative financial instruments.

(1) 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 but excluding future credit losses) 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.

(2) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss ("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.

(3) 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 trade, bills and other receivables) are carried at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

2 Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

(i) Financial assets (continued)

(4) 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 assets, 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 180 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.

The carrying amount of the financial assets 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. Decrease in the carrying amount of the allowance account are recognized in the consolidated income statement. 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 the consolidated income statement.

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 the consolidated income statement 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.

2 Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

(ii) 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 the consolidated income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the consolidated income statement depends on the nature of the hedge relationship.

(1) Hedge accounting

The Group designates certain derivatives as hedges of highly probable forecast transactions for interest rate risk and foreign exchange risk exposures. 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.

(2) 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 the consolidated income statement as other income and (losses)/gains.

Amounts previously recognized in other comprehensive income and accumulated in equity (cash flow hedging reserve) are reclassified to the consolidated income statement in the periods when the hedged item is recognized in the consolidated income statement, in the same line of the consolidated income statement 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 the consolidated income statement. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in the consolidated income statement.

2 Summary of significant accounting policies (continued)

(g) Intangible assets

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 the consolidated income statement in the period when the asset is derecognized.

(h) 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 dissolving wood pulp 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 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. It is taken out of forestation and reforestation assets (non-current assets) and accounted for under inventories (current assets).

2 Summary of significant accounting policies (continued)

(i) 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.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than freehold land and construction in progress, over their estimated useful lives and after taking into account of their estimated residual values, using the straight line method.

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

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 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.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

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 consolidated income statement in the period in which the item is derecognized.

2 Summary of significant accounting policies (continued)

(j) 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 consolidated income statement in the period in which the item is derecognized.

(k) Borrowings and borrowing costs

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after balance sheet date.

General and specific 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 those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized in the consolidated income statement in the period in which they are incurred.

(l) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the weighted average method.

2 Summary of significant accounting policies (continued)

(m) 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 the consolidated income statement.

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 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.

(n) Income tax

Income tax expense represents the sum of the income tax currently payable and deferred income tax.

The income tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement 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 income 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 income tax liabilities are generally recognized for all taxable temporary differences. Deferred income 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.

2 Summary of significant accounting policies (continued)

(n) Income tax (continued)

Deferred income 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 income 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 income 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 income 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 income 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 income tax is recognized in the consolidated income statement, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred income tax is also recognized in other comprehensive income or directly in equity respectively.

(o) 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.

Foreign exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in the consolidated income statement in the period in which they arise. Foreign exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the consolidated income statement for the period, except for foreign 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 foreign exchange differences are also recognized directly in other comprehensive income.

2 Summary of significant accounting policies (continued)

(o) Foreign currencies (continued)

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. Foreign 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 foreign exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to the consolidated income statement. 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 foreign exchange differences are re-attributed to non-controlling interests and are not recognized in the consolidated income statement.

(p) 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 the consolidated income statement 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.

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 the consolidated income statement.

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.

2 Summary of significant accounting policies (continued)

(q) 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.

(r) 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.

(s) 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).

2 Summary of significant accounting policies (continued)

(t) Share-based payment transactions

(i) Equity-settled share-based payment transactions

(1) Restricted Share Unit Schemes ("RSU Schemes")

RSU Schemes comprise the Company's Pre-IPO Restricted Share Unit Scheme and Post-IPO Restricted Share Unit 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 "Awarded shares compensation reserve" in the consolidated statement of changes in equity 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 the "Awarded shares compensation reserve". Accordingly, the related expense of the granted shares vested is reversed from the "Awarded shares compensation reserve". The difference arising from such transfer is debited/credited to accumulated profits.

When the restricted share units ("RSUs") are forfeited before vesting, the amount previously recognized in the consolidated income statement in relation to that forfeiture will be reversed from the same line in the consolidated income statement.

(2) 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 the consolidated income statement 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.

2 Summary of significant accounting policies (continued)

(u) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, net of bank overdrafts.

(v) Related parties

Where one party has the ability to control the other party or exercise significant influence in making financial and operating decision of another party, they are considered to be related. Parties are also considered to be related if one party is subject to control, and another party is subject to control, joint control or significant influence by the same third party.

3 Financial risk management

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risks (including foreign currency risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

(i) Foreign currency risk management

Several subsidiaries of the Company have foreign currency receipts and payments, which expose the Group to foreign currency risk. Also, certain trade and other receivables, trade and other payables, bank balances, bank borrowings, obligations under finance leases and other non-current 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's treasury's risk management policy is to hedge up to 100% of material foreign currency net cash flows for up to the subsequent 18 months. The Group enters into forward foreign exchange contracts to hedge material forecasted foreign currency exposures where applicable. Currently, forward exchange contracts are arranged mainly to hedge the currency fluctuation of Brazilian Reais ("BRL") against USD, with USD as the functional currency of the Company and its Brazilian operating subsidiaries. The Group continues to adopt hedge accounting for its foreign exchange contracts entered into.

3 Financial risk management (continued)

(a) Financial risk factors (continued)

(i) Foreign currency risk management (continued)

The Group is primarily exposed to currencies of BRL, Renminbi and USD other than the functional currencies of the relevant group entities. The carrying amounts of these assets and liabilities at the end of each reporting period are as follows:

	2013 US$'000	2012 US$'000
Assets		
BRL	**85,128**	91,653
Renminbi	**1,649**	73,139
USD	**10,490**	6,558
Liabilities		
BRL	**33,921**	43,633
USD	**146,913**	44,502

Sensitivity analysis

The respective functional currencies of the group entities are primarily USD and Renminbi, and the group entities are mainly exposed to the effects of fluctuation in BRL, USD and Renminbi.

The following table details the increase and decrease by 5% (2012: 5%) in the functional currency of relevant group entity against BRL, 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 year end. A 5% (2012: 5%) strengthening of functional currencies against BRL, USD and Renminbi (foreign currencies) respectively will give rise to the following impact to post-tax profit/loss for the year.

	USD Impact (note i)		BRL Impact (note ii)		Renminbi Impact (note iii)	
	2013 US$'000	2012 US$'000	2013 US$'000	2012 US$'000	2013 US$'000	2012 US$'000
Increase/(decrease) in post-tax profit for the year	**5,116**	1,423	**(1,690)**	(1,585)	**(82)**	(3,657)

For a 5% (2012: 5%) weakening of USD, BRL 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 year end.

(ii) This is mainly attributable to the exposure on BRL denominated unlisted equity investment, trade and other receivables, bank balances, trade and other payables and obligations under finance leases at year end.

(iii) This is mainly attributable to exposure on Renminbi denominated bank balances and other receivables at year end.

3 Financial risk management (continued)

(a) Financial risk factors (continued)

(ii) Interest rate risk management

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank borrowings. The Group aims to keep 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 2013, 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 25 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.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for bank balances, pledged bank deposits and 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 2013, interest rates increased by 50 (2012: 50) basis points with all other variables held constant, the potential effect on post-tax profit for the year is as follows:

	2013 **US$'000**	2012 US$'000
(Decrease)/increase in post-tax profit for the year	**(347)**	486

If interest rates decreased by 50 (2012: 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.

