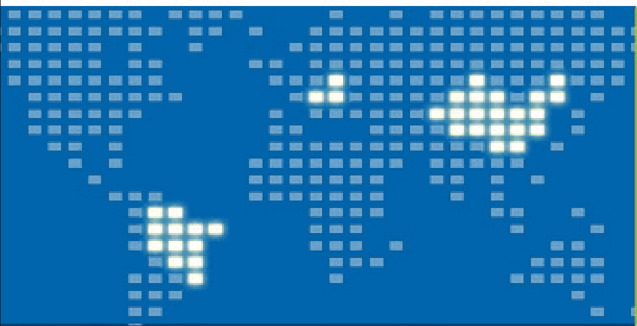
Sateri Holdings Limited

Stock Code: 1768



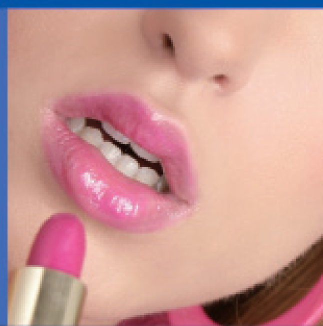
Touching Lives
Everywhere Everyday

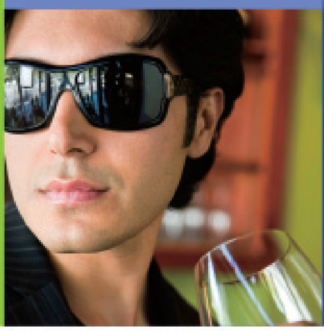
2010
ANNUAL REPORT

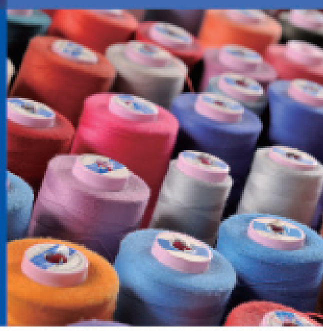
About Sateri Holdings Limited

Sateri Holdings Limited, listed on the Hong Kong Stock Exchange (Stock Code: 1768) is one of the largest specialty cellulose producers in the world, producing dissolving wood pulp in Brazil and viscose staple fibers in China. We also operate our own sustainable wood plantations in Brazil which provides us with a secure and stable supply of wood resources, the principal raw material used in our production of dissolving wood pulp.

Our products are in turn used in many consumer end use applications, touching lives everywhere, everyday.







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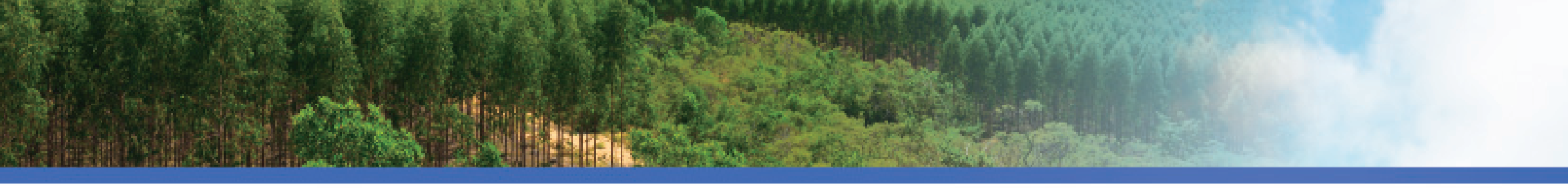


FINANCIAL HIGHLIGHTS

US$ Million	Year ended 31 Dec 2010	Year ended 31 Dec 2009	Change %
Total revenue	**923**	552	+67
Gross profit	**457**	210	+117
EBITDA[1]	**445**	215	+107
Profit attributable to Shareholders	**324**	107	+203
Earnings per Share (US$)	**0.11**	0.04	+175
Total assets	**2,447**	2,106	+16
Total liabilities	**964**	921	+5
Net assets	**1,484**	1,185	+25
Total debt	**664**	455	+46
Cash and cash equivalents[2]	**436**	109	+300
Net debt	**228**	346	-34
Net gearing ratio[3]	**15%**	29%	

Notes:

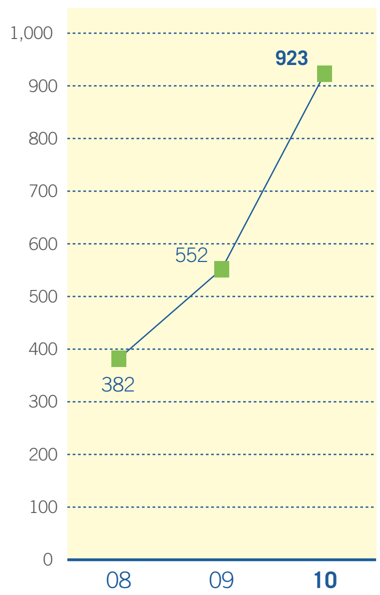
(1) EBITDA (Earnings before interest, tax, depreciation and amortization) is being calculated as profit before tax, excluding finance costs, imputed interest expense on advance from a related party, depreciation of property, plant and equipment and investment properties, amortization, decrease due to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

(2) Cash and cash equivalents include bank balances and cash and pledged bank deposits.

(3) Net gearing ratio is calculated by dividing long-term and short-term borrowings minus pledged bank deposits, bank balances and cash by total equity (including minority interests).

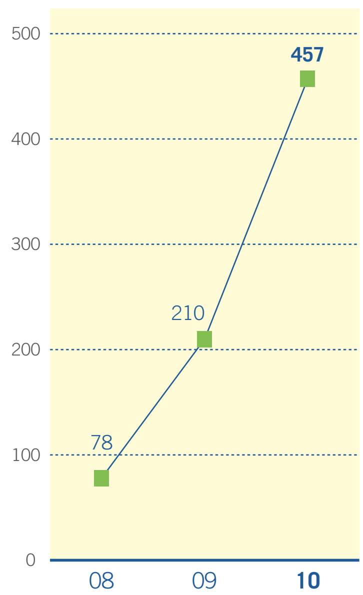
Total Revenue

US$ (million)



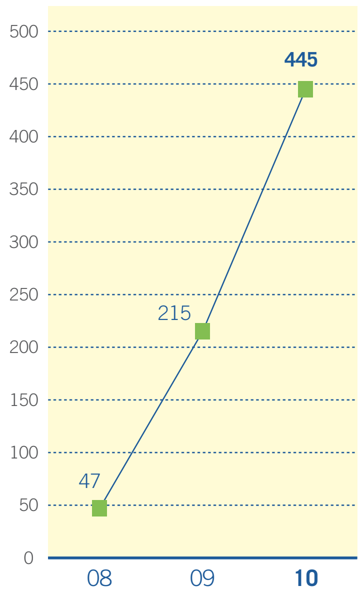
Gross Profit

US$ (million)



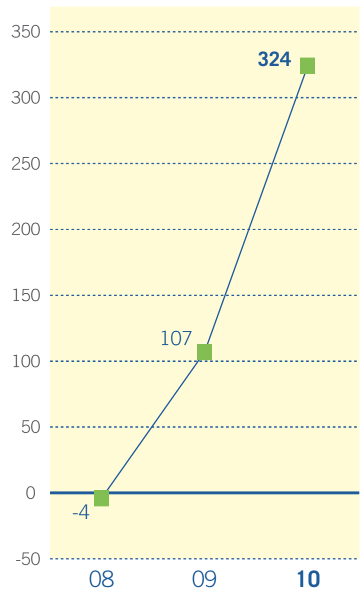
EBITDA[1]

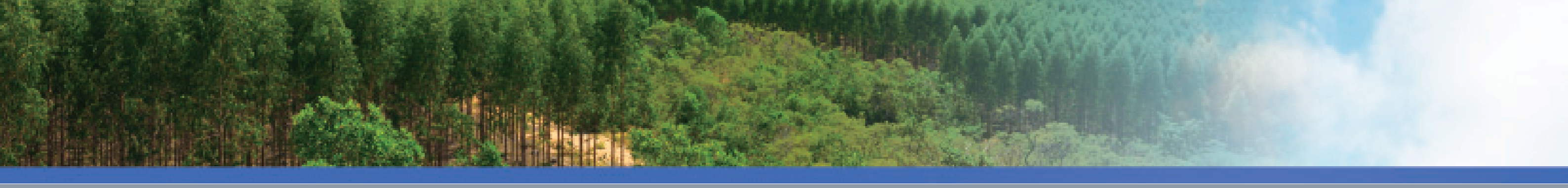
US$ (million)



Profit attributable to shareholders

US$ (million)





"This configuration provides the powerful combination of a low cost, high quality and flexible world-class production base together with a major market position at the heart of the world's fastest growing consumer market."

John J. Ying
Chairman

CHAIRMAN'S STATEMENT

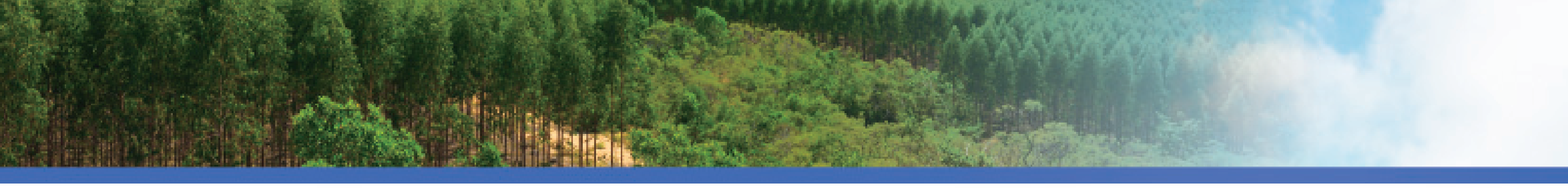
On 8 December 2010, Sateri Holdings Limited started trading on the Main Board of the Stock Exchange of Hong Kong. This milestone was the culmination of an eight-year journey for the Company, in which it acquired an underperforming asset in Brazil; invested US$1 billion to create a world-class, low-cost upstream platform; vertically integrated downstream 17,000 kilometers away in China and established a major position in the largest and fastest growing market in the world. As if these tasks were not formidable enough by themselves, the global financial crises in 2008 and 2009 also intervened.

I am delighted to report in this inaugural annual report that Sateri sailed through with flying colors. Today, the Company has realized its strategic vision of building a major, fully integrated, global producer of a high purity, renewable, versatile, organic resource — cellulose. Most interestingly, demand for this resource — in different forms including dissolving wood pulp ("DWP") and viscose staple fiber ("VSF") — is driven by fundamental consumer needs and is an essential ingredient in a wide variety of products, ranging from textiles, baby wipes, and sunglass frames to ice-cream, sausage casings and pharmaceuticals.

Upstream in Brazil, Sateri starts with ownership of 150,000 hectares (370,700 acres) of plantation that enjoy favorable climate conditions, resulting in relatively short harvest cycles and higher productivity to ensure low wood costs. This wood feeds our state-of-the-art, environmentally-friendly production mill, which produces high quality DWP with minimum energy usage and is strategically located both to minimize transportation costs and to access cost-competitive labor. Downstream in China, the DWP feeds our modern VSF facility, which is also strategically located to minimize transportation costs and to maximize proximity to major customers. This configuration provides the powerful combination of a low cost, high quality and flexible world-class production base together with a major market position at the heart of the world's fastest growing consumer market.

China's ascension, particularly its emergence as the largest market for DWP and VSF in the world, has benefitted the Company. China's demand for DWP is still rising and is expected to surpass two million metric tons in 2012, representing more than 50% of the global market for DWP. Globally, China is also both the largest VSF producer and consumer, accounting for approximately 55% of total capacity and approximately 60% of total demand. This strong growth has been primarily driven by inexorable urbanization, which is lifting disposable incomes, enlarging the middle class and transforming lifestyles and consumer habits. Besides primary demand increases, including for example microcrystalline cellulose as bulking agents and high absorbency fibers as disposable wipes, considerable substitution demand is also emerging. VSF is gradually replacing cotton in the Chinese fibers industry — the world's largest — as a staple, given its technical benefits of superior dyeability and drape, high fiber strength, anti-static nature and non-allergenic qualities while sharing common advantages of absorbency, breathability, and biodegradability.

For the fiscal year ended 31 December 2010, I am very pleased to report that Sateri earned record financial results. Our powerful business platform benefited from strong Chinese demand as well as sharp price increases for our products. Prices for DWP surged to an average US$1,548 per metric ton for the year, up by 75%, while VSF prices rose to an average US$2,528 per metric ton for the year, an increase of 33%. Our revenues increased 67% to US$923 million from US$552 million in 2009, and cash flow more than doubled as EBITDA increased to US$445 million from US$215 million in



2009. Resulting attributable net profits to shareholders tripled to US$324 million from US$107 million in 2009, equivalent to US$0.11 and US$0.04 per share, respectively. Our balance sheet as at 31 December 2010 remains robust with US$436 million of cash and cash equivalents against total debt of US$664 million.

Going forward, the Company is focused on the next phase of its development: to leverage its strong position and create a durable platform across pricing cycles that generates long-term shareholder value. Our strategy is concentrated in three efforts. The first initiative is to focus on continuous operational improvements, including further integration across the value chain, market-driven pricing and extracting efficiencies from increasing economies of scale. Debottlenecking in Brazil has been completed and is expected to increase DWP capacity from 465,000 metric tons in 2010 to 485,000 metric tons by the middle of 2011. At the VSF mill in China, we expect to increase the effective annual production capacity from 130,000 metric tons to 160,000 metric tons by the end of 2011. The second initiative is to leverage the flexibility of our technologically-advanced upstream mill to enter specialty product areas, which will target highly sophisticated customers and position us to be less susceptible to market cycles. We expect to substantially increase specialty grade sales during 2011. The third initiative is to increase capacity at strategic points on the value chain with green-field investments. We are proceeding with the development of the new Fujian VSF mill with a design production capacity of 200,000 metric tons annually and expect this facility to be completed by the end of 2012.

"The Company will leverage its strong position and create a durable platform across pricing cycles that generates long-term shareholder value."

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

As a newly-listed public company, the Board of Directors will strive towards world-class corporate governance standards. Our goal is to adopt international best practices in all aspects of governance, to implement the necessary processes and structures to make decisions that ensure the long-term success of Sateri and to best serve the interests of all our shareholders and other stakeholders.

Reviewing our strong strategic position and the robust demand for our products, we are confident that Sateri is well positioned to grow from strength to strength and to deliver attractive long-term returns to all our shareholders.

On behalf of the Board of Directors, I would like to thank all Sateri staff for their dedication and hard work during 2010. I am also very grateful to the Directors for their invaluable advice and assistance and to all our customers, business associates and shareholders for their unwavering support.

John J. Ying
Chairman
Hong Kong, 24 March 2011

BOARD OF DIRECTORS

Chairman

John Jeffrey Ying, 48, 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 and a member of the remuneration committee of the Company. Mr. Ying is the founder and managing director of Peak Capital, a private equity firm formed in 1999 that invests in growth and expansion capital transactions in the Greater China region. He has been a director of Mecox Lane Limited, a retail and e-commerce firm in China listed on the US NASDAQ exchange, since 1999, and its vice-chairman since October 2010. He has also been a non-executive director of Tai Ping Carpets International Limited, a global luxury carpet company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), since 1999. From 2008 to 2009, Mr. Ying concurrently served as a managing director of Arctic Capital Limited, a private equity firm, where he was responsible for managing investments in North Asia. He served as a managing director in Asia of The Carlyle Group, a private global investment firm, in Hong Kong from 1998 to 1999, where he was responsible for managing investments in China and Thailand. He also worked at Merrill Lynch & Co. from 1984 to 1986 and from 1989 to 1998, and his last position held was as a director in investment banking. Mr. Ying sits on the board of several not-for-profit organizations, including as the chairman of The Hong Kong Ballet since 2007 and as a director emeritus and previously a director of the Graduate Executive Board of The Wharton School since 2003. He was a trustee of the Hong Kong International School between 2002 and 2011 and acted as its vice chairman between 2006 and 2009. Mr. Ying received both a master of business administration degree in finance from The Wharton School and a master of arts degree in international studies from the University of Pennsylvania in May 1989. He graduated from the Massachusetts Institute of Technology with a bachelor of science degree in electrical engineering in June 1984.

Executive Directors

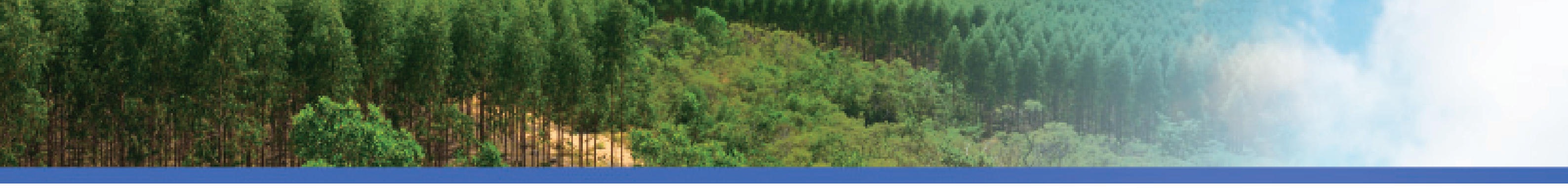
Will Hoon Wee Teng, 47, has been a Director and the chief executive officer of the Company since June 2010 and the chief executive officer of Sateri International Co. Ltd ("Sateri International") since 2009. He is also a member of the executive committee of the Company. Mr. Hoon is responsible for the Group's overall management and performance. He was previously the vice chairman of Sateri International from 2008 to 2009. Prior to joining Sateri International, Mr. Hoon served as a director and senior management officer of several companies. He was previously the president of Eu Yan Sang International Ltd, a traditional Chinese medicine company, in 2007 and was responsible for developing and implementing its strategy and directing and managing its operations. Mr. Hoon was also the executive vice president of Transpac Capital Pte Ltd, a private equity firm, from 2000 to 2007 and was responsible for overseeing its overall portfolio of investments. He was the executive chairman of Foodstar Holdings Pte Ltd, a seasonings company, from 2001 to 2007 and was responsible for overseeing its operations. He was the executive director of Hsu Fu Chi Holdings Ltd., a confectionery company, from 2002 to 2007 and was responsible for directing the entire preparation for its initial public offering. Mr. Hoon was also a managing director and the head of private equity at the Crosby Group, an investment bank, from 1998 to 2000 and was responsible for directing and managing its private equity investments. From 1989 to 1998, he worked at management consulting firms (the last of which being Bain & Company) as a key member in the industrial products industry and was responsible for leading assignments. Mr. Hoon graduated from the Massachusetts Institute of Technology with a bachelor's degree in mathematics with computer science in June 1987. He completed graduate research at the University of Cambridge (Trinity College) in May 1989.

Craig Edward Barker, 50, has been a Director of the Company since October 2010. He has been the president of viscose staple fibers of Sateri International since 2006 and is responsible for the management and operations of the Group's viscose staple fibers business. Mr. Barker has more than 20 years of experience in the viscose staple fiber and related industries. Prior to joining Sateri International, he was a director of Liberty Fibers Corporation ("LFC"), the successor of the US based viscose staple fiber subsidiary of Lenzing AG, from 2002 to 2005, and was the chief executive officer of LFC from 2003 to 2005. As a director of LFC, Mr. Barker provided his industry expertise in board discussions and decision making in respect of the company's budgeting and operational issues. After being appointed the chief executive officer of LFC, Mr. Barker was mainly responsible for the overall performance of the company's operations, including production, quality control, health, safety and environment, and sales and marketing. From 1989 to 2003, Mr. Barker served various marketing and sales positions with Lenzing AG, initially working as a technical sales manager for polyimide fiber products in Lenzing, Austria. In 1993 he was transferred to the Lenzing AG subsidiary, PT South Pacific Viscose ("SPV"), in Indonesia, one of the largest producers of viscose staple fibers in Asia. At SPV, Mr. Barker held various positions and his last position held was president director. Mr. Barker graduated from the University of Colorado in August 1982 with a bachelor's degree in mechanical engineering. He received a master's degree in engineering science and mechanics from Virginia Polytechnic Institute in August 1984 and a master of business administration degree from the University of Hull in the United Kingdom in July 1996.

Non-Executive Directors

Loh Meng See, 61, has been a Director of the Company since October 2010. He is also the chairman of the remuneration committee and a member of the executive committee and the nomination committee of the Company. Mr. Loh has been engaged as a human resources management consultant by RGE Pte Ltd ("RGE") and has served as a director of Asia Pacific Resources International Limited ("APRIL") since 2009. Mr. Loh has more than 30 years of work experience in the field of human resources management and has served as senior management officer in two companies which are listed on the Stock Exchange of Singapore. From 2000 to 2009, he was the senior vice president of human resources of Singapore Airlines Limited, where he was responsible for human resources management, including succession planning, personnel training and recruitment. From 1975 to 2000, Mr. Loh worked with Keppel Corporation Limited, a Singapore-based investment holding and management company listed on the Mainboard of the Singapore Exchange and served in various executive positions in the company's personnel department. His last position with Keppel Corporation Limited was as group personnel director from 1993 to 2000, where he was responsible for human resources management. Mr. Loh was a member of the parliament of Singapore from 1988 to 2006, representing the Kampong Glam constituency and the Jalan Besar group representation constituency. Mr. Loh graduated from the University of Singapore with a bachelor of arts degree in August 1972. Mr. Loh has been a fellow of the Institute of Chartered Secretaries and Administrators since June 1990, a full member of the Singapore Institute of Directors since April 1999 and a fellow member of the Singaporean Human Resources Institute since April 2004.

John Seto Gin Chung, 62, has been a Director of the Company since October 2010. He is also the chairman of the nomination committee of the Company. Mr. Seto has been a director of Pacific Eagle Asset Management Limited ("PEAML"), since 2006. Mr. Seto serves as an independent non-executive director of three companies listed on the Stock Exchange. He has served as an independent non-executive director of Kowloon Development Company Limited since 2002, of China Everbright Limited since 2003 and of Hop Hing Group Holdings Limited since 2006. Mr. Seto was also a non-executive director of Hong Kong Exchanges and Clearing Limited from 2000 to 2003. He was a council member of the Stock Exchange from 1994 to 2000, during which period of time he acted as its first vice chairman from 1997 to 2000. From 1982 to 2001, Mr. Seto served as the chief executive officer of HSBC Broking Services (Asia) Limited. Mr. Seto graduated from New York University in October 1973 with a master of business administration degree in finance.



Tey Wei Lin, 39, has been a Director of the Company since June 2010. He is also a member of the executive committee, audit committee and nomination committee of the Company. Mr. Tey is the president of RGE, a company which oversees a group of companies focused on resource-based manufacturing industries (the "RGE group of companies"). He has held senior management positions with the RGE group of companies since 2001 and, as president of RGE, he currently has management responsibility for group corporate functions such as corporate finance, treasury and banking, and strategic planning. Since 2006, Mr. Tey has been a director of PEAML, where he has also been appointed as a responsible officer pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) since 2005. He has been a non-executive director of APRIL since 2008. From 1995 to 2000, Mr. Tey worked with GIC Real Estate, the real estate investment arm of the Government of Singapore Investment Corporation, and his last position with GIC Real Estate was vice president. Mr. Tey graduated with a first class honors bachelor of business administration degree from the National University of Singapore in January 1996.

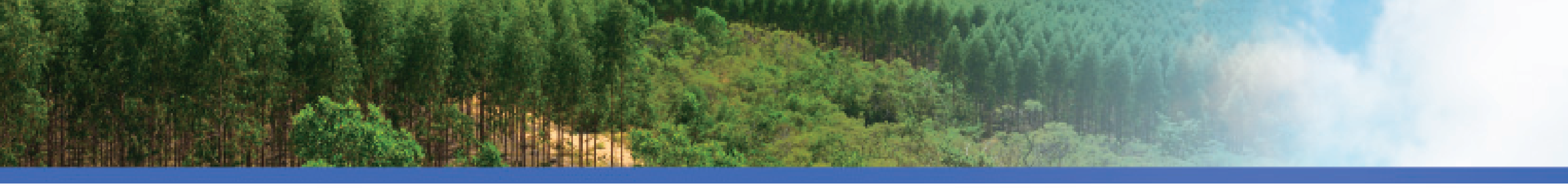
Rohan Seneka Weerasinghe, 60, has been a Director of the Company since October 2010. He is the senior partner of Shearman & Sterling LLP, which has been or may be engaged by the Group, the controlling shareholders of the Company (the "Controlling Shareholders") and other entities associated with the Controlling Shareholders, such as RGE and its group companies and APRIL, to act as their legal advisor from time to time. Mr. Weerasinghe joined Shearman & Sterling LLP as an associate in 1977, was made partner in 1986 and senior partner in 2005. His legal practice focuses on capital markets, corporate governance and other corporate advisory work. He has been involved in many capital markets transactions, including initial public offerings, high-yield debt offerings and a variety of other equity and debt transactions. Mr. Weerasinghe graduated from Harvard University with a bachelor of arts degree in history and science in June 1972 and received a master of business administration degree from Harvard Business School and a juris doctor degree from Harvard Law School in June 1977. He was admitted to the New York Bar in March 1979.

Independent Non-Executive Directors

Jeffrey Lam Kin Fung, 59, has been a Director of the Company since October 2010. He is also a member of the audit committee of the Company. Mr. Lam is an independent non-executive director of a number of companies listed on the Stock Exchange, including China Overseas Grand Oceans Group Limited since 2010, Wynn Macau Limited since 2009, Hsin Chong Construction Group Limited since 2002 and CC Land Holdings Limited since 1998. Mr. Lam has over 30 years of experience in the toy industry and is currently the managing director of Forward Winsome Industries Limited which is engaged in toy manufacturing. Mr. Lam is a member of the National Committee of the Chinese People's Political Consultative Conference, a member of the Hong Kong Legislative Council, the chairman of the assessment committee of the Mega Events Fund, a member of the board of the West Kowloon Cultural District Authority and a member of the Hong Kong Independent Commission Against Corruption's Advisory Committee on Corruption. Mr. Lam is also a council member of the Hong Kong Trade Development Council, a general committee member of the Hong Kong General Chamber of Commerce and the vice chairman of The Hong Kong Shippers' Council.

