Sateri Holdings Limited

Stock Code: 1768

2011 Interim Report

TOUCHING LIVES
EVERYWHERE EVERYDAY

About Sateri Holdings Limited

Listed on the Hong Kong Stock Exchange, Sateri Holdings Limited ("Sateri"; stock code: 1768) is one of the largest specialty cellulose producers in the world, producing dissolving wood pulp and viscose staple fiber in its mills in Brazil and China, namely Bahia Specialty Cellulose and Sateri (Jiangxi) Chemical Fibre, respectively. The Company is a constituent of the Morgan Stanley Capital International (MSCI) Hong Kong Small Cap Index.

We distribute our products to customers across Asia, Americas and Europe. In turn, our products are the key ingredients of countless end-use consumer and industrial products, touching lives everywhere, everyday.

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FINANCIAL HIGHLIGHTS

- **Solid year-on-year growth in revenue and profit attributable to shareholders, excluding discontinued DP Macao business, despite market volatility**

- **Ongoing progress in developing a successfully integrated business, connecting fast growing tree plantations in Brazil, with a rapidly expanding consumer market in China**

- **Positive momentum in building low-cyclicality specialty grades revenue streams**

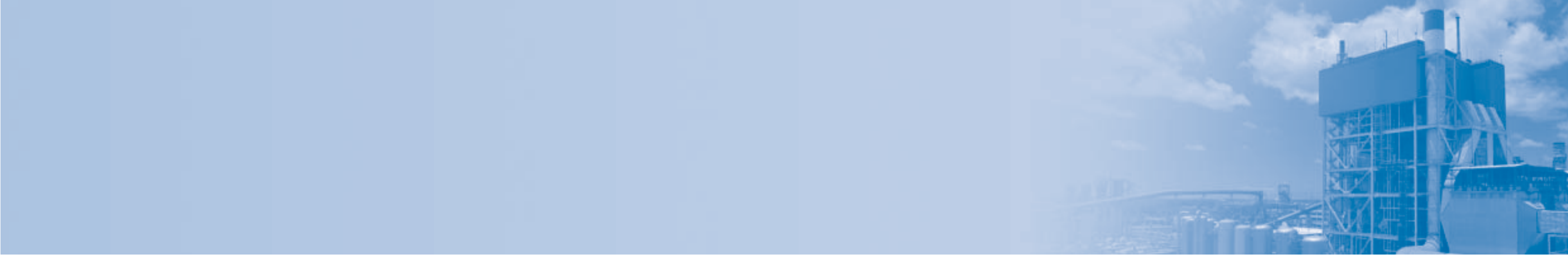
- **Strong long term growth prospects, tempered by current market headwinds**

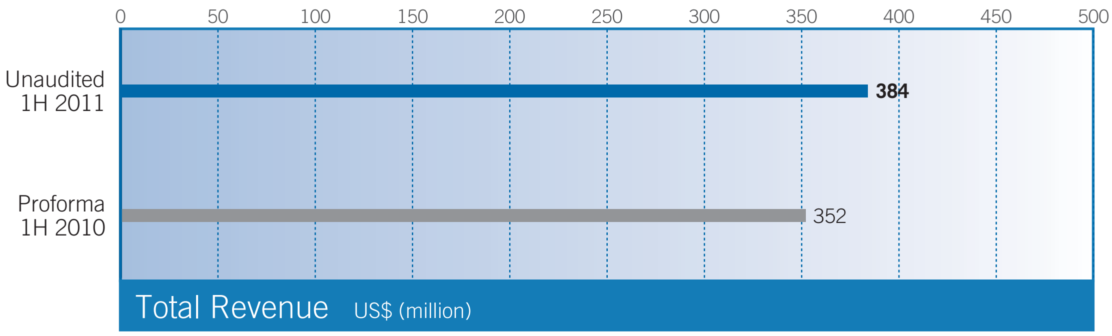
US$ Million	Unaudited 1H 2011	Proforma 1H 2010(1)	Change %	Audited 1H 2010
Total revenue	**384**	352	9%	441
EBITDA(2)	**208**	184	13%	237
EBITDA margin	**54%**	52%		54%
Profit attributable to shareholders	**139**	113	22%	165
Earnings per share (US$)	**0.04**	0.04	—	0.06

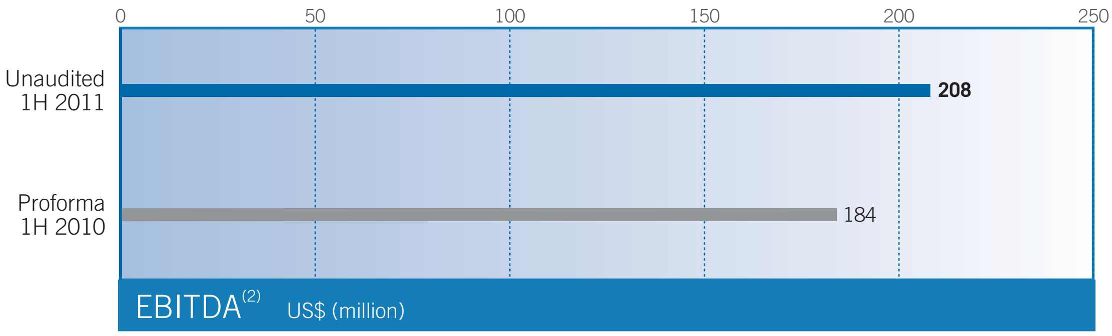
Notes:

(1) Unaudited pro forma financials for the six months ended 30 June 2010 exclude results of DP Macao trading business disposed of on 30 September 2010. For the Management Discussion and Analysis section, unaudited pro forma figures provide a like-for-like comparison to the financials for the six months ended 30 June 2011.

(2) EBITDA (Earnings before interest, tax, depreciation and amortization) is 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 of forestation and reforestation assets and increase in fair value of forestation and reforestation assets.




0
50
100
150
200
250
300
350
400
450
500
Unaudited 1H 2011
384
Proforma 1H 2010
352
Total Revenue US$ (million)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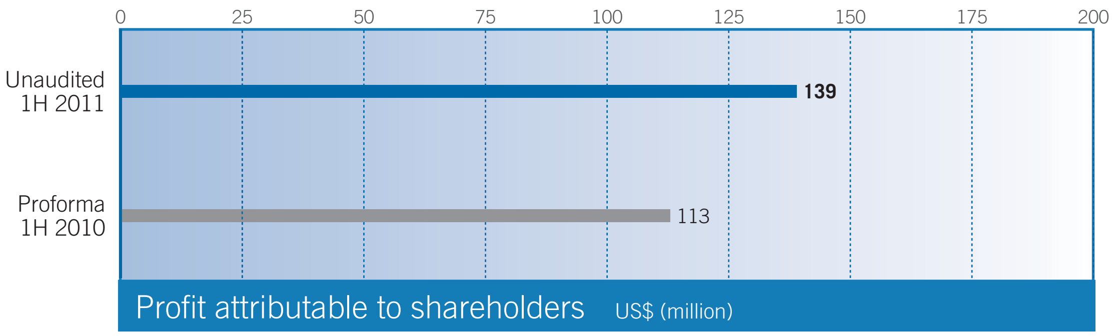
50
100
150
200
250
Unaudited 1H 2011
208
Proforma 1H 2010
184
EBITDA(2) US$ (million)


0
25
50
75
100
125
150
175
200
Unaudited 1H 2011
139
Proforma 1H 2010
113
Profit attributable to shareholders US$ (million)

CHAIRMAN'S STATEMENT

I am pleased to report that Sateri achieved solid financial results as well as material progress in executing our strategic plans despite the challenging and volatile market conditions of the first half of 2011. We continue to expand key portions of our business platform, which combines renewable, cost-competitive resource assets upstream in Brazil, a technologically-sophisticated and energy-efficient producer of intermediate products midstream and a strongly positioned supplier downstream in the rapidly growing Chinese consumer market. We believe this integrated business model — unique in our industry — combined with our focus on expanding into specialty products will enable us to benefit from greater margins, experience less volatility and achieve more predictable financial results, particularly after the completion of our downstream expansion in Fujian, China anticipated in the first half of 2013.

Solid results despite challenging and volatile industry conditions

During the first half of 2011, the standard grades of our products have seen significant price and demand volatility. The market prices of our intermediate product, dissolving wood pulp ("DWP"), ranged from US$1,700 to US$2,600 per metric ton and of our downstream product, viscose staple fiber ("VSF"), ranged from US$2,400 to US$3,700 per metric ton. The demand for standard grades of our products also fluctuated significantly during this period due to seasonal de-stocking and inventory management policies implemented by our DWP customers.