3 Financial risk management (continued)

(a) Financial risk factors (continued)

(iii) Credit risk management

As at 31 December 2013, 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.

The extent of the Group's credit exposure is represented by the aggregate balance of trade, bills and other receivables, derivative financial instruments, pledged bank deposits and bank balances.

In order to minimize the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group has reviewed the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, management of the Company considers that the Group's credit risk is significantly reduced.

The credit risk on bank balances and derivative financial instruments 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 25% (2012: 20%) of the Group's total trade receivables as at 31 December 2013. 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 180 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.

(iv) 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.

3 Financial risk management (continued)

(a) Financial risk factors (continued)

(iv) Liquidity risk management (continued)

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. Floating rate is 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.

	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 2013								
Non-derivative financial liabilities								
Trade and other payables	–	73,593	–	–	–	–	73,593	73,593
Bank borrowings								
– Variable rates	4.8	7,882	96,171	167,425	160,778	327,683	759,939	665,923
		81,475	96,171	167,425	160,778	327,683	833,532	739,516
Derivative financial liabilities								
Forward foreign exchange contracts		2,005	2,647	–	–	–	4,652	4,555
Interest rate swaps		225	539	(43)	(459)	(255)	7	67
		2,230	3,186	(43)	(459)	(255)	4,659	4,622
At 31 December 2012								
Non-derivative financial liabilities								
Trade and other payables	–	83,985	–	–	–	–	83,985	83,985
Bank borrowings								
– Fixed rates	5.8	971	39,918	22,478	10,857	–	74,224	67,909
– Variable rates	4.1	4,348	172,052	115,271	120,788	55,109	467,568	429,863
Obligations under finance leases	19.0	205	522	–	–	–	727	689
		89,509	212,492	137,749	131,645	55,109	626,504	582,446
Derivative financial liability								
Interest rate swaps		645	1,665	1,543	718	187	4,758	4,501

3 Financial risk management (continued)

(b) 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 years.

The capital structure of the Group consists of net debt, which includes bank borrowings and obligations under finance leases, net of cash and cash equivalents and equity attributable to owners of the Company, comprising share capital, share premium, various reserves and retained profits.

The management and directors of the Company review the capital structure of the Group on a regular basis. As part of this review, the cost of capital and the risks associated with each class of capital are considered. Based on this regular review, the Group will balance its overall capital structure through the payment of dividends, new share issues, new borrowings raised and repayment of borrowings as may be appropriate.

(c) Fair value estimation

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.

3 Financial risk management (continued)

(c) Fair value estimation (continued)

Fair value measurements recognized in the consolidated statement of financial position

Different levels of fair value measurements of financial instruments subsequent to initial recognition are defined as follows based on the degree to which the fair value is observable.

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Management of the Company uses their judgement 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.

The Group's derivatives financial instruments were all measured at fair value under level 2 at 31 December 2013 and 2012 and no transfers between any levels had occurred during the year.

4 Critical accounting estimates and judgements

Estimates and judgements used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Income taxes

The Group is subject to income taxes in several jurisdictions and records tax liabilities based on its best estimates of the likely amounts payable in each jurisdiction. Where the final tax outcome differs from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

As described in note 17, deferred income tax assets are related to certain unused tax losses of the Group. The realizability of the deferred income tax asset mainly depends on whether sufficient future profits will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred income tax assets may arise, which would be recognized in the consolidated income statement for the period in which such a reversal takes place.

(b) Fair value of derivative financial instruments and investments

As described in note 3(c), management of the Company uses their judgement in selecting an appropriate valuation technique for derivative financial instruments not quoted in an active market. Actual results may differ when the assumptions and selections of valuation technique changes. In addition, the Group has certain unlisted investments, where the directors of the Company are of the opinion that the fair value cannot be measured reliably.

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

In determining whether there is any impairment loss on VAT recoverable, the Group estimates the amount, timing and the ways in which these VAT recoverable are to be utilized, including the utilization through offsetting of VAT payable on future domestic sales, transfer of VAT recoverable to third parties and/or utilization through offsetting with other tax payables. 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 the consolidated income statement for the year.

4 Critical accounting estimates and judgements (continued)

(d) 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 ageing analysis of the outstanding receivables and on management's judgements. When there is objective evidence of impairment loss, the Group estimates the future cash flows to determine the impairment loss. A considerable amount of judgement 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.

(e) 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 the consolidated income statement for the year in which such changes take place in future periods.

(f) Fair value of forestation and reforestation assets

As described in note 13, management of the Company uses their judgement in selecting an appropriate valuation technique for forestation and reforestation assets.

No active market for the forestation and reforestation assets exists and market-determined prices or values for the forestation and reforestation assets are not available. Management has used the present value of expected net cash flows from the assets discounted at the appropriate discount rate to determine the 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 13. 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.

4 Critical accounting estimates and judgements (continued)

(g) Inventory valuation

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 the consolidated income statement for the year.

(h) Provisions

The Group made provisions for all loss contingencies 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 the consolidated income statement would result. Likewise, if the contingencies were settled for an amount that is less than the Group's estimate, a credit to the consolidated income statement would result.

5 Revenue and segment information

(a) Revenue

	2013 US$'000	2012 US$'000
DWP Business	**312,112**	368,947
VSF Business	**333,569**	351,338
	645,681	720,285

(b) Segment information

Operating segments are 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 segments and to assess their performance. The Company'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.

The Group is 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 dissolving wood pulp ("DWP"), including 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 viscose staple fiber ("VSF"), which are manufactured by the Group, to third parties. Rayon-grade pulp used to produce VSF is sourced internally, from related parties, and from third parties at prices agreed by the parties involved.

The costs to the Group of producing rayon-grade pulp used by VSF manufacturing operation are recorded within the VSF Business segment.