Mr. Lam was awarded the Young Industrialist Award of Hong Kong in 1989 and the Outstanding Award - Hong Kong Toy Industry in 1999. In 1996, Mr. Lam was appointed justice of the peace and became a member of the Most Excellent Order of the British Empire. In 2004, he was awarded the Silver Bauhinia Star Award. Mr. Lam was conferred university fellow of Tufts University in the US and Hong Kong Polytechnic University in December 1997 and in 2000, respectively. He received a bachelor's degree in mechanical engineering from Tufts University in June 1974.

David Yu Hon To, 62, has been a Director of the Company since October 2010. He is also the chairman of the audit committee and a member of the remuneration committee of the Company. Mr. Yu has extensive experience in the fields of corporate finance, auditing and corporate management, and is the vice chairman of MCL Partners Limited, a Hong Kong-based financial advisory and investment firm. Mr. Yu is a fellow member of the Institute of Chartered Accountants in England and Wales and an associate member of the Hong Kong Institute of Certified Public Accountants. He serves as an independent non-executive director of several other companies listed on the Stock Exchange, namely China Datang Corporation Renewable Power Co., Great China Holdings Limited, Haier Electronics Group Co., Ltd., Hong Kong Energy (Holdings) Limited, Media Chinese International Limited, One Media Group Limited, Playmates Holdings Limited, Synergis Holdings Limited, TeleEye Holdings Limited and VXL Capital Limited.



SENIOR MANAGEMENT

Ivan Alves, 51, has been the managing director of Bahia Specialty Cellulose S.A. ("Bahia Specialty Cellulose") since 2009, and is responsible for the Group's Brazilian operations. Mr. Alves graduated from Mogi das Cruzes University in Brazil in January 1984 with a bachelor's degree in chemical engineering and from Fundação Getúlio Vargas in Brazil in December 1988 with a post-graduation degree in business administration.

Eugene Ang Hui Tiong, 42, has been the vice president for corporate finance of Sateri International since 2007, and is responsible for corporate finance, including capital markets projects, acquisition projects and accounting. Mr. Ang joined Sateri International in 2004. He has extensive experience in finance and related industries. Mr. Ang graduated with a bachelor's degree in accountancy from the National University of Singapore in June 1992. He has been an associate member of the Institute of Chartered Accountants in England and Wales since May 1997 and a chartered financial analyst with the CFA Institute since September 2001.

Christian Chavassieu, 57, has been the sales and marketing director of Sateri International since 2007. Mr. Chavassieu has over 15 years experience in the dissolving wood pulp industry and is primarily responsible for Sateri International's marketing and sales of dissolving wood pulp. He is also serving as managing director of Sateri Marketing SA in Switzerland. Mr. Chavassieu graduated with an undergraduate degree in marketing from Institut Supérieur de Gestion in Paris in June 1978 and a master of business administration degree from Columbia University in New York in December 1979.

Marcelo Moreira Leite, 53, has been the technical director of Bahia Specialty Cellulose since 2009, and is primarily responsible for research and development, process and product quality control, laboratory, product development, customer technical services and process optimization. He joined Bahia Specialty Cellulose as a process and technology manager in 2006 and was appointed as production director in 2008. Mr. Leite graduated from São Paulo University in Brazil in March 1981 with a bachelor's degree in chemical engineering.

John Liu Zhong Ze, 50, was appointed the vice president for business development of the Group and head of Sateri (Shanghai) Management Limited in January 2011, and had been the managing director of Sateri (Jiangxi) Chemical Fibre Co., Ltd., ("Sateri Jiangxi") in 2009 and 2010, and was responsible for its business operations. Mr. Liu graduated from the State University of New York at Binghamton in January 1994 with a master of business administration degree and from the Economics Institute of Jinan University in July 1989 with a master degree program certificate in international business.

Kari Parviainen, 56, has been the vice president for sales and marketing of specialty viscose staple fibers for Sateri International since 2010, and is responsible for developing the specialty viscose staple fibers markets. He joined Sateri Jiangxi as the sales and marketing director in 2003. He was appointed the vice president for business planning and development of Sateri International in 2008 and the vice president for marketing in 2008. From 2004 to 2007, Mr. Parviainen served as the managing director of Sateri Oy (Finland) and was responsible for its daily operations. Mr. Parviainen graduated from Tampere University of Technology in October 1980 with a master of science degree in engineering.

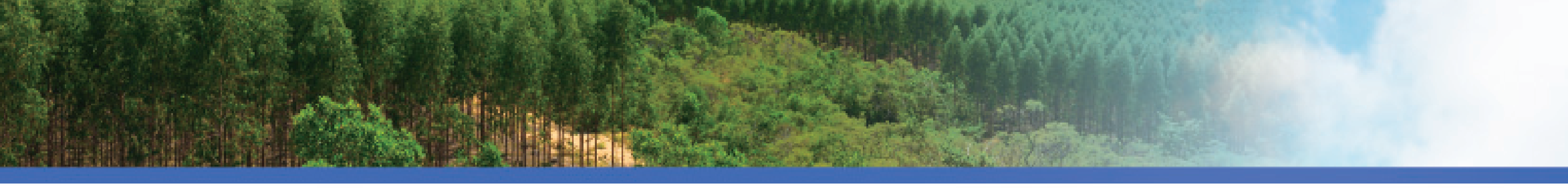
Cláudio Laert Cotrim Passos, 44, has been the finance director of Sateri International since 2010, and is responsible for treasury, budgeting and aligning group accounting policies between business units. He has extensive experience in the finance industry. Mr. Passos graduated with a bachelor's degree in business administration from the University of Salvador — Unifacs in Brazil in January 1994 and a master of business administration degree in finance from Fundação Getulio Vargas in Brazil in May 2000. He was a member of the board of directors of the Federation of Industries of the State of Bahia from March 2006 to March 2010.

Sun Yongning, 61, has been the vice president for marketing of rayon grades of pulp and viscose staple fibers for Sateri International since 2009. He is responsible for the marketing of rayon grades of pulp and viscose staple fibers in China. Mr. Sun joined Sateri Jiangxi as a consultant in the marketing department in 2002. He was appointed as senior manager for sales and customer service for viscose staple fibers in 2007. Mr. Sun received a diploma in economics from Beijing Economic Management College in July 1987.

Wang Xin, 45, was appointed the General Manager of Sateri Jiangxi in January 2011. He joined Sateri Jiangxi as the Deputy General Manager in September 2010, and he is currently responsible for the mill's overall business operations. Mr. Wang graduated from Tsinghua University in China in July 1989 with a bachelor's degree in Chemistry and Chemical Industry; and from the Beijing Research Institute of Chemical Industry in China in November 1992 with a master's degree in Polymer Science.

Wu Heping, 43, has been the production director of Sateri Jiangxi since 2008 and is responsible for the supervision and management of the manufacturing operations and the utility facilities in Sateri Jiangxi. He joined Sateri Jiangxi in 2003 and was initially in charge of the electronic meters in the company. He was appointed as assistant to the general manager in 2006, and was promoted to the positions of senior manager in 2007, production director in 2008 and assistant general manager in 2010. Mr. Wu received an associate's degree from Zhongyuan University of Technology (formerly known as Zhengzhou Textile Institute) in July 1989.

Silas Zen, 53, has been the forest manager of Bahia Specialty Cellulose since 2008, became statutory director in 2009, and Forestry Director since June 2010. He is responsible for all forestry operations including research and development, silviculture, harvesting and transportation. He has extensive experience working in large multinational pulp and paper and mining companies. Mr. Zen received a degree in forest engineering from São Paulo University in Brazil in February 1984 and a master of business administration degree in business management from Dom Cabral Foundation in October 2007.



MILESTONES FOR 2010

Commenced 20,000-metric tons de-bottleneck project in Bahia Specialty Cellulose, Brazil.

Third production line (Line C) commenced production of viscose staple fibers in Sateri Jiangxi, China. Trial operations also started for fourth production line (Line D) in the fourth quarter.

Ground-breaking ceremony held for the second viscose staple fiber mill in Putian, Fujian Province, China.

Achieved up to 5,000 hectares of Community Planting Program in Brazil.

Sateri Holdings Limited successfully listed on the main board of the Stock Exchange of Hong Kong raising US$414 million on 8 December 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

Sateri is a global leader in the specialty cellulose industry. We produce dissolving wood pulp (DWP) in Brazil using our wood resources which is grown from our eucalyptus plantations in Brazil and we produce viscose staple fiber (VSF) in China which uses DWP as its main feedstock.

MANAGEMENT DISCUSSION AND ANALYSIS

During the year, we continued our strategy of operating an integrated business model in specialty cellulose, and made investments to expand the production capacities of both our Dissolving Wood Pulp and Viscose Staple Fiber facilities.

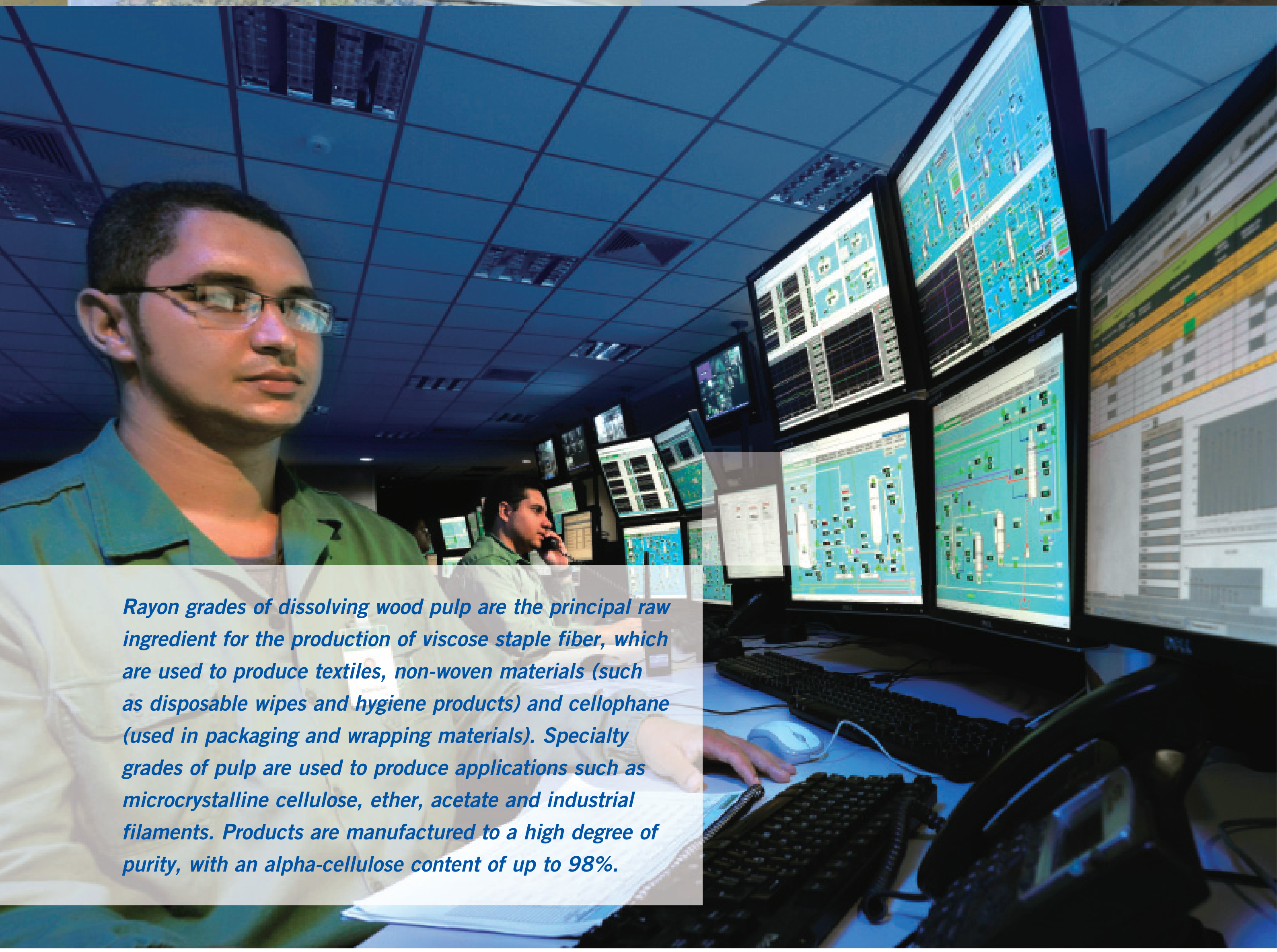
The year 2010 saw the strengthening economic recovery from the 2008 global financial crisis, with China firmly establishing itself as the dominant global manufacturer and consumer in the world markets. The recovery on the back of rising consumption around the world drove up global demand for Sateri's products. China's consumption continued its upward path with total retail sales for the year 2010 totaling US$2.4 trillion, representing an 18.3% increase from 2009. China has become the world's largest dissolving wood pulp ("DWP") market by demand, driven by the growth in domestic demand for comfortable clothing made with viscose staple fiber ("VSF"). With the global cotton supply shortages starting in late 2009, VSF has become an attractive proposition for textile manufacturers and consumers particularly in the light of growing environmental consciousness of consumers.

The surge in consumer demand was strong in Asia, particularly in China. Increased demand lifted prices for both DWP and VSF. Our average selling price ("ASP") for DWP in 2010 rose by 75% from US$886 per metric ton in 2009 to US$1,548 per metric ton, while our ASP for VSF increased 33% from US$1,897 per metric ton in 2009 to US$2,528 per metric ton in 2010. Towards the end of 2010, the surge in commodity prices, particularly cotton, provided a boost to our product prices. Cotton and cotton linter pulp prices hit new highs in 2010 as supplies were squeezed because of bad weather in major cotton producing countries including China, India and Pakistan, which boosted prices for VSF, and consequently drove up demand for DWP.

At Sateri, we have continued our strategy of operating an integrated business model in specialty cellulose, and made investments to expand the production capacities of both our DWP and VSF facilities in Brazil and China, respectively. The Group has also made strides to secure major positions in our products including sales of our specialty grades of DWP, while maintaining our cost competitiveness and profitability.

With the expansion of production capacity in our facilities in Brazil and China, Sateri was able to capitalize on the accelerating demand of the market, and achieved strong results for the year. For 2010, the Group reported growth in total revenue of 67% to US$923 million, gross profit increasing 117% to US$457 million and gross margin increasing to 50% from 38% in 2009. EBITDA correspondingly rose from US$215 million in 2009 to US$445 million in 2010. Profit attributable to shareholders for the year increased 203% to US$324 million, with earnings per share up by 175% to US$0.11, exceeding our profit forecast in our recent Hong Kong initial public offering prospectus.

Bahia Specialty Cellulose produces both rayon and specialty grades of dissolving wood pulp and will have an annual production capacity of 485,000 metric tons by the middle of this year, accounting for over 10% of global supply.



Rayon grades of dissolving wood pulp are the principal raw ingredient for the production of viscose staple fiber, which are used to produce textiles, non-woven materials (such as disposable wipes and hygiene products) and cellophane (used in packaging and wrapping materials). Specialty grades of pulp are used to produce applications such as microcrystalline cellulose, ether, acetate and industrial filaments. Products are manufactured to a high degree of purity, with an alpha-cellulose content of up to 98%.

Segment Revenue and Segment Results[1]

Segments/Business	2010 Revenue	2010 Segment profit	2010 Segment margin	2009 Revenue	2009 Segment profit	2009 Segment margin
	(US$ in thousands except the percentages)					
Cellulose products						
Dissolving wood pulp[2]	**605,813**	**238,653**	**39%**	314,124	51,180	16%
DP Marketing International Limited — Macao Commercial Offshore ("DP Macao")[3]						
Dissolving wood pulp	**107,097**	**58,328**	**55%**	42,528	20,504	48%
Other pulp products	**14,494**	**3,204**	**22%**	67,740	14,707	22%
Subtotal DP Macao	**121,591**	**61,532**	**51%**	110,268	35,211	32%
Total cellulose products	**727,404**	**300,185**	**41%**	424,392	86,391	20%
Viscose staple fibers	**195,853**	**20,238**	**10%**	127,606	20,786	16%
Non-allocated results	**—**	**11,859**		—	(2,763)	
Total	**923,257**	**332,282**	**36%**	551,998	104,414	19%

Notes:

(1) The segment profit for each segment represents revenue from each segment minus its cost of sales, selling and distribution expenses, administrative expenses and certain finance costs that are allocated to the segments, and does not include unallocated corporate income and expenses, certain finance costs and income tax.

(2) Excludes US$79 million and US$42 million of intercompany sales to Sateri (Jiangxi) Chemical Fibre Co., Ltd. ("Sateri Jiangxi") for the years ended 31 December 2010 and 2009, respectively, which is sold at market prices.

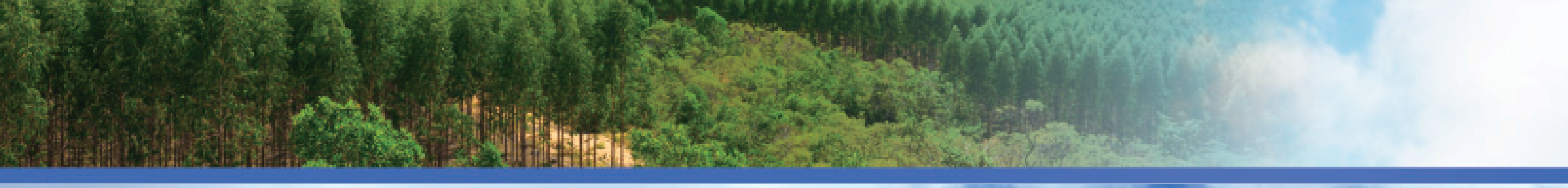
(3) Represents trading revenue derived from the sale of cellulose products (including DWP and other pulp products). Excludes US$3 million, US$4 million of intercompany sales between DP Macao and Sateri Jiangxi for the first nine months ended 30 September 2010 and full year ended 31 December 2009.

Dissolving Wood Pulp

Driven by a strong textile market and the non-woven materials sector, demand for VSF had steadily increased, which in turn led to a higher demand in rayon grades DWP, causing a sharp price increase in the second half of 2010.

Revenues from our DWP business increased 93% to US$606 million for the year from US$314 million in 2009. The growth in revenues was attributable to both increases in selling prices and sales volumes. Volumes of DWP sold increased 10% from 354,368 metric tons in 2009 to 391,346 metric tons in 2010, which comprised 333,756 metric tons of rayon grades and 57,590 metric tons of specialty grades. ASP for DWP rose 75% to US$1,548 per metric ton in 2010.

Our segment profit for our DWP business (excluding DP Macao trading business) increased to US$239 million in 2010 from US$51 million in 2009 primarily due to increases in both ASP and sales volumes. The



Sateri (Jiangxi) Chemical Fibre Co. Ltd. (Sateri Jiangxi) operates a viscose staple fiber mill in China. Sateri Jiangxi has the capability to produce fibers for textile as well as non-woven products.

segment margin for our DWP business increased to 39% in 2010 from 16% in 2009 primarily due to increased ASP which more than offset the increases in our cost of sales, selling and distribution expenses and administrative expenses.

The Group sold the majority of its output in China, accounting for 72% of the year's total revenue, followed by the other Asian (ex-China) market, European market, and the North and South American market, which accounts for 14%, 8% and 6% of total revenue, respectively. During the year, Sateri made further inroads to establish ourselves in the specialty grade DWP market, and we will look to expanding presence in this sector, especially for the acetate grade.

We continue to fulfill our commitment to expand production output at our Brazilian DWP mill to meet growing market demand. In our Brazilian facility, we started a debottlenecking project in 2010 and has recently completed this in the first quarter of 2011, which is expected to increase the designed annual production capacity from 465,000 metric tons to 485,000 metric tons by the middle of this year upon full ramp-up.

Viscose Staple Fiber

China is currently the largest producer and consumer of VSF. The Group's VSF customers are both Chinese and international, consisting of manufacturers of textile and non-woven products. The VSF market is highly competitive and fragmented with more than 40 producers, predominantly focusing on regular VSF, with much less players in the specialty fiber sector.

With the ever-rising growth of urbanization and consumption in China, demand and consequently pricing for VSF has increased during the year, further boosted by cotton price hikes and short supply, which has compelled manufacturers such as textile and fiber producers to seek for alternative fiber materials.

Production capacity expansion at Sateri Jiangxi increased from 70,000 metric tons per year from January 2010 to 130,000 metric tons per year by the end of 2010, brought on by the commencement of two new production lines in June and October 2010. With the new production lines in operation, the mill is now able to make specialty fibers which will broaden our product offering and customer base.

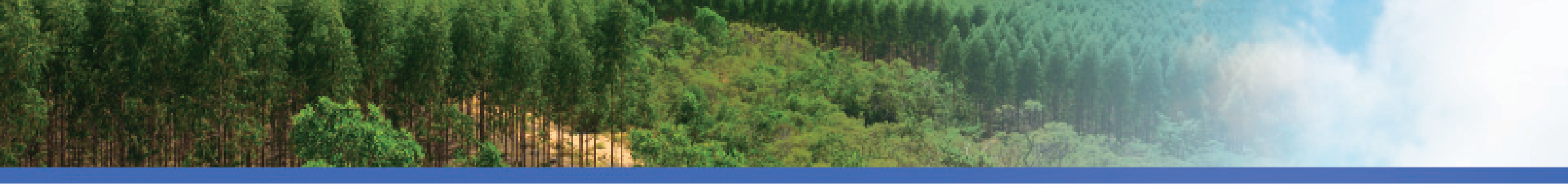
Sales volumes for VSF, amid this robust demand and the expansion of our production capacity in our mill, increased 15% from 67,273 metric tons in 2009 to 77,468 metric tons in 2010. ASP for VSF rose 33% to US$2,528. Consequently, VSF revenues for the year increased 54% to US$196 million from 2009.

Segment profit for our VSF business was US$20 million in 2010 compared to US$21 million in 2009. Although there was an increase in sales volume of VSF, segment profit remained flat because of the ramping up costs of Lines C and D which were completed in the second half of 2010 and the increased raw material costs particularly DWP.

The segment margin for VSF was down to 10% in 2010 compared to 16% in 2009, as a result of increase in costs for DWP.

DP Macao — Trading Business

On 30 September 2010, we disposed of DP Macao, an entity engaged in trading of paper pulp and DWP. This is in line with our strategy to focus on producing and selling our own DWP and VSF, and not to engage in the trading of paper pulp and DWP. We have consolidated DP Macao's results of US$62 million up till 30 September 2010, the effective date of the disposal.



Segment profit for our DP Macao business increased to US$62 million for the nine months ended 30 September 2010 from US$35 million for the year ended 31 December 2009 primarily due to increased ASP and change in its product mix. The segment margin increased to 51% in 2010 compared to 32% in 2009.

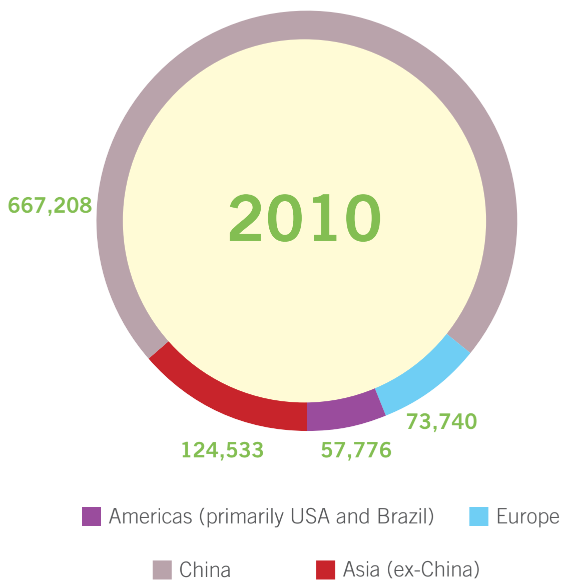
Following the disposal, we now sell DP Macao's DWP as its agent, and earn a fixed commission of 2% on these sales. During the period from 1 October 2010 to 31 December 2010, we earned an agency commission income of approximately US$801,000 recorded as other income in our consolidated income statement.

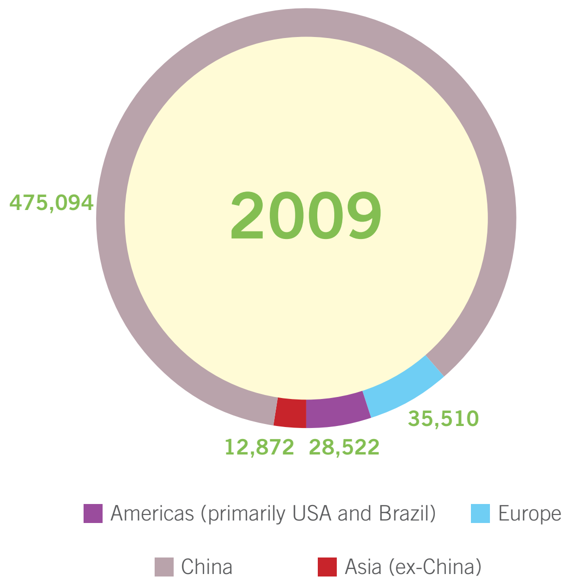
As a result of our disposal of DP Macao, our results of operations during the two years ended 31 December 2010 and 2009 will affect the comparability of our future performance.