In contrast, the pricing and demand for our specialty products remained stable during this same period with specialty DWP prices hovering at approximately US$1,700 per metric ton.

I am pleased to report that Sateri achieved a 9% increase in revenues to US$384 million for the first half of 2011 compared to the same period last year. EBITDA remained robust, rising 13% to US$208 million. Profit attributable to shareholders grew 22% to US$139 million, producing earnings per share of US$0.04. These figures exclude the results from the DP Macao trading business, which was disposed of last September. Our balance sheet and liquidity position remains solid as we held US$306 million of cash and cash equivalents against total debt of US$621 million at 30 June 2011.

Future Prospects

While global macroeconomic prospects for the second half of 2011 are likely to remain challenging, we remain cautiously optimistic that Sateri is well positioned to tackle the challenges that lie ahead.

Our products are highly pure, natural, hypoallergenic and biodegradable and are the key ingredients to add product attributes that allow our customers to differentiate and improve their products, making them in turn, more competitive and more profitable. Our customers span five major sectors — fashion, cosmetics and accessories; consumer disposables; pharmaceutical and surgical products; technical industrial products; and specialty food — all of which are consumer-driven industries fueled by continued population growth, rising disposable income in emerging markets, increasing use of natural and green products and ongoing technological innovation. Given the breadth of our customer base as well as the differentiated attributes our products can provide, we believe the fundamental demand for our products will remain strong.

During the second half of 2011, Sateri will benefit from the de-bottlenecking and capacity expansions that were completed during the first half of the year. Midstream, our DWP capacity in Brazil increased from 465,000 to 485,000 metric tons annually, and downstream, our VSF capacity in Jiangxi, China increased from 130,000 to 160,000 metric tons annually. We continued to progress towards the completion of our new downstream facility in Fujian, China, which will be capable of producing both standard and specialty fibers.

We will continue the initiatives laid out in our strategic plan which focuses on creating a business platform that is fully integrated with balanced production capacities throughout the value chain, and which has a significant share of the specialty markets. Sateri will also continue to focus on operational improvements to extract greater efficiencies and value in every aspect of our business. The Company will continue investing in people and will deepen and broaden our team to build a world-class company.

Finally, the Board of Directors will continue our adoption of 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, management, staff and other stakeholders.

John Jeffrey Ying
Chairman
Hong Kong, 19 August 2011

"Given the breadth of our customer base as well as the differentiated attributes our products can provide, we believe the fundamental demand for our products will remain strong."

CORPORATE INFORMATION

Board of Directors

Independent Non-Executive Directors:

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

Executive Director:

Will Hoon Wee Teng (Chief Executive Officer)

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

Ngai Kit Fong

Authorised Representatives

Will Hoon Wee Teng
Ngai Kit Fong

Registered Office

Clarendon 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

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.

Singapore

ABN AMRO Bank N.V.

Auditor

Deloitte Touche Tohmatsu

Head Office

23rd Floor, East Tower
Zhong Rong Heng Rui International Plaza
No. 620 Zhang Yang Road
Pudong
Shanghai 200122
The People's Republic of China

Place of Business in Hong Kong Registered under Part XI of the Companies Ordinance

2709 Gloucester Tower
The Landmark
15 Queen's Road
Central
Hong Kong

MANAGEMENT DISCUSSION AND ANALYSIS

Operational Review

In the first half of 2011, the Group continued to make solid progress in building on its successfully integrated business platform, which connects fast growing tree plantations in Brazil, with a rapidly expanding consumer market in China.

The Group operates a highly cost competitive and profitable business from its integrated platform, which generates industry-leading margins, and provides enhanced stability in earnings even during times of market volatility.

Upstream in Brazil, the Group has approximately 150,000 hectares of captive timberland, of which approximately 84,000 hectares are planted with fast-growing Eucalyptus trees. These supply the state-of-the-art Bahia Specialty Cellulose mill, where the production capacity of dissolving wood pulp ("DWP") has recently increased to 485,000 metric tons per year.

Downstream in China, the Group owns a viscose staple fiber ("VSF") mill in Jiangxi Province with a recently expanded production capacity of 160,000 metric tons per year, and continues to invest in a greenfield VSF facility in Putian, Fujian Province, China, with a target production capacity of 200,000 metric tons per year when fully operational. The Group's DWP production in Brazil is sold to third parties globally, and also to its downstream VSF business in China.

For the six months ended 30 June 2011, the Group reported total revenue of US$384 million, up by 9% on a like-for-like basis (excluding the results from the DP Macao trading business which was disposed of by the Group on 30 September 2010). EBITDA[1] increased by 13% to US$208 million in the first half of 2011 from US$184 million in the first half of 2010.

The Group benefited in the first quarter of 2011 from the continuing strength of consumer demand in China, with prices for rayon grades DWP and VSF climbing to record highs. During the second quarter of 2011 the impact of tightened monetary policy in mainland China and the global economic slowdown and uncertainties led to steep declines from these record prices. Nevertheless, the average selling price ("ASP") for DWP and VSF over the first half of 2011 rose by 34% and 23% to US$1,921 and US$3,005 per metric ton respectively, compared to US$1,435 and US$2,448 during the first half of 2010.

Profit attributable to shareholders for the period increased by 22% to US$139 million from US$113 million, on a like-for-like basis. Earnings per share, on a consolidated basis, decreased to US$0.04 from US$0.06 in the first six months of 2010, but excluding the results from the DP Macao trading business disposed of by the Group in September 2010, earnings per share remained steady at US$0.04.

[1] EBITDA, or earnings before interest, tax, depreciation and amortization, is 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 of forestation and reforestation assets and increase in fair value of forestation and reforestation assets.

Segmental Analysis

Segment results

For the period ended 30 June 2011 (unaudited)

	Manufacture and sales of DWP US$'000	Manufacture and sales of VSF US$'000	Segment total US$'000	Elimination US$'000	Consolidated US$'000
Segment revenue					
External sales	**217,626**	**166,870**	**384,496**	**—**	**384,496**
Inter-segment sales	**95,005**	**—**	**95,005**	**(95,005)**	**—**
Total	**312,631**	**166,870**	**479,501**	**(95,005)**	**384,496**
Segment profit *(Note)*	**148,719**	**(5,688)**	**143,031**	**(27,821)**	**115,210**

For the period ended 30 June 2010 (audited)

	Manufacture and sales of DWP US$'000	Manufacture and sales of VSF US$'000	Segment total US$'000	Elimination US$'000	Consolidated US$'000
Segment revenue					
External sales	276,750	75,391	352,141	—	352,141
Inter-segment sales	30,803	—	30,803	(30,803)	—
Subtotal	307,553	75,391	382,944	(30,803)	352,141
DP Macao trading revenue					
External sales	88,721	—	88,721	—	88,721
Inter-segment sales	3,120	—	3,120	(3,120)	—
Subtotal	91,841	—	91,841	(3,120)	88,721
Total	399,394	75,391	474,785	(33,923)	440,862
Segment profit *(Note)*	117,472	9,075	126,547	(812)	125,735
DP Macao trading profit	51,862	—	51,862	—	51,862
Total	169,334	9,075	178,409	(812)	177,597

Note: Segment profit 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 taxation.

Dissolving Wood Pulp

The Group achieved a record high ASP for DWP in the first quarter of the year, but increasing headwinds in the second quarter resulted in lower ASP to produce lower revenue, yet higher segment profit in the first half of 2011, relative to the first half of 2010.

The Group's Bahia Specialty Cellulose mill underwent a planned regulatory maintenance shutdown in the first half of 2011, and did not initially run at its production design capacity after the restart. This contributed to lower production volume and higher cost per ton production than expected in the first half of 2011. Nevertheless, during the six-month period ended 30 June 2011, the Group successfully expanded production capacity at the mill from 465,000 metric tons to 485,000 metric tons per annum as at 30 June 2011. By extracting further economies of scale, the Group believes that the increased production capacity of DWP will reduce its per unit production costs in the second half of 2011 and beyond.

The volume of DWP sold by the Group to third parties decreased by 41% to 113,282 metric tons in the first half of 2011, from 192,820 metric tons in the first half of 2010, partly as a result of increased intercompany sales of DWP to the Group's VSF business. DWP sold to third parties comprised 68,487 metric tons of rayon grades and 44,795 metric tons of specialty grades. The sales of specialty grades were significantly higher than in the first half of 2010 (19,281 metric tons), consistent with the Group's long term strategy to increase its exposure to this business, in view of its lower cyclicality and superior positioning within the value chain. The Group's inventories rose in the second quarter, in light of a weaker sales environment caused primarily by tightening macro-economic conditions in its core Chinese market, and destocking policies adopted by its customers.