5 Revenue and segment information (continued)

(b) Segment information (continued)

Segment revenue 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 2013

	DWP Business US$'000	VSF Business US$'000	Unallocated US$'000	Consolidated US$'000
Segment revenue from external customers	**312,112**	**333,569**	**–**	**645,681**
Segment gross profit	**131,777**	**85,771**	**–**	**217,548**
EBITDA	**132,594**	**78,880**	**(5,916)**	**205,558**
Depreciation of property, plant and equipment	**(34,693)**	**(39,550)**	**(163)**	**(74,406)**
Depreciation of investment properties	**–**	**–**	**(111)**	**(111)**
Amortization of intangible assets	**–**	**–**	**(100)**	**(100)**
Decrease due to harvest charged to profit or loss	**(20,333)**	**(12,140)**	**–**	**(32,473)**
Decrease in fair value of forestation and reforestation assets	**(14,066)**	**(8,399)**	**–**	**(22,465)**
Finance costs	**(19,224)**	**(13,469)**	**–**	**(32,693)**
Segment results and profit/(loss) before income tax	**44,278**	**5,322**	**(6,290)**	**43,310**

For the year ended 31 December 2012

	DWP Business US$'000	VSF Business US$'000	Unallocated US$'000	Consolidated US$'000
Segment revenue from external customers	368,947	351,338	–	720,285
Segment gross profit	154,414	65,292	–	219,706
EBITDA	145,875	56,930	(3,162)	199,643
Depreciation of property, plant and equipment	(40,261)	(37,732)	(207)	(78,200)
Depreciation of investment properties	–	–	(110)	(110)
Amortization of intangible assets	–	–	(100)	(100)
Decrease due to harvest charged to profit or loss	(16,303)	(8,129)	–	(24,432)
Decrease in fair value of forestation and reforestation assets	(9,881)	(4,927)	–	(14,808)
Finance costs	(15,960)	(14,010)	–	(29,970)
Segment results and profit/(loss) before income tax	63,470	(7,868)	(3,579)	52,023

5 Revenue and segment information (continued)

(b) Segment information (continued)

Segment revenue and results (continued)

Unallocated items consist of other income and (losses)/gains and certain general and administrative expenses.

Management does not provide an analysis of segment assets and liabilities to the Company's Board of Directors 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, the allocation of total assets and liabilities for each operating and reportable segment is not presented.

Geographical information

The Group's customers are mainly located in the Americas, 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 is as below:

	2013 US$'000	2012 US$'000
The PRC	**413,526**	433,125
Asia (excluding the PRC)	**34,635**	77,668
The Americas	**137,526**	141,847
Europe	**58,195**	66,958
Others	**1,799**	687
	645,681	720,285

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

	2013 US$'000	2012 US$'000
The Americas (primarily Brazil)	**1,225,883**	1,230,000
The PRC	**766,898**	528,380
Europe (primarily Switzerland)	**26**	38
Asia (excluding the PRC)	**16**	22
	1,992,823	1,758,440

6 Other income and (losses)/gains, net – others

	2013 US$'000	2012 US$'000
Commission income from a related party	**1,275**	3,699
Foreign exchange gain/(loss)	**4,143**	(3,587)
Rental income in respect of investment properties	**196**	178
Bank interest income	**1,628**	3,042
Loss on disposals of property, plant and equipment	**(2,100)**	(1,986)
Insurance claim received and receivable	**–**	6,037
Gain on disposal of a subsidiary	**–**	794
Sales of electricity	**4,207**	1,550
Loss from fire in wood yard	**–**	(1,879)
Others	**(80)**	(3,490)
	9,269	4,358

7 Operating profit

	2013 US$'000	2012 US$'000
Operating profit has been arrived at after charging:		
Salaries, wages and allowances	**69,976**	71,956
Retirement benefit scheme contributions – defined contribution plans	**4,520**	3,453
Awarded shares compensation expense, net	**82**	150
Total staff costs	**74,578**	75,559
Auditor's remuneration	**1,203**	1,168
Depreciation of property, plant and equipment	**74,406**	78,200
Impairment loss recognized in respect of other receivables	**972**	–
Operating lease expense of land and buildings and others	**660**	221

8 Finance costs

	2013 US$'000	2012 US$'000
Interest expenses on:		
– bank borrowings	**27,940**	23,924
– obligations under finance leases	**71**	347
	28,011	24,271
Other finance costs (note)	**12,512**	6,254
Total borrowing costs	**40,523**	30,525
Less: amounts capitalized	**(7,830)**	(555)
	32,693	29,970
Borrowing costs were capitalized at the following rates per annum	**4.57%**	6.76%

Note: Other finance costs represent primarily the loss on settlement of interest rate swap which was designated as hedging instrument under hedge accounting amounting to US$3,623,000 (2012: US$3,066,000) and the amortization charge of the syndicated loan's upfront structure fee amounting to US$7,671,000 (2012: US$3,150,000).

9 Income tax (expense)/credit

Income tax expense has been provided on the estimated assessable profit for the year at the appropriate tax rates prevailing in the countries/locations in which the Group operates.

	2013 US$'000	2012 US$'000
Current income tax:		
– Provision for the year	**(5,417)**	(6,877)
– Over-provision in prior years (note)	**5,702**	8,605
	285	1,728
Deferred income tax (note 17)	**(5,836)**	2,529
	(5,551)	4,257

Note: Over-provision of income tax represents primarily the write back of aged tax provision balance amounted to US$5,766,000 (2012: US$8,718,000).

9 Income tax (expense)/credit (continued)

During 2013, the Enterprise Income Tax rate of the Company's subsidiaries in the PRC is 25% (2012: 25%).

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, Copener Florestal Ltda., a subsidiary incorporated in Brazil, is entitled to a reduction of BCT of 12.5% for its profit from forest plantation operations from 1 January 2009 to 31 December 2013. Bahia Specialty Cellulose S.A. ("BSC"), a subsidiary incorporated in Brazil, obtained approval from the SUDENE in 2008 for a 75% reduction in BCT arising from profits attributable to its then existing production line for a ten-year term starting from 1 January 2009.

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

The corporate income tax of US incorporated entity is calculated based on the estimated assessable profits, multiplied by applicable United States Federal and State corporate income tax rates ranging from 6% to 34%.

The corporate income tax of the Group's remaining subsidiaries is calculated at rates ranging from 16.50%-22.70% (2012: 16.50%-28.97%) of the estimated assessable profit of the respective entities.

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2013 US$'000	2012 US$'000
Profit before income tax	43,310	52,023
Tax at the respective domestic income tax rates applicable to profits in the respective countries/locations	(10,870)	(3,252)
Expenses not deductible for tax purposes	(10,182)	(10,142)
Income not subject to income tax	2,242	4,720
Utilization of tax losses previously not recognized	6,169	–
Tax losses not recognized	(4,045)	(4,703)
Effect of tax exemption and concession granted	5,433	9,029
Over-provision in respect of prior years	5,702	8,605
Income tax (expense)/credit	(5,551)	4,257

10 Directors' and management's emoluments

(a) Directors' emoluments

The remuneration of every director is set out below:

For the year ended 31 December 2013

Name	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:					
John Jeffrey YING	64	–	–	75	139
Jeffrey LAM Kin Fung	64	–	–	–	64
David YU Hon To	64	–	–	–	64
TEY Wei Lin	64	–	–	–	64
LIM Ah Doo	64	–	–	–	64
John SETO Gin Chung (note c)	25	–	–	–	25
LOW Weng Keong (note d)	48	–	–	–	48
	393	–	–	75	468

For the year ended 31 December 2012

Name	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 (note a)	–	617	11	(540)	88
John Jeffrey YING	64	–	–	161	225
Rohan Seneka WEERASINGHE	26	–	–	–	26
Jeffrey LAM Kin Fung	64	–	–	–	64
David YU Hon To	64	–	–	–	64
TEY Wei Lin (note b)	64	–	–	–	64
John SETO Gin Chung	64	–	–	–	64
LOH Meng See	26	–	–	–	26
LIM Ah Doo	49	–	–	–	49
	421	617	11	(379)	670

Notes:

a. Will HOON Wee Teng was the Chief Executive Officer during 2011 and until 7 September 2012. The negative amount of awarded shares compensation was due to forfeiture of unvested restricted share units during the year.

b. TEY Wei Lin was appointed as the acting Chief Executive Officer with effect from 7 September 2012.

c. John SETO Gin Chung retired as a Non-executive Director on 21 May 2013.

d. LOW Weng Keong was appointed as an Independent Non-executive Director with effect from 2 April 2013.