The financials excluding DP Macao are as follows:

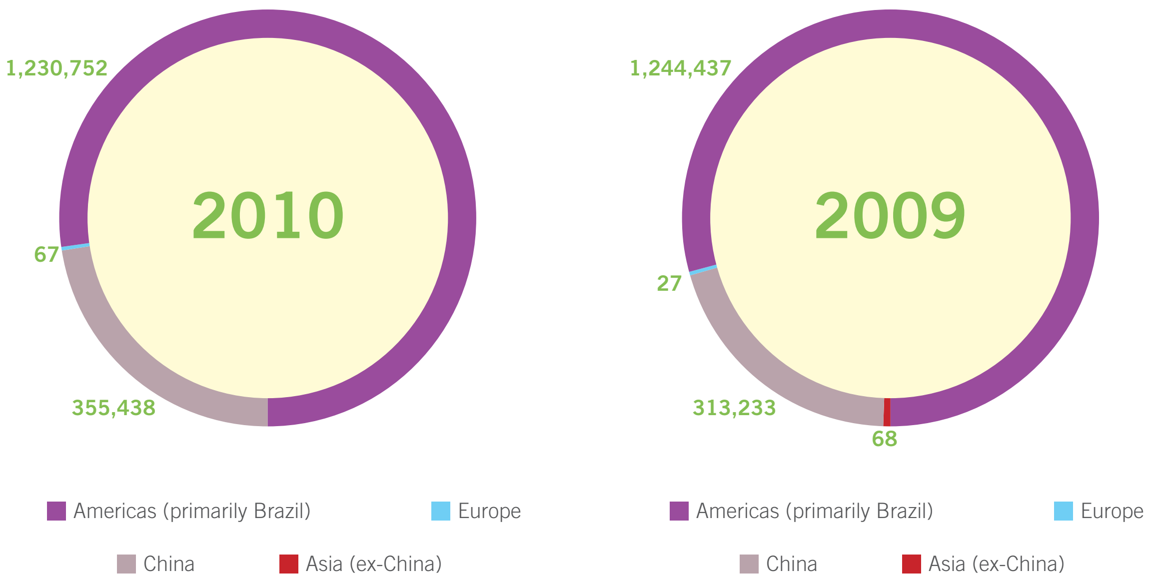
	Year ended 31 Dec 2010 US$(million)	Year ended 31 Dec 2009 US$(million)	Change %
Total revenue	**802**	442	81%
Gross profit	**389**	168	132%
Gross margin (%)	**49%**	38%	
EBITDA	**383**	179	114%
Profit attributable to Shareholders	**262**	72	266%
Earnings per Share (US$)	**0.09**	0.03	200%

Revenue by Geographical Markets





Non-current assets by Geographical Markets



Cost of Sales

Cost of sales primarily consists of the cost of planting and harvesting our wood, DWP purchased from third parties for our VSF business, chemicals, energy and other raw materials.

Our cost of sales increased by 37% to US$467 million in 2010 from US$342 million in 2009 in line with the increased sales volumes. The increase was also attributable to the increased cost of wood and chemicals partly due to the appreciation of Reais and Renminbi against the US dollar during the year. Our cost of sales for VSF produced by our Sateri Jiangxi also increased primarily due to the significant increase in the price of DWP in 2010.

Increase in Fair Value of Forestation and Reforestation Assets

We recognized increase in fair value of forestation and reforestation assets of US$13 million and US$23 million for the years ended 31 December 2010 and 2009, respectively. The increase in fair value of US$23 million in 2009 reflects the valuation adjustment to the existing forestation assets, as determined based on discounted cash flow. The increase in fair value of US$13 million in 2010 was primarily due to the adjustment to wood reference price based on the annual inflation adjustment and the strengthening of Reais as of 31 December 2010.

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

We recorded gains in changes of fair value of derivative financial instruments and settlement of derivative instruments in 2010 primarily due to the appreciation of the Reais against the US dollar during the year ended 31 December 2010. The Reais against US dollar exchange rate appreciated from R$1.74 to US$1.00 as at 31 December 2009 to R$1.67 to US$1.00 as at 31 December 2010.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 33% to US$58 million in 2010 primarily as a result of the increased transportation charges due to higher sales volumes from our Bahia Specialty Cellulose mill and our Sateri Jiangxi mill.

Administrative Expenses

Our administrative expenses increased by 77% to US$73 million in 2010 from US$41 million in 2009. This increase was primarily due to a US$12 million increase in salary, welfare and other benefits as well as a US$8 million increase in legal and professional fees for business consultancy services, both associated with the expanded production capacity at our Bahia Specialty Cellulose and Sateri Jiangxi mills and the appreciation of Reais and Renminbi against the US dollar during the year.

Recovery of Loss (Impairment Loss) Recognized in respect of Property, Plant and Equipment

In December 2009, there was a fire incident in a section of an expansion project in China which was under construction. The fire damaged certain infrastructure and equipment of the expansion project with a total carrying amount of approximately US$20 million, of which an impairment loss has been recognized in 2009. During the year ended 31 December 2010, the insurance claim process has been finalized and the insurance compensation income of approximately US$12 million received has been credited to the consolidated income statement.

Finance Costs

Our finance costs decreased by 15% to US$31 million in 2010 from US$36 million in 2009 mainly attributable to a decrease in finance charges incurred on bank borrowings as a result of a lower average interest rate in 2010.

Liquidity and Financial Resources

The Group has continued to finance its operations with cash flows from operating activities and banking facilities. As part of the initial public offering of Sateri Holdings Limited in December 2010, the Group raised approximately US$414 million in cash, after deduction of financing costs. In addition, the Group has also borrowed US$470 million through an international syndication loan to refinance the funding provided for the expansion of our Brazilian mill completed in 2008.

The following table summarizes the outstanding bank borrowings and the maturity profile of our outstanding bank borrowings as of the dates indicated.

	As of 31 December	
	2010	2009
	US$'000	US$'000
Bank borrowings:		
Secured	**584,699**	373,409
Unsecured	**79,600**	81,487
	664,299	454,896
Fixed rate	**120,488**	92,991
Variable rate	**543,811**	361,905
	664,299	454,896
Carrying amount repayable:		
On demand or within one year	**153,816**	177,119
More than one year but not more than two years	**127,531**	86,089
More than two years but not more than five years	**368,670**	165,018
More than five years	**14,282**	26,670
	664,299	454,896
Less: Amount due within one year shown under current liabilities	**(153,816)**	(177,119)
Amount due after one year	**510,483**	277,777

As of 31 December 2010, approximately 88% of our bank borrowings were secured. The short-term bank borrowings bore interest rates ranging from 3% to 12% per year. As of 31 December 2010, our bank borrowings were mainly denominated in US dollar and Chinese Renminbi.

As at 31 December 2010, our cash and cash equivalents (including bank balances and cash and pledged bank deposits) was US$436 million compared to US$108 million as at 31 December 2009.

Total capital expenditure incurred was approximately US$113 million in 2010 compared to US$133 million in 2009.

Compared with 2009, the Group's inventory turnover improved by 10 days to 55 days by 31 December 2010 due to improved operational logistics and increased demand for products which allowed us to reduce the level of finished goods to offset the increased amount of raw materials reflecting the expanded production. Trade receivables increased from US$69 million as of 31 December 2009 to US$76 million as of 31 December 2010. The average trade receivables turnover days also decreased from 34 days in 2009 to 29 days as of 31 December 2010, due to an improved process of debt collection in improving cash position and liquidity.

Charges on Assets

As at 31 December 2010, certain assets of the Group with an aggregate carrying value of US$1,306.6 million were pledged with banks for banking facilities used by our subsidiaries.

Capital Structure and Gearing Ratio

In November 2010, as part of the reorganization in preparing for our listing, we redeemed 22,800,000 Class 1 preference shares and 4,410,067 Class 2 preference shares in the capital of Sateri International Co. Ltd, representing approximately 5.6% of the outstanding Class 1 preference shares and 100% of the outstanding Class 2 preference shares, owned by Gold Silk Holdings Limited ("Gold Silk"), the immediate controlling shareholder of the Company. The redemption consideration paid to Gold Silk amounted to US$463,806,700 and this has been reflected in the net tangible assets as of 31 December 2010.

The Group's net gearing ratio (which is calculated by dividing (i) long-term and short-term borrowings minus pledged bank deposits, bank balances and cash by (ii) total equity (including minority interests)) decreased from 29% in 2009 to 15% in 2010.

Treasury Policies

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

Our Group's cash is generally placed in short term deposits denominated in US Dollars, Chinese Renminbi and Hong Kong dollars. Most of our Group's borrowings are in US Dollars and Chinese Renminbi and largely carry floating rates. We have entered into interest rate swap agreements to swap our floating interest rate into fixed interest rate for our US$470 million international syndicated loan completed in 2010.

Contingent Liabilities

We have made certain estimates for potential litigation costs based upon consultation with legal counsel and considered that no significant loss will be incurred beyond the amounts provided as of 31 December 2010. Actual results could differ from these estimates, however, in the opinion of management, it is not anticipated that any material liabilities will arise from our contingent liabilities.

Event after the Balance Sheet Date

On 3 January 2011, the Company allotted and issued 47,055,500 additional shares (the "Over Allotment Shares") at HK$6.60 per share, representing approximately 9.3% of the shares initially available for subscription under our initial public offering, through an over-allotment option partially exercised by the joint bookrunners on 29 December 2010. The Company received additional net proceeds of approximately US$38 million, after deduction of underwriting fee and commission, from the allotment and issue of the Over Allotment Shares.

Outlook

We expect that demand for our products to remain strong in 2011 supported by the strong demand in China and the shortage in cotton supply for the textile industry.

Encouraged by the potentially attractive returns from the increasing demand and sharply higher DWP and VSF prices, competitors and potential new entrants have announced plans for DWP and VSF mills which may lead to an increase in the global supply of DWP and VSF and put pressure on pricing. Rising material prices and cost inflation is expected to continue but we believe that we will be well placed amongst our competitors due to our cost competitiveness and integrated business platform.

As such, we remain focused on our future strategy in several ways. The first is to expand production capacity. At Sateri Jiangxi, we expect to increase the effective annual production capacity of VSF by 23% through certain process improvements, from 130,000 metric tons to 160,000 metric tons before the end of 2011. Our greenfield project in Fujian is ongoing and is targeted for completion by the end of 2012. Once completed, it is targeted to add a further 200,000 metric tons capacity, giving a combined 360,000 metric tons capacity for our overall VSF business to increase the integration between our DWP and VSF businesses.

We will look to raise our DWP production capacity from 485,000 metric tons to 550,000 metric tons by 2013. The Group will also consider new greenfield opportunities or brownfield expansions of our existing capacity if the opportunity meets our strategic and financial return targets.

> "Diversification will enable Sateri to develop more applications to access additional end-market customer segments that are less susceptible to market cycles."

Recent and ongoing projects

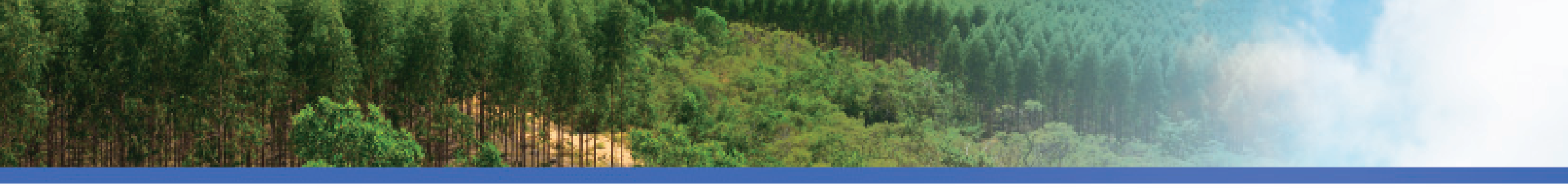
Production capacity expansion project	Actual/expected dates of construction and completion	Total Capacity of Mill after full ramp-up (metric tons)
Bahia Specialty Cellulose: Debottlenecking of 20,000 metric tons annual capacity of DWP	Completed in Q1 2011	485,000
Sateri Jiangxi: Debottlenecking of 30,000 metric tons of annual capacity of VSF	Target completion by end 2011	160,000
Sateri Fujian: Greenfield project of 200,000 metric tons of annual capacity of VSF	Target completion by end 2012	200,000

Secondly, the Group continues to broaden its product line, especially in specialty grades of pulp and VSF, underlining our strategy to efficiently expand vertically and horizontally. Such diversification will enable Sateri to develop more applications to access additional end-market customer segments that are less susceptible to market cycles. An example is expanding the production of specialty VSF products such as micro fibers for fine silky fabrics and flame retardant fibers for home textiles. Production for specialty VSF has already commenced at the Sateri Jiangxi mill in December 2010.

In addition to this, we are broadening our customer base in North America and Europe, and plan to increase market shares in China, North America and Europe in our targeted segments.

Sateri is well positioned to capture the exciting growth opportunities in the specialty cellulose market. Our integrated business model provides us with a great platform for future growth and our strong financial position can support our future growth.

Recent expansion in Sateri Jiangxi has also added specialty fibers to its original line of regular fibers.



CORPORATE SOCIAL RESPONSIBILITY

Sateri recognizes how important our operations are to society, the economy and the environment. The sustainability and business success of our Company are only possible if we maintain a mutually beneficial relationship with local communities and our environment.

Environment

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

In Brazil, over 20% of the Group's wood plantation land is reserved for High Conservation Value Forests (HCVF), including a 31 kilometers ecological corridor. The Group uses eco-friendly cultivation techniques, arranges harvesting and transport to increase water retention and soil fertility while minimizing soil erosion and wood wastage. The Mosaic plantation concept is applied, interspersing eucalyptus plantations with natural forest reserves to maintain indigenous flora and fauna biodiversity, We operate our own nursery to cultivate seedlings that are done without any genetic modification techniques, and these are used for replanting our woodlands. The Group also has a strict 'No Burn' policy in our forestry operations.

The Bahia Specialty Cellulose (BSC) mill incorporates state of the art design and the latest chemical recovery

system, which recovers and recycles up to 95% of the chemicals used in the manufacturing process, as well as increasing energy efficiency so that the Group becomes less dependent on fossil fuel. As a result, we produce excess electricity, which are sold to national power grids.

In 2009 the Group contracted international specialist Geoklock to survey greenhouse gas emissions at our plantations and mill in Brazil.

Based on the World Resource Institute's Greenhouse Gas Protocol ("A Corporate Accounting and Reporting Standard — Revised Edition"), Geoklock found that the emissions of carbon dioxide from the BSC mill were 20 times less than the amount of carbon sequestered by our plantations.

We are fully aware of the impact of waste discharged from our plants and hence we have placed a priority on waste treatment in our operations. At the Group's production facilities in Brazil and China, we have installed facilities and implemented necessary procedures to carefully treat all the waste discharged during our production processes. These are constantly monitored and regularly checked to ensure that all the national standards are met and impact to the environment is minimized.

Sateri Jiangxi controls all air and water emissions from the facility through scrubbers, condensers, biological treatment and recovery systems, and these are closely monitored internally and online by the Chinese government and independent entities.

In China, Sateri was also one of the first companies to sign the "1st Manifesto on Establishing Green Enterprises". Sateri Jiangxi also obtained Swiss-based Oeko-Tex certification attesting that our viscose staple fiber products are free from harmful substances and in compliance with the human-ecological requirements under relevant regulations of the European Union.

The Group's investment in environmental protection has received several awards from various government agencies, including those from the Jiujiang Environmental Protection Bureau for four consecutive years, and we helped to launch programs in Shanghai to promote and support environmental education amongst university undergraduates.

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

Community

At Sateri, we also place top priority to actively maintain social responsibility to the local communities wherever we operates, as evidenced by the established co-operative relationships and undertakings with local residents, government bodies and non-governmental organizations in those communities.

In Brazil, the Group has established programs to provide local communities with opportunities to improve their livelihood, such as community planting programs where it provides seedlings, fertilizers and technical assistance to farmers near our plantations and trees are grown for sale back to the Group. The aim is to plant up to 15,000 hectares of farm trees over

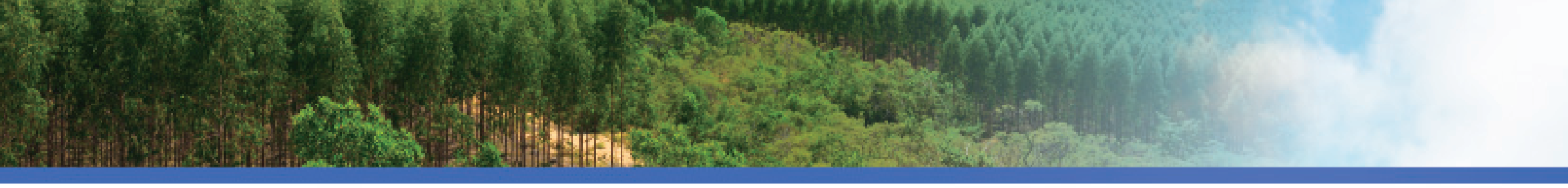
the next six years and to date, over 5,000 hectares of area has been planted with eucalyptus trees, benefiting 64 families under the Community Planting Program.

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, which gives support to around 400 families living there.

The Group also established the Piassava Program in Brazil, where the local communities are taught to create new income sources benefitting over 300 families from the sales of handicrafts. Handicrafts are produced using the water-resistant Piassava fiber, which are harvested from local palms grown within our land area. Through this project, the Group helps to disseminate sustainable management concepts and practices to participants and allow them to grow the palms on a re-growth basis between our plantation trees.

In China, the Group established financial aid programs for students from economically disadvantaged families in Jiangxi province, China. Sateri Jiangxi was honored as one of "the Most Responsible Enterprises" by the Jiangxi Survey Office of China's National Bureau of Statistics in 2008.

During the year, the Group also donated a total of approximately US$4.5 million to victims in the Jiangxi flood and the earthquake-stricken Yushu in Qinghai province, as well as other charitable organizations. Going forward, Sateri will continue to support local projects including infrastructure development such as roads and schools, and partner with local governments on various initiatives to benefit the community.



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 value for the shareholders of the Company.

The Company has adopted its own Corporate Governance Manual and during the period from 8 December 2010, being the first day of the listing of the Company's shares on the Stock Exchange of Hong Kong Limited ("the Stock Exchange"), to 31 December 2010, the Company has complied with all the code provisions of The Code of Corporate Governance Practice as contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Board

The Board assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs. The Directors are accountable for making decisions objectively in the best interest of the Company.

The Board is responsible for making decisions on all major aspects of the Company's affairs, including the approval and monitoring of key policy matters, overall strategies, business plans and annual budgets, internal control and risk management systems, material transactions, major capital expenditure, appointment of Directors and other significant financial and operational matters.

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

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

The Company has throughout the year met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors with at least one Independent Non-executive Director possessing appropriate professional qualifications, accounting or related financial management expertise.

Throughout the period from the listing of the Company's shares on 8 December 2010 to 31 December 2010, the composition of the Board was as follows:

Independent Non-Executive Directors:

John Jeffrey Ying (Chairman)
David Yu Hon To
Jeffrey Lam Kin Fung

Executive Directors:

Will Hoon Wee Teng (Chief Executive Officer)
Craig Edward Barker

Non-Executive Directors:

Loh Meng See
John Seto Gin Chung
Tey Wei Lin
Rohan Seneka Weerasinghe

A description of the Directors is set out in the section "Board of Directors" on pages 7 to 11 of the annual report.

The roles of the Chairman and Chief Executive Officer are segregated. John Jeffrey Ying, the Chairman and an Independent Non-executive Director, is responsible for leadership of the Board and for ensuring that the Board functions effectively and independently so as to create value for the shareholders of the Company.

The Chief Executive Officer, Will Hoon Wee Teng is responsible for leading the operations of the Group's businesses to achieve their business and financial targets, proposing strategies to the Board and ensuring the effective implementation of the strategies and policies adopted by the Board.

The Board is expected to meet regularly and at least four times a year. The Directors have full access to information on the Group and independent professional advice at all times whenever deemed necessary by the Directors.

With respect to regular meetings of the Board, the Directors will be given written notice of the meeting at least 14 days in advance and an agenda with supporting Board papers no less than three days prior to the meeting. For other meetings, Directors are given as much notice as is reasonable and practicable in the circumstances. Except for those circumstances permitted by the Bye-laws of the Company, a Director who has a material interest in any contract, transaction, arrangement or any other kind of proposal put forward to the Board for consideration, will abstain from voting on the relevant resolution and such Director is not counted for quorum determination purpose.

The Board held one meeting during the period from the listing of the Company's shares on 8 December 2010 to 31 December 2010. The meeting was called to discuss the Group's business and various matters concerning internal control of the Group. All Directors attended the meeting.

Appointments, Re-election and Rotation of Directors

The Directors do not have specific term of appointment. However, all Directors are subject to re-election by shareholders at annual general meetings and at least about once every three years on a rotation basis in accordance with the Bye-laws of the Company. A retiring Director is eligible for re-election and re-election of retiring Directors at annual general meetings will be dealt with by separate individual resolutions. Where vacancies arise at the Board, candidates will be proposed and put forward to the Board by the Nomination Committee as set out below under the section on Nomination Committee.

Training, Induction and Continuing Development of Directors

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

Continuing briefing is provided to the Directors regularly to ensure that the Directors are well-informed of the latest changes in the commercial, legal and regulatory environment in which the Group conducts its businesses.

Securities Transactions

The Board has adopted its own Guidelines on Securities Transaction regarding securities transactions by Directors and relevant employees on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as contained in Appendix 10 of the Listing Rules.

Specific enquiries have been made with the Directors, and all Directors confirmed that they have complied with the required standards set out in the Guidelines on Securities Transaction and the Model Code regarding their securities transactions for the year.

Board Committees

The Company established an Audit Committee, a Remuneration Committee and a Nomination Committee on 8 November 2010.

An Executive Committee was established on 9 December 2010 with its terms of reference approved and adopted on 24 March 2011.

Executive Committee

The Executive Committee comprises the following Directors:

Independent Non-Executive Director:

John Jeffrey Ying
(Chairman of the Executive Committee)

Non-Executive Directors:

Loh Meng See
Tey Wei Lin

Executive Director:

Will Hoon Wee Teng

The duties of the Executive Committee shall be to:

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

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

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

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

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

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

g) implement the decisions taken by the Board.

No meeting of the Executive Committee was held during the period from the listing of the Company's shares on 8 December 2010 to 31 December 2010. From 2011 after the adoption of the terms of reference of the Executive Committee on 24 March 2011, the Executive Committee will meet at least once a month except in a calendar month where a regular Board meeting is scheduled to be held.

Remuneration Committee

The Remuneration Committee comprises the following Directors:

Non-Executive Director:

Loh Meng See
(Chairman of the Remuneration Committee)

Independent Non-Executive Directors:

John Jeffrey Ying
David Yu Hon To

The duties of the Remuneration Committee shall be to:

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

b) have the delegated responsibility to determine the specific remuneration packages of all Executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of Non-Executive Directors. The Remuneration Committee shall consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the group and desirability of performance-based remuneration;

c) review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

d) review and approve the compensation payable to Executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

e) review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;

f) review annually the appropriateness and relevance of the remuneration policy;

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

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

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

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

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

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

No meeting of the Remuneration Committee was held during the period from the listing of the Company's shares on 8 December 2010 to 31 December 2010. From 2011, the Remuneration Committee will meet at least once a year.

A recent meeting of the Remuneration Committee was held on 23 March 2011 to consider and review, inter alia, remuneration packages of all the Executive Directors and senior management for 2011. All members of the Remuneration Committee attended that meeting.

Audit Committee

The Audit Committee comprises the following Directors:

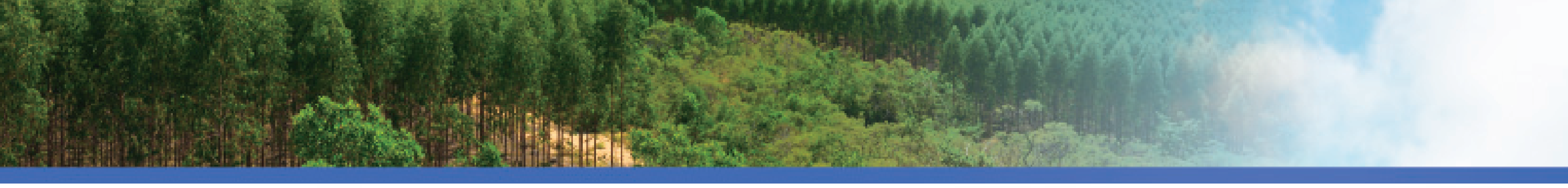
Independent Non-Executive Directors:

David Yu Hon To (Chairman of the Audit Committee)
Jeffrey Lam Kin Fung

Non-Executive Director:

Tey Wei Lin

The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal controls. In addition, the duties of the Audit Committee are as follows:



Relationship with the Group's auditor

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

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

c) to develop and implement policy on the engagement of an external auditor to supply non-audit services. For this purpose, external auditor shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;

Review of financial information of the Group

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

    i) any changes in accounting policies and practices;

    ii) major judgmental areas;

    iii) significant adjustments resulting from audit;

    iv) the going concern assumptions and any qualifications;

    v) compliance with accounting standards; and

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

e) In regard to d) above:

    i) members of the Audit Committee must liaise with the Board and the senior management, and the Audit Committee must meet, at least once a year, with the Group's auditor; and

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

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

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

g) to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system including the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programs and budget;

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

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

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

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

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

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

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

Devising and implementing risk management measures of the Group

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

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

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

No meeting of the Audit Committee was held during the period from the listing of the Company's shares on 8 December 2010 to 31 December 2010. From 2011, the Audit Committee will meet at least four times a year to discuss the internal control and other audit, accounting and financial related issues.

A recent meeting of the Audit Committee was held on 14 March 2011 to consider and review the audited financial statements of the Group for 2010 and internal control related matters. All members of the Audit Committee attended that meeting.

Nomination Committee

The Nomination Committee comprises the following Directors:

Non-Executive Directors:

John Seto Gin Chung
(Chairman of the Nomination Committee)
Loh Meng See
Tey Wei Lin

The duties of the Nomination Committee are as follows:

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

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

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

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

No meeting of the Nomination Committee was held during the period from the listing of the Company's shares on 8 December 2010 to 31 December 2010. From 2011, the Nomination Committee will meet as and when it is considered necessary.

Accountability and Audit

Financial Reporting

The Directors acknowledge their responsibility for the preparation of the financial statements of the Company to ensure that these financial statements give a true and fair presentation in accordance with the International Financial Reporting Standards.

The statement by the auditor about their reporting responsibilities is set out in the Independent Auditor's Report on pages 53 and 54.

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 letter from the independent auditor confirming their independence and objectivity and holds meetings with representatives of the independent auditor to consider the scope of its audit, approve its fees, and the scope and appropriateness of non-audit services, if any, to be provided by it. The Audit Committee also makes recommendations to the Board on the appointment and retention of the independent auditor.

The remuneration payable to the independent auditor of the Company in respect of audit services and non-audit services for the year ended 31 December 2010 amounted to approximately US$2 million and approximately US$0.5 million respectively. The costs incurred for the non-audit services represented professional fees in connection with the services provided as reporting accountant for the listing of the Company's shares on the Stock Exchange.

Internal Control and Risk Management

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

In December 2010, the Board has resolved to engage an external consultant to conduct a review of the effectiveness of the system of internal control of the Company and its subsidiaries covering all material financial, operational and compliance controls and risk management functions.