As a result, revenue generated by external sales from the Group's DWP business segment correspondingly decreased by 21% to US$218 million for the first half of 2011 from US$277 million in the first half of 2010, excluding revenue from the DP Macao trading business disposed of in September 2010. However, like-for-like segment profit rose to US$149 million during the period, from US$117 million in the first half of 2010, due to the rise in ASP for DWP, which rose by 34% to US$1,921 per metric ton in the first half of 2011 from US$1,435 per metric ton in the first half of 2010.

During the period, the Group sold the majority of its rayon grades DWP output in China, and almost all of its specialty grades DWP to customers outside China.

Viscose Staple Fiber

Measured on a stand-alone basis, the financial performance of the Group's VSF business segment deteriorated in the first half of 2011, relative to the first half of 2010. The primary reason for this was the significant increase during the period in the cost of DWP, the major raw material required to produce VSF. However, viewed on a consolidated basis, the Group's financial performance benefited from the high prices for DWP, as set out above. The Group believes that greater consolidated earnings stability across all business cycles is a key benefit arising from its integrated business model, and is committed to the further development of this business strategy going forward.

The Group's policy is to source DWP at optimal prices for its VSF production internally, and from third parties. Consequently, when DWP prices are high, profitability of the Group's VSF business segment is generally low, as the Group is less likely to pass on all the DWP input cost increase to its VSF customers. Conversely, when DWP prices fall, the profitability of the Group's VSF business segment is generally higher.

In the first half of 2011, production capacity of VSF at Sateri Jiangxi was increased to 160,000 metric tons per year as at 30 June 2011, from 130,000 metric tons as at the end of 2010. Similar to its DWP business, the Group believes that increased production capacity at Sateri Jiangxi will assist reduction of its VSF production cost per unit in the future.

The sales volume for VSF increased by 80% to 55,532 metric tons in the first half of 2011 from 30,801 metric tons in the first half of 2010. ASP for VSF rose by 23% to US$3,005 per metric ton in the first half of 2011, from US$2,448 per metric ton in the first half of 2010, although as for DWP, declined in the second quarter of 2011 from record levels in the first quarter.

Revenues from the Group's VSF business segment increased by 121% to US$167 million in the first half of 2011, compared to US$75 million in the first half of 2010, due to increased production volume after the completion of two additional production lines in the second half of 2010, and to the increase in ASP for VSF.

The segment result for the VSF business, measured on a stand-alone basis, was a loss of US$6 million in the first half of 2011, compared to a profit of US$9 million in the first half of 2010. The loss was mainly attributable to the increased cost of DWP used during the period, which outweighed the increase in sales volume and ASP, and hence revenue for VSF business.

DP Macao — Trading Business

The Group disposed of DP Macao, an entity engaged in trading of paper pulp and DWP, on 30 September 2010. This disposal was in line with the Group's continuing business strategy to focus on producing and selling its own DWP and VSF, and not to engage in the trading of paper pulp and DWP. Following the disposal, the Group now sells DP Macao's DWP as its agent, and earns a fixed commission of 2% on such sales.

During the six-month period from 1 January 2011 to 30 June 2011, the Group earned commission on such sales of approximately US$2 million, compared to a trading profit of US$52 million in the first half of 2010.

Costs and Other Income

Cost of Sales

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

The Group's cost of sales increased by 30% to US$216 million in the first half of 2011 from US$166 million in the first half of 2010, excluding DP Macao. The increase was partly due to the effect of increased input costs including wood, chemicals and energy, and partly due to the appreciation of the Brazilian Reais and Chinese Renminbi against the US dollar during the period. However, the Group's hedging strategy mitigated the effects of non-US dollar cost currency appreciation during the period to the extent reflected in Changes in Fair Value of Derivative Financial Instruments and Gains on Settlement of Derivative Financial Instruments, as described below.

Selling and Distribution and Administrative Expenses

Selling and distribution expenses decreased by 28% to US$19 million in the first half of 2011, primarily as a result of the decreased transportation charges due to lower sales volumes from the Group's Bahia Specialty Cellulose mill compared with that of the same period in 2010. Administrative expenses decreased slightly to US$26 million in the first half of 2011 compared with that of the same period in 2010.

Finance Costs

The Group's finance costs increased by 77% to US$22 million in the first half of 2011 from US$12 million in the first half of 2010. The increase was mainly attributable to a year-on-year increase in interest costs incurred on bank borrowings as a result of the draw-down of the Group's US$470 million syndicated loan facility in November 2010.

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

The Group registered a combined realized and unrealized gain on derivative instruments of US$23 million in the first half of 2011, compared with US$0.3 million in the first half of 2010, primarily due to the appreciation of the Brazilian Reais against the US Dollar during the period ended 30 June 2011. The Brazilian Reais against US Dollar exchange rate appreciated from R$1.80 to US$1.00 as at 30 June 2010 to R$1.67 to US$1.00 as at 31 December 2010, and further to R$1.57 to US$1.00 as at 30 June 2011. The Group does not apply hedge accounting under IAS39 and therefore such amounts are recognized as profit or loss in the period to which they relate.

The increase in costs incurred in Brazil, measured in US Dollar terms, was therefore offset to the above extent by the hedging policies employed by the Group during the period.

Forestation and Reforestation Assets

Fair value of forestation and reforestation assets is estimated using a discounted cash flow model with reference to estimates in growth, harvest, sales prices and costs. The volume of forest harvested and recoverable as estimated by the Group is based on statistical information and data obtained from physical measurements and other information gathering techniques. The Group assumes a six-year harvest cycle of trees within this model. Such information gathered and data used requires, to a certain extent, estimates and judgments in determining the amount of forest to be harvested and recoverable in the future. If future expectations at any given period end differ from original estimates, the difference will impact the carrying amount of forestation and reforestation assets in the balance sheet, and be taken as a profit or loss in the period.

The Group recognized an increase in fair value of forestation and reforestation assets of approximately US$4 million in the first half of 2011, compared with a decrease of US$0.5 million in 2010, was primarily due to the strengthening of the Brazilian Reais against the US Dollar during the period, and an adjustment of expectations of the likely cost of wood in the future, arising from an inflation adjustment of the wood reference price.

Capital Expenditure and Use of Proceeds from Initial Public Offering

Total capital expenditure incurred was approximately US$139 million in the first half of 2011 compared to US$55 million in the first half of 2010. Of the US$139 million, US$89 million was incurred in Brazil, including capital expenditure relating to the addition of a further 20,000 metric tons of capacity to reach a total of 485,000 metric tons of annual capacity at the Bahia Specialty Cellulose plant.

The remaining capital expenditure was incurred in China. At Sateri Jiangxi, the Group incurred US$18 million of capital expenditure during the period, including to deliver the addition of a further 30,000 metric tons of capacity to 160,000 metric tons annual production capacity.

The Group has continued the construction of its new VSF mill at Fujian, and incurred US$32 million of capital expenditure on this project during the period, of an estimated US$435 million set out in the Group's prospectus on its Initial Public Offering ("IPO"). As at 30 June 2011, the Group had approximately US$40 million of capital expenditure relating to this project contracted but not provided for in its financial statements.

Of the US$452 million raised from the Group's IPO, including approximately US$38 million from the exercise of the over-allotment shares in January 2011, the Group had spent approximately US$71 million as at 30 June 2011, with the remaining amount anticipated to be used for future capital expenditure.

Financial Position and Liquidity

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

As at 30 June 2011, the Group's cash and cash equivalents (including bank balances and cash and pledged bank deposits) amounted to US$306 million, compared with US$436 million as at 31 December 2010. Net debt as at 30 June 2011 amounted to US$315 million, compared with US$228 million as at 31 December 2010. The Group's net gearing ratio (which is calculated by dividing (i) long-term and short-term borrowings minus pledged bank deposits, bank balances and cash by (ii) total equity (including non-controlling interests)) increased modestly from 15% as at 31 December 2010 to 19% as at 30 June 2011.

As at 30 June 2011, the Group had total banking facilities available for draw-down of US$231 million.

As at 30 June 2011, the Group held inventories of US$154 million, compared with US$89 million as at 31 December 2010. Trade and bills receivables as at 30 June 2011 totalled US$131 million, compared with US$76 million as at 31 December 2010. Trade and other payables reduced to US$122 million as at 30 June 2011, compared with US$156 million as at 31 December 2010. The current ratio as at 30 June 2011 was 1.9, compared with 1.8 as at 31 December 2010.