10 Directors' and management's emoluments (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year do not include any directors (2012: nil). The emoluments payable to these five (2012: five) individuals are as follows:

	2013 US$'000	2012 US$'000
Basic salaries, housing allowances, other allowances and benefits in kind	2,999	2,175
Retirement benefit scheme contributions – defined contribution plans	180	124
Awarded shares compensation expense	100	308
	3,279	2,607

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

	2013	2012
Emoluments		
HK$3,000,001 to HK$3,500,000	–	2
HK$3,500,001 to HK$4,000,000	–	2
HK$4,000,001 to HK$4,500,000	1	–
HK$4,500,001 to HK$5,000,000	2	–
HK$5,000,001 to HK$5,500,000	1	–
HK$6,000,001 to HK$6,500,000	1	1
	5	5

During the years ended 31 December 2013 and 2012, 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.

(c) Compensation of key management personnel

During the year ended 31 December 2013, the emoluments paid to the key management personnel of the Group were approximately US$4,790,000 (2012: US$5,357,000). Apart from those five highest paid individuals whose emoluments are disclosed under Note 10(b) above, the remainder of the senior management were all individually paid under HK$4,000,000 (2012: HK$3,300,000).

11 Dividends

	2013 US$'000	2012 US$'000
Proposed final dividend of HK2.5 cents (2012: HK2.5 cents) per share	11,000	11,000

At the board meeting held on 17 March 2014, the directors recommended a final dividend of HK2.5 cents per share to be paid for the year ended 31 December 2013 (2012: HK2.5 cents per share). Such dividend, which will be proposed at the annual general meeting of the Company to be held on 20 May 2014, has not been recognized as liabilities in the consolidated financial statements.

12 Earnings per share

Basic earnings per share is calculated by dividing the Group's profit attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the year. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential shares.

	2013 US$'000	2012 US$'000
Earnings for the purposes of basic and diluted earnings per share		
Profit for the year attributable to owners of the Company	33,344	55,561

	Number of shares	
	2013	2012
Weighted average number of ordinary shares for the purpose of basic earnings per share	3,417,880,894	3,417,674,573
Effect of dilutive potential ordinary shares:		
Awarded shares compensation scheme	2,266,410	1,667,076
Weighted average number of ordinary shares for the purpose of diluted earnings per share	3,420,147,304	3,419,341,649

13 Forestation and reforestation assets

	2013 US$'000	2012 US$'000
At 1 January	185,678	187,797
Additions	32,474	36,788
Decrease due to harvest	(34,133)	(24,099)
Decrease in fair value recognized in the consolidated income statement	(22,465)	(14,808)
At 31 December	161,554	185,678

13 Forestation and reforestation assets (continued)

Wood is the principal raw materials 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 ("harvest cycle") after planting and two harvests can potentially be obtained from a single seedling. Additions of forestation and reforestation assets represent the costs incurred for maintaining the forest and planting new trees.

At 31 December 2013 and 2012, management of the Group determined the fair value of forestation and reforestation assets using a discounted cash flow model and under the Level 3 fair value hierarchy.

Management performed the valuation to determine the fair value of the forestation and reforestation assets by using discounted cash flow model with reference to wood price and other parameters as set out in below table. Valuation is performed for interim and annual financial reporting. The following significant unobservable inputs were used to value the Group's forestation and reforestation assets:

Significant unobservable inputs	Rate/data used	Relationship of unobservable inputs to fair value
Weighted average capital cost ("WACC")	10% (2012: 10%)	The higher the WACC, the lower the fair value.
Reference wood price based on the prices agreed in the contracts entered into with local farmers	BRL38.60 per cubic meter (2012: BRL36.58) (equivalent to US$16.48 and US$17.09 respectively)	The higher the reference wood price used in USD, the higher the fair value.
Exchange rate between USD and BRL	US$1.00: BRL2.34 (2012: US$1.00: BRL2.04)	The stronger the USD against BRL, the lower the fair value in USD.
Overhead expenses based on 2014 budget and projection for the remaining years in a proportional manner to the volume planted annually	BRL10,293,000 (equivalent to US$4,395,000)	The higher the overhead expenses, the lower the fair value.

Other assumptions adopted in the discounted cash flow model are as follows:

– a six-year harvest cycle of the trees;
– the wood production rate calculated based on the planting programs during the period from 2008 to 2013;
– wood consumption rate calculated based on the actual and estimated annual production capacity of the mills; and
– the forestry maintenance costs calculated based on the average historical expenses.

At 31 December 2013, total forestation and reforestation assets were valued at approximately US$161,554,000 (2012: US$185,678,000). The decrease in fair value of US$22,465,000 (2012: US$14,808,000) was recognized in the consolidated income statement for the year.

14 Property, plant and equipment

	Freehold land US$'000 (note i)	Buildings and leasehold improvements US$'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 2012	35,216	210,351	1,411,172	38,486	49,749	1,744,974
Additions	–	2,904	9,288	416	153,550	166,158
Transfer	–	7,694	16,801	(6,797)	(17,698)	–
Disposals	–	(424)	(395)	(5,898)	–	(6,717)
Foreign exchange differences	–	602	935	11	63	1,611
At 31 December 2012	35,216	221,127	1,437,801	26,218	185,664	1,906,026
Additions	–	511	5,154	726	263,698	270,089
Transfer	1,410	10,002	60,310	1,811	(73,533)	–
Disposals	–	(34)	(2,432)	(1,163)	–	(3,629)
Foreign exchange differences	–	2,311	11,559	136	4,016	18,022
At 31 December 2013	**36,626**	**233,917**	**1,512,392**	**27,728**	**379,845**	**2,190,508**
Accumulated depreciation and impairment						
At 1 January 2012	–	23,961	250,667	14,380	–	289,008
Charge for the year	–	8,645	67,091	1,603	–	77,339
Disposals	–	(6)	–	(169)	–	(175)
Foreign exchange differences	–	13	389	5	–	407
At 31 December 2012	–	32,613	318,147	15,819	–	366,579
Charge for the year	–	8,611	73,711	1,876	–	84,198
Disposals	–	(49)	(405)	(799)	–	(1,253)
Foreign exchange differences	–	230	2,769	76	–	3,075
At 31 December 2013	**–**	**41,405**	**394,222**	**16,972**	**–**	**452,599**
Net book value						
At 31 December 2013	**36,626**	**192,512**	**1,118,170**	**10,756**	**379,845**	**1,737,909**
At 31 December 2012	35,216	188,514	1,119,654	10,399	185,664	1,539,447

Notes:

(i) Freehold land comprises the land in Brazil.