In the meeting held on 14 March 2011, the Audit Committee has reviewed and considered the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programs and budget. The findings of the Audit Committee have been reported to the Board.

Internal Audit

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

DIRECTORS' REPORT

The Directors have pleasure in submitting their Report together with the audited financial statements for the year ended 31 December 2010.

Principal Activities

The principal activity of Sateri Holdings Limited (the "Company") is that of an investment holding company, and the principal activities of its subsidiaries are set out in note 48 to the financial statements.

Results & Dividend

Results of the Group for the year ended 31 December 2010 are set out in the consolidated statement of comprehensive income on page 55.

The Board does not recommend payment of final dividend for the year ended 31 December 2010.

Financial Summary

A summary of the results and assets and liabilities of the Group for the past four financial years is set out on pages 150 to 152 of this annual report.

Share Capital

Details of the movements in the share capital of the Company during the year are set out in note 37 to the financial statements.

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

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

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

(i) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or

(ii) the realizable value of the Company's assets would hereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

At 31 December 2010, the Company's reserves, including the accumulated losses, contributed surplus and share premium, available for distribution to shareholders amounted to approximately US$1,185 million.

Reserves

Movements in the reserves of the Group during the year are set out in the Consolidated Statement of Changes in Equity on page 58.

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.

Donations

During the year, the Group made donations of RMB30,000,000 (approximately US$4,462,000) and HK$1,000,000 (approximately US$128,000) in total.

Property, Plant and Equipment

Movements in property, plant and equipment are set out in note 17 to the financial statements.

Bank Borrowings and Interest

Details of the Group's bank borrowings are set out in note 33 to the financial statements. Bank borrowings repayable within one year or on demand are classified as current liabilities in the financial statements. Bank borrowings repayable after one year are classified as non-current liabilities.

Details of the amount of interest capitalised by the Group are set out in note 10 to the financial statements.

Major Customers and Suppliers

During the year ended 31 December 2010, the Group's five largest customers accounted for approximately 46.2% of the Group's total revenue and the Group's largest customer for the year accounted for approximately 12.2% of the Group's total revenue. These amounts include revenue from the business of DP Marketing International Limited — Macao Commercial Offshore until its disposal effective as of 30 September 2010. The Group's five largest suppliers accounted for approximately 37.8% of the Group's total purchases, including raw materials, fuels and logistics expenses, while the largest supplier for the year accounted for approximately 16.1% of the Group's total purchases.

To the knowledge of the Directors, save as disclosed in this annual report, none of the Directors or their respective associates or any of the shareholders of the Company (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 2010, the Group had 1,953 employees in total. Total staff costs for the year under review amounted to approximately US$52,521,000 and the details are set out in note 12 to the financial statements. Remuneration for employees is based upon their qualification, experience, job nature, performance and market condition.

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

Directors

The Directors of the Company as at the date of this report are as follows:

Independent Non-Executive Directors

John Jeffrey Ying, Chairman
Jeffrey Lam Kin Fung
David Yu Hon To

Executive Directors

Will Hoon Wee Teng, Chief Executive Officer
Craig Edward Barker

Non-Executive Directors

Loh Meng See
John Seto Gin Chung
Tey Wei Lin
Rohan Seneka Weerasinghe

Appointed as Director of the Company on 14 June 2010.
Appointed as Director of the Company on 28 October 2010.

Bye-law 84 of the Company's Bye-Laws provides that at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Directors shall be subject to retirement at least once every three years. In accordance therewith, Will Hoon Wee Teng, Tey Wei Lin, David Yu Hon To and Craig Edward Barker will retire this year. Except for Craig Edward Barker who does not stand for re-election, all the said Directors, being eligible, will offer themselves for re-election.

Each Director has entered into a letter of appointment with the Company for an indefinite term, subject to the retirement requirement as set out in the Bye-laws of the Company. Save as disclosed above, none of the Directors has entered into a service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

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

Independence Confirmation

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

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

As at 31 December 2010, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares of equity derivatives and debentures of the Company or its associated corporations (as defined by Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register of directors' and chief executive's interests and short positions required to be maintained under section 352 of SFO are as follows:

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

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

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

Name of Director	Capacity	Number of underlying Shares(1)	Approximate % shareholding interest
John Jeffrey Ying	Beneficial owner	960,591	0.029
Will Hoon Wee Teng	Beneficial owner	3,201,970	0.095
Craig Edward Barker	Beneficial owner	128,079	0.004

Note:

(1) These represent Shares underlying the Restricted Share Units ("the RSUs") granted to the relevant Directors pursuant to the Pre-IPO Restricted Share Unit Scheme. The relevant Share interests held by the Directors are subject to vesting conditions. For further details, please refer to the section headed "Restricted Share Unit Schemes And Share Option Scheme" below.

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

Name of Director		Number of RSUs granted	Vesting Period
John Jeffrey Ying		960,591	30% on 15 February 2012 30% on 15 February 2013 40% on 15 February 2014
Will Hoon Wee Teng		3,201,970	15% on 15 February 2012 15% on 15 February 2013 20% on 15 February 2014 20% on 15 February 2015 30% on 15 February 2016
Craig Edward Barker		128,079	20% on 15 February 2012 30% on 15 February 2013 50% on 15 February 2014
	Total	4,290,640	

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

As at 31 December 2010, save as disclosed herein, none of the Directors and chief executive of the Company were interested in short positions in the shares, underlying shares of equity derivatives or debentures of the Company or any associated corporation defined under the SFO as recorded in the register of directors' and chief executive's interests and short positions.

Restricted Share Unit Schemes and Share Option Scheme

1. Restricted Share Unit Schemes

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

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

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

1.1 Pre-IPO RSU Scheme

As of 31 December 2010, RSUs in respect of 8,165,026 underlying Shares had been granted to 18 grantees pursuant to the Pre-IPO RSU Scheme, of which three of the grantees are Directors.

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:

$$\mathbf{X = A - B}$$

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 of Hong Kong Limited (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 the date of this report, no RSU has been granted by the Company pursuant to the Post-IPO RSU Scheme.

For further details of the RSU Schemes, please refer to note 38 to the financial statements.

2. Share Option Scheme

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

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

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

(1) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to attract skilled and experienced personnel, to incentivize them to remain with the Group and to motivate them to strive for the future development and expansion of the Group by providing them with the opportunity to acquire equity interests in the Company.

(2) Participants of the Share Option Scheme

The Board may, at its discretion, grant options pursuant to the Share Option Scheme to the Directors (including Executive Directors, Non-Executive Directors and Independent Non-Executive Directors), the directors of the Company's subsidiaries and the employees of the Group who the Board considers, in its absolute discretion, have contributed or will contribute to the Group (the "Participants").

(3) Total number of Shares available for issue under the Share Option Scheme

At any time during the period within which the Share Option Scheme is valid and effective, the maximum aggregate number of Shares in respect of which options may be granted pursuant to the Share Option Scheme shall be calculated in accordance with the following formula:

$$\mathbf{X = A - B - C}$$

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 Company's issued share capital upon listing.

As of 31 December 2010, the total number of Shares available for grant under the Share Option Scheme was 336,882,675, representing 10% of the issued share capital of the Company as of 31 December 2010 and approximately 9.86% as of the date of this report.

(4) Maximum entitlement of each participant

No participant shall be granted an option if the total number of Shares issued and to be issued upon exercise of the options granted and to be granted to such person under the Share Option Scheme (including exercised, cancelled and outstanding options) in any 12-month period up to and including the date of such further grant (when aggregated with any Shares 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 by a Grantee (the "Option Period") shall be the period to be determined and notified by the Board to the Grantee at the time of making an offer, which shall not expire later than 10 years from the date of grant.

Subject to any restrictions applicable under the Listing Rules, an option may be exercised by the Grantee at any time during the Option Period in accordance with the terms of the Share Option Scheme and the terms on which the option was granted. If the vesting of Shares underlying an option is subject to the satisfaction of performance or other conditions and such conditions are not satisfied, the option shall lapse automatically on the date on which such conditions are not satisfied in respect of the relevant Shares underlying the option.

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

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

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

An offer of the grant of an option is deemed to be accepted by the Participant (the "Grantee") when the Company receives from the Grantee the duplicate notice of grant duly signed by the Grantee and a remittance of the sum of US$1.00 or such other amount in any other currency as may be determined by the Board as consideration for the grant of the option. Such remittance is not refundable in any circumstances. The offer shall remain open for acceptance for such time to be determined by the Board, provided that no such offer shall be open for acceptance after the expiry of the period within which the Share Option Scheme is valid and effective or after the termination of the Share Option Scheme in accordance with its terms or after the Participant to whom the offer is made has ceased to be a Participant.

(8) Basis of determining the exercise price

The price per Share at which a Grantee may subscribe for Shares upon the exercise of an option (the "Exercise Price") shall be determined by the Board in its absolute discretion but in any event shall not be less than the higher of:

(a) the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant, which must be a business day;

(b) the average closing price of the Shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and

(c) the nominal value of the Shares

(9) Remaining life

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

Directors' Interests in Contracts of Significance

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

Directors' Interests in Competing Businesses

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

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

As at 31 December 2010, the following persons, other than the Directors and chief executive of the Company, had interests and short positions in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company under Section 336 of Part XV of the SFO:

Long position in Shares and underlying Shares

Name	Capacity	Number of ordinary Shares	Approximate % of interest
Gold Silk Holdings Limited ("Gold Silk")(1)	Beneficial owner	2,863,496,750	85.0%
Fiduco Trust Management AG ("Fiduco")(1)(2)	Interest in a controlled corporation	2,863,496,750	85.0%
Mr. Sukanto Tanoto ("Mr. Tanoto")	Person who set up a discretionary trust	2,863,496,750	85.0%

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 settler and whose beneficiaries include Mr. Tanoto and certain members of his family.

Save as disclosed above, the Directors are not aware of any person, other than the Directors whose interests are set out in the section "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares of Equity Derivatives and Debentures" above, who had an interest or short positions in the Shares or underlying Shares that were required to be recorded pursuant to Section 336 of Part XV of the SFO as of 31 December 2010.

Purchase, Sale or Redemption of the Company's Securities

The Company has not redeemed any of its Shares during the year ended 31 December 2010. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's securities during the year ended 31 December 2010 other than the initial public offering of the Shares in 2010.

Public Float

Rule 8.08(1)(a) of the Listing Rules requires that at least 25% of an issuer's total issued share capital must at all times be held by the public. As the Company was able to achieve a minimum market capitalization of at least HK$10 billion upon the listing of Shares on the Stock Exchange, the Stock Exchange had granted a waiver under Rule 8.08(1)(d) of the Listing Rules to accept a lower public float percentage of 15% (or a higher percentage upon exercise of the Over-allotment Option as defined in the Company's prospectus dated 26 November 2010 (the "Prospectus")) of the Company's issued share capital ("the Company's Minimum Public Float"). Accordingly, the Company's Minimum Public Float upon the Listing Date was 15% and became 16.17% on 3 January 2011 due to the partial exercise of the Over-allotment Option.

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficiency of public float at all times during the period under review.

Continuing Connected Transactions

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

1. Agency Agreement with DP Macao

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

DP Macao pays SC International Macao on a quarterly basis a commission of 2% of the actual amount it receives for dissolving wood pulp sales attributable to SC International Macao. All expenses incurred by SC International Macao in connection with the Agency Agreement are for its own account.

The Agency Agreement was entered into by the Company in the ordinary and usual course of the Company's business and is on normal commercial terms, as the 2% commission payable to SC International Macao by DP Macao is comparable to (or is more favorable to SC International Macao than) that payable under similar agreements between independent third parties.

The Agency Agreement will be effective until 31 December 2012, and may be renewed thereafter for successive three-year periods, subject always to the parties complying with the then applicable provisions of the Listing Rules in respect of any such renewal.

SC International Macao has commission receivable of US$272,000 from DP Macao under the Agency Agreement from Listing Date to 31 December 2010. The annual caps for the maximum amount of commission payable to SC International Macao by DP Macao under the Agency Agreement for the years ending 31 December 2010, 2011 and 2012 have been set pursuant to the requirement of the Listing Rules at US$825,000, US$5,280,000 and US$5,610,000 respectively.

2. Sales Framework Agreement with DP Macao

On 3 November 2010, Sateri (Jiangxi) Chemical Fibre Co., Ltd. ("Sateri Jiangxi") and Sateri (Fujian) Fibre Co., Ltd. ("Sateri Fujian"), both being subsidiaries of the Company, entered into a sales framework agreement (the "Sales Framework Agreement") with DP Macao. The Sales Framework Agreement governs the terms on which dissolving wood pulp produced by TPL and purchased by DP Macao is to be sold to Sateri Jiangxi and Sateri Fujian. These terms require all sales transactions for dissolving wood pulp between DP Macao and Sateri Jiangxi and Sateri Fujian to be on normal commercial terms and at a price that is no greater than the open market spot price at the time of the transaction that would be payable in a contract between independent third parties for a comparable quantity and quality of dissolving wood pulp.

The Sales Framework Agreement was entered into in the ordinary and usual course of the Company's business and is on normal commercial terms as the price payable by Sateri Jiangxi and Sateri Fujian to DP Macao in any transaction must be comparable to (or more favorable to Sateri Jiangxi and Sateri Fujian than) that payable under similar agreements between independent third parties.

The value of sales of dissolving wood pulp by DP Macao to Sateri Jiangxi from Listing Date to 31 December 2010 was US$4,702,000. The annual caps for the maximum amount payable by Sateri Jiangxi and Sateri Fujian to DP Macao under the Sales Framework Agreement for the years ending 31 December 2010, 2011 and 2012 have been set pursuant to the requirement of the Listing Rules at US$9,600,000, US$87,673,600 and US$98,175,000 respectively.

The Sales Framework Agreement will be effective until 31 December 2012, and may be renewed thereafter for successive three-year periods, subject always to the parties complying with the then applicable provisions of the Listing Rules in respect of any such renewal.

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

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

(2) on normal commercial terms; and

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

In addition, the Auditor of the Company have confirmed that

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

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

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

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

Related Party Transactions

Details of the significant related party transactions undertaken in the normal course of business are provided under note 45 to the financial statements. Other than those transactions disclosed in the section headed "Continuing Connected Transactions" above, none constitutes a discloseable connected transaction as defined under the Listing Rules.

Deed of Non-Competition

The Company entered into a Deed of Non-Competition with Gold Silk, Fiduco, Mr. Tanoto (Gold Silk, the Trustee and Mr. Tanoto are hereinafter collectively referred to as the "Controlling Shareholders") and Pinnacle Company Limited ("Pinnacle") on 19 November 2010 so as to maintain a clear delineation of the respective businesses of the Group and those of the Controlling Shareholders and Pinnacle with effect from the Listing Date and to formalize the principles for the management of potential conflicts between them and to enhance our corporate governance in connection with the listing of the Shares on the Stock Exchange.

The Independent Non-Executive Directors have reviewed compliance by the Controlling Shareholders and Pinnacle and confirm that based on confirmations and information provided by each of the Controlling Shareholders and Pinnacle, they were in compliance with the Deed of Non-Competition during the period from the Listing Date to 31 December 2010.

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 the Listing Date to 31 December 2010.

Auditor

Deloitte Touche Tohmatsu will retire and, being eligible, offer themselves for re-appointment. A resolution for the reappointment of Deloitte Touche Tohmatsu as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

John Jeffrey Ying
Chairman
Hong Kong, 24 March 2011

INDEPENDENT AUDITOR'S REPORT

Deloitte.

德勤

TO THE MEMBERS OF SATERI HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Sateri Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 55 to 149, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTOR'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2010, 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.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

24 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Year ended 31 December 2010

	Notes	2010 US$'000	2009 US$'000
Revenue	7	**923,257**	551,998
Cost of sales		**(466,534)**	(341,891)
Gross profit		**456,723**	210,107
Selling and distribution expenses		**(58,033)**	(43,776)
Administrative expenses		**(72,965)**	(41,209)
Other income and gains (losses)	9	**312**	(1,995)
Finance costs	10	**(31,077)**	(36,414)
Changes in fair value of derivative financial instruments	27	**21,521**	1,832
Gain on settlement of derivative financial instruments	27	**5,392**	18,391
Increase in fair value of forestation and reforestation assets	16	**12,704**	23,246
Recovery of loss (impairment loss) recognized in respect of property, plant and equipment	17	**12,236**	(20,013)
Imputed interest expense on advance from a related party	36	**(4,316)**	(5,755)
Listing expenses		**(10,215)**	—
Profit before tax		**332,282**	104,414
Income tax (expense) credit	11	**(4,192)**	3,016
Profit for the year	12	**328,090**	107,430
Other comprehensive income (expense)			
Exchange differences arising on translation of foreign currencies		**5,278**	(172)
Gain on cash flow hedge		**4,346**	—
Total comprehensive income for the year		**337,714**	107,258
Profit for the year attributable to:			
Owners of the Company		**323,881**	106,867
Non-controlling interests		**4,209**	563
		328,090	107,430
Total comprehensive income attributable to:			
Owners of the Company		**333,195**	105,883
Non-controlling interests		**4,519**	1,375
		337,714	107,258
Earnings per share			
— basic (US$)	15	**0.11**	0.04
— diluted (US$)	15	**0.11**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Notes	2010 US$'000	2009 US$'000
Non-current assets			
Forestation and reforestation assets	16	**192,192**	177,691
Property, plant and equipment	17	**1,384,070**	1,376,386
Prepaid lease payments — non-current portion	18	**7,340**	889
Investment properties	19	**1,880**	1,924
Intangible assets	20	**775**	875
Derivative financial instruments	27	**4,346**	—
Other long-term assets	21	**50,913**	39,079
Deferred tax assets	23	**111,576**	102,745
		1,753,092	1,699,589
Current assets			
Inventories	24	**88,636**	53,177
Trade and other receivables	25	**108,721**	102,709
Bills receivables discounted	26	**39,452**	132,231
Derivative financial instruments	27	**21,521**	5,273
Amounts due from related parties	28	**15**	4,693
Prepaid lease payments — current portion	18	**153**	20
Pledged bank deposits	29	**8,071**	49,419
Bank balances and cash	30	**427,794**	59,388
		694,363	406,910
Current liabilities			
Trade and other payables	31	**126,569**	65,841
Amounts due to related parties	28	**21,455**	4,538
Advance drawn on bills receivables discounted	26	**39,452**	132,231
Provisions	32	**8,112**	6,935
Derivative financial instruments	27	**—**	15,134
Tax payable		**28,424**	27,354
Bank borrowings — due within one year	33	**153,816**	177,119
Obligations under finance leases — due within one year	34	**2,165**	2,268
		379,993	431,420
Net current assets (liabilities)		**314,370**	(24,510)
Total assets less current liabilities		**2,067,462**	1,675,079

	Notes	2010 US$'000	2009 US$'000
Non-current liabilities			
Loan from a related party	36	—	142,784
Bank borrowings — due after one year	33	510,483	277,777
Deferred tax liabilities	23	71,623	68,209
Obligations under finance leases — due after one year	34	1,646	775
		583,752	489,545
		1,483,710	1,185,534
Capital and reserves			
Share capital	37	168,441	409,009
Share premium and reserves		1,279,573	745,348
Equity attributable to owners of the Company		1,448,014	1,154,357
Non-controlling interests		35,696	31,177
		1,483,710	1,185,534

The consolidated financial statements on pages 55 to 149 were approved and authorized for issue by the Board of Directors on 24 March 2011 and are signed on its behalf by:

John Jeffrey Ying
DIRECTOR

Will Hoon Wee Teng
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year ended 31 December 2010

	Attributable to owners of the Company											
	Ordinary shares US$'000	Preference shares US$'000	Share premium US$'000	Special reserve US$'000 (Note a)	Other non-distributable reserves US$'000 (Note b)	Translation reserve US$'000	Cashflow hedging reserve US$'000	Awarded shares compensation reserve US$'000	Accumulated profits US$'000	Total US$'000	Non-controlling interests US$'000	Total US$'000
At 1 January 2009	—	409,009	436,597	28,698	3,423	20,033	—	—	150,714	1,048,474	29,802	1,078,276
Profit for the year	—	—	—	—	—	—	—	—	106,867	106,867	563	107,430
Exchange difference arising on translation	—	—	—	—	—	(984)	—	—	—	(984)	812	(172)
Total comprehensive (expense) income for the year	—	—	—	—	—	(984)	—	—	106,867	105,883	1,375	107,258
At 31 December 2009	—	409,009	436,597	28,698	3,423	19,049	—	—	257,581	1,154,357	31,177	1,185,534
Profit for the year	—	—	—	—	—	—	—	—	323,881	323,881	4,209	328,090
Exchange difference arising on translation	—	—	—	—	—	4,968	—	—	—	4,968	310	5,278
Gain on cash flow hedge	—	—	—	—	—	—	4,346	—	—	4,346	—	4,346
Total comprehensive income for the year	—	—	—	—	—	4,968	4,346	—	323,881	333,195	4,519	337,714
Imputed interest on advance from a related party (Note 36)	—	—	—	10,071	—	—	—	—	—	10,071	—	10,071
Redemption of preference shares (Note 37)	—	(27,210)	(436,597)	—	—	—	—	—	—	(463,807)	—	(463,807)
Arising on group reorganisation (Note 37)	143,174	(381,799)	—	238,625	—	—	—	—	—	—	—	—
Issue of new shares (Note 37)	25,267	—	403,338	—	—	—	—	—	—	428,605	—	428,605
Cost of issuing new shares	—	—	(14,604)	—	—	—	—	—	—	(14,604)	—	(14,604)
Awarded shares compensation reserve (Note 38)	—	—	—	—	—	—	—	197	—	197	—	197
At 31 December 2010	168,441	—	388,734	277,394	3,423	24,017	4,346	197	581,462	1,448,014	35,696	1,483,710

Notes:

a. Special reserve represents deemed contribution of US$38,769,000 from shareholder mainly arising from 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 upon the Reorganisation (defined in note 1) over the nominal amount of shares of the Company issued to the then shareholders amounting to US$238,625,000.

b. Other non-distributable reserves represent statutory reserves required to be appropriated from net profit after tax of subsidiaries established in the People's Republic of China (the "PRC") under the relevant laws and regulations at an amount determined by the respective boards of directors of the subsidiaries annually, but must not be less than 10% of the net profit after tax, until such reserves reach 50% of the registered capital of the relevant subsidiaries. The reserve may be used to offset accumulated losses and/or converted to increase capital of the relevant subsidiaries subject to certain restrictions set out in the Company Law of the PRC. No appropriation was made for 2010 and 2009 as the relevant subsidiaries incurred accumulated losses for the years.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year ended 31 December 2010

	Notes	2010 US$'000	2009 US$'000
OPERATING ACTIVITIES			
Profit before tax		**332,282**	104,414
Adjustments for:			
Amortization of intangible assets		**100**	100
Release of prepaid lease payments		**20**	20
Depreciation of property, plant and equipment		**66,078**	62,743
Depletion charge on forestation and reforestation assets		**36,084**	8,543
Depreciation of investment properties		**104**	101
Loss (gain) on disposal of property, plant and equipment		**327**	(222)
Gain on settlement of derivative financial instruments		**(5,392)**	(18,391)
(Recovery of loss) impairment loss recognized in respect of property, plant and equipment		**(12,236)**	20,013
Impairment loss on inventories		**1,017**	—
Impairment loss recognized in respect of other receivables		**1,772**	—
Increase in fair value of forestation and reforestation assets		**(12,704)**	(23,246)
Changes in fair value of derivative financial instruments		**(21,521)**	(1,832)
Award share compensation expense		**197**	—
Interest income		**(416)**	(3,838)
Finance costs		**31,077**	36,414
Imputed interest expense on advance from a related party		**4,316**	5,755
Operating cash flows before movements in working capital		**421,105**	190,574
(Increase) decrease in inventories		**(36,476)**	15,758
Increase in trade and other receivables		**(20,521)**	(29,673)
Decrease (increase) in amounts due from related parties		**26,593**	(6,697)
Increase (decrease) in trade and other payables		**62,188**	(24,996)
Increase in provisions		**1,177**	2,783
Change in derivative financial instruments		**(4,469)**	3,524
Increase in VAT tax recoverable included in other long-term assets		**(5,405)**	(14,446)
Net cash generated from operations		**444,192**	136,827
Income taxes paid		**(2,093)**	(43)
NET CASH FROM OPERATING ACTIVITIES		**442,099**	136,784

Consolidated Statement of Cash Flows

For the Year ended 31 December 2010

	Notes	2010 US$'000	2009 US$'000
INVESTING ACTIVITIES			
Advance to a related party	44(b)	**(205,610)**	—
Purchase of property, plant and equipment		**(61,805)**	(120,788)
Additions of forestation and reforestation assets		**(37,881)**	(24,444)
Purchase of prepaid lease payments		**(6,576)**	—
Deposit paid for acquisition of prepaid lease payment (included in other long-term assets)		**(3,020)**	—
Additions of unlisted investments (included in other long-term assets)		**(3,409)**	(3,005)
Disposal of a subsidiary	40	**(149)**	—
Decrease in pledged bank deposits		**41,348**	5,058
Compensation received for recovery of loss recognized in respect of property, plant and equipment		**12,236**	—
Proceeds from disposal of property, plant and equipment		**3,016**	427
Interest received		**416**	3,838
Acquisition of subsidiaries	39	**3**	—
Repayment from related parties		**—**	171,148
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(261,431)**	32,234
FINANCING ACTIVITIES			
New bank borrowings raised		**619,671**	195,337
Proceeds from issue of new shares, net of share issue costs		**414,001**	—
Repayments of bank borrowings		**(408,627)**	(204,723)
Redemption of preference shares	44(b)	**(395,226)**	—
Interest paid		**(35,159)**	(41,031)
Repayments of obligations under finance leases		**(2,230)**	(3,358)
Repayment to related parties		**—**	(76,168)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**192,430**	(129,943)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**373,098**	39,075
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(4,692)**	(166)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**59,388**	20,479
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		**427,794**	59,388

1. GENERAL

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

The Company is an investment holding company. The principal activities of its subsidiaries are set out in Note 48.