Charges on Assets

As at 30 June 2011, certain assets of the Group with an aggregate carrying value of US$1,323 million were pledged with banks for banking facilities used by our subsidiaries.

Treasury Policies and Risk Management

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

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

Contingent Liabilities

We have made certain estimates for potential litigation costs based upon consultation with legal counsel and consider that no significant loss will be incurred beyond the amounts provided as of 30 June 2011. Actual costs 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.

Events after the Balance Sheet Date

In July 2011, the Company granted restricted share units ("RSU") in respect of a total of 1,477,276 ordinary shares pursuant to the Post-IPO RSU Scheme to certain key management personnel.

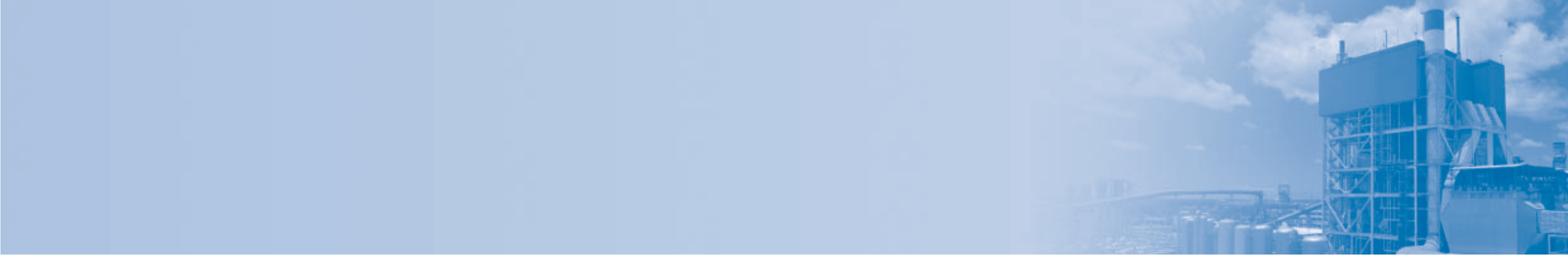
Outlook

While global macroeconomic prospects for the second half of 2011 are likely to remain challenging, the Group is cautiously optimistic that it is well positioned to tackle the challenges that lie ahead.

Although 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, the Group believes that it will be well placed amongst its competitors due to its integrated business platform and industry-leading margins.

As part of its long term business strategy, the Group continues to invest in its greenfield project in Fujian. As a result of certain licensing delays for Phase 2 of this project outside of the Group's control, the Group now anticipates that the plant will be operational in the first half of 2013, and that commercial production will be ramped up subsequently. Once completed, it is targeted to add a further 200,000 metric tons of annual capacity for the Group's overall VSF business, giving a combined 360,000 metric tons of annual capacity to increase the integration between its DWP and VSF business. In addition, the Group will continue to explore the feasibility of greenfield or brownfield expansions, particularly specific opportunities in Jiangsu province and in Chongqing, China, and/or acquisition opportunities, if they meet its strategic and financial return targets.

The Group is making good progress in terms of its long term strategy to increase its exposure to the specialty grades DWP business, in view of its lower cyclicality and superior positioning within the value chain. In the first half of 2011, the Group sold 44,795 metric tons of specialty grades DWP, compared with 19,281 metric tons in the first half of 2010. The Group continues to broaden its customer base in North America and Europe, and plans to further increase its market share in China, North America and Europe in its targeted segments.



CORPORATE GOVERNANCE

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

Corporate governance practices adopted by the Company during the first six months of 2011 are in line with those practices set out in the Company's 2010 Annual Report.

The Board

As at 30 June 2011, the composition of the Board of the Company was as follows:

Independent Non-Executive Directors:

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

Executive Director:

Will Hoon Wee Teng (Chief Executive Officer)

Non-Executive Directors:

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

The roles of the Chairman and Chief Executive Officer are segregated. The Chairman 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 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 effective implementation of the strategies and policies adopted by the Board.

The Board is responsible for setting up the overall strategy as well as reviewing the operation and financial performance of the Group. The Board held four meetings to date in 2011 (with an average attendance rate of approximately 94%).

Save as disclosed below, there were no substantial changes to the information of Directors as disclosed on pages 7 to 11 of the 2010 Annual Report and on the Company's website. The changes in the information of Directors are set out below pursuant to Rule 13.51B(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"):

Name of Director	**Changes**
David Yu Hon To	The company name of "Hong Kong Energy (Holdings) Limited" of which he is an independent non-executive director has been changed to "China Renewable Energy Investment Limited" on 14 June 2011
Jeffrey Lam Kin Fung	Appointed as a member of the board of Airport Authority Hong Kong and a member of the Steering Committee on the Community Care Fund
John Jeffrey Ying	Retired as a director and vice chairman of Mecox Lane Limited, a company listed on the US NASDAQ exchange, on 20 May 2011
Will Hoon Wee Teng	Appointed as director of various subsidiaries of the Company during the period

Save as the information disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules. The changes are updated in each Director's biography on the Company's website.

Board Committees

The Board has established the following Committees (all chaired by Independent Non-executive Director or Non-executive Director) with defined terms of reference (available to shareholders upon request), which are of no less exacting terms than those set out in the Code on Corporate Governance Practices of the Listing Rules: the Remuneration Committee, the Audit Committee, the Nomination Committee and the Executive Committee.

Remuneration Committee

The Remuneration Committee comprises the following members:

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

The Remuneration Committee met once to date in 2011 (with a 100% attendance rate) to consider and review, inter alia, the Company's remuneration policy and structure for all Executive Directors, Non-executive Directors and senior management and remuneration packages of all the Executive Directors and senior management for 2011.

Audit Committee

The Audit Committee comprises the following members:

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

The Audit Committee met three times to date in 2011 (with a 100% attendance rate) to review with senior management, the Company's internal auditor and external auditor the Group's significant internal controls, risk management and financial matters as set out in the Audit Committee's written terms of reference. The Audit Committee's review covers the audit plans and findings of the internal auditor and external auditor, external auditor's independence, the Group's accounting principles and practices, Listing Rules and statutory compliance, internal controls, risk management, financial reporting matters and the adequacy of resources, qualification and experience of staff of the Group's accounting and financial reporting function, and their training programs and budget.

Nomination Committee

The Nomination Committee comprises the following members:

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

No meeting of the Nomination Committee was held to date in 2011.

Executive Committee

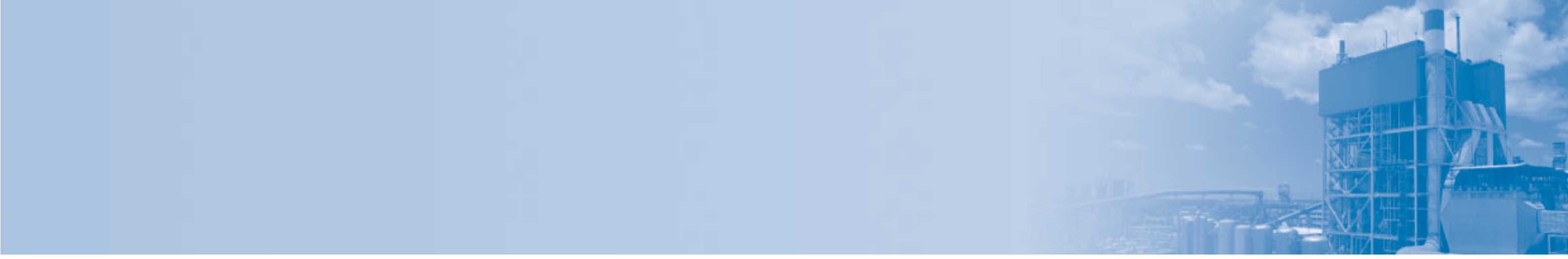
The Executive Committee comprises the following members:

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

After the adoption of the terms of reference of the Executive Committee on 24 March 2011, the Executive Committee met three times in the first six months of 2011 to discuss potential projects and human resource issues and to review the operating performance and financial position of the Group.

For duties of the Board Committees, please refer to pages 38 to 41 of the 2010 Annual Report of the Company.

* *Independent Non-executive Director*



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 engaged an external consultant to conduct a comprehensive review of the effectiveness of the system of internal control of the Group covering all material financial, operational and compliance controls and risk management functions. The findings were reported to both the Audit Committee and the Board. The Board will continue to identify, evaluate and manage the significant risks faced by the Group and to enhance the internal control system of the Group.

Model Code

The Board has adopted its own Guidelines on Securities Transactions 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 the Directors confirmed that they have complied with the required standards set out in the Guidelines on Securities Transactions and the Model Code regarding their securities transactions during the six months ended 30 June 2011.