(ii) Other tangible assets comprise furniture, fixtures and fittings, motor vehicles and office equipments.

(iii) At 31 December 2013, buildings, plant and machinery and construction in progress of approximately US$1,054,799,000 (2012: US$1,267,684,000) were pledged to secure the bank loans borrowed by the Group (Note 28).

(iv) Interest costs of US$7,830,000 (2012: US$555,000) during the year were capitalized as part of construction in progress (Note 8).

(v) All the Group's buildings are situated on the land under medium-term lease outside Hong Kong.

15 Prepaid lease payments

Prepaid lease payments represent medium-term land use rights in the PRC and are amortized to the consolidated income statement over the terms of the relevant rights as stated in the land use right certificates granted to the Group.

16 Investment properties

	US$'000
Cost	
At 1 January 2012	2,430
Foreign exchange differences	6
At 31 December 2012	2,436
Foreign exchange differences	75
At 31 December 2013	**2,511**
Accumulated depreciation and impairment	
At 1 January 2012	563
Foreign exchange differences	1
Charge for the year	110
At 31 December 2012	674
Foreign exchange differences	23
Charge for the year	111
At 31 December 2013	**808**
Net book value	
At 31 December 2013	**1,703**
At 31 December 2012	1,762

The above investment properties are located in Shanghai, the PRC and depreciated on a straight line basis over 20 years.

The Group's investment properties are stated at historical cost at the end of each reporting period. The directors of the Company estimate the fair value of the investment properties by reference to recent market prices for similar properties. The estimated fair value as at 31 December 2013 was US$3,970,000 (2012: US$3,924,000).

During the year, property rental income from the Group's investment properties, all of which are leased out under operating leases, amounted to US$196,000 (2012: US$178,000).

17 Deferred income tax assets

The movement of deferred income tax assets/(liabilities) are as follows:

	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 2012	(50,123)	(5,122)	3,273	4,983	96,488	752	50,251
Foreign exchange differences	–	–	–	–	2	1	3
Credited/(charged) to the consolidated income statement for the year	12,868	5,035	(154)	770	(16,601)	611	2,529
At 31 December 2012	(37,255)	(87)	3,119	5,753	79,889	1,364	52,783
Credited/(charged) to the consolidated income statement for the year	2,256	7,638	(1,557)	(841)	(13,206)	(126)	(5,836)
At 31 December 2013	**(34,999)**	**7,551**	**1,562**	**4,912**	**66,683**	**1,238**	**46,947**

Note: Others represent deferred income tax assets in respect of accruals and other miscellaneous items.

As at 31 December 2013, the Group has unused tax losses of approximately US$228,330,000 (2012: US$273,619,000), available for offsetting against future profits. The unused tax losses of US$197,789,000 (2012: US$236,850,000) have been recognized as deferred income tax assets. The tax effect on these recognized unused tax losses is US$66,683,000 (2012: US$79,889,000). The remaining unused tax losses are unrecognized which will gradually expire up to and including 2019 (2012: 2018).

18 Other non-current assets

	2013 US$'000	2012 US$'000
VAT recoverable (note a)	**36,221**	39,055
Unlisted equity investment (note b)	**15,992**	15,988
Construction deposits and prepayments (note c)	**–**	29,799
Others	**5,878**	4,987
	58,091	89,829

Notes:

(a) This represents mainly VAT recoverable in respect of acquisition of property, plant and equipment and raw materials in Brazil that are expected to be recovered beyond the next twelve months from the end of each reporting period, and are accordingly classified as non-current assets. The balance is expected to be utilized by offsetting against VAT payable on future domestic sales, transferring of VAT recoverable to third parties and/or offsetting with other tax payables.

(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 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. provides effluent treatment for Bahia Specialty Cellulose. The unlisted investment is measured at cost less impairment at 31 December 2013 and 2012 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 2013 and 2012.

(c) This represents primarily prepayments and deposits paid to construction suppliers in relation to the construction of the Group's new plant in Fujian province.

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

	2013 US$'000	2012 US$'000
BRL	**56,173**	59,921
USD	**–**	820

19 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.

(ii) Other defined contribution plans

The Group participates in defined contribution retirement benefit plans for qualifying employees mainly in Brazil, Singapore and Hong Kong. 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 the consolidated income statement during the year ended 31 December 2013 of US$4,520,000 (2012: US$3,453,000) represent contributions to these schemes by the Group.

Under these defined contribution schemes, 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. There were no utilization of forfeited contribution for the years ended 31 December 2013 and 2012, and the amount available as at 31 December 2013 for such use is US$179,000 (2012: US$125,000).

20 Inventories

	2013 US$'000	2012 US$'000
Raw materials	118,381	88,997
Work in progress	405	464
Finished goods	62,168	54,173
	180,954	143,634

The cost of inventories recognized as expense and included in "cost of sales" amounted to US$424,421,000 (2012: US$500,579,000).

21 Trade, bills and other receivables

	2013 US$'000	2012 US$'000
Trade and bills receivables	**118,969**	109,401
Other receivables:		
Prepayments and deposits paid	**6,225**	6,924
Advance to suppliers	**15,403**	9,136
VAT recoverable	**44,686**	15,098
Others	**1,120**	1,986
	67,434	33,144
Less: Impairment loss recognized in respect of other receivables	**(972)**	–
	66,462	33,144
Amounts due from related companies (note)	**5,228**	8,559
Trade, bills and other receivables	**190,659**	151,104

Note: Balances with related companies are mainly due from DP Marketing International Limited – Macao Commercial Offshore, which is trade in nature, unsecured and non-interest bearing.

The Group generally allows an average credit period ranging from 30 to 180 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:

	2013 US$'000	2012 US$'000
0 – 60 days	**71,062**	82,226
61 – 90 days	**13,011**	14,591
91 – 180 days	**34,691**	12,573
Over 180 days	**205**	11
	118,969	109,401

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.

As at 31 December 2013, trade receivables of US$9,295,000 (2012: US$7,140,000) were past due but not impaired. These relate to a number of independent customers for whom based on past experience, the overdue amounts can be recovered.

No allowance for doubtful debts was made in 2013 (2012: nil).