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

Under a group reorganization scheme ("Reorganization") to rationalize the structure of the Group in preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the Group on 23 November 2010. Sateri International Co., Ltd. ("Sateri International"), the holding company of the Group prior to the Reorganization, was solely then held directly by Gold Silk which was held by the Major Shareholder. Upon completion of the Reorganization, Sateri International became a wholly owned subsidiary of the Company. Details of the Reorganization were set out in section headed "History and reorganization" in the Prospectus issued by the Company dated 26 November 2010.

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

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

1. GENERAL (Continued)

(ii) In November 2010, Sateri International redeemed 22,800,000 Class 1 preference shares and 4,410,067 Class 2 preference shares in the capital of Sateri International, representing approximately 5.6% of the outstanding Class 1 preference shares and 100% of the outstanding Class 2 preference shares, owned by Gold Silk. In accordance with the terms of the Class 1 preference shares, the redemption price was US$1.00 for each Class 1 preference share, being the par value of each Class 1 preference share. In accordance with the terms of the Class 2 preference shares, the redemption price was US$100.00 for each Class 2 preference share, being the aggregate of the par value and the premium paid on each Class 2 preference share owned by Gold Silk. An amount of approximately US$68,581,000 of the redemption price was settled by offsetting against the amount due from Gold Silk and the remaining amount of approximately US$395,226,000 was settled by cash.

(iii) On 23 November 2010, Gold Silk entered into a share exchange agreement with the Company pursuant to which it transferred to the Company its entire shareholding interest in Sateri International, comprising 100 ordinary shares and the remaining 381,799,200 Class 1 preference shares in exchange for an aggregate of 2,863,494,750 ordinary shares of the Company of nominal value US$0.05 each, which were allotted and issued to Gold Silk credited as fully paid. Following the completion of such share exchange, Gold Silk holds an aggregate of 2,863,496,750 shares of the Company.

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

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

For the purpose of preparing and presenting these consolidated financial statements for the year, the Group has consistently adopted the relevant International Accounting Standards ("IASs"), IFRSs, amendments and the related interpretations which are effective for the Group's financial year beginning on 1 January 2010 throughout the year, except as described below.

IFRS 3 (Revised) has been adopted by the Group prospectively from 1 January 2010.

The adoption of IFRS 3 (Revised) and IAS 27 (Revised) has had no material effect on these consolidated financial statements of the Group.

The Group has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective:

IFRSs (Amendments)	Improvements to IFRSs issued in 2010[1]
IFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets[3]
IFRS 9	Financial Instruments[4]
IAS 12 (Amendments)	Deferred tax: Recovery of Underlying Assets[5]
IAS 24 (Revised)	Related Party Disclosures[6]
IAS 32 (Amendment)	Classification of Rights Issues[7]
IFRIC — Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[6]
IFRIC — Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.
2 Effective for annual periods beginning on or after 1 July 2010.
3 Effective for annual periods beginning on or after 1 January 2011.
4 Effective for annual periods beginning on or after 1 January 2013.
5 Effective for annual periods beginning on or after 1 January 2012.
6 Effective for annual periods beginning on or after 1 January 2011.
7 Effective for annual periods beginning on or after 1 February 2010.

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

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

The directors do not anticipate that these amendments to IFRS 7 will have a significant effect on the Group's disclosures regarding transfers of bills receivables previously effected. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

IFRS 9 Financial Instruments issued in November 2009 introduces new requirements for the classification and measurement of financial assets. The Standard requires all recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at fair value at the end of subsequent accounting periods.

IFRS 9 was revised in October 2010. The revised version adds the requirements for the classification and measurement of financial liabilities. One major change on the classification and measurement of financial liabilities relates to the accounting for change in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognized in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The application of IFRS 9 will affect the classification and measurement of the Group's available-for-sale investments and may affect the classification and measurement of the Group's other financial assets but not on financial liabilities.

The directors of the Company anticipate that the application of the other new or revised standards, amendments and interpretations will have no material impact on the financial performance and financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for the forestation and reforestation assets as at 31 December 2010 and 31 December 2009 which are measured at fair value less estimated costs to sell, and derivative financial instruments which are measured at fair values, as explained in the accounting policies set out below which conform with IFRS. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporates the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

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

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

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations

Business combinations that took place on or after 1 January 2010

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

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

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

- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; and

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

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

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

Merger accounting for business combination involving entities under common control

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of estimated customer returns, discounts, sales related taxes and other similar allowances.

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

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Rental income, including rentals invoiced in advance, from investment properties let under operating leases is recognized in profit or loss on a straight-line basis over the period of the respective leases.

Financial instruments

Financial assets and financial liabilities are recognized in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction cost directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

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

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis for debt instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (continued)

Financial assets (continued)

Effective interest method (continued)

Financial assets at fair value through profit or loss ("FVTPL") of the Group comprise derivative financial instruments classified as held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognized directly in profit or loss in the period in which they arise. The net gain or loss recognized in profit or loss excludes any dividend or interest earned on the financial assets.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including VAT tax recoverables, trade and other receivables, bills receivables discounted, amounts due from related parties, bank balances and cash and pledged bank deposits) are carried at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are 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
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of between 30 to 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, an impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (continued)

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are classified into other financial liabilities and derivative financial instruments.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fee paid or received that form an integral part of the effective interest rate, translation costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognized on an effective interest basis.

Other financial liabilities

Other financial liabilities including amounts due to related parties, loans from related parties, bank borrowings, trade payables, and advance drawn on bills receivables discounted are subsequently measured at amortized cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments and hedging

Derivatives are classified as financial assets or liabilities held for trading and are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognized in profit or loss immediately.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (continued)

Derivative financial instruments and hedging (continued)

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss as other income and gains (losses). Amounts previously recognized in other comprehensive income and accumulated in equity (cash flow hedging reserve) are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

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

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognize the financial asset and recognize a collateralized borrowing for proceeds received.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful lives is provided on a straight line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss in the period when the asset is derecognized.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Forestation and reforestation assets

Forestation and reforestation assets comprise the plantation in Brazil. These biological assets comprise plantations and seedling stocks. The Group's plantation comprises trees planted for the production of wood for use in the Group's specialty cellulose production process.

Plantation expenditure on forestation and reforestation includes land preparation expense and the cost of seedlings transferred for plantation are capitalized as costs for forestation and reforestation assets. Expenditure on seedling stocks includes other direct expenses incurred during the cultivation period of the seedling stock. These expenditures on seedling stocks are deferred and transferred to plantation once they are planted.

Forestation and reforestation assets are stated at fair value less estimated costs to sell at the end of the reporting period. On initial recognition where market-determined prices or values are not available and alternative estimates of fair value are determined to be clearly unreliable, the biological assets are measured at the end of the reporting period at its cost less any accumulated depletion and accumulated impairment losses. Once the fair value of such a biological asset becomes reliably measurable, the Group measures it at its fair value less costs to sell.

At the time the tree is harvested, the agricultural produce is measured at its fair value less estimated costs to sell at the point of harvest. It is taken out of forestation and reforestation assets (non-current assets) and accounted for under inventories (current assets).

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than freehold land and construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

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

Freehold land is stated at cost less identified impairment losses. No depreciation is provided for freehold land.

Construction in progress represents property, plant and equipment in the course of construction for production purpose or for its own use. Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is classified into the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (continued)

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the relevant lease.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the period in which the item is derecognized.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognized so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight line method.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognized.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of these assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Inventories

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment losses on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case the deferred tax is also recognized in other comprehensive income or directly in equity respectively.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity ("foreign currencies") are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period, except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which cases, the exchange differences are also recognized directly in other comprehensive income.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. United States dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (the translation reserve). Such exchange differences are recognized in the profit or loss in the period in which the foreign operation is disposed of.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (continued)

From 1 January 2010 onwards, 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, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of the ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the terms of the relevant leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statements of financial position as a finance lease obligation. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately to profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. 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 term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment or investment properties, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

Government grants

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes and state-managed retirement benefit schemes are charged as expenses when employees have rendered service entitling them to the contribution.

Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment transactions

Equity-settled share-based payment transactions

Share award scheme

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

When the RSU Trustee (defined in Note 38) purchases the Company's shares from the open market, the consideration paid, including any directly attributable incremental costs, is presented as shares held for share purchase scheme and deducted from total equity. No gain or loss is recognized on the transactions of the Company's own shares.

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

Share options scheme

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

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

At the time 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 retained profits.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Income taxes

As described in Note 23, deferred tax assets in relation to the unused tax losses of the Group of approximately US$289,630,000 (2009: US$272,428,000) as at 31 December 2010 have been recognized in the Group's consolidated statement of financial position. The realizability of the deferred tax asset mainly depends on whether sufficient future profits will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognized in profit or loss for the period in which such a reversal takes place.

Fair value of derivative financial instruments

As described in Note 27, the management of the Company uses their judgment in selecting an appropriate valuation technique for derivative financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Fair values of the forward foreign exchange contracts have been arrived at using the forward rates of similar instruments as at the end of the reporting period. Fair values of interest rate swaps have been determined based on valuations provided by the counterparty banks as at each reporting period with reference to market data such a settlement prices and interest rates. Actual results may differ when the assumptions and selections of valuation technique changes. The fair value of forward foreign exchange contracts and interest rate swaps as at 31 December 2010 are net cumulative gain of US$21,521,000 (2009: US$5,273,000) and net cumulative gain of US$4,346,000 (2009: net cumulative loss of US$15,134,000).

Estimated impairment of VAT tax recoverable

In determining whether there is any impairment loss on VAT tax recoverable, the Group estimates the amount expected to be utilized in offsetting against VAT payable on future sales. Where the actual amount utilized in offsetting against VAT payable on future sales are less than expected, a material impairment loss may arise and charge to profit or loss for the period. The carrying amounts of the VAT tax recoverable included in other long-term assets and other receivables as at 31 December 2010 are approximately US$44,812,000 (2009: US$47,853,000).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Estimated impairment of trade and other receivables

The provision policy for doubtful debts of the Group is based on the ongoing evaluation of collectability and aging analysis of the outstanding receivables and on management's judgments. When there is objective evidence of impairment loss, the Group estimates the future cash flows to determine the impairment loss. A considerable amount of judgment is required in assessing the ultimate realization of these receivables, including creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, material amount of allowances may be required. The carrying amounts of trade receivables and other receivables as at 31 December 2010 are approximately US$75,884,000 (2009: US$69,075,000) and US$32,837,000 (2009: US$33,634,000), net of allowance for doubtful debts of nil (2009: Nil) and US$1,772,000 (2009: Nil) respectively.

Depreciation of property, plant and equipment

The Group depreciates the property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual values, using the straight line method. The estimated useful lives reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. The residual values reflect the management's estimated amount that the Group would currently obtain from disposal of the assets, after deducting the estimated costs of disposal, if the assets were already of the age and in the condition expected at the end of their useful lives. Changes in the above estimates will affect the depreciation charged to profit or loss for the period in which such changes take place. The depreciation charge for the year 2010 are approximately US$66,078,000 (2009: US$62,743,000). The carrying amounts of property, plant and equipment as at 31 December 2010 are approximately US$1,384,070,000 (2009: US$1,376,386,000).

Estimated impairment of amounts due from related parties

The policy for allowance for amounts due from related parties is based on the evaluation of collectability of accounts and on management's estimate. In determining whether impairment is required, the Group takes into consideration the likelihood of collection. Specific allowance is only made for the amounts due from related parties that are unlikely to be collected and is measured as the difference between the estimated future cash flows (excluding future credit losses that have not been incurred) discounted using the original effective interest rate and the carrying amount. Changes in the estimates used in the calculation of future cash flows may materially affect the Group's results for each of the reporting period. The carrying amounts of amounts due from related parties as at 31 December 2010 are approximately US$15,000 (2009: US$4,693,000).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Fair value of forestation and reforestation assets

As described in Note 16, the management of the Company uses their judgment in selecting an appropriate valuation technique for forestation and reforestation assets.

When there is an active market, the quoted price in the market is the appropriate basis for determining the fair value. When an active market does not exist, the more recent market transaction price or the market price of similar assets with adjustment to reflect difference, will be considered in determining fair value. In circumstances where market-determined prices or values may not be available for a biological asset in its present condition, the present value of expected net cash flows from the assets discounted at the appropriate discount rate is used in determining fair value.

At 31 December 2010, the forestation and reforestation assets are stated at fair value less costs to sell of approximately US$192,192,000 (2009: US$177,691,000), with increase in fair value of approximately US$12,704,000 (2009: US$23,246,000) recognized in profit or loss for the year. 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 16. If the expectation on assumptions differs from the original estimate, such difference will impact the carrying amount of forestation and reforestation assets whenever such estimates are changed.

Inventory valuation method

Inventories are valued at the lower of the actual cost and net realizable value. Cost is determined using the weighted average method. Net realizable value is generally the merchandise's selling price quoted from the market for similar items. The Group reviews its inventory levels in order to identify slow-moving and obsolete merchandise. When the Group identifies items of inventories which have a market price that is lower than its carrying amount, the Group estimates the amount of allowance on inventories charged to profit or loss for the year. The carrying amounts of inventory as at 31 December 2010 are approximately US$88,636,000 (2009: US$53,177,000), net of allowance for inventory of US$1,017,000 (2009: Nil).

Provisions

The Group made provisions for all loss contingences when information available prior to the issuance of these consolidated financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of these consolidated financial statements and the amount of loss can be reasonably estimated. For provisions related to litigation, the Group makes provisions based on information from legal counsel and the best estimation of management. The actual resolution of these contingencies may differ from the estimation made by the Group. If the contingencies were settled for an amount greater than the Group's estimate, an additional charge to profit or loss would result. Likewise, if the contingencies were settled for an amount that is less than the Group's estimate, a credit to profit or loss would result. The carrying amounts of provisions as at 31 December 2010 are approximately US$8,112,000 (2009: US$6,935,000).

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to owners of the Company through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged throughout the Relevant Periods.

The capital structure of the Group consists of net debt, which includes the loan from a related party, advance drawn on bills receivables discounted, bank borrowings and obligations under finance leases disclosed in Notes 36, 26, 33 and 34, respectively, net of cash and cash equivalents and equity attributable to owners of the Company, comprising share capital, share premium, various reserves and accumulated profits.

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

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	2010 US$'000	2009 US$'000
Financial assets		
Loans and receivables		
(including cash and cash equivalents)	**588,801**	339,747
Unlisted available-for-sale investment	**10,553**	7,144
Fair value through profit or loss		
Derivative financial instruments	**25,867**	5,273
Financial liabilities		
Amortized cost	**787,100**	768,595
Obligations under finance leases	**3,811**	3,043
Fair value through profit or loss		
Derivative financial instrument	**—**	15,134

6. FINANCIAL INSTRUMENTS (Continued)

6b. Financial risk management objectives and policies

The Group's major financial instruments include derivative financial instruments, trade and other receivables, bills receivables discounted, other long-term assets, trade payables, amounts due from/to related parties, pledged bank deposits, bank balances, loan from a related party, advance drawn on bills receivables discounted, bank borrowings and obligations under finance leases. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (mainly currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The directors manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner. There has been no material change to the Group's exposure to financial risk or the manner in which it manages and measures the risk.

Market risk management

(i) Foreign currency risk management

Certain subsidiaries of the Company have foreign currency sales, which expose the Group to foreign currency risk. Also, certain trade and other receivables, trade and other payables, bank balances, bank borrowings, obligation under finance leases and other long-term assets of the Group are denominated in foreign currencies. Exchange rate exposures are managed within approved policy parameters utilizing forward foreign exchange contracts.

The Group entered into forward foreign exchange contracts to cover the anticipated foreign currency exposures. These contracts were arranged mainly to hedge the currency fluctuation of Brazilian Reais against USD, which is the functional currency of the Company. These contracts were arranged with maturities spread over the months from 2009 to 2011. Details of the outstanding forward foreign exchange contracts are listed in Note 27.

The carrying amounts of the Group's monetary assets and monetary liabilities denominated in currencies other than the functional currencies of the relevant group entities at the end of each reporting period are as follows:

	2010 US$'000	2009 US$'000
Assets		
Brazilian Reais	63,536	36,195
USD	10,210	2,733
Hong Kong dollars ("HKD")	178,186	—
Liabilities		
Brazilian Reais	65,339	56,185
USD	15,106	6,496

6. FINANCIAL INSTRUMENTS (Continued)

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

Market risk management (continued)

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

Sensitivity analysis

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

The following table details the Group's sensitivity to a 5% (2009: 5%) increase and decrease in the functional currency of relevant group entity against Brazilian Reais and USD. 5% (2009: 5%) is the sensitivity rate used when and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% (2009: 5%) change in foreign currency rates. A 5% (2009: 5%) strengthening of USD and Renminbi (functional currencies) against the Brazilian Reais and USD (foreign currencies) respectively will give rise to the following impact to post-tax profit/loss for the year.

	USD Impact			Brazilian Reais Impact		
	2010 US$'000	2009 US$'000		**2010 US$'000**	2009 US$'000	
Increase in post-tax profit for the year	**214**	169	(i)	**59**	660	(ii)

(i) This is mainly attributable to the exposure on USD denominated bank balances, receivables, payables and borrowings at the year end.

(ii) This is mainly attributable to the exposure on Brazilian Reais denominated other long-term assets, trade and other receivables, bank balances, payables, obligations under finance leases and bank borrowings at the year end.

For a 5% (2009: 5%) weakening of USD and Renminbi, there would be an equal and opposite impact.

6. FINANCIAL INSTRUMENTS (Continued)

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

Market risk management (continued)

(i) Foreign currency risk management (continued)

Sensitivity analysis (continued)

For the forward foreign exchange contracts, the sensitivity analysis has been estimated based on the contracts outstanding at the end of respective reporting periods. If the market bid and ask forward exchange rate of USD strengthens against Brazilian Reais by 5% (2009: 5%), the potential effect on post-tax profit for the year, as a result of the changes in the market ask foreign currency forward exchange rate of USD against Brazilian Reais is as follows:

	2010 US$'000	2009 US$'000
Decrease in post-tax profit for the year	14,367	7,116

For a 5% (2009: 5%) weakening of USD against Brazilian Reais, there would be an equal and opposite impact on the profit/loss.

In management's opinion, the sensitivity analysis is unrepresentative of the market risk as the year end exposure does not reflect the exposure during the year.

(ii) Interest rate risk management

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see Note 33 for details of these borrowings) and advance drawn on bills receivables discounted. The Group aims at keeping certain borrowings at fixed rates of interest. In order to achieve this result, the Group entered into interest rate swaps to minimize its exposure to interest rate risk. At 31 December 2010, the outstanding interest rate swaps have been designated as highly effective hedging instruments (see Note 35 for details). The critical terms of these interest rate swaps are similar to those of hedged borrowings. The Group's bank deposits and bank balances also have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances. The management considers the Group's exposure of the bank deposits and bank balances to cash flow interest rate risk is not significant as the management does not anticipate significant fluctuation in interest rate on bank deposits.

6. FINANCIAL INSTRUMENTS (Continued)

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

Interest rate swap contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on the agreed notional principal amounts. The Group's cash flow interest rate risk changed from variable-rate to fixed rate. Such contracts enable the Group to mitigate the risk of changing interest rates on the cash flow exposures on the variable rate bank borrowings.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest risk is mainly concentrated on the fluctuation of the London Inter-bank Offered Rate ("LIBOR") arising from its USD denominated borrowings.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivatives and non-derivative instruments including pledged bank deposits, bank balances, bank borrowings that are not under cash flow hedge and advance drawn on bills receivables discounted. The analysis is prepared assuming these financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 (2009: 50) basis points increase or decrease being used in the sensitivity analysis represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 (2009: 50) basis point higher and all other variables were held constant, the potential effect on post-tax profit for the year is as follows:

	2010 US$'000	2009 US$'000
Increase in post-tax profit for the year	**1,436**	956

If interest rates had been 50 (2009: 50) basis points lower and all other variables were held constant, these would be an equal and opposite impact on the profit.

This is mainly attributable to the Group's exposure to cash flow interest rate risk on bank deposits, bank balances, advance drawn on bills receivable discounted and variable rate borrowings not under cash flow hedge.

In management's opinion, the sensitivity analysis is unrepresentative of the interest rate risk as the year end exposure does not reflect the exposure during the year.

6. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk management

At the end of each reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties is arising from the carrying amount of the respective recognized financial assets as stated in the consolidated statement of financial position.

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

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The Group has concentration of credit risk on its top three customers which in aggregate accounted for 34% (2009: 41%) of the Group's total trade receivables as at 31 December 2010. These top three customers have good credit rating and repayment history and are well-known manufacturers of fiber in the world. The credit period granted to them ranged from 30 to 90 days. The Group has no significant concentration of credit risk in respect of other trade receivables, with exposure spread over a number of counterparties and customers.

The Group does not have any significant concentration of credit risk on other receivable.

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.

6. FINANCIAL INSTRUMENTS (Continued)

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

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, 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 the 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 2010								
Non-derivative financial liabilities								
Trade and other payables	—	61,894	—	—	—	—	61,894	61,894
Amounts due to related parties	—	21,455	—	—	—	—	21,455	21,455
Advance drawn on bills receivables discounted	5.2	39,958	—	—	—	—	39,958	39,452
Bank borrowings								
— Fixed rate	5.6	1,649	121,360	4,398	—	—	127,407	120,488
— Variable rate	5.2	7,029	58,971	149,905	144,312	272,276	632,493	543,811
Obligations under finance leases	21.5	637	1,684	1,283	738	—	4,342	3,811
		132,622	182,015	155,586	145,050	272,276	887,549	790,911

6. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk management (continued)

	Contractual 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 2009								
Non-derivative financial liabilities								
Trade and other payables	—	34,146	—	—	—	—	34,146	34,146
Amounts due to related parties	—	1,985	—	—	—	—	1,985	1,985
Amounts due to related parties	7.4	2,600	—	—	—	—	2,600	2,553
Loan from a related party	—	—	—	145,661	—	—	145,661	142,784
Advance drawn on bills receivables discounted	4.0	133,535	—	—	—	—	133,535	132,231
Bank borrowings								
— Fixed rate	7.8	1,788	88,456	10,780	—	—	101,024	92,991
— Variable rate	6.2	5,533	111,033	92,691	98,095	113,672	421,024	361,905
Obligation under finance leases	17.4	591	1,851	1,024	—	—	3,466	3,043
		180,178	201,340	250,156	98,095	113,672	843,441	771,638
Derivative financial liabilities, settled net								
Interest rate swaps		2,474	7,174	6,034	—	—	15,682	15,134

6c. Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined as follows:

- the fair values of the forward foreign exchange contracts have been arrived at using the forward rates of similar instruments as at the end of each reporting period. Fair values of interest rate swaps have been determined using the valuations provided by the counterparty banks as at each reporting period with reference to market data such as settlement prices and interest rates; and

- the fair values of other financial assets and financial liabilities (excluding derivative financial instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Management of the Company considers that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in these consolidated financial statements approximate their fair values.

6. FINANCIAL INSTRUMENTS (Continued)

6c. Fair value of financial instruments (continued)

Fair value measurements recognized in the consolidated statements of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
2010				
Financial assets				
Derivative financial instruments	**—**	**25,867**	**—**	**25,867**
Financial liabilities				
Derivative financial instruments	**—**	**—**	**—**	**—**
2009				
Financial assets				
Derivative financial instruments	—	5,273	—	5,273
Financial liabilities				
Derivative financial instruments	—	15,134	—	15,134

7. REVENUE

	2010 US$'000	2009 US$'000
Sales of cellulose products	**727,404**	424,392
Sales of viscose staple fibers	**195,853**	127,606
	923,257	551,998

8. SEGMENT INFORMATION

The Group has adopted IFRS 8 "Operating Segments", which requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Group's board of directors (i.e. the chief operating decision maker) in order to allocate resources to the segment and to assess its performance. The Group's board of directors collectively make strategic decisions in allocating Group's resources and assessing performance.

For management purpose, the Group is currently organised into the following major divisions:

(i) Wood plantation and manufacturing and sales of cellulose products in Brazil, and cellulose products are sold internationally; and

(ii) Viscose staple fibers production in China, and viscose staple fibers are mainly sold to China, rest of Asia and Europe.

For the purpose of resources allocation and performance assessment, the Group's board of directors regularly reviews the internal report containing operating results derived from two types of goods manufactured and supplied by the Group. This is also the basis of organization in the Group. The Group's operating and reportable segments under IFRS 8 are therefore as follows:

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

Information regarding the above segments is reported below.

8. SEGMENT INFORMATION (Continued)

Segment revenues and results

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

For the year ended 31 December 2010

	Manufacture and sales of cellulose products US$'000	Manufacture and sales of viscose staple fibers US$'000	Segment total US$'000	Elimination US$'000	Consolidated US$'000
Segment revenue					
External sales	727,404	195,853	923,257	—	923,257
Inter-segment sales	82,027	—	82,027	(82,027)	—
Total	809,431	195,853	1,005,284	(82,027)	923,257
Segment profit	317,609	20,238	337,847	(17,424)	320,423
Unallocated income					575
Unallocated expenses					(23,485)
Changes in fair value of derivative financial instruments					21,521
Gain on settlement of derivative financial instruments					5,392
Recovery of loss recognized in respect of property, plant and equipment					12,236
Imputed interest expense on advance from a related party					(4,316)
Finance costs					(64)
Profit before tax					332,282

Inter-segment sales are charged at prevailing market prices.

8. SEGMENT INFORMATION (Continued)

Segment revenues and results (continued)

For the year ended 31 December 2009

	Manufacture and sales of cellulose products US$'000	Manufacture and sales of viscose staple fibers US$'000	Segment total US$'000	Elimination US$'000	Consolidated US$'000
Segment revenue					
External sales	424,392	127,606	551,998	—	551,998
Inter-segment sales	45,857	—	45,857	(45,857)	—
Total	470,249	127,606	597,855	(45,857)	551,998
Segment profit	92,928	20,786	113,714	(6,537)	107,177
Unallocated income					4,314
Unallocated expenses					(1,064)
Changes in fair value of derivative financial instruments					1,832
Gain on settlement of derivative financial instruments					18,391
Impairment loss recognized in respect of property, plant and equipment					(20,013)
Imputed interest expense on advance from a related party					(5,755)
Finance costs					(468)
Profit before tax					104,414

Inter-segment sales are charged at prevailing market prices.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3. Segment profit represents the profit earned by each segment without allocation of changes in fair value of derivative financial instruments, gain on settlement of derivative financial instruments, other income, gains and losses (including primarily interest income from a related party, foreign currency exchange gain (loss), rental income, and certain bank interest income), recovery of loss (impairment loss) recognized in respect of property, plant and equipment, imputed interest on advance from a related party, listing expenses, certain finance costs, and income tax expense (credit).