Code on Corporate Governance Practices

The Company has adopted its own Corporate Governance Manual. Throughout the six months ended 30 June 2011, the Company has met the provisions of the Corporate Governance Manual and, in the opinion of the Board, has complied with all the code provisions set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Listing Rules.

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

Review of Unaudited Financial Statements

This interim report with unaudited consolidated financial statements for the six months ended 30 June 2011 has been reviewed by the Audit Committee of the Company.

Restricted Share Unit Schemes and Share Option Scheme

On 8 November 2010, 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" and together "RSU Schemes"). The purpose of the RSU Schemes 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 of the Company.

As of 30 June 2011, RSUs in respect of 8,165,026 underlying shares have been granted to 18 grantees pursuant to the Pre-IPO RSU Scheme, of which two of the grantees are Directors.

On 5 July 2011, a total of 1,477,276 RSUs were granted by the Company to various members of the senior management of the Group pursuant to the Post-IPO RSU Scheme, where one grantee was a Director.

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 by the Company pursuant to the Share Option Scheme.

For more information on the RSU Schemes and the Share Option Scheme, please refer to pages 46 to 49 and 133 to 138 of the 2010 Annual Report of the Company.

Investor Relations and Communications

The Group maintains continuous communications with institutional shareholders, analysts and the media and ensures fair disclosure through regular meetings, conference calls and investment conferences. The Group also maintains investor relations websites (www.sateri.com and www.irasia.com/listco/hk/sateri) to disseminate information to investors and shareholders on a timely basis.

Employees

As of 30 June 2011, the Group had total number of employees of 1,894. Total staff costs for the Group for the six months ended 30 June 2011 were US$26.7 million, compared with US$21.2 million for the same period in 2010. Remuneration for employees is based upon their qualification, experience, job nature, performance and market conditions.

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 may be granted share options to subscribe for shares in the Company as well as RSUs in accordance with the terms and conditions of the Share Option Scheme and RSU Schemes.

OTHER INFORMATION

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

As at 30 June 2011, the interests and short positions of the Directors and Chief Executive of the Company in the shares, underlying shares of equity derivatives and debentures of the Company or its associated corporations (as defined by Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register of directors' and chief executive's interests and short positions required to be maintained under section 352 of the 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	0.028
Will Hoon Wee Teng	Beneficial owner	3,201,970	0.094

Note:

(1) These represent Shares underlying the Restricted Share Units ("the RSUs") granted to the relevant Directors pursuant to the Pre-IPO RSU Scheme. The relevant Share interests held by the Directors are subject to vesting conditions.

(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
Total	4,162,561	

On 5 July 2011, RSUs in respect of 389,000 underlying shares were granted to Will Hoon Wee Teng, an Executive Director and Chief Executive Officer of the Company, pursuant to the Post-IPO RSU Scheme, where 50% will be vested on 30 April 2012 and the remaining 50% will be vested on 30 April 2013.

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

Save as disclosed above, as at 30 June 2011, so far as was known to the Directors, no interests and short positions were held by any Director or Chief Executive of the Company or their respective associates in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code or which were required pursuant to Section 352 of the SFO to be recorded in the register referred to therein.

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

As at 30 June 2011, so far as was known to the Directors, the following persons, not being a Director or 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 the SFO as follows:

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	83.83%
Fiduco Trust Management AG ("Fiduco")[1][2]	Interest in a controlled corporation	2,863,496,750	83.83%
Mr. Sukanto Tanoto ("Mr. Tanoto")	Person who set up a discretionary trust	2,863,496,750	83.83%

Note:

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

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

Save as disclosed above, so far as known to the Directors, as at 30 June 2011, no other person had interests or short positions in the Shares and underlying Shares of the Company which were required to be disclosed to the Company or the Stock Exchange under Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

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

During the six months ended 30 June 2011, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

Interim Dividend

The Directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2011. The Group will review its dividend policy and the possibility of a final dividend for the full 2011 financial year in light of its financial position, the prevailing economic climate and expectations about the future macroeconomic environment, business performance and future investment opportunities, prior to the announcement of the Group's 2011 annual results.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

Deloitte.
德勤

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

INTRODUCTION

We have reviewed the interim financial information set out on pages 21 to 45, which comprises the condensed consolidated statement of financial position of Sateri Holdings Limited (the "Company") and its subsidiaries as of 30 June 2011 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standards ("IAS") 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Accounting Standards Board. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
19 August 2011

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

	NOTES	Six months ended 30 June 2011 US$'000 (unaudited)	2010 US$'000 (audited)
Revenue	3	**384,496**	440,862
Cost of sales	4	**(215,887)**	(198,208)
Gross profit		**168,609**	242,654
Selling and distribution expenses		**(18,918)**	(26,342)
Administrative expenses		**(26,062)**	(28,184)
Other income and gains	5	**9,237**	1,947
Commission income from a related party		**2,020**	—
Finance costs		**(21,773)**	(12,327)
Changes in fair value of derivative financial instruments		**16,852**	233
Gain on settlement of derivative financial instruments		**6,236**	49
Increase (decrease) in fair value of forestation and reforestation assets		**4,136**	(524)
Imputed interest expense on advance from a related party		**—**	(2,877)
Profit before tax		**140,337**	174,629
Income tax expense	6	**(2,609)**	(8,065)
Profit for the period	7	**137,728**	166,564
Profit for the period attributable to:			
Owners of the Company		**138,540**	165,064
Non-controlling interests		**(812)**	1,500
		137,728	166,564
Earnings per share			
— basic (US$)	9	**0.04**	0.06
— diluted (US$)	9	**0.04**	N/A
Other comprehensive income (expense)			
Exchange differences arising on translation of foreign currencies		**5,197**	541
Loss on cash flow hedge		**(4,816)**	—
		381	541
Total comprehensive income for the period		**138,109**	167,105
Total comprehensive income attributable to:			
Owners of the Company		**138,982**	165,484
Non-controlling interests		**(873)**	1,621
		138,109	167,105

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2011

	NOTES	30.6.2011 US$'000 (unaudited)	31.12.2010 US$'000 (audited)
Non-current assets			
Forestation and reforestation assets	10	**202,025**	192,192
Property, plant and equipment	10	**1,446,580**	1,384,070
Prepaid lease payments — non-current portion	10	**16,932**	7,340
Investment properties		**1,871**	1,880
Intangible assets		**725**	775
Derivative financial instruments		**—**	4,346
Other long-term assets	11	**67,670**	50,913
Deferred tax assets	12	**119,645**	111,576
		1,855,448	1,753,092
Current assets			
Inventories		**154,383**	88,636
Trade, bills and other receivables	13	**175,748**	108,736
Bills receivables discounted		**15,165**	39,452
Derivative financial instruments		**24,187**	21,521
Prepaid lease payments — current portion		**451**	153
Pledged bank deposits		**10,692**	8,071
Bank balances and cash		**295,115**	427,794
		675,741	694,363
Current liabilities			
Trade and other payables	14	**121,791**	156,136
Advance drawn on bills receivables discounted		**15,165**	39,452
Income tax payable		**28,703**	28,424
Bank borrowings — due within one year	15	**183,063**	153,816
Obligations under finance leases — due within one year		**1,728**	2,165
		350,450	379,993
Net current assets		**325,291**	314,370
Total assets less current liabilities		**2,180,739**	2,067,462

	NOTES	30.6.2011 US$'000 (unaudited)	31.12.2010 US$'000 (audited)
Non-current liabilities			
Bank borrowings — due after one year	15	**437,494**	510,483
Derivative financial instruments		**470**	—
Deferred tax liabilities	12	**80,385**	71,623
Obligations under finance leases — due after one year		**1,245**	1,646
		519,594	583,752
		1,661,145	1,483,710
Capital and reserves			
Share capital	16	**170,794**	168,441
Share premium and reserves		**1,455,528**	1,279,573
Equity attributable to owners of the Company		**1,626,322**	1,448,014
Non-controlling interests		**34,823**	35,696
		1,661,145	1,483,710