21 Trade, bills and other receivables (continued)

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

	2013 US$'000	2012 US$'000
BRL	**18,658**	23,893
USD	**6,607**	707

22 Bank balances and cash

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

	2013 US$'000	2012 US$'000
Renminbi	**141**	73,139
BRL	**10,297**	7,839
USD	**3,883**	5,031

23 Trade and other payables

	2013 US$'000	2012 US$'000
Trade payables	**25,127**	32,883
Other payables:		
Accruals and other payables	**39,137**	31,683
Advance from customers	**7,101**	15,034
Construction payables	**32,161**	47,069
Other taxes payables	**3,057**	2,969
Provisions (note a)	**12,844**	13,596
	94,300	110,351
Amounts due to related companies (note b)	**16,305**	4,033
Trade and other payables	**135,732**	147,267

23 Trade and other payables (continued)

The ageing analysis of the Group's trade payables at the end of the reporting period is as follows:

	2013 US$'000	2012 US$'000
0-90 days	25,093	31,830
91-180 days	34	462
Over 180 days	–	591
	25,127	32,883

Notes:

(a) Provisions

The provisions represent the Group's liabilities for probable losses on civil, labor and tax lawsuits. 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$34,918,000 (2012: US$26,712,000), which are considered as possible but not probable future losses. No provision has been made in the consolidated financial statements for these possible losses.

(b) Details of amounts due to related companies are as follows:

	2013 US$'000	2012 US$'000
DP Marketing International Limited – Macao Commercial Offshore	14,240	2,747
Averis Sdn. Bhd.	2,065	1,286
	16,305	4,033

Balances with related companies are trade in nature, unsecured and non-interest bearing.

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

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:

	2013 US$'000	2012 US$'000
BRL	33,921	42,944
USD	4,013	1,366

24 Derivative financial instruments

	2013 US$'000	2012 US$'000
Current assets		
– Forward foreign exchange contracts – cash flow hedges	–	1,043
Current liabilities		
– Forward foreign exchange contracts – cash flow hedges	**(4,555)**	–
Non-current liabilities		
– Interest rate swaps – cash flow hedges	**(67)**	(4,501)
	(4,622)	(3,458)

(a) Forward foreign exchange contracts

The notional principal amount of the outstanding forward foreign exchange contracts at 31 December 2013 was US$65,033,000 (2012: US$130,600,000).

As at 31 December 2013, the decrease in fair value of the Group's outstanding forward foreign exchange contracts are estimated to be US$5,598,000 (2012: increase in fair value of US$1,043,000) The amount has been recognized as other comprehensive income and accumulated in equity and are expected to be released to the consolidated income statement upon settlement.

For the year ended 31 December 2013, a loss on settlement of financial derivative contracts of approximately US$4,582,000 (2012: US$1,419,000) has been recognized in the consolidated income statement.

(b) Interest rate swaps

The notional amount of the outstanding interest rate swaps at 31 December 2013 was US$420,000,000 (2012: US$336,000,000).

As at 31 December 2013, the increase in fair value of the Group's outstanding interest rate swaps are estimated to be US$4,434,000 (2012: decrease in fair value of US$1,080,000). The amount has been recognized as other comprehensive income and accumulated in equity and are expected to be released to the consolidated income statement upon settlement.

25 Bank borrowings

	2013 US$'000	2012 US$'000
Bank borrowings:		
Secured	**665,923**	431,076
Unsecured	**–**	66,696
	665,923	497,772

At 31 December 2013, the Group's borrowings were repayable as follows:

	2013 US$'000	2012 US$'000
Within one year	**72,198**	195,792
More than one year, but not more than two years	**138,926**	124,837
More than two years but not more than five years	**343,440**	160,676
More than five years	**111,359**	16,467
	665,923	497,772
Wholly repayable within five years	**451,724**	451,076
Not wholly repayable within five years	**214,199**	46,696
	665,923	497,772

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

	2013 US$'000	2012 US$'000
USD	**142,900**	43,136

The weighted average effective interest rate per annum was as follows:

	2013	2012
Bank borrowings	**4.8%**	4.4%

In February 2013, the Group entered into a US$500 million senior secured trade related facility agreement consisting of a five-year term syndicated loan of US$440 million and a committed revolving credit facility of US$60 million. The proceeds were used to repay the outstanding balance of the previous US$470 million international syndicated loan facility as well as for general working capital purpose. 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 net senior debt to EBITDA ratio. Interest rate on the outstanding syndicated loan is based on the London Inter-Bank Offered Rate plus an applicable margin.

26 Share capital of the Company

	Number of shares	Amounts US$'000
Authorized:		
At 1 January 2012, 31 December 2012 and 31 December 2013, at US$0.05 each	15,000,000,000	750,000
Issued and fully paid:		
At 1 January 2012, at US$0.05 each	3,415,882,250	170,794
Issue of new shares (note a)	2,038,000	102
At 31 December 2012, at US$0.05 each	3,417,920,250	170,896
Issue of new shares (note b)	500,000	25
Issue of new shares (note c)	2,000,000	100
At 31 December 2013, at US$0.05 each	**3,420,420,250**	**171,021**

Notes:

(a) On 15 February 2012, the Company issued 2,038,000 shares at HK$2.64 each for a total cash consideration of HK$5,380,000.

(b) On 15 March 2013, the Company issued 500,000 shares at US$0.39 each pursuant to the RSUs granted to employees under the Group's RSU Schemes.

(c) On 3 December 2013, the Company issued 2,000,000 shares at US$0.28 each pursuant to the RSUs granted to employees under the Group's RSU Schemes.

27 Share-based payment transactions

The Company's share option scheme (the "Scheme"), Pre-IPO Restricted Share Unit Scheme ("Pre-IPO RSU Scheme") and Post-IPO Restricted Share Unit Scheme ("Post-IPO RSU Scheme"), were 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.

Share option scheme

Under the Scheme, the Board of Directors of the Company may, at its discretion, grant options to directors of the Company (including executive directors, non-executive directors and independent non-executive directors), 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 number 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 the date of shareholders' approval of the Scheme from time to time. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue. Any further grant of share option in excess of these limits is subject to shareholders' approval in general meeting.

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 shares.

During the years ended 31 December 2013 and 2012, no options were granted under the Scheme.

27 Share-based payment transactions (continued)

Restricted Share Unit Schemes (the "RSU Schemes")

The terms of 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.

RSUs are a contingent right to receive a share granted to a participant, subject to a vesting period.

The RSU Schemes comprise the Pre-IPO RSU Scheme and the Post-IPO RSU Scheme.

Details of the total movements during the year of the RSU granted pursuant to the RSU Schemes to the directors and employees are set out below:

	Number of underlying shares	
	2013	2012
Outstanding as of 1 January	**3,813,318**	7,216,765
Granted	**2,600,000**	1,500,000
Vested	**(1,862,581)**	(1,517,498)
Forfeited	**(650,000)**	(3,385,949)
Outstanding as of 31 December	**3,900,737**	3,813,318

The estimated fair value of the RSUs granted on 8 July 2013 was US$318,000. The fair values of the outstanding RSUs are based on their fair values at the respective grant dates, which ranged from US$0.11 to US$0.71 per share.