8. SEGMENT INFORMATION (Continued)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

At 31 December 2010

	Manufacture and sales of cellulose products US$'000	Manufacture and sales of viscose staple fiber US$'000	Consolidated US$'000
Assets			
Segment assets	1,559,356	547,026	2,106,382
Derivative financial instruments			25,867
Unallocated bank deposits, bank balances and cash			310,178
Investment properties			1,880
Other unallocated assets			3,148
Consolidated total assets			2,447,455
Liabilities			
Segment liabilities	(606,362)	(347,673)	(954,035)
Unallocated amounts due to related parties			(79)
Other unallocated liabilities			(9,631)
Consolidated total liabilities			(963,745)

8. SEGMENT INFORMATION (Continued)

Segment assets and liabilities (continued)

At 31 December 2009

	Manufacture and sales of cellulose products US$'000	Manufacture and sales of viscose staple fiber US$'000	Consolidated US$'000
Assets			
Segment assets	1,665,735	427,069	2,092,804
Amounts due from related parties			6
Derivative financial instruments			5,273
Unallocated bank deposits, bank balances and cash			3,218
Investment properties			1,924
Other unallocated assets			3,274
Consolidated total assets			2,106,499
Liabilities			
Segment liabilities	(597,469)	(161,966)	(759,435)
Unallocated amounts due to related parties			(2,958)
Loan from a related party			(142,784)
Derivative financial instruments			(15,134)
Other unallocated liabilities			(654)
Consolidated total liabilities			(920,965)

For the purposes of monitoring segment performances and allocating resources between segments:

— all assets are allocated to reportable segments other than intangible assets, assets of the non-operating subsidiaries and items set out in the reconciliation above;

— all liabilities are allocated to reportable segments other than other payable, accruals of the non-operating subsidiaries and items set out in the reconciliation above.

8. SEGMENT INFORMATION (Continued)

Other segment information

For the year ended 31 December 2010

	Amounts included in the measure of segment profit/loss or segments assets: Manufacture and sales of cellulose products US$'000	Manufacture and sales of viscose staple fiber US$'000	Unallocated US$'000	Consolidated US$'000
Additions to non-current assets (Note)	70,881	42,461	—	113,342
Release of prepaid lease payments	—	20	—	20
Loss on disposal of property, plant and equipment	201	126	—	327
Depreciation of property, plant and equipment	55,970	10,007	101	66,078
Impairment loss on inventories	—	1,017	—	1,017
Impairment loss in respect of other receivables	1,772	—	—	1,772
Increase in fair value of forestation and reforestation assets	(12,704)	—	—	(12,704)
Finance costs	27,620	3,393	64	31,077
Bank interest income	(41)	(357)	(18)	(416)

8. SEGMENT INFORMATION (Continued)

Other segment information (continued)

For the year ended 31 December 2009

	Amounts included in the measure of segment profit/loss or segments assets: Manufacture and sales of cellulose products US$'000	Manufacture and sales of viscose staple fiber US$'000	Unallocated US$'000	Consolidated US$'000
Additions to non-current assets (Note)	76,817	56,142	45	133,004
Release of prepaid lease payments	—	20	—	20
Depreciation of property, plant and equipment	53,389	9,091	263	62,743
Gain on disposal of property, plant and equipment	(212)	—	(10)	(222)
Increase in fair value of forestation and reforestation assets	(23,246)	—	—	(23,246)
Finance costs	34,234	1,712	468	36,414
Bank interest income	(9)	(262)	(11)	(282)

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

Revenue from major products

Analysis of the Group's revenue by major products is set out in Note 7.

8. SEGMENT INFORMATION (Continued)

Geographical information

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

An analysis of the Group's revenue from external customers by geographical market based on where the goods are delivered to are as below:

	2010 US$'000	2009 US$'000
Americas (primarily USA and Brazil)	57,776	28,522
Europe (primarily UK, Germany, Austria)	73,740	35,510
The PRC	667,208	475,094
Asia (excluding the PRC)	124,533	12,872
	923,257	551,998

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

	2010 US$'000	2009 US$'000
Americas (primarily Brazil)	1,230,752	1,244,437
Europe (primarily Switzerland)	67	68
The PRC	355,438	313,233
Asia (excluding the PRC)	—	27
	1,586,257	1,557,765

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

8. SEGMENT INFORMATION (Continued)

Information about major customers

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

	2010 US$'000	2009 US$'000
Customer A	*	115,677
Customer B	112,545	*
Customer C	108,334	*
Customer D	93,562	*

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

Revenue from Customer A, B, C and D are mainly derived from the cellulose products segment.

9. OTHER INCOME AND GAINS (LOSSES)

	2010 US$'000	2009 US$'000
(Loss) gain on disposal of property, plant and equipment	(327)	222
Rental income	174	174
Bank interest income	416	282
Interest income from a related party	—	3,556
Foreign currency exchange gain (loss)	4,903	(8,511)
Commission income	801	—
Service income from a related party	1,094	1,484
Impairment loss in respect of other receivables	(1,772)	—
Donation	(4,590)	—
Others	(387)	798
	312	(1,995)

10. FINANCE COSTS

	2010 US$'000	2009 US$'000
Interest on:		
— bank borrowings wholly repayable within five years	**24,691**	27,405
— bank borrowings not wholly repayable within five years	**84**	904
— advance from a related party	**24**	467
— obligations under finance leases	**636**	334
	25,435	29,110
Other finance costs (Note)	**9,724**	11,921
Total borrowing costs	**35,159**	41,031
Less: amounts capitalized	**(4,082)**	(4,617)
	31,077	36,414

Borrowing costs capitalized during the year ended 31 December 2010 arose on the general borrowing pool and are calculated by applying a capitalization rate of 5.95% (2009: 6.1%) per annum, to expenditure on qualifying assets.

Note: Other finance costs represent primarily the transaction cost charged by banks for discounting bills receivable.

11. INCOME TAX EXPENSE (CREDIT)

	2010 US$'000	2009 US$'000
The income tax expense (credit) comprises:		
Current tax:		
— Current year	**9,609**	7,742
Deferred taxation (Note 23)	**(5,417)**	(10,758)
	4,192	(3,016)

11. INCOME TAX EXPENSE (CREDIT) (Continued)

Pursuant to the relevant Enterprise Income Tax ("EIT") regulations of the PRC for enterprises with foreign investments and foreign enterprises in the PRC, Sateri (Jiangxi) Chemical Fibre Co. Ltd. ("Sateri Jiangxi"), one of the Group's PRC subsidiaries is eligible for full exemption from State Foreign Enterprise Income Tax for two years, commencing from the first profit-making year after offsetting all tax losses carried forward from the previous five years, followed by a 50% reduction in the next three years ("tax holidays"). That subsidiary enjoyed full tax exemption for the years 2007 and 2008, and a 50% reduction of EIT for the years 2009 and 2010.

The EIT rate of Group's other subsidiaries in the PRC is 25% for the years 2010 and 2009.

The Brazilian Corporate Tax ("BCT"), consists of income tax and social contributions, which are calculated at the rates of 25% and 9%, respectively on the Brazilian subsidiaries' taxable profit. Pursuant to the SUDENE Report 0258/02 and 0182/02, the BCT on Copener Florestal Ltda's ("Copener") profit from forest plantation operations is entitled to a 12.5% reduction from 1 January 2009 to 31 December 2013. The BCT on Copener's profit from wood log processing is entitled to a 75% reduction up to 12 December 2011. In 2008, Bahia Specialty Cellulose S. A. ("Bahia Specialty Cellulose") applied and obtained approval from the Federal government (Sudene) for a 75% reduction in BCT for a ten year terms starting from 1 January 2009 relating to modernization of the existing production line. For the new production line commenced production in 2008, Bahia Specialty Cellulose applied and obtained approval in 2010 from the Federal government (Sudene) for a 75% reduction in BCT for a ten year period effective from 2010.

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

The corporate income tax in Switzerland is calculated at 28.9725% of the estimated profit for the years ended 31 December 2010 and 2009.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The applicable income tax rates are 16.5% for group entities incorporated in Hong Kong, and 17% for the group entities incorporated in Singapore for the year ended 31 December 2010 (2009: 18%).

11. INCOME TAX EXPENSE (CREDIT) (Continued)

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

	2010 US$'000	2009 US$'000
Profit before tax	**332,282**	104,414
Tax at the respective domestic income tax rates applicable to profits in the countries concerned (Note a)	**43,326**	13,017
Tax effect of expenses that are not deductible in determining taxable profit (Note b)	**7,046**	1,823
Tax effect of income that is not taxable in determining taxable profit (Note c)	**(24,556)**	(8,970)
Effect of tax exemption and concession granted (Note d)	**(21,624)**	(6,036)
Utilization of tax losses previously not recognized	**—**	(2,850)
Tax expense (credit) for the year	**4,192**	(3,016)

Notes:

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

b. Tax effect of expenses not deductible for 2010 mainly represented finance cost in respect of certain bank borrowings, loan from a related party and imputed interest expense on advance from a related party. Tax effect of expenses not deductible for 2009 mainly represented finance cost in respect of certain bank borrowings and loan from a related party, imputed interest on advance from a related party and unrealized foreign exchange loss recognized by Bahia Specialty Cellulose.

c. Tax effect of income that is not taxable in 2010 and 2009 mainly related to interest income from a related party, gains on settlement of derivative financial instruments, and fair value gains of derivative financial instruments.

d. It arose primarily from tax exemption and concession to Copener Florestal Ltda, Bahia Specialty Cellulose, Sateri Jiangxi, DP Marketing International Limited — Macao Commercial Offshore ("DP Macao") and SC International Macao Commercial Offshore Limited ("SC International Macao") for 2010. It arose primarily from tax exemption and concession to Copener Florestal Ltda. Bahia Specialty Cellulose, Sateri Jiangxi and DP Macao for 2009. The tax exemption and concession was granted by the appropriate competent authorities in Brazil, the PRC and Macau.

Details of deferred tax are set out in Note 23.

12. PROFIT FOR THE YEAR

	2010 US$'000	2009 US$'000
Profit for the year has been arrived at after charging:		
Directors' remuneration (excluding retirement benefit scheme contributions and awarded shares compensation)	971	742
Other staff costs	50,272	30,323
Retirement benefit scheme contributions	1,081	704
Awarded shares compensation	197	—
Total staff costs	52,521	31,769
Auditor's remuneration	626	695
Amortization of intangible assets	100	100
Release of prepaid lease payments	20	20
Depreciation of property, plant and equipment	66,078	62,743
Depreciation of investment properties	104	101
Impairment loss on inventories	1,017	—
Cost of inventories recognized as an expense	466,534	341,891

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

For the year ended 31 December 2010

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

Notes: The directors' fees for 2010 were determined by a resolution passed on 28 October 2010 by the sole shareholder before the Listing of the Company.

For the year ended 31 December 2009

	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	—	431	7	—	438
Craig Edward Barker	—	311	—	—	311
John Jeffrey Ying	—	—	—	—	—
Rohan Seneka Weerasinghe	—	—	—	—	—
Lam Kin Fung	—	—	—	—	—
David Yu Hon To	—	—	—	—	—
Tey Wei Lin	—	—	—	—	—
John Seto Gin Chung	—	—	—	—	—
Loh Meng See	—	—	—	—	—
	—	742	7	—	749

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

Employees

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

	2010	2009
Directors	2	2
Employees	3	3
	5	5

	2010 US$'000	2009 US$'000
Basic salaries, housing allowances, other allowances and benefits in kind	1,193	805
Retirement benefit scheme contributions	59	36
Awarded shares compensation	42	—
	1,294	841

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

	2010	2009
Emoluments		
Not more than HK$1,000,000	—	—
HK$1,000,001 to HK$1,500,000	—	—
HK$1,500,001 to HK$2,000,000	—	1
HK$2,000,001 to HK$2,500,000	2	2
HK$2,500,001 to HK$3,000,000	1	1
HK$3,000,001 to HK$3,500,000	—	1
HK$4,500,001 to HK$5,000,000	1	—
HK$5,500,001 to HK$6,000,000	1	—
	5	5

During the year, 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.

14. DIVIDENDS

No dividend in respect of the year ended 31 December 2010 (2009: Nil) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

15. EARNINGS PER SHARE

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

	2010 **US$'000**	2009 US$'000
Earnings for the purposes of basic and diluted earnings per share		
Profit for the year attributable to owners of the Company	**323,881**	106,867
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,896,723,928**	2,863,496,750
Effect of dilutive potential ordinary shares:		
Restricted share units	**827,688**	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,897,551,616**	2,863,496,750

The number of ordinary shares for the purpose of basic earnings per share for the years ended 31 December 2009 and 2010 had been adjusted retrospectively assuming that the Reorganization has been effective from 1 January 2009 and accordingly, that the 2,863,496,750 ordinary shares of the Company which were in issue and outstanding immediately after the Reorganization (see Note 1) were issued and outstanding as at 1 January 2009. No diluted earnings per share was presented for the year ended 31 December 2009 as there were no potential ordinary shares in issue.

The number of ordinary shares for the purposes of basic and diluted earnings per share for the year ended 31 December 2010 has been adjusted for the new shares issued on public floatation on 8 December 2010.

16. FORESTATION AND REFORESTATION ASSETS

	2010 **US$'000**	2009 US$'000
At beginning of the year	**177,691**	138,544
Additions	**37,881**	24,444
Decrease due to harvest (i.e. depletion charge)	**(36,084)**	(8,543)
Increase in fair value recognized in profit or loss	**12,704**	23,246
At end of the year	**192,192**	177,691

Wood is the principal raw material used in producing cellulose products, one of the principal products of the Group. The Group owns plantation land in Brazil. Generally, the Group harvests the planted trees six to seven years after planting and two harvests can be potentially obtained from a single seedling. After the second harvest, new seedlings are planted. Additions of forestation and reforestation assets represented the costs incurred during the years for maintaining the forest and planting new trees.

As at 31 December 2010, the estimated mature plantations are approximately 5,200 (2009: 6,700) hectares and immature plantations are approximately 72,000 (2009: 72,600) hectares. For the year ended 31 December 2010, the wood harvested from the mature plantations is approximately 2.4 million m^3 (2009: 2.0 million m^3).

At 31 December 2010 and 2009, the management of the Company determined that the reference market price for locally sourced wood in the region in Brazil in which the Group's plantation land is situated could be reliably obtained from the prices agreed in the contracts entered into with local farmers. The Group's management believes that such reference market prices obtained in this manner provide reliable inputs for the estimate of the fair value. At 31 December 2010 and 2009, the forestation and reforestation assets are stated at fair value less costs to sell of approximately US$192,192,000 (2009: US$177,691,000), with increase in fair value of approximately US$12,704,000 (2009: US$23,246,000) recognized in profit or loss for the year. No external valuation was performed by independent qualified professional valuers as of 31 December 2010 and 2009.

16. FORESTATION AND REFORESTATION ASSETS (Continued)

The principal valuation methodology and assumptions adopted are as follows:

— the discounted cash flow valuation model assuming a six-year harvest cycle of the trees;

— the weighted average capital cost of planting of 10% (2009: 10%) determined with reference to the market rates;

— the reference wood price of Reais ("R") $32.28 (2009: R$29) (equivalent to US$19.33 and US$16.67) per cubic meter, based on the prices paid under contracts entered into with local farmers during the years ended 31 December 2010 and 2009;

— the wood production rate calculated based on the planting programs during the period from 2005 to 2010;

— the wood consumption rate calculated based on the actual and estimated annual production capacity of the mills, which was 465,000 tons per year for 2010 and 476,000 for 2011, 480,000 for 2012 and 485,400 for 2013 to 2016, respectively;

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

— the overhead expenses calculated based on the latest budget, that is, R$17 million (equivalent to US$10.42 million) for 2010 and projected for 2011 to 2016 in a proportional manner to the volume planted annually; and

— an exchange rate between US dollars and Reais (at US$1.00 = R$1.67 as at 31 December 2010 and at US$1.00 = R$1.74 as at 31 December 2009) which is determined as of the end of the respective reporting periods conducting the valuation.

Prior to measuring the forestation and reforestation assets at fair value less costs to sell at 31 December 2009, the gross carrying amount of forestation and reforestation assets was US$196,599,000 and the accumulated depletion were US$42,154,000. The depletion charge for the year ended 31 December 2009 is US$8,543,000.

One of the subsidiaries in Brazil participated in a special partnership ("SCP") project initiated by the government in relation to the reforestation activities in Brazil. The SCP was ceased during the year. As at 31 December 2010, the carrying amount of forestation and reforestation assets under this arrangement is nil (2009: US$0.6 million) and the share of minority investors in the SCP is nil (2009: US$0.06 million).

17. PROPERTY, PLANT AND EQUIPMENT

	Freehold land US$'000 (Note i)	Buildings and leasehold improvement US$'000	Plant and machinery US$'000	Other tangible assets US$'000 (Note ii)	Construction in progress US$'000	Total US$'000
COST						
At 1 January 2009	31,523	37,112	1,187,539	12,507	178,849	1,447,530
Additions	644	—	2,048	2,908	102,960	108,560
Disposals	—	—	(439)	(210)	—	(649)
Transfer	—	88,143	46,527	5,001	(139,671)	—
At 31 December 2009	32,167	125,255	1,235,675	20,206	142,138	1,555,441
Exchange adjustments	—	511	7,627	58	2,268	10,464
Additions	2,544	26	3,732	2,993	59,590	68,885
Transfer	505	24,098	124,544	515	(149,662)	—
Disposal of a subsidiary (Note 40)	—	—	—	(47)	—	(47)
Disposals	—	(2,936)	(475)	(368)	—	(3,779)
Written off	—	—	—	—	(12,236)	(12,236)
At 31 December 2010	**35,216**	**146,954**	**1,371,103**	**23,357**	**42,098**	**1,618,728**
DEPRECIATION AND IMPAIRMENT						
At 1 January 2009	—	6,961	85,057	4,725	—	96,743
Provided for the year	—	5,284	55,582	1,877	—	62,743
Impairment (Note iii)	—	—	—	—	20,013	20,013
Eliminated on disposals	—	—	(278)	(166)	—	(444)
At 31 December 2009	—	12,245	140,361	6,436	20,013	179,055
Exchange adjustments	—	79	1,514	38	592	2,223
Provided for the year	—	4,886	54,916	6,276	—	66,078
Eliminated on written off	—	—	—	—	(12,236)	(12,236)
Eliminated on disposal of a subsidiary	—	—	—	(26)	—	(26)
Eliminated on disposals	—	(261)	(108)	(67)	—	(436)
At 31 December 2010	**—**	**16,949**	**196,683**	**12,657**	**8,369**	**234,658**
CARRYING VALUES						
At 31 December 2010	**35,216**	**130,005**	**1,174,420**	**10,700**	**33,729**	**1,384,070**
At 31 December 2009	32,167	113,010	1,095,314	13,770	122,125	1,376,386

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

Notes:

(i) Freehold land comprise the plantation lands in Brazil.

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

(iii) There was a fire incident in December 2009 in a section of an expansion project in the PRC which was still under construction. This fire damaged certain infrastructure and equipment of the expansion project which has a total carrying amount (before impairment) of approximately US$20,013,000. The existing operations of the Group and equipment in operation were not affected by the fire. The expansion project under construction is covered by a construction-all-risk insurance with a reputable insurance company in China. As at 31 December 2010, the insurance claim has been finalized and the Group received compensation of approximately US$12,236,000 which is credited to the consolidated statement of comprehensive income in 2010.

The above items of property, plant and equipment, other than freehold land and construction in progress, are depreciated on a straight line basis at the following rates per annum.

Leasehold improvements	Shorter of lease term of land and useful life of buildings
Buildings	Shorter of the unexpired term of the relevant lease and their estimated useful lives ranging from 25 to 30 years
Plant and machinery	5 to 25 years
Other tangible assets	5 to 10 years

The carrying values of plant and machinery as at 31 December 2010 include an amount of US$11,881,000 (2009: US$10,545,000) in respect of assets held under finance leases.

At 31 December 2010, the Group has pledged buildings and plant and machinery and construction in progress having a carrying amount of approximately US$1,286,400,000 (2009: US$490,480,000) and US$9,416,000 (2009: US$107,829,000) respectively to secure the bank loans borrowed by the Group.

The Group has capitalized interest expenses amounting to approximately US$4,082,000 (2009: US$4,617,000) in construction in progress for the years ended 31 December 2010 and 2009.

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

18. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

	2010 US$'000	2009 US$'000
Analyzed for reporting purposes as:		
Non-current assets	7,340	889
Current assets	153	20
	7,493	909

Prepaid lease payments represent medium-term land use rights in the PRC and are released to profit or loss over the terms of relevant rights as stated in the land use right certificates granted for usage to the Group.

As of 31 December 2010, the Group is in the process of obtaining the land use right certificates of certain pieces of land with carrying amount of US$6,576,000 (2009: Nil). The Group has obtained the relevant land use right certificates in March 2011.

19. INVESTMENT PROPERTIES

	US$'000
COST	
At 1 January 2009, 31 December 2009	2,243
Exchange adjustments	70
At 31 December 2010	2,313
DEPRECIATION AND IMPAIRMENT	
At 1 January 2009	218
Provided for the year	101
At 31 December 2009	319
Exchange adjustments	10
Provided for the year	104
At 31 December 2010	433
CARRYING VALUES	
At 31 December 2010	1,880
At 31 December 2009	1,924

19. INVESTMENT PROPERTIES (Continued)

The above investment properties are depreciated on a straight line basis at a rate of 5% per annum.

The Group's investment properties are stated at historical cost at the end of each reporting period. No valuation had been performed by independent qualified professional valuers at 31 December 2010 and 2009. The valuations performed by the directors of the Company were arrived at by reference to recent market prices for similar properties. The fair value of the Group's investment properties estimated by the Company's directors as at 31 December 2010 was US$3,547,000 (2009: US$3,152,000). In view of the fact that the estimated fair value of the Group's investment properties exceeded the carrying amounts as at the end of each reporting period, no impairment loss was considered necessary.

During the year ended 31 December 2010, the property rental income earned by the Group from its leasehold property, all of which are leased out under operating leases, amounted to US$174,000 (2009: US$174,000).

All of the Group's investment properties have been pledged to secure banking facilities granted to the Group at 31 December 2010 and 2009.

20. INTANGIBLE ASSETS

	Technical know-how US$'000 (Note)	Patent US$'000	Total US$'000
COST			
At 1 January 2009, 31 December 2009 and 31 December 2010	**1,000**	**441**	**1,441**
ACCUMULATED AMORTIZATION AND IMPAIRMENT			
At 1 January 2009	25	441	466
Charge for the year	100	—	100
At 31 December 2009	125	441	566
Charge for the year	100	—	100
At 31 December 2010	**225**	**441**	**666**
CARRYING VALUES			
At 31 December 2010	**775**	**—**	**775**
At 31 December 2009	875	—	875

Note: The technical know-how relates to certain manufacturing process of dissolving wood pulp which was acquired in November 2005 from an independent third party. The amount is amortized over its estimated economic life of 10 years from the commencement of commercial production of the specialty cellulose in 2008.

21. OTHER LONG-TERM ASSETS

	2010 US$'000	2009 US$'000
Tax recoverable (a)	**33,804**	30,766
Unlisted equity investment (b)	**10,553**	7,144
Deposit paid (c)	**3,020**	—
Others	**3,536**	1,169
	50,913	39,079

(a) The amounts represent mainly value-added tax recoverable in respect of acquisition of property, plant and equipment and raw materials in Brazil that are not expected to be recovered within the next twelve months from the end of the each reporting period, and are accordingly classified as non-current assets. No impairment is considered necessary by management of the Group in respect of these tax recoverable as the balances are expected to be utilized by offsetting against VAT payable on future sales.

(b) The unlisted investment represents 5.7% equity investment in Cetrel S.A. Empresa de Proteção Ambiental ("Cetrel S.A."), a company which is incorporated in Brazil and it is responsible for operating the environmental protection systems in Camaçari industrial complex, within which the Group's Bahia Specialty Cellulose mill is located. The Group invested into Cetrel S.A. for strategic reason as Cetrel S.A. provides effluent treatment for Bahia Specialty Cellulose. The unlisted investment is measured at cost less impairment at 31 December 2010 and 2009 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 2010 and 2009.

(c) The amount represents the deposit paid for acquisition of a piece of land located in the PRC for the construction of a new production plant. The amount is classified as non-current asset.

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

	2010 US$'000	2009 US$'000
Brazilian Reais	**47,615**	37,910

22. POST-EMPLOYMENT BENEFIT OBLIGATIONS

The Group operates the following defined contribution schemes for its employees:

(i) Plans for PRC employees

The employees employed in the PRC are members of the state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

(ii) Other defined contribution plans

The Group participates in defined contribution retirement benefit plans for qualifying employees in Brazil and Singapore. The assets of the plans are held separately from those of the Group in funds under the control of trustees or state appointed agencies.

The total costs charged to consolidated statement of comprehensive income during the year ended 31 December 2010 of US$1,081,000 (2009: US$704,000) represent contributions to these schemes by the Group.

Under the defined contribution scheme in Brazil, forfeited contributions (by employers on behalf of employees who leave the scheme prior to vesting fully in such contributions) may be used by the employer to reduce the existing level of contributions. The amount so utilized in 2010 is US$6,000 (2009: Nil), and the amount available as at 31 December 2010 for such use is US$54,800 (2009: Nil).