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011

	Attributable to owners of the Company											
	Ordinary shares US$'000	Preference shares US$'000	Share premium US$'000	Special reserve US$'000 (Note a)	Other non-distributable reserves US$'000 (Note b)	Translation reserve US$'000	Cashflow hedging reserve US$'000	Awarded shares compensation reserve US$'000	Accumulated profits US$'000	Total US$'000	Non-controlling interests US$'000	Total US$'000
At 1 January 2010 (audited)	—	409,009	436,597	28,698	3,423	19,049	—	—	257,581	1,154,357	31,177	1,185,534
Profit for the period	—	—	—	—	—	—	—	—	165,064	165,064	1,500	166,564
Exchange difference arising on translation	—	—	—	—	—	420	—	—	—	420	121	541
Total comprehensive income for the period	—	—	—	—	—	420	—	—	165,064	165,484	1,621	167,105
At 30 June 2010 (audited)	—	409,009	436,597	28,698	3,423	19,469	—	—	422,645	1,319,841	32,798	1,352,639
At 1 January 2011 (audited)	168,441	—	388,734	277,394	3,423	24,017	4,346	197	581,462	1,448,014	35,696	1,483,710
Profit for the period	—	—	—	—	—	—	—	—	138,540	138,540	(812)	137,728
Exchange difference arising on translation	—	—	—	—	—	5,258	—	—	—	5,258	(61)	5,197
Loss on cash flow hedge	—	—	—	—	—	—	(4,816)	—	—	(4,816)	—	(4,816)
Total comprehensive income for the period	—	—	—	—	—	5,258	(4,816)	—	138,540	138,982	(873)	138,109
Issue of new shares (Note 16)	2,353	—	37,524	—	—	—	—	—	—	39,877	—	39,877
Cost of issuing new shares	—	—	(1,328)	—	—	—	—	—	—	(1,328)	—	(1,328)
Awarded shares compensation reserve	—	—	—	—	—	—	—	777	—	777	—	777
At 30 June 2011 (unaudited)	170,794	—	424,930	277,394	3,423	29,275	(470)	974	720,002	1,626,322	34,823	1,661,145

Notes:

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

b. Other non-distributable reserves represent statutory reserves required to be appropriated from net profit after tax of subsidiaries established in the People's Republic of China (the "PRC") under the relevant laws and regulations at an amount determined by the respective boards of directors of the subsidiaries annually, but must not be less than 10% of the net profit after tax, until such reserves reach 50% of the registered capital of the relevant subsidiaries. The reserve may be used to offset accumulated losses and/or converted to increase capital of the relevant subsidiaries subject to certain restrictions set out in the Company Law of the PRC. No appropriation was made for the six months ended 30 June 2011 and 2010.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2011

	Six months ended 30 June	
	2011	2010
	US$'000	US$'000
	(unaudited)	(audited)
NET CASH FROM OPERATING ACTIVITIES	**33,561**	268,682
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(99,155)**	(40,948)
Additions of forestation and reforestation assets	**(20,159)**	(14,244)
Deposit paid for acquisition of a piece of land (included in other long-term assets)	**(10,683)**	—
Additions to prepaid lease payments	**(8,308)**	—
Increase in pledged bank deposits	**(2,621)**	(11,015)
Additions of unlisted investments (included in other long-term assets)	**(1,834)**	(1,672)
Interest received	**1,211**	141
Proceeds from disposal of property, plant and equipment	**56**	2,453
Advance to a related party	**—**	(164,361)
NET CASH USED IN INVESTING ACTIVITIES	**(141,493)**	(229,646)
FINANCING ACTIVITIES		
Repayments of bank borrowings	**(109,835)**	(113,365)
Interest paid	**(21,773)**	(12,327)
Repayments of obligations under finance leases	**(838)**	(1,262)
New bank borrowings raised	**64,170**	87,934
Proceeds from issue of new shares, net of share issue costs	**38,549**	—
NET CASH USED IN FINANCING ACTIVITIES	**(29,727)**	(39,020)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(137,659)**	16
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**4,980**	(1,444)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**427,794**	59,388
CASH AND CASH EQUIVALENTS AT 30 JUNE represented by bank balances and cash	**295,115**	57,960

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listed Rules") and with International Accounting Standard ("IAS") 34 "Interim Financial Reporting".

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 "Majority Shareholder").

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

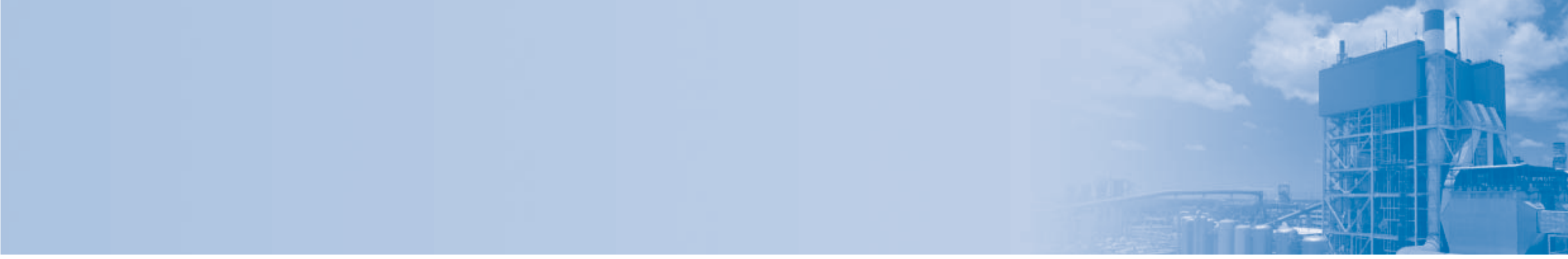
The Group resulting from the above mentioned reorganization is regarded as a continuing entity. Accordingly, the condensed consolidated financial statements of the Group have been prepared using the principles of merger accounting as if the group structure under the group reorganization had been in existence throughout the six months ended 30 June 2010 and 2011, or since their respective dates of incorporation/establishment, where there is a shorter period.

2. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for the forestation and reforestation assets which are measured at fair value less estimated costs to sell, and derivative financial instruments which are measured at fair value, as appropriate.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2011 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised IFRSs") issued by the International Accounting Standards Board (the "IASB").



2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The application of above new and revised IFRS in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and disclosures set out in these condensed consolidated financial statements.

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

IFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
IFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets[1]
IFRS 9	Financial Instruments[2]
IFRS 10	Consolidated Financial Statements[2]
IFRS 11	Joint Arrangements[2]
IFRS 12	Disclosure of Interests in Other Entities[2]
IFRS 13	Fair Value Measurement[2]
IAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[4]
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[3]
IAS 19 (Revised 2011)	Employee Benefits[2]
IAS 27 (Revised 2011)	Separate Financial Statements[2]
IAS 28 (Revised 2011)	Investments in Associates and Joint Ventures[2]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2012
4 Effective for annual periods beginning on or after 1 July 2012

The directors of the Company anticipate that the application of other new and revised standards will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

Operating segments are 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 purposes, the Group is currently organised into the following major divisions:

(i) Wood plantation and manufacturing 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 reports 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.

3. SEGMENT INFORMATION (Continued)

Segment revenues and results

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

For the six months ended 30 June 2011 (unaudited)

	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	217,626	166,870	384,496	—	384,496
Inter-segment sales	95,005	—	95,005	(95,005)	—
Total	312,631	166,870	479,501	(95,005)	384,496
Segment profit	148,719	(5,688)	143,031	(27,821)	115,210
Unallocated income					3,805
Unallocated expenses					(1,766)
Changes in fair value of derivative financial instruments					16,852
Gain on settlement of derivative financial instruments					6,236
Profit before tax					140,337

Inter-segment sales are charged at prevailing market prices.

3. SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

For the six months ended 30 June 2010 (audited)

	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	365,471	75,391	440,862	—	440,862
Inter-segment sales	33,923	—	33,923	(33,923)	—
Total	399,394	75,391	474,785	(33,923)	440,862
Segment profit	169,334	9,075	178,409	(812)	177,597
Unallocated income					311
Unallocated expenses					(682)
Changes in fair value of derivative financial instruments					233
Gain on settlement of derivative financial instruments					49
Imputed interest expense on advance from a related party					(2,877)
Finance costs					(2)
Profit before tax					174,629

Inter-segment sales are charged at prevailing market prices.

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), imputed interest expense on advance from a related party, certain finance costs and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resources allocation and performance assessment.