The fair values were calculated using The Black-Scholes pricing model, taking into consideration market price of the underlying shares, risk-free yield rate, expected volatility and time to maturity.

The fair value of outstanding RSUs granted as at 31 December 2013 is approximately US$998,000 (2012: US$1,531,000) in aggregate. The Group recognized a total expense of US$82,000 (2012: US$150,000) for the year ended 31 December 2013 in relation to the RSUs granted by the Company.

28 Pledge of assets

The carrying values of assets pledged to various banks for securing bank loans are:

	2013 US$'000	2012 US$'000
Property, plant and equipment (note 14)	**1,054,799**	1,267,684
Prepaid lease payments	**17,791**	4,605
Inventories	**–**	6,345
Bills receivable	**–**	3,671
Bank deposits	**–**	73
	1,072,590	1,282,378

29 Commitments

(a) Operating lease commitments

The Group as lessee

At the end of the reporting period, the Group has outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2013 US$'000	2012 US$'000
Within one year	**645**	205
In the second to fifth year inclusive	**753**	824
After the fifth year	**–**	63
	1,398	1,092

(b) Capital commitments

	2013 US$'000	2012 US$'000
Contracted but not provided for – acquisition of property, plant and equipment	**89,559**	170,985
Authorized but not contracted for – acquisition of property, plant and equipment	**4,036**	140,502

30 Notes to the consolidated statement of cash flows

Reconciliation of profit before income tax to net cash generated from operations

	2013 US$'000	2012 US$'000
Cash flows from operating activities		
Profit before income tax	**43,310**	52,023
Adjustments for:		
Amortization of intangible assets	**100**	100
Amortization of prepaid lease payments	**436**	215
Depreciation of property, plant and equipment	**84,198**	77,339
Decrease due to harvest on forestation and reforestation assets	**34,133**	24,099
Depreciation of investment properties	**111**	110
Loss on disposals of property, plant and equipment	**2,100**	1,986
Loss on settlement of derivative financial instruments	**4,582**	1,419
Impairment loss recognized in respect of other receivables	**972**	–
Decrease in fair value of forestation and reforestation assets	**22,465**	14,808
Awarded shares compensation expense	**82**	150
Interest income	**(1,628)**	(3,042)
Finance costs	**32,693**	29,970
Operating cash flows before changes in working capital	**223,554**	199,177
(Increase)/decrease in inventories	**(37,320)**	36,956
Increase in trade, bills and other receivables	**(70,971)**	(6,892)
Increase/(decrease) in trade and other payables	**3,373**	(31,456)
Change in derivative financial instruments	**(4,582)**	(32,131)
Decrease/(increase) in other non-current assets	**31,734**	(18,709)
Net cash generated from operations	**145,788**	146,945

31 Related party disclosures

(a) Details of the balances with related parties are set out in notes 21 and 23.

(b) The Group entered into the following significant transactions with the following related parties:

Name of related parties	Nature of transactions	2013 US$'000	2012 US$'000
Companies under common control of the Major Shareholder			
DP Marketing International Limited	Purchase of goods	**37,323**	23,732
– Macao Commercial Offshore	Commission income	**1,275**	3,699
Pec-Tech Engineering and Consulting (Suzhou) Co., Ltd.	Consulting service expense	**680**	802
Averis Sdn. Bhd.	Service fee expense	**3,349**	2,761
Asian Resources Development Limited	Rental expense	**–**	130
East Trade Limited	Rental expense	**188**	91
RGE Limited	Proceeds on disposal of a subsidiary (note)	**–**	2,701

Note: Sateri International Co. Ltd ("Sateri International"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement dated 25 May 2012 with RGE Limited for a sale of the entire issued share capital of Sateri China Investment Limited. The consideration for the transfer was approximately US$2,701,000, which was paid in cash on completion on 25 May 2012. A gain on disposal of US$794,000 was recognized in the consolidated income statement. The terms of the transfer (including the basis of the consideration) are determined on an arm's length basis.

(c) 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.

32 Share premium and reserves of the Company

Movement in the share premium and reserves of the Company is as follows:

	Share premium US$'000	Contribution surplus US$'000 (Note)	Awarded shares compensation reserve US$'000	(Accumulated losses)/ retained profits US$'000	Total US$'000
At 1 January 2012	424,930	806,099	963	(8,788)	1,223,204
Profit for the year	–	–	–	36,085	36,085
Issue of new shares	610	–	–	–	610
Cost of issuing new shares	(19)	–	–	–	(19)
Dividends	–	–	–	(11,000)	(11,000)
Awarded shares compensation expense	–	–	(124)	274	150
At 31 December 2012	425,521	806,099	839	16,571	1,249,030
Profit for the year	–	–	–	11,675	11,675
Issue of new shares	630	–	(755)	–	(125)
Dividends	–	–	–	(11,000)	(11,000)
Awarded shares compensation expense	–	–	(54)	136	82
At 31 December 2013	**426,151**	**806,099**	**30**	**17,382**	**1,249,662**

Note: 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 group reorganization in preparation of the listing of the Company's shares on The Stock Exchange of Hong Kong Limited.

33 Investment in a subsidiary, loan to a subsidiary and amounts due from/to subsidiaries

Investment in a subsidiary represents unlisted shares of Sateri International which are stated at cost.

Loan to a subsidiary is unsecured, interest-free and has fixed terms of repayment. The imputed interest calculated at prevailing market interest rate plus an applicable margin is accounted for as an addition to the investment in a subsidiary.

Amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

34 List of subsidiaries

The Company had direct and indirect interests in the following subsidiaries for the year ended 31 December 2013:

Name of subsidiary	Place of incorporation	Issued and fully paid share capital/ paid-in capital	Attributable equity interest of the Company	Principal activities
Bahia Specialty Cellulose S.A.	Brazil	3,248,213,308 common shares with no par value 380,869,270 preferential shares with no par value	98.4%	Manufacturing and sales of dissolving wood pulp
Copener Florestal Ltda.	Brazil	Ordinary quotas Reais 74,442,000	99.8%	Plantation in Brazil
Norcell S.A.	Brazil	42,800,334 common shares with no par value 29,771,891 preferential shares with no par value	99.8%	Investment holding
Sateri Bacell Limited	BVI	Ordinary shares US$30,000,000	100%	Investment holding
Sateri China (Hong Kong) Limited	Hong Kong	Ordinary shares HK$10,000	100%	Investment holding
Sateri Copener Limited	BVI	Ordinary shares US$100,000	100%	Investment holding
Sateri (Fujian) Fibre Co., Ltd. (note ii)	The PRC	Paid-in capital US$147,500,000	100%	Manufacturing and sales of viscose staple fiber
Sateri (Hong Kong) Management Limited	Hong Kong	Ordinary shares HK$10,000	100%	Provision of advisory and administrative services
Sateri International Co. Ltd	BVI	Ordinary shares US$100 Preference shares US$381,799,200	100%	Investment holding
Sateri International (Singapore) Pte Ltd	Singapore	Ordinary shares S$22,634,250	100%	Investment holding
Sateri (Jiangxi) Chemical Fibre Co., Ltd. (note ii)	The PRC	Paid-in capital US$113,957,000	81.1%	Manufacturing and sales of viscose staple fiber
Sateri Marketing International Limited	Cayman Islands	Ordinary shares US$1	100%	Investment holding