23. DEFERRED TAX ASSETS AND LIABILITIES

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

	Accelerated tax depreciation US$'000	Fair value of forestation and reforestation assets US$'000	Unrealized profit on inventories US$'000	Provisions US$'000	Tax losses US$'000	Others US$'000 (note)	Total US$'000
At 1 January 2009	(54,105)	—	2,330	1,412	70,208	3,933	23,778
(Charge) credit to profit or loss for the year	(6,200)	(7,904)	(1,421)	946	21,426	3,911	10,758
At 31 December 2009	(60,305)	(7,904)	909	2,358	91,634	7,844	34,536
(Charge) credit to profit or loss for the year	(640)	(2,473)	(1,210)	400	6,570	2,770	5,417
At 31 December 2010	**(60,945)**	**(10,377)**	**(301)**	**2,758**	**98,204**	**10,614**	**39,953**

23. DEFERRED TAX ASSETS AND LIABILITIES (Continued)

Note: Others represent deductible temporary differences in respect of accruals for demobilization of property, plant and equipment and other miscellaneous accruals. Deferred tax assets have been recognized on such temporary differences as it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

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

	2010 **US$'000**	2009 US$'000
Deferred tax assets	**111,576**	102,745
Deferred tax liabilities	**(71,623)**	(68,209)
	39,953	34,536

At the end of the reporting period, the Group has unused tax losses of approximately US$289,630,000 (31 December 2009: US$272,428,000), available for offsetting against future profits. The unused tax losses in respect of US$289,630,000 (31 December 2009: US$272,428,000) have been recognized as deferred tax assets. The unused tax losses may be carried forward indefinitely.

Under the Law on Enterprise Income Tax, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. The aggregate amount of temporary differences associated with undistributed earnings of the Group's PRC subsidiaries for which deferred tax liabilities have not been recognized in these consolidated financial statements amounted to approximately US$34,082,000 (31 December 2009: US$9,414,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

24. INVENTORIES

	2010 US$'000	2009 US$'000
Raw materials	**71,717**	45,102
Work in progress	**397**	1,940
Finished goods	**16,522**	6,135
	88,636	53,177

25. TRADE AND OTHER RECEIVABLES

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

	2010 US$'000	2009 US$'000
Trade receivables:		
0–60 days	**74,123**	68,504
61–90 days	**1,761**	571
	75,884	69,075
Other receivables:		
Prepayments	**2,321**	2,221
Deposits paid	**22**	20
Advance to suppliers	**20,888**	13,910
VAT tax recoverable	**11,074**	17,087
Others	**304**	396
	34,609	33,634
Less: Impairment loss recognized in respect of other receivables	**(1,772)**	—
	32,837	33,634
Total trade and other receivables	**108,721**	102,709

25. TRADE AND OTHER RECEIVABLES (Continued)

Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed regularly. Nearly all of the trade receivables that are neither past due or impaired have the good credit rating and/or good repayment history for the years ended 31 December 2010 and 2009.

Movement in the allowance for doubtful debts

	2010 US$'000	2009 US$'000
1 January	—	—
Impairment losses recognized on other receivables	1,772	—
31 December	1,772	—

The allowance for doubtful debts is related to the advance to a construction supplier of US$1,772,000 (2009: Nil) which is currently under severe financial difficulties. The Group does not held any collateral over the balance.

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:

	2010 US$'000	2009 US$'000
Brazilian Reais	9,303	7,361
United States dollars	9,781	1,894

26. BILLS RECEIVABLES DISCOUNTED/ADVANCE DRAWN ON BILLS RECEIVABLES DISCOUNTED

At 31 December 2010, the bills receivables discounted amounting to approximately US$39,452,000 (2009: US$132,231,000) are due for collection within the next three months. The weighted average effective interest rate for bills receivables discounted was 5.2% (2009: 4.0%) per annum for the year ended 31 December 2010. None of the bills receivables discounted are past due or impaired. The Group retains all the risks and rewards of such bills receivables discounted and accordingly, the Group continues to recognize the full amount as bills receivables discounted. Bills receivables discounted and the advance drawn on bills receivables discounted are derecognized when the banks receive cash from the customers.

At the end of each reporting period, the bills receivables discounted were aged within 90 days and had been fully settled in the next financial year.

27. DERIVATIVE FINANCIAL INSTRUMENTS

	2010 US$'000	2009 US$'000
Fair value:		
— Forward foreign exchange contracts	21,521	5,273
— Interest rate swaps	4,346	(15,134)
	25,867	(9,861)
Analyzed as:		
Current assets	21,521	5,273
Current liabilities	—	(15,134)
Non-current assets	4,346	—
Total	25,867	(9,861)

The Group enters into forward foreign exchange contracts and options to cover the anticipated foreign currency exposures. The Group is a party to a variety of forward foreign exchange contracts and options in the management of the exchange rate exposures. In addition, the Group also enters into interest rate swaps to minimise its exposure to interest rate risk on bank borrowing from variable-rate of interest to fixed rate of interest. The interest rate swaps for the year ended 31 December 2009 were not designated as highly effective hedging instruments. At 31 December 2010, the outstanding interest rate swaps have been designated as highly effective hedging instruments. Details of interest rate swaps designated as highly effective hedging instruments are set out in Note 35. The instruments purchased are primarily denominated in the currencies of the Group's principal markets.

For the years ended 31 December 2010 and 2009, the change in fair value of the Group's outstanding derivatives are estimated to be a net gain of US$21,521,000 and US$1,832,000, based on fair values arrived at using forward rates of similar instruments of forward foreign exchange contracts and discounting the future cash flows using the interest rate curves at the end of the reporting period. Fair value of interest rate swaps which are not designated as hedging instruments have been arrived at using valuations provided by the counterparty banks for each reporting period with reference to market data such as settlement prices and interest rates.

For the years ended 31 December 2010 and 2009, a gain on settlement of financial derivative contracts of approximately US$5,392,000 and US$18,391,000 respectively, arising on forward foreign exchange contracts and interest rate swaps not designated as hedging instruments, has been recognized in the profit or loss. Certain of the Group's derivative transactions were entered into between the Group and the related parties, details are disclosed in Note 45.

27. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Forward foreign exchange contracts

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

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

27. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Forward foreign exchange contracts (continued)

At 31 December 2009, the details of outstanding forward foreign exchange contracts which the Group is committed are as follows:

Buy	Sell	Notional amount US$	Maturity	Contracted exchange rate (per US$1)
Brazilian Reais	U.S. dollar	14,956,000	8 January to 29 January 2010	Reais1.8000 to 1.9500
Brazilian Reais	U.S. dollar	14,956,000	5 February to 26 February 2010	Reais1.8000 to 1.9500
Brazilian Reais	U.S. dollar	14,956,000	5 March to 26 March 2010	Reais1.8000 to 1.9500
Brazilian Reais	U.S. dollar	14,340,000	8 April to 30 April 2010	Reais1.8000 to 1.9500
Brazilian Reais	U.S. dollar	14,340,000	7 May to 27 May 2010	Reais1.8000 to 1.9500
Brazilian Reais	U.S. dollar	11,272,000	4 June to 25 June 2010	Reais1.8000 to 1.9500
Brazilian Reais	U.S. dollar	13,883,000	8 July to 29 July 2010	Reais1.8350 to 1.9300
Brazilian Reais	U.S. dollar	13,883,000	5 August to 26 August 2010	Reais1.8350 to 1.9300
Brazilian Reais	U.S. dollar	8,500,000	3 September to 24 September 2010	Reais1.8600 to 1.8900
Brazilian Reais	U.S. dollar	13,225,000	7 October to 28 October 2010	Reais1.8200 to 1.9500
Brazilian Reais	U.S. dollar	13,225,000	3 November to 26 November 2010	Reais1.8200 to 1.9500
Brazilian Reais	U.S. dollar	13,225,000	1 December to 29 December 2010	Reais1.8200 to 1.9500

Interest rate swap

At 31 December 2010, the interest differential on the outstanding interest rate swap contract with principal amount of US$470,000,000 is settled every three months and will expire on 13 November 2017. Details are listed in Note 35.

27. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Interest rate swap (continued)

At 31 December 2009, the interest differential on the outstanding interest rate swap contract with principal amount of US$200,000,000 is settled every three months. Details are as follows:

Notional amount US$	Interest reset date	Contracted fixing interest rate
200,000,000	15 January 2010	USD3-month LIBOR to 5.069% p.a.
200,000,000	15 April 2010	USD3-month LIBOR to 5.069% p.a.
200,000,000	15 July 2010	USD3-month LIBOR to 5.069% p.a.
200,000,000	15 October 2010	USD3-month LIBOR to 5.069% p.a.
193,600,000	15 January 2011	USD3-month LIBOR to 5.069% p.a.
179,556,000	15 April 2011	USD3-month LIBOR to 5.069% p.a.
164,011,000	15 July 2011	USD3-month LIBOR to 5.069% p.a.
148,467,000	15 October 2011	USD3-month LIBOR to 5.069% p.a.

The interest rate swap was early terminated on 22 October 2010 and a loss on early settlement of US$2,464,000 was included in the gain on settlement of derivative financial instruments of the consolidated statement of comprehensive income for the year ended 31 December 2010.

28. AMOUNTS DUE FROM (TO) RELATED PARTIES

(a) Details of amounts due from related parties are as follows:

			Maximum outstanding amount during the year	
	2010	2009	**2010**	2009
	US$'000	US$'000	**US$'000**	US$'000
April International Marketing Services Ltd. (Note i)	**—**	191	**191**	191
East Trade Limited (Note i)	**—**	6	**6**	106
PT Toba Pulp Lestari tbk ("TPL") (Note i)	**—**	4,458	**4,458**	7,490
Pacific Eagle Asset Management S.A. (Note i)	**—**	17	**17**	25
Averis Sdn. Bhd. (Note i)	**15**	19	**19**	19
Sateri International S.A. (Note ii)	**—**	2	**2**	351
	15	4,693	**4,693**	8,182

28. AMOUNTS DUE FROM (TO) RELATED PARTIES (Continued)

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

	2010 US$'000	2009 US$'000
DP Macao (Note i)	**20,890**	—
Terry Investments Worldwide Limited (Note i)	—	2,553
RGE China (Note i)	—	3
East Trade Limited (Note i)	—	241
Sateri International S.A. (Note ii)	—	35
Averis Sdn. Bhd. (Note i)	**565**	556
April Management (Shanghai) Co. Ltd. (Note i)	—	6
Pec-Tech Limited (Note i)	—	1,137
AP Enterprises (Macao) Commercial Offshore Limited (Note i)	—	7
	21,455	4,538

All balances are non-trade in nature except for amounts due from April International Marketing Services Ltd., TPL and Averis Sdn. Bhd. (all aged within 90 days), and amounts due from Sateri International S.A. (aged more than three years). All amounts that are trade in nature have a credit term of 30-90 days. These amounts are unsecured and non-interest bearing except for the amount due to Terry Investments Worldwide Limited of US$2,553,000 as of 31 December 2009 which was unsecured, bore interest at 7.4% per annum and was fully settled in 2010.

In 2010, the Group had advanced an amount of approximately US$205,610,000 to RGE Inc. The amount was subsequently settled through a netting and novation arrangement. Details are set out in note 44(b).

Notes:

i. The companies are beneficially owned and controlled by the Major Shareholder.

ii. The company was a wholly-owned subsidiary of Goodwood Venture Limited, a former associate of the Group which was fully disposed of by the Group during the year ended 31 December 2009.

29. PLEDGED BANK DEPOSITS

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

	2010	2009
Interest rates per annum	**0.36%**	0.14%–3.5%

30. BANK BALANCES AND CASH

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

	2010	2009
Interest rates per annum	**0.25%–10.13%**	0.36%–15%

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

	2010 US$'000	2009 US$'000
Brazilian Reais	**6,618**	5,212
United States dollars	**429**	839
Hong Kong dollars	**178,186**	—
MOP	**12**	—

31. TRADE AND OTHER PAYABLES

The ageing analysis of the Group's trade payables presented based on the invoice date at the end of reporting period.

	2010 US$'000	2009 US$'000
Trade payables:		
0–90 days	**42,195**	12,300
91–180 days	**—**	1,084
	42,195	13,384
Other payables:		
Accruals and others	**55,311**	26,398
Advance from customers	**7,416**	2,840
Construction payable	**19,699**	20,762
Other taxes payable	**1,948**	2,285
Others	**—**	172
	84,374	52,457
	126,569	65,841

The normal credit period on purchases of goods is in the range of 30 to 90 days. The Group has financial risk management policies in place for its payables with respect to the credit timeframe.

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

	2010 US$'000	2009 US$'000
Brazilian Reais	**61,528**	25,450
United States dollars	**3,278**	—

32. PROVISIONS

	US$'000
At 1 January 2009	4,152
Addition for the year	2,832
Utilization of provision	(49)
At 31 December 2009	6,935
Addition for the year	3,619
Utilization of provision	(2,442)
At 31 December 2010	**8,112**

The provisions represent the Group's liabilities for probable losses on civil, labour and tax lawsuits based on the opinion of its legal counsel. Management considers that these provisions are sufficient and appropriate to cover the corresponding contingencies. Additionally, the Group is a party to certain lawsuits and administrative proceedings in the amount of approximately US$30,881,000 (2009: US$27,412,000), which in accordance with the Group's legal advisors, are possible but not probable loss including a labour related case concerning Bahia Specialty Cellulose's labour union in the amount of approximately US$5,990,000 (2009: US$5,510,000). No provision has been made in these consolidated financial statements for these possible losses.

33. BANK BORROWINGS

	2010 US$'000	2009 US$'000
Bank borrowings:		
Secured	**584,699**	373,409
Unsecured	**79,600**	81,487
	664,299	454,896
Fixed rate	**120,488**	92,991
Variable rate	**543,811**	361,905
	664,299	454,896
Carrying amount repayable:		
within one year	**153,816**	177,119
More than one year, but not exceeding two years	**127,531**	86,089
More than two years but not more than five years	**368,670**	165,018
More than five years	**14,282**	26,670
	664,299	454,896
Less: Amount due within one year shown under current liabilities	**(153,816)**	(177,119)
Amounts shown under non-current liabilities	**510,483**	277,777

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

	2010 US$'000	2009 US$'000
Denominated in United States dollars	**11,829**	6,496
Denominated in Brazilian Reais	**—**	27,692

33. BANK BORROWINGS (Continued)

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

	2010	2009
Bank borrowings	5.3%	6.5%

In November 2005, the Group entered into a US$320 million loan agreement with a bank (the "Debt Facility"). The proceeds of the Debt Facility are used to finance the expansion of production plant of a subsidiary of the Company. The Debt Facility is secured by, inter alia, certain property, plant and equipment, bank deposits, receivables and contractual rights and claims under product purchase and sale contracts of the Group's certain subsidiaries. Interest rates on outstanding loans under the Debt Facility are based on the LIBOR plus applicable margin, repriced monthly or quarterly, at the Group's option. The Debt Facility also contains financial and other covenants, which include restrictions on additional borrowings, and liens against the assets of certain subsidiaries of the Company. The amount outstanding under the Debt Facility as at 31 December 2009 amounted to approximately US$246,448,000, net of loan raising cost and the repayment had commenced in 2008 in quarterly installments. On 10 November 2010, the Group repaid all outstanding amounts under the Debt Facility from the proceeds of the new syndicated loan facility described below.

In November 2010, SC International Macao, a wholly-owned subsidiary of the Company, entered into a US$470 million syndicated loan as the borrower which was arranged by internationally recognized financial institutions which is guaranteed by Bahia Specialty Cellulose and DP Marketing International Limited. This syndicated loan contains certain financial and other covenants, including, among other things, the maintenance of certain financial measures, such as the debt service coverage ratio and debt to EBITDA ratio, and is secured by, inter alia, certain property, plant and equipment, bank deposits, receivables and contractual rights and claims under product purchase and sale contracts of the Group's certain subsidiaries. Interest rates on outstanding loans under syndicated loan are based on the LIBOR plus an applicable margin. The weighted average effective interest rate in 2010 is 5.1% (2009: Nil). The net proceeds from this syndicated loan were used to refinance the funding provided for the expansion of the Group's Bahia Specialty Cellulose mill completed in 2008. The balance outstanding as at 31 December 2010 amounted to approximately US$458,026,000, net of loan raising cost and the repayment will commence in August 2011 in quarterly instalments and to be fully repaid in November 2017.

As at 31 December 2010, the Group's bank borrowings other than the syndicated loan mentioned in the preceding paragraph, comprise secured loans of US$126,673,000 (31 December 2009: US$126,961,000) and unsecured loans of US$79,600,000 (31 December 2009: US$81,487,000). They are repayable within one year from the end of the reporting period except for loans of US$75,891,000 (31 December 2009: US$88,282,000), of which the repayment is scheduled to commence from 2011. Except for the fixed rate bank borrowings of US$120,488,000 (2009: US$92,991,000), all the loans bear interest determined based on the prevailing short-term market interest rates in the respective countries in which the subsidiaries operate.

34. OBLIGATIONS UNDER FINANCE LEASES

It is the Group's policy to lease certain of its machinery and equipment under finance leases. The average lease term was 3 years (2009: 2 years). Interest rates underlying all obligations under finance leases were fixed at respective contract dates ranging from 10.35% to 21.51% (2009: 15.12% to 17.4%) per annum. These leases had no terms of renewal or purchase options and escalation clauses.

	Minimum lease payments		Present value of minimum lease payment	
	2010 US$'000	2009 US$'000	**2010 US$'000**	2009 US$'000
Amounts payable under finance leases				
Within one year	**2,321**	2,442	**2,165**	2,268
In more than one year but more than two years	**1,283**	1,024	**1,079**	775
In more than two years but not more than three years	**738**	—	**567**	—
	4,342	3,466	**3,811**	3,043
Less: future finance charges	**(531)**	(423)	**N/A**	N/A
Present value of lease obligations	**3,811**	3,043	**3,811**	3,043
Less: Amount due for settlement with one year (shown under current liabilities)			**(2,165)**	(2,268)
Amount due for settlement after one year			**1,646**	775

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

35. OTHER FINANCIAL ASSETS/LIABILITIES

Cash flow hedges

At 31 December 2010, the Group had the following interest rate swaps designated as highly effective hedging instruments in order to minimise its exposure to interest rate risk on bank borrowing.

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

At 31 December 2010, the major terms of the interest rate swaps with notional amount of US$470,000,000 is settled every three months starting from 10 February 2011 and expire on 13 November 2017, which match the amount and repayment period of the syndicated loan as disclosed in note 33.

Major terms of these contracts are as follows:

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

35. OTHER FINANCIAL ASSETS/LIABILITIES (Continued)

Cash flow hedges (continued)

Fair values of interest rate swaps have been arrived at using valuations provided by the counterparty banks for each reporting period with reference to market data such as settlement prices and interest rates.

As at 31 December 2010, the increase in fair value changes of US$4,346,000 (2009: Nil) have been recognized as other comprehensive income and accumulated in equity and are expected to be released to the consolidated statement of comprehensive income at the time when the hedged transaction occurs.

36. LOAN FROM A RELATED PARTY

	2010 US$'000	2009 US$'000
General Rank Limited	—	142,784

The loan was borrowed from General Rank Limited, a company under common control of the Major Shareholder of the Company. The loan with a principal amount of US$207,131,000 was unsecured and non-interest bearing. The effective interest rate was 4.5% per annum.

During the year ended 31 December 2009, part of the loan with principal amount of approximately US$70,102,000 was repaid.

During the year ended 31 December 2010, the Group settled the entire outstanding loan principal of US$137,029,000 due to General Rank Limited through a netting and novation agreement, details are set out in Note 44(b). The cumulative imputed interest charged on the interest-free loan due to General Rank Limited amounting to US$10,071,000 was accounted for as contribution from the shareholders of the Company and recognized in the consolidated statement of changes in equity as at 31 December 2010.

37. SHARE CAPITAL OF THE COMPANY

	Number of shares	Amounts US$'000
Authorized:		
At 8 June 2010, date of incorporation (note i)(@US$1.00 each)	**10,000**	**10**
Increase in authorized share capital (note ii)	**749,990,000**	**749,990**
Shares subdivision (note ii)	**14,250,000,000**	**—**
At 31 December 2010 (@US$0.05 each)	**15,000,000,000**	**750,000**
Issued and fully paid:		
At 8 June, 2010, date of incorporation (note i)(@US$1.00 each)	100	—
Shares subdivision (note ii)	1,900	—
	2,000	—
Issued pursuant to Reorganisation (note iii)	2,863,494,750	143,174
Public issue (note iv)	505,330,000	25,267
At 31 December 2010 (@US$0.05 each)	**3,368,826,750**	**168,441**

Notes:

(i) The Company was incorporated with an authorized share capital of US$10,000 divided into 10,000 ordinary shares with a nominal value of US$1.00 each, and an issued and fully paid-up share capital of US$100, divided into 100 ordinary shares with a nominal value of US$1.00, all of which were allotted and issued.

(ii) Pursuant to a resolution passed by the sole shareholder of the Company on 8 November 2010, the authorized share capital of the Company was increased from US$10,000 to US$750,000,000 by the creation of an additional 749,990,000 ordinary shares with a nominal value of US$1.00 each and each issued and unissued ordinary share with a nominal value of US$1.00 each in the capital of the Company was sub-divided into 20 shares of the Company of nominal value US$0.05 each, resulting in the Company having an issued and fully paid-up share capital of US$100, divided into 2,000 shares of nominal value US$0.05 each.

(iii) On 23 November 2010, Gold Silk entered into a share exchange agreement with the Company pursuant to which it transferred to the Company its entire shareholding interest in Sateri International, comprising 100 ordinary shares and the remaining 381,799,200 Class 1 preference shares in exchange for an aggregate of 2,863,494,750 ordinary shares of the Company of nominal value US$0.05 each, which were allotted and issued to Gold Silk credited as fully paid. Following the completion of such share exchange, Gold Silk holds an aggregate of 2,863,496,750 shares of the Company.

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

37. SHARE CAPITAL OF THE COMPANY (Continued)

The share capital at 31 December 2009 and 1 January 2009 shown in the consolidated statement of financial position represented 100 ordinary shares of US$1.00 each, 404,599,200 preference shares Class 1 of US$1.00 each and 4,410,067 preference shares Class 2 of US$1.00 each, in the share capital of Sateri International prior to the Reorganization. Details are set out as below:

Share capital of Sateri International

For the purpose of preparation of the consolidated statement of financial position, the balance of the share capital at 1 January 2009 and 31 December 2009 represented the share capital of Sateri International.

	Authorized ordinary shares of US$1 each		Issued and fully paid-up ordinary shares of US$1 each	
	Number of shares	US$'000	Number of shares	US$'000
At 1 January 2009, 31 December 2009 and 31 December 2010	600,000,000	600,000	100	*

* Less than US$1,000.

Sateri International has only one class of ordinary shares which carries no right to fixed income.

Details of preference shares of Sateri International are set out below:

	Authorized							
	Preference shares Class 1 of US$1 each		Preference shares Class 2 of US$0.5 each		Preference shares Class 2 of US$1 each		Preference shares Total	
	Number of shares	US$'000	Number of shares	US$'000	Number of shares	US$'000	Number of shares	US$'000
At 1 January 2009 and 31 December 2009 and 31 December 2010	600,000,000	600,000	—	—	400,000,000	400,000	1,000,000,000	1,000,000

37. SHARE CAPITAL OF THE COMPANY (Continued)

Share capital of Sateri International (Continued)

Details of preference shares of Sateri International are set out below: (Continued)

	Issued and fully paid							
	Preference shares Class 1 of US$1 each		Preference shares Class 2 of US$0.5 each		Preference shares Class 2 of US$1 each		Preference shares Total	
	Number of shares	US$'000	Number of shares	US$'000	Number of shares	US$'000	Number of shares	US$'000
At 1 January 2009 and 31 December 2009	404,599,200	404,599	—	—	4,410,067	4,410	409,009,267	409,009
Shares redemption (Note (a))	(22,800,000)	(22,800)	—	—	(4,410,067)	(4,410)	(27,210,067)	(27,210)
At 31 December 2010 (Note (b))	**381,799,200**	**381,799**	**—**	**—**	**—**	**—**	**381,799,200**	**381,799**

Notes:

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

(b) On 23 November 2010, Gold Silk entered into a share exchange agreement with the Company pursuant to which it transferred to the Company its entire shareholding interest in Sateri International, comprising 100 ordinary shares and the remaining 381,799,200 Class 1 preference shares in exchange for an aggregate of 2,863,494,750 ordinary shares of the Company of nominal value US$0.05 each, which were allotted and issued to Gold Silk credited as fully paid.

38. SHARE-BASED PAYMENT TRANSACTIONS

Share option scheme

The Company's share option scheme (the "Scheme"), was approved and adopted by the Sole Shareholder on 8 November 2010 for the primary purpose of attracting skilled and experienced personnel, to incentivize them to remain with the Group and to motivate them to strive for the future development and expansion of the Group by providing them with the opportunity to acquire equity interests in the Company.

Under the Scheme, the Board of Directors of the Company may, at its discretion, grant options pursuant to the Share Option Scheme to the directors of the Company (including executive directors, non-executive directors and independent non-executive directors), the directors of its subsidiaries and the employees of the Group who the Board considers, in its absolute discretion, have contributed or will contribute to the Group (the "Participants").

38. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Share option scheme (continued)

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

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

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

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

The Pre-IPO RSU Scheme was conditionally approved and adopted by the sole shareholder on 8 November 2010. The terms of the Pre-IPO RSU Scheme are not subject to the provisions of Chapter 17 of the Listing Rules as the Pre-IPO RSU Scheme does not involve the grant of options by the Company to subscribe for new shares.

The purpose of the Pre-IPO RSU Scheme is to attract skilled and experienced personnel, to incentivize Participants to remain with the Group and to motivate them to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in the Company.

An RSU is a contingent right to receive a share granted to a participant pursuant to the Pre-IPO RSU Scheme. The RSUs granted under the Pre-IPO RSU Scheme shall be subject to a vesting period.

The Company appointed a professional trustee (the "RSU Trustee") to assist with the administration and vesting of RSUs granted pursuant to the Pre-IPO RSU Scheme. The Company may (i) allot and issue shares to the RSU Trustee to be held by the RSU Trustee pending the vesting of the RSUs granted and which will be used to satisfy the RSUs upon vesting and/or (ii) direct and procure the RSU Trustee to make on-market purchases of shares to satisfy the RSUs upon vesting. The Company shall provide sufficient funds to the RSU Trustee by whatever means as the Board may in its absolute discretion determine to enable the RSU Trustee to satisfy its obligations in connection with the administration and vesting of RSUs granted pursuant to the Pre-IPO RSU Scheme.

38. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Pre-IPO Restricted Share Unit (“RSU”) Scheme (“Pre-IPO RSU Scheme”) (continued)

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

(a) no further grants of an award of RSUs may be made pursuant to the Pre-IPO RSU Scheme with effect from the listing date;

(b) the maximum aggregate number of shares that may underlie the RSUs granted pursuant to the Pre-IPO RSU Scheme shall be equal to 9,000,000 shares, representing 0.3% of the shares in issue on the listing date but excluding any shares which may be issued pursuant to the exercise of the Over-allotment Option; and

(c) the provisions relating to the restriction on the time of grant of an award of RSUs shall not apply to the Pre-IPO RSU Scheme.

As of the end of the reporting period, RSUs were granted pursuant to the Pre-IPO RSU Scheme to certain directors, senior management and employees of the Group (“Grantees”) to recognize their past contributions to the growth of the Group and to incentivize them to remain with the Group and to motivate them to strive for the future development and expansion of the Group.

As of the end of the reporting period, RSUs in respect of an aggregate of 8,165,026 new shares had been granted to 18 Grantees pursuant to the Pre-IPO RSU Scheme on 25 November 2010, of which three of the Grantees are directors.

The RSUs granted pursuant to the Pre-IPO RSU Scheme are subject to vesting conditions and will vest over a period of three years or five years commencing on the date of grant.

38. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Pre-IPO RSU Scheme

Details of the RSUs granted pursuant to the Pre-IPO RSU Scheme to the directors are set out below:

Name of Director	Number of Shares Underlying the RSUs granted	Vesting Period	Vesting portion
John Jeffrey Ying	960,591	25 November 2010 to 15 February 2012	30%
		25 November 2010 to 15 February 2013	30%
		25 November 2010 to 15 February 2014	40%
Will Hoon Wee Teng	3,201,970	25 November 2010 to 15 February 2012	15%
		25 November 2010 to 15 February 2013	15%
		25 November 2010 to 15 February 2014	20%
		25 November 2010 to 15 February 2015	20%
		25 November 2010 to 15 February 2016	30%
Craig Edward Barker	128,079	25 November 2010 to 15 February 2012	20%
		25 November 2010 to 15 February 2013	30%
		25 November 2010 to 15 February 2014	50%
Total	4,290,640		

In respect of the RSUs granted pursuant to the Pre-IPO RSU Scheme to the other Grantees, (a) the RSUs granted to 14 Grantees in respect of 2,273,401 underlying Shares have a vesting period of three years as follows: 20% vested on 15 February 2012, 30% vested on 15 February 2013 and 50% vested on 15 February 2014 and (b) the RSUs granted to one Grantee in respect of 1,600,985 underlying Shares have a vesting period of five years as follows: 10% vested on 15 February 2012, 10% vested on 15 February 2013, 20% vested on 15 February 2014, 20% vested on 15 February 2015 and 40% vested on 15 February 2016.

38. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Pre-IPO RSU Scheme (continued)

Save for the vesting period of the Shares underlying the RSUs granted and the performance conditions applicable to the vesting of the RSUs granted to certain Grantees, each RSU granted pursuant to the Pre-IPO RSU Scheme has the same terms and conditions.

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

The inputs into the model were as follows:

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

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

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

The fair value of RSU granted is approximately US$4,741,000 in aggregate. The Group recognized the total expense of US$197,000 for the year ended 31 December 2010 (2009: Nil) in relation to the Pre-IPO RSU granted by the Company.

During the year ended 31 December 2010, no shares was bought and held in trust for the Participants.

38. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Post-IPO Restricted Share Unit (“RSU”) Scheme (“Post-IPO RSU Scheme”)

The Post-IPO RSU Scheme was conditionally approved and adopted by the sole shareholder on 8 November 2010. The terms of the Post-IPO RSU Scheme are not subject to the provisions of Chapter 17 of the Listing Rules as the Post-IPO RSU Scheme does not involve the grant of options by the Company to subscribe for new Shares.

The purpose of the Post-IPO RSU Scheme is to attract skilled and experienced personnel, to incentivize them to remain with the Group and to motivate them to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in the Company.

An RSU is a contingent right to receive a share granted to a participant pursuant to the Post-IPO RSU Scheme. The RSUs granted under the Post-IPO RSU Scheme shall be subject to a vesting period.

The Board may, at its discretion, grant an award of RSUs pursuant to the Post-IPO RSU Scheme (the “Award”) to the directors (including executive directors, non-executive directors and independent non-executive directors), the directors of our subsidiaries and the employees of the Group who the Board considers, in its absolute discretion, have contributed or will contribute to the Group.

Subject to the Conditions being satisfied, the Post-IPO RSU Scheme shall be valid and effective for a period of 10 years commencing on 8 November 2010, after which period no further Awards shall be offered or granted but the provisions of the Post-IPO RSU Scheme shall remain in full force and effect in all other respects. Awards granted during the life of the Post-IPO RSU Scheme shall continue to be valid in accordance with their terms of grant after the end of the Term.

During the year ended 31 December 2010, no shares was bought and held in trust for the participants nor any share award was granted under Post-IPO RSU Scheme.

39. ACQUISITION OF SUBSIDIARIES

On 13 September 2010, the Group acquired 100% of the issued share capital of Sateri Marketing International Limited ("Sateri Marketing International") and its subsidiary, SC International Macao from Hibiscus Bay Investments Ltd ("Hibiscus Bay"), a company controlled by our Major Shareholder, for a consideration of US$1 which approximate to its net book value at date of acquisition, details of which are set out in note 45(d). This acquisition has been accounted for using the acquisition method.

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

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

Net cash inflow on acquisition of Sateri Marketing International

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

Prior to the acquisition, Sateri Marketing International acquired the entire issued share capital of SC International Macao from an independent third party for a cash consideration of MOP100,000 (US$12,460) on 2 September 2010.

SC International Macao was incorporated in Macau as a commercial offshore institution in Macau and was granted a permit by the Macao Trade and Investment Promotion Institute to operate offshore business in Macau. Since commencing business operations, SC International Macao has been engaged in offshore business in Macau relating to the trading of paper products. Following its acquisition by Sateri Marketing International, SC International Macao ceased its original trading activities and engaged in selling the Group's dissolving wood pulp. SC International Macao was also appointed as DP Macao's agent for the sale of the dissolving wood pulp pursuant to the agency agreement entered into by the two parties effective from 1 October 2010. Details are set out in note 45.

39. ACQUISITION OF SUBSIDIARIES (Continued)

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

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

40. DISPOSAL OF A SUBSIDIARY

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

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

Consideration received:

	US$'000
Cash received	1,655

Analysis of assets and liabilities over which control was lost:

	US$'000
Property, plant and equipment	21
Trade and other receivables	6,291
Bills receivables discounted	3,236
Bank balances and cash	1,804
Other payables	(1,463)
Amounts due to fellow subsidiaries	(2,971)
Amounts due to related companies	(2,027)
Advance drawn on bills receivables discounted	(3,236)
Net assets disposed of	1,655

40. DISPOSAL OF A SUBSIDIARY (Continued)

Gain on disposal of a subsidiary:

	US$'000
Consideration received and receivable	**1,655**
Net assets disposed of	**(1,655)**
Gain on disposal	**—**

Net cash outflow arising on disposal:

	US$'000
Cash consideration	**1,655**
Less: bank balances and cash disposed of	**(1,804)**
	(149)

41. PLEDGE OF ASSETS

At the end of each reporting period, the carrying values of assets pledged to various banks for securing bank loans are:

	2010 US$'000	2009 US$'000
Property, plant and equipment (Note 17)	**1,295,816**	598,309
Prepaid lease payments (Note 18)	**797**	909
Investment properties (Note 19)	**1,880**	1,924
Trade receivables	**—**	52,124
Bills receivables discounted	**—**	66,737
Bank deposits (Note 29)	**8,071**	49,419
	1,306,564	769,422

42. OPERATING LEASE ARRANGEMENT/COMMITMENTS

The Group as lessee

	2010 US$'000	2009 US$'000
Minimum lease payments under operating leases recognized as an expense in the year	**32**	32

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

	2010 US$'000	2009 US$'000
Within one year	**172**	32
In the second to fifth year inclusive	**90**	—
	262	32

Operating lease payments represent rentals payable by the Group for certain of its office properties and staff quarters. Leases are negotiated for an average term of two years with fixed rentals.

The Group as lessor

Property rental income earned on the investment properties held by the Group was approximately US$174,000 (2009: US$174,000) for the year ended 31 December 2010. The leases are negotiated and fixed for a term of two to three years. The expenses incurred for property rental amounted to US$8,000 (2009: US$8,000) for the year ended 31 December 2010.

At the end of the reporting period, the Group has contracted with tenants for the following future minimum lease receipts:

	2010 US$'000	2009 US$'000
Within one year	**100**	114
In the second to fifth year inclusive	**16**	28
	116	142

Operating lease receipts represent rentals receivable by the Group for certain of its office properties.

43. COMMITMENTS

	2010 US$'000	2009 US$'000
Amount contracted for but not provided in these consolidated financial statements in respect of		
— acquisition of property, plant and equipment	**23,567**	32,644
— capital injections in unlisted investment	**6,376**	8,875
Amount authorized but not contracted for in respect of		
— acquisition of property, plant and equipment	**5,452**	4,579
— additions of forestation assets	**3,551**	561

44. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2010, the Group has entered into the following major non-cash transactions:

(a) During the year ended 31 December 2010, the Group entered into finance lease arrangements in respect of plant and machinery with a total capital value at the inception of the leases of US$2,998,000 (2009: US$2,146,000).

(b) During the year ended 31 December 2010, the Group had advanced an amount of US$205,610,000 to RGE Inc. On 27 October 2010, a netting and novation deed was entered into among Sateri International, RGE Inc., General Rank Limited and Gold Silk relating to the netting and novation of the related amount due from RGE Inc. of US$205,610,000 and the outstanding loan balance due to General Rank Limited of approximately US$137,029,000 (which was included in loan from a related party and in Note 36) and resulted in Gold Silk owing an amount of US$68,581,000 to Sateri International after the netting and novation deed.

As disclosed in Note 37(a), Sateri International redeemed 22,800,000 Class 1 preference shares of US$1.00 each and 4,410,067 Class 2 preference shares at US$1.00 each in the capital of Sateri International owned by Gold Silk amounting to US$463,807,000 in aggregate. An amount of approximately US$68,581,000 of the redemption price was settled by offsetting against the amount due from Gold Silk arisen from the netting and novation deed as explained in the preceding paragraph whereas the remaining amount of approximately US$395,226,000 was settled in cash.

45. RELATED PARTY DISCLOSURES

(a) Details of the balances with related parties are set out in Notes 28 and 36.

(b) During the year, the Group entered into the following significant transactions with the following related parties:

Name of related parties	Nature of transactions	2010 US$'000	2009 US$'000
Companies under common control of the Major Shareholder			
TPL	Purchase of goods	**64,964**	71,064
DP Macao	Purchase of goods	**21,691**	—
	Commission income	**801**	—
Pinnacle Company Limited	Interest income	**—**	3,556
Terry Investments Worldwide Limited	Interest expense on amount due to a related party	**24**	467
General Rank Limited	Imputed interest expense on loan from a related party	**4,316**	5,755
Averis Sdn. Bhd.	Service fee expense	**999**	1,349
April International Marketing Services Ltd.	Service income	**1,094**	1,484
Asian Resources Development Limited	Rental expense	**25**	—

45. RELATED PARTY DISCLOSURES (Continued)

(b) During the year, the Group entered into the following significant transactions with the following related parties: (continued)

Gain or loss arising from the derivative transactions between the Group and the related parties are disclosed as follows:

	Notes	2010 US$'000	2009 US$'000
Gain (loss) on settlement of:			
— forward foreign exchange contracts	(i)	**95**	—
— interest rate swaps	(ii)	**(2,674)**	(174)
		(2,579)	(174)
Gain (loss) on fair value changes of:			
— forward foreign exchange contracts	(i)	**—**	4,569
— interest rate swaps	(ii)	**—**	(3,441)
		—	1,128
Total		**(2,579)**	954

Notes:

(i) Certain forward foreign exchange contracts of the Group were entered into by General Rank Limited and RGE Inc., at the prevailing market terms with third party financial institutions ("Financial Institutions") as the ultimate party in previous year. The gain on settlement of these contracts for the year ended 31 December 2010 were approximately gain of US$95,000 (2009: Nil). The fair value changes of these contracts for the years ended 31 December 2010 were nil (2009: gain of US$4,569,000).

(ii) These interest rate swaps of the Group were entered into by General Rank Limited in previous year at the prevailing market terms with third party financial institution as the ultimate party. The loss on settlement of these interest rate swaps for the year ended 31 December 2010 were US$2,674,000 (2009: US$174,000). The loss on fair value changes of these interest rate swaps for the year ended 31 December 2010 were nil (2009: US$3,441,000). The interest rate swaps were terminated from 22 October 2010 pursuant to a termination agreement entered into between Sateri International and General Rank Limited.

45. RELATED PARTY DISCLOSURES (Continued)

(b) During the year, the Group entered into the following significant transactions with the following related parties: (continued)

For all the derivative contracts above, the related parties have assigned all their benefits, risks and obligations in these contracts to the Group. Accordingly, all the gains/losses on these contracts were earned/incurred by the Group on a back-to-back basis.

On 20 August 2010, a novation agreement was entered into among Sateri International, RGE Inc. and Financial Institutions relating to the transfer of the foreign exchange contracts entered into between RGE Inc. and Financial Institutions to Sateri International. RGE Inc. has agreed to novate those contacts remaining outstanding on 20 August 2010 to Sateri International with the consent of Financial Institutions with effect from 1 September 2010.

(c) On 24 August 2010, the Group entered into a share transfer agreement (which was supplemented by a supplemental agreement dated 1 October 2010) to dispose of its entire shareholding interest in DP Macao to Blue Dot with effect from 30 September 2010 (see note 40).

(d) On 13 September 2010, the Group acquired the entire issued share capital of Sateri Marketing International, an investment holding company incorporated in the Cayman Islands, from Hibiscus Bay (see note 39).

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

(e) In August 2009, the Group disposed of its interest in its associate with carrying amount of nil to an entity that is under common control of the ultimate beneficial owner of the Company for a nominal consideration of US$1 and a gain on disposal of the associate of US$1 was credited to profit or loss in 2009.

(f) 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.

(g) Compensation of key management personnel

Other than the emoluments paid to directors of the Company as set out in Note 13, who are considered as the key management of the Group, the Group did not have any other significant compensation to key management personnel.

46. FINANCIAL INFORMATION OF THE COMPANY

The financial information of the Company as at 31 December 2010 is as follows:

	2010 US$'000
Non-current asset	
Investment in a subsidiary	949,273
Current assets	
Other receivables	25
Amount due from a subsidiary	375,484
Bank balance	32,049
	407,558
Current liability	
Accrued charges	3,674
Net current assets	403,884
	1,353,157
Capital and reserves	
Share capital (note 37)	168,441
Reserves (note)	1,184,716
	1,353,157

Note:

	Share premium US$'000	Contribution surplus US$'000	Award shares compensation reserve US$'000	Accumulated losses US$'000	Total US$'000
At the date of incorporation	—	—	—	—	—
Loss for the period and comprehensive expenses for the period	—	—	—	(10,314)	(10,314)
Arising on reorganization	—	806,099	—	—	806,099
Issue of new shares	403,338	—	—	—	403,338
Cost of issuing new shares	(14,604)	—	—	—	(14,604)
Awarded shares compensation reserve	—	—	197	—	197
At 31 December 2010	388,734	806,099	197	(10,314)	1,184,716

Contribution surplus represent the difference between the carrying amount of the consolidated net assets of Sateri International and the nominal value of the shares issued at the date of the Reorganization.

47. EVENTS AFTER REPORTING PERIOD

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

48. PRINCIPAL SUBSIDIARIES

The Company had direct and indirect interests in the following subsidiaries for the years ended 31 December 2010 and 2009:

Name of subsidiary	Place of incorporation/ establishment/ operation	Issued and fully paid share capital/ paid-in capital	Attributable equity interest of the Company 2010	2009	Principal activities
Bahia Specialty Cellulose S.A. (previously known as Bahia Pulp S.A.)	Brazil	3,248,213,308 common shares with no par value 380,869,270 preferential shares with no par value	98.4%	98.4%	Manufacturing and sales of cellulose products
Copener Florestal Ltda.	Brazil	Ordinary quotas Reais 74,442,000	99.8%	99.8%	Plantation in Brazil
DP Marketing International Limited	BVI	Ordinary shares US$1	100%	100%	Marketing and sales of cellulose products
DP Macao (iv)	Macau	Ordinary shares MOP100,000	—	100%	Marketing and sales of cellulose products
Norcell S.A.	Brazil	42,800,334 common shares with no par value 29,771,891 preferential shares with no par value	99.8%	99.8%	Investment holding
Sateri Bacell Limited	BVI	Ordinary shares US$30,000,000	100%	100%	Investment holding
Sateri China (Hong Kong) Limited	Hong Kong	Ordinary shares HK$10,000	100%	100%	Investment holding
Sateri Copener Limited	BVI	Ordinary shares US$100,000	100%	100%	Investment holding
Sateri (Fujian) Fibre Co., Ltd.(ii)	The PRC	Paid-in capital US$24,800,000 (iii)	100%	N/A	Manufacturing and sales of viscose staple fiber

48. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ establishment/ operation	Issued and fully paid share capital/ paid-in capital	Attributable equity interest of the Company 2010	2009	Principal activities
Sateri (Hong Kong) Management Limited	Hong Kong	Ordinary shares HK$10,000	100%	100%	Provision of advisory and administrative services
Sateri International Co. Ltd.	BVI	Ordinary shares US$100 Preferred shares US$381,799,200	100%	100%	Investment holding
Sateri International (Singapore) Pte. Ltd.	Singapore	Ordinary shares S$22,634,250	100%	100%	Investment holding
Sateri (Jiangxi) Chemical Fibre Co., Ltd. (ii)	The PRC	Paid-in capital US$113,957,000	81.1%	81.1%	Manufacturing and sales of viscose staple fiber
Sateri Marketing International Ltd.(v)	Cayman Islands	Ordinary shares US$1	100%	—	Investment holding
Sateri Marketing S.A.	Switzerland	Ordinary shares CHF100,000	100%	100%	Marketing services for cellulose products
Sateri (Shanghai) Management Limited (ii)	The PRC	Paid-in capital US$2,500,000	100%	100%	Provision of advisory and administrative services
Sateri Specialty Cellulose Limited	Cayman Islands	Ordinary shares US$183,939,551	100%	100%	Investment holding
SC International Macao Commercial Offshore Limited (v)	Macau	Ordinary shares MOP100,000	100%	—	Marketing and sales of cellulose products
SC Marketing Limited (vi)	BVI	Ordinary shares US$100	100%	—	Marketing and sales of cellulose products
Specialty Cellulose Marketing Pte. Ltd.	Singapore	Ordinary shares US$1	100%	N/A	Marketing and sales of cellulose products

Notes:

(i) Except for Sateri International Co. Ltd., all of the subsidiaries are indirectly owned subsidiaries of the Company.
(ii) Limited liability company and wholly-foreign owned enterprise established in the PRC.
(iii) The registered capital is US$47,500,000. As at 31 December 2010, the capital has been paid up to US$24,800,000.
(iv) The subsidiary was disposed of on 30 September 2010. Details are set out in Note 40.
(v) The subsidiary was acquired on 13 September 2010. Details are set out in Note 39.
(vi) The subsidiary was incorporated by the Group on 22 July 2010.

FOUR YEAR FINANCIAL SUMMARY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31 Dec 2010 US$'000	31 Dec 2009 US$'000	31 Dec 2008 US$'000	31 Dec 2007 US$'000
Non-current assets				
Forestation and reforestation	192,192	177,691	138,544	104,426
Property, plant and equipment	1,384,070	1,376,386	1,350,787	1,048,045
Prepaid lease payments				
— non current portion	7,340	889	909	869
Investment properties	1,880	1,924	2,025	1,988
Interest in an associate	—	—	—	5,421
Intangible assets	775	875	975	1,441
Derivative financial instruments	4,346	—	—	—
Other long term assets	50,913	39,079	21,628	21,828
Deferred tax assets	111,576	102,745	77,883	21,612
Pledged bank deposits	—	—	—	3,012
	1,753,092	1,699,589	1,592,751	1,208,642
Current assets				
Inventories	88,636	53,177	68,935	42,434
Trade and other receivables	108,721	102,709	73,027	111,164
Bills receivables discounted	39,452	132,231	59,223	2,206
Derivative financial instruments	21,521	5,273	—	22,651
Amounts due from related parties	15	4,693	177,573	201,201
Prepaid lease payment				
— current portion	153	20	20	19
Pledged bank deposits	8,071	49,419	54,477	8,663
Bank balances and cash	427,794	59,388	20,479	51,381
	694,363	406,910	453,734	439,719
Total Assets	2,447,455	2,106,499	2,046,485	1,648,361

	31 Dec 2010 US$'000	31 Dec 2009 US$'000	31 Dec 2008 US$'000	31 Dec 2007 US$'000
Current liabilities				
Trade and other payables	**126,569**	65,841	109,813	89,417
Amounts due to related parties	**21,455**	4,538	13,033	37,866
Advance drawn on bills receivables discounted	**39,452**	132,231	59,223	2,206
Provision	**8,112**	6,935	4,152	5,039
Derivative financial instruments	**—**	15,134	26,560	8,362
Tax payable	**28,424**	27,354	19,655	18,409
Bank borrowings — due within one year	**153,816**	177,119	153,480	82,167
Obligations under finance leases — due within one year	**2,165**	2,268	3,608	3,603
Consideration payable on acquisition of subsidiaries — due within one year	**—**	—	—	878
	379,993	431,420	389,524	247,947
Net current assets	**314,370**	(24,510)	64,210	191,772
Non-current liabilities				
Loan from related parties	**—**	142,784	213,131	—
Bank borrowings — due after one year	**510,483**	277,777	310,802	316,323
Deferred tax liabilities	**71,623**	68,209	54,105	2,088
Obligations under finance leases — due after one year	**1,646**	775	647	3,072
	583,752	489,545	578,685	321,483
Net assets	**1,483,710**	1,185,534	1,078,276	1,078,931
Capital and reserves				
Share capital	**168,441**	409,009	409,009	409,009
Share Premium and reserves	**1,279,573**	745,348	639,465	634,736
Equity attributable to owners of the Company	**1,448,014**	1,154,357	1,048,474	1,043,745
Non-controlling interests	**35,696**	31,177	29,802	35,186
	1,483,710	1,185,534	1,078,276	1,078,931

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	31 Dec 2010 US$'000	31 Dec 2009 US$'000	31 Dec 2008 US$'000	31 Dec 2007 US$'000
Revenue	**923,257**	551,998	382,259	272,167
Cost of sales	**(466,534)**	(341,891)	(303,966)	(165,616)
Gross profit	**456,723**	210,107	78,293	106,551
Selling and distribution expenses	**(58,033)**	(43,776)	(28,486)	(13,669)
Administrative expenses	**(72,965)**	(41,209)	(44,573)	(43,315)
Other income and gains (losses)	**312**	(1,995)	32,880	9,889
Finance costs	**(31,077)**	(36,414)	(22,808)	(11,895)
Changes in fair value of derivative financial instruments	**21,521**	1,832	(21,223)	13,572
Gain on settlement of derivative financial instruments	**5,392**	18,391	4,290	42,546
Increase in fair value of forestation and reforestation assets	**12,704**	23,246	—	—
Recovery of loss (Impairment loss) recognized in respect of property, plant and equipment	**12,236**	(20,013)	—	—
Imputed interest on advance from a related party	**(4,316)**	(5,755)	—	—
Listing expenses	**(10,215)**	—	—	—
Impairment loss on amount due from subsidiaries of an associate	**—**	—	(4,945)	—
Share of an associate	**—**	—	(5,421)	4,025
Profit (loss) before taxation	**332,282**	104,414	(11,993)	107,704
Income tax (expenses) credit	**(4,192)**	3,016	2,532	(4,205)
Profit (loss) for the year	**328,090**	107,430	(9,461)	103,499
Other comprehensive income (expense)				
Exchange differences arising on translation	**5,278**	(172)	8,806	7,548
Gain on cashflow hedge	**4,346**	—	—	—
Share of exchange difference of an associate	**—**	—	—	148
Total comprehensive income (expense) for the year	**337,714**	107,258	(655)	111,195
Profit (loss) for the year attributable to:				
Owners of the Company	**323,881**	106,867	(3,979)	94,966
Non-controlling interests	**4,209**	563	(5,482)	8,533
	328,090	107,430	(9,461)	103,499
Total comprehensive income (expense) attributable to:				
Owners of the Company	**333,195**	105,883	4,729	101,044
Non-controlling interests	**4,519**	1,375	(5,384)	10,151
	337,714	107,258	(655)	111,195

CORPORATE INFORMATION

Board of Directors

Independent Non-Executive Directors:
John Jeffrey Ying (Chairman)
David Yu Hon To
Jeffrey Lam Kin Fung

Executive Directors:
Will Hoon Wee Teng (Chief Executive Officer)
Craig Edward Barker

Non-Executive Directors:
Loh Meng See
John Seto Gin Chung
Tey Wei Lin
Rohan Seneka Weerasinghe

Executive Committee

John Jeffrey Ying (Chairman)
Will Hoon Wee Teng
Loh Meng See
Tey Wei Lin

Remuneration Committee

Loh Meng See (Chairman)
John Jeffrey Ying
David Yu Hon To

Audit Committee

David Yu Hon To (Chairman)
Tey Wei Lin
Jeffrey Lam Kin Fung

Nomination Committee

John Seto Gin Chung (Chairman)
Loh Meng See
Tey Wei Lin

Company Secretary

Sincere Wong

Authorised Representatives

Will Hoon Wee Teng
Sincere Wong

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Bermuda Principal Share Registrar and Transfer Office

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

Principal Bankers

Hong Kong
Banco Santander, S.A.
Bank of China (Hong Kong) Limited
CITIC Bank International Limited
Taishin International Bank

Singapore
ABN AMRO Bank N.V.

China
Bank of China, Jiangxi branch
Industrial and Commercial Bank of China, Jiangxi branch
China Merchants Bank, Nanchang branch

Brazil
WestLB AG
Banco Santander, S.A.
Banco Itaú BBA, S.A.
Banco Bradesco, S.A.

Auditor

Deloitte Touche Tohmatsu

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