3. SEGMENT INFORMATION (Continued)

Segment assets

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

At 30 June 2011 (unaudited)

	Manufacture and sales of cellulose products US$'000	Manufacture and sales of viscose staple fiber US$'000	Consolidated US$'000
Assets			
Segment assets	**1,658,544**	**695,843**	**2,354,387**
Derivative financial instruments			**24,187**
Unallocated bank deposits, bank balances and cash			**146,951**
Investment properties			**1,871**
Other unallocated assets			**3,793**
Consolidated total assets			**2,531,189**

At 31 December 2010 (audited)

	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

3. SEGMENT INFORMATION (Continued)

Geographical information

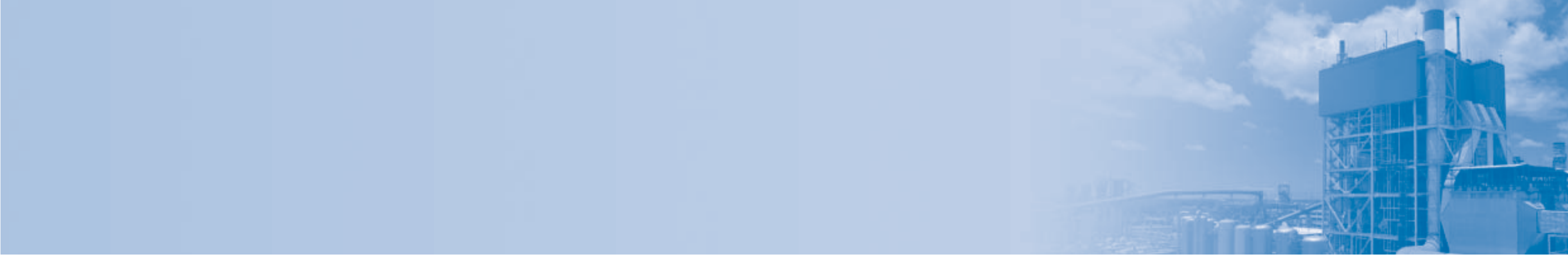
The Group's customers are mainly located in United States of America ("USA"), Brazil, the PRC, other Asian countries and Europe.

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

	Six months ended 30 June	
	2010	2010
	US$'000	US$'000
	(unaudited)	(audited)
America (primarily USA and Brazil)	**59,057**	26,595
Europe (primarily UK, Germany, Austria)	**60,938**	56,614
The PRC	**220,100**	337,742
Asia (excluding the PRC)	**44,401**	19,911
	384,496	440,862

4. COST OF SALES

	Six months ended 30 June	
	2011	2010
	US$'000	US$'000
	(unaudited)	(audited)
Wood	**33,249**	32,805
Pulp products	**45,082**	45,692
Chemicals	**37,543**	28,354
Conversion	**50,052**	46,473
Labor costs	**11,150**	11,421
Depreciation	**33,404**	31,767
Others	**5,407**	1,696
	215,887	198,208



5. OTHER INCOME AND GAINS

	Six months ended 30 June	
	2011	2010
	US$'000	US$'000
	(unaudited)	(audited)
Loss on disposal of property, plant and equipment	**(105)**	(491)
Rental income	**83**	86
Bank interest income	**1,211**	141
Foreign currency exchange gain	**7,296**	1,064
Service income from a related party	**—**	750
Others	**752**	397
	9,237	1,947

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2011	2010
	US$'000	US$'000
	(unaudited)	(audited)
The income tax expense comprises:		
Current tax:		
— Current period	**1,862**	8,203
Deferred taxation	**747**	(138)
	2,609	8,065

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, 2010 and 2011.

The EIT rate of Group's other subsidiaries in the PRC is 25% for the six months ended 30 June 2011 and 2010.

6. INCOME TAX EXPENSE (Continued)

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 30 June 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 which 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 terms effective from 2010.

At the end of the reporting period, the Brazilian Subsidiaries has unused tax losses of approximately US$319,091,000 (31 December 2010: US$289,630,000), available for offsetting against future profits. The unused tax losses of US$319,091,000 (31 December 2010: US$289,630,000) have been recognized as deferred tax assets. The unused tax losses may be carried forward indefinitely.

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 29.0675% (2010: 28.9725%) of the estimated profit for the six months ended 30 June 2011.

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 six months ended 30 June 2011 (2010: 18%).

7. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2011	2010
	US$'000	US$'000
	(unaudited)	(audited)
Profit for the period has been arrived at after charging:		
Staff costs	**25,314**	20,758
Retirement benefit scheme contributions	**581**	439
Awarded shares compensation	**777**	—
Total staff costs	**26,672**	21,197
Amortization of intangible assets	**50**	50
Release of prepaid lease payments	**26**	6
Depreciation of property, plant and equipment	**35,050**	32,795
Depreciation of investment properties	**53**	51
Decrease due to harvest of forestation and reforestation assets	**14,462**	13,702
Cost of inventories recognized as an expense (including repair and maintenance expense of approximately US$15,280,000 (six months ended 30 June 2010: US$7,086,000))	**215,887**	198,208

8. DIVIDENDS

No dividends were paid, declared or proposed during the reporting period. The directors do not recommend the payment of an interim dividend.

9. 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:

	Six months ended 30 June	
	2011	2010
	US$'000	US$'000
	(unaudited)	(audited)
Earnings for the purposes of basic and diluted earnings per share		
Profit for the period attributable to owners of the Company	**138,540**	165,064
Weighted average number of ordinary shares for the purpose of basic earnings per share	**3,415,362,300**	2,863,496,750
Effect of dilutive potential ordinary shares:		
Restricted share units	**3,882,024**	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**3,419,244,324**	2,863,496,750

The number of ordinary shares for the purpose of basic earnings per share for the period ended 30 June 2010 had been adjusted retrospectively assuming that the Reorganization has been effective from 1 January 2010 and accordingly, that the 2,863,496,750 ordinary shares of the Company which were in issue and outstanding immediately after the Reorganization (see Note 1) were issued and outstanding as at 1 January 2010. No diluted earnings per share was presented for the six months ended 30 June 2010 as there were no potential ordinary shares in issue.

10. MOVEMENTS IN FORESTATION AND REFORESTATION ASSETS/ PROPERTY, PLANT AND EQUIPMENT/PREPAID LEASE PAYMENTS

(a) At 30 June 2011 and 31 December 2010, the forestation and reforestation assets are stated at fair value less costs to sell of approximately US$202,025,000 (31 December 2010: US$192,192,000), with increase in fair value of approximately US$4,136,000 (six months ended 30 June 2010: decrease in fair value of approximately US$524,000) recognized in profit or loss for the period. No external valuation was performed by independent qualified professional valuers as of 30 June 2011 and 31 December 2010. The fair value of forestation and reforestation assets are based on the discounted cash flow valuation model assuming a six-year harvest cycle of the trees. Other than disclosed below, the principal valuation methodology and assumptions adopted by the Group at 30 June 2011 have no material changes from 31 December 2010:

— the reference wood price of Reais ("R") $33.30 (31 December 2010: R$32.28) (equivalent to US$21.21 and US$19.33) per cubic meter, based on the prices and terms under contracts entered into with local farmers during the six months ended 30 June 2011 and year ended 31 December 2010;

10. MOVEMENTS IN FORESTATION AND REFORESTATION ASSETS/PROPERTY, PLANT AND EQUIPMENT/PREPAID LEASE PAYMENTS (Continued)

— an exchange rate between US dollars and Reais (at US$1.00 = R$1.57 as at 30 June 2011 and at US$1.00 = R$1.67 as at 31 December 2010) which is determined as of the end of the respective reporting periods conducting the valuation.

(b) During the six months ended 30 June 2011, the Group acquired property, plant and equipment and prepaid lease payments of an aggregate amount of approximately US$106,030,000 (six months ended 30 June 2010: approximately US$30,850,000).

11. OTHER LONG-TERM ASSETS

	30.6.2011 US$'000 (unaudited)	31.12.2010 US$'000 (audited)
Tax recoverable (Note i)	39,589	33,804
Unlisted equity investment (Note ii)	12,533	10,553
Deposits paid (Note iii)	12,158	3,020
Others	3,390	3,536
	67,670	50,913

Notes:

(i) 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.

(ii) The unlisted investment represents 5.7% equity investment in Cetrel S.A., a company which is incorporated in Brazil and it is responsible for operating the environmental protection systems in Camaçari industrial complex, within which the Group's Bahia Specialty Cellulose mill is located. The Group invested into Cetrel S.A. for strategic reason as Cetrel S.A. provide effluent treatment for Bahia Specialty Cellulose. The unlisted investment is measured at cost less impairment at 30 June 2011 and 31 December 2010 as the directors of the Company are of the opinion that the fair value cannot be measured reliably. In the opinion of the directors, no impairment loss is required for the six months ended 30 June 2011 and the year ended 31 December 2010.

(iii) The amount represents the deposits 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.