34 List of subsidiaries (continued)

Name of subsidiary	Place of incorporation	Issued and fully paid share capital/ paid-in capital	Attributable equity interest of the Company	Principal activities
Sateri Marketing SA	Switzerland	Ordinary shares CHF100,000	100%	Marketing services for dissolving wood pulp
Sateri (Shanghai) Management Limited (note ii)	The PRC	Paid-in capital US$2,500,000	100%	Provision of advisory and administrative services
Sateri Specialty Cellulose Limited	Cayman Islands	Ordinary shares US$183,939,551	100%	Investment holding
SC International Macao Commercial Offshore Limited	Macau	Ordinary shares MOP100,000	100%	Marketing and sales of dissolving wood pulp
SC Marketing Limited	BVI	Ordinary shares US$100	100%	Marketing and sales of dissolving wood pulp
SC Marketing US Inc.	USA	Ordinary shares US$20,000	100%	Marketing and sales of dissolving wood pulp
Specialty Cellulose Marketing Pte. Ltd.	Singapore	Ordinary shares US$100,001	100%	Marketing and sales of dissolving wood pulp

Notes:

(i) Except for Sateri International, all of the subsidiaries are indirectly owned subsidiaries of the Company.

(ii) Limited liability company and wholly-foreign owned enterprise established in the PRC.

The total non-controlling interest balance as at 31 December 2013 is about US$38,148,000 (2012: US$32,712,000), of which US$36,142,000 (2012: US$30,775,000) is for Sateri (Jiangxi) Chemical Fibre Co., Ltd. The non-controlling interest in respect of BSC is not material.

FIVE-YEAR FINANCIAL SUMMARY

For the year ended 31 December

	2013 US$'000	2012 US$'000	2011 US$'000	2010 US$'000	2009 US$'000
CONSOLIDATED INCOME STATEMENT					
Revenue	**645,681**	720,285	806,574	923,257	551,998
Gross profit	**217,548**	219,706	323,073	456,723	210,107
Profit before taxation	**43,310**	52,023	143,850	332,282	104,414
Profit for the year	**37,759**	56,280	150,525	328,090	107,430
Profit/(loss) for the year attributable to:					
Owners of the Company	**33,344**	55,561	154,713	323,881	106,867
Non-controlling interests	**4,415**	719	(4,188)	4,209	563
	37,759	56,280	150,525	328,090	107,430
Earnings per share (US$)	**0.01**	0.02	0.05	0.11	0.04
Dividend per share (HK cents)	**2.50**	2.50	2.50	–	–
CONSOLIDATED STATEMENT OF FINANCIAL POSITION					
Non-current assets					
Forestation and reforestation assets	**161,554**	185,678	187,797	192,192	177,691
Property, plant and equipment	**1,737,909**	1,539,447	1,455,966	1,384,070	1,376,386
Deferred tax assets	**46,947**	52,783	50,251	39,953	34,536
Other non-current assets	**93,360**	123,144	101,006	65,254	42,767
	2,039,770	1,901,052	1,795,020	1,681,469	1,631,380
Current assets					
Inventories	**180,954**	143,634	180,590	88,636	53,177
Trade and other receivables	**190,659**	151,104	153,232	108,736	107,402
Bills receivables discounted	**–**	–	8,119	39,452	132,231
Bank balances and cash	**166,046**	195,476	328,999	435,865	108,807
Other current assets	**–**	1,043	612	21,674	5,293
	537,659	491,257	671,552	694,363	406,910
Current liabilities					
Trade and other payables	**135,732**	147,267	136,574	156,136	77,314
Advance drawn on bills receivables discounted	**–**	–	8,119	39,452	132,231
Bank borrowings	**72,198**	195,792	198,403	153,816	177,119
Other current liabilities	**17,518**	19,469	62,961	30,589	44,756
	225,448	362,528	406,057	379,993	431,420
Net current assets/(liabilities)	**312,211**	128,729	265,495	314,370	(24,510)
Non-current liabilities					
Bank borrowings	**593,725**	301,980	379,970	510,483	277,777
Other non-current liabilities	**67**	4,501	4,010	1,646	143,559
	593,792	306,481	383,980	512,129	421,336
Net assets	**1,758,189**	1,723,300	1,676,535	1,483,710	1,185,534
Capital and reserves					
Share capital	**171,021**	170,896	170,794	168,441	409,009
Share premium and reserves	**1,549,020**	1,519,692	1,474,871	1,279,573	745,348
Equity attributable to owners of the Company	**1,720,041**	1,690,588	1,645,665	1,448,014	1,154,357
Non-controlling interests	**38,148**	32,712	30,870	35,696	31,177
	1,758,189	1,723,300	1,676,535	1,483,710	1,185,534

CORPORATE INFORMATION

Board of Directors

Independent Non-Executive Directors
John Jeffrey YING (Chairman)
Jeffrey LAM Kin Fung
David YU Hon To
LIM Ah Doo
LOW Weng Keong

Executive Director
TEY Wei Lin (Chief Executive Officer*)

* appointed as the Chief Executive Officer with effect from 18 March 2014

Executive Committee

John Jeffrey YING (Chairman)
TEY Wei Lin

Remuneration Committee

Jeffrey LAM Kin Fung (Chairman)
John Jeffrey YING
TEY Wei Lin
LOW Weng Keong

Audit Committee

David YU Hon To (Chairman)
LIM Ah Doo
LOW Weng Keong

Nomination Committee

LIM Ah Doo (Chairman)
David YU Hon To
TEY Wei Lin

Company Secretary

Winnie LUI Mei Yan

Authorized Representatives

TEY Wei Lin
Winnie LUI Mei Yan

Stock Code

1768

Websites

http://www.sateri.com
http://www.irasia.com/listco/hk/sateri

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Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Bermuda Principal Share Registrar and Transfer Office

Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal Bankers

Hong Kong
China Development Bank Corporation Hong Kong Branch
Banco Santander, S.A.
Taishin International Bank

Macau
Bank of China

Singapore
ABN AMRO Bank N.V.

China
Bank of China
Industrial and Commercial Bank of China
China Merchants Bank

Brazil
Mizuho Corporate Bank, Ltd.
Banco Santander, S.A.
Itaú Unibanco S.A.
Banco Bradesco, S.A.

Auditor

PricewaterhouseCoopers

Place of Business in Hong Kong as a Registered Non-Hong Kong Company

21/F, China Building
29 Queen's Road Central
Central, Hong Kong

Hong Kong Share Registrar

Computershare Hong Kong Investor Services Limited
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Sateri

Sateri Holdings Limited

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