12. 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 period/year:

	Accelerated tax depreciation US$'000	Fair value of forestation and reforestation assets US$'000	Unrealized profit on inventories US$'000	Provisions US$'000	Tax losses US$'000	Others US$'000 (note)	Total US$'000
At 1 January 2010 (audited)	(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 (audited)	(60,945)	(10,377)	(301)	2,758	98,204	10,614	39,953
Exchange differences	—	—	—	—	—	54	54
(Charge) credit to profit or loss for the period	(8,673)	(390)	2,608	(385)	6,895	(802)	(747)
At 30 June 2011 (unaudited)	**(69,618)**	**(10,767)**	**2,307**	**2,373**	**105,099**	**9,866**	**39,260**

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:

	30.6.2011 US$'000 (unaudited)	31.12.2010 US$'000 (audited)
Deferred tax assets	**119,645**	111,576
Deferred tax liabilities	**(80,385)**	(71,623)
	39,260	39,953

12. DEFERRED TAX ASSETS AND LIABILITIES (Continued)

Under the PRC's 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 condensed consolidated financial statements amounted to approximately US$29,100,000 (31 December 2010: US$34,082,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

13. TRADE, BILLS AND OTHER RECEIVABLES

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

	30.6.2011 US$'000 (unaudited)	31.12.2010 US$'000 (audited)
Trade and bills receivables:		
0–60 days	**108,788**	74,123
61–90 days	**18,262**	1,761
91–180 days	**3,778**	—
	130,828	75,884
Other receivables:		
Prepayments	**2,453**	2,321
Deposits paid	**132**	22
Advance to suppliers	**24,680**	20,888
VAT tax recoverable	**15,024**	11,074
Others	**1,582**	304
	43,871	34,609
Less: Impairment loss recognized in respect of other receivables	**(1,772)**	(1,772)
	42,099	32,837
Amounts due from related parties (Note)	**2,821**	15
Trade, bills and other receivables	**175,748**	108,736

Note: All balances are trade in nature, unsecured and non-interest bearing.

14. TRADE AND OTHER PAYABLES

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

	30.6.2011 US$'000 (unaudited)	31.12.2010 US$'000 (audited)
Trade payables:		
0–90 days	**46,095**	42,195
91–180 days	**1,170**	—
	47,265	42,195
Other payables:		
Accruals and others	**34,937**	55,311
Advance from customers	**5,135**	7,416
Construction payable	**13,961**	19,699
Other taxes payable (Note i)	**2,904**	1,948
Provisions (Note ii)	**8,913**	8,112
	65,850	92,486
Amounts due to related parties (Note iii)	**8,676**	21,455
Trade and other payables	**121,791**	156,136

Notes:

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

(ii) 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$27,124,000 (31 December 2010: US$30,881,000), 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$6,406,000 (31 December 2010: US$5,999,000). No provision has been made in these condensed consolidated financial statements for these possible losses.

(iii) All balances are trade in nature, unsecured and non-interest bearing.

15. BANK BORROWINGS

During the period, the Group obtained new bank borrowings amounting to approximately US$64,170,000 (2010: US$87,934,000). The new bank borrowings comprise secured loans of approximately US$53,354,000 (2010: US$38,298,000) and unsecured loans of approximately US$10,816,000 (2010: US$49,636,000). The loans carry interest at variable market rates ranging from 5.81% to 6.06% per annum and are repayable within one year.

16. SHARE CAPITAL OF THE COMPANY

	Number of shares	Amounts US$'000
Authorized:		
At June 8, 2010, date of incorporation (Note i) (@US$1.00 each)	**10,000**	**10**
Increase in authorized share capital (Note ii)	**749,990,000**	**749,990**
Shares subdivision (Note ii)	**14,250,000,000**	**—**
At 31 December 2010 and 30 June 2011 (@US$0.05 each)	**15,000,000,000**	**750,000**
Issued and fully paid:		
At June 8, 2010, date of incorporation (Note i) (@US$1.00 each)	100	—
Shares subdivision (Note ii)	1,900	—
	2,000	—
Issued pursuant to 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
Issue of new shares (Note v)	47,055,500	2,353
At 30 June 2011	**3,415,882,250**	**170,794**

Notes:

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

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

16. SHARE CAPITAL OF THE COMPANY (Continued)

Notes: (Continued)

(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.

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

17. PLEDGE OF ASSETS

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

	30.6.2011 US$'000 (unaudited)	31.12.2010 US$'000 (audited)
Property, plant and equipment	**1,299,559**	1,295,816
Inventories	**8,826**	—
Prepaid lease payments	**2,346**	797
Investment properties	**1,871**	1,880
Bank deposits	**10,692**	8,071
	1,323,294	1,306,564

18. COMMITMENTS

	30.6.2011 US$'000 (unaudited)	31.12.2010 US$'000 (audited)
Amount contracted for but not provided in these condensed consolidated financial statements in respect of		
— acquisition of property, plant and equipment	**101,302**	23,567
— additions of forestation assets	**15,309**	—
— capital injections in unlisted investment	**5,794**	6,376
Amount authorized but not contracted for in respect of		
— acquisition of property, plant and equipment	**155,999**	5,452
— additions of forestation assets	**22,135**	3,551

19. RELATED PARTY DISCLOSURES

(a) During the period, the Group entered into the following significant transactions with the following related parties:

Name of related parties	Nature of transactions	Six months ended 30 June 2011 US$'000 (unaudited)	2010 US$'000 (audited)
Companies under the control of the Majority Shareholder			
PT Toba Pulp Lestari tbk	Purchase of goods	—	43,462
DP Marketing International Limited — Macao Commercial Offshore	Purchase of goods	**39,358**	—
	Commission income	**2,020**	—
Averis Sdn. Bhd.	Service fee expense	**565**	770
General Rank Limited	Imputed interest expense on a loan from a related party	—	2,877
April International Marketing Services Ltd.	Service income	—	750
Sateri Overseas Holdings Limited	Interest expense on amount due to a related company	—	24

19. RELATED PARTY DISCLOSURES (Continued)

(a) During the period, 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	Six months ended 30 June 2011 US$'000 (unaudited)	2010 US$'000 (audited)
Loss on settlement of:			
— forward foreign exchange contracts	(i)	—	(558)
— interest rate swaps	(ii)	—	(7)
		—	(565)
Gain (loss) on fair value changes of:			
— forward foreign exchange contracts	(i)	—	169
— interest rate swaps	(ii)	—	(2,808)
		—	(2,639)
Total		—	(3,204)

Notes:

(i) Certain forward foreign exchange contracts of the Group were entered into by General Rank Limited and RGE Inc., companies under the control of the Majority Shareholder of the Company, at the prevailing market terms with third party financial institutions ("Financial Institutions") as the ultimate party in prior period. The loss on settlement of these contracts for the six months ended 30 June 2010 were approximately gain of US$558,000. The gain on fair value changes of these contracts for the six months ended 30 June 2010 were US$169,000.

(ii) These interest rate swaps of the Group were entered into by General Rank Limited in previous period 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 six months ended 30 June 2010 were US$7,000. The loss on fair value changes of these interest rate swaps for the six months ended 30 June 2010 were US$2,808,000. The interest rate swaps were terminated from 22 October 2010 pursuant to a termination agreement entered into between the Group and General Rank Limited.

For all the derivative contracts above, the related parties 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.

19. RELATED PARTY DISCLOSURES (Continued)

(a) During the period, the Group entered into the following significant transactions with the following related parties: (Continued)

On 20 August 2010, a novation agreement was entered into among the Group, RGE Inc. and Financial Institutions relating to the transfer of the foreign exchange contracts entered into between RGE Inc. and Financial Institutions to the Group. RGE Inc. agreed to novate those contacts remaining outstanding on 20 August 2010 to the Group with the consent of Financial Institutions with effect from 1 September 2010. No back-to-back derivative contracts were entered into by the related parties thereafter.

(b) Compensation of key management personnel

During the six months ended 30 June 2011, the emoluments paid to the key management personnel of the Group was approximately US$3,032,000 (six months ended 30 June 2010: US$2,137,000).

INFORMATION FOR INVESTORS

Listing Information

Listing: Stock Exchange of Hong Kong
Stock code: 1768
Ticker Symbol
Reuters: 1768.HK
Bloomberg: 1768 HK Equity

Index Constituent

Morgan Stanley Capital International (MSCI)
Hong Kong Small Cap Index

Key Dates

24 March 2011
Announcement of 2010 Annual Results

19 August 2011
Announcement of 2011 Interim Results

Registrar & Transfer Offices

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Hamilton HM 11
Bermuda

Hong Kong Branch:

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor, Hopewell Centre
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Wanchai
Hong Kong

Share Information

Board lot size: 500 shares

Shares outstanding as at 30 June 2011
3,415,882,250 shares

Market Capitalization as at 30 June 2011
HK$20,154 million (approximately US$2,590 million)

Investor Relations Contact

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