Sateri Holdings Limited

Stock Code: 1768

2012 Interim Report

About Sateri

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

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

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Corporate Information

Board of Directors

Independent Non-Executive Directors:

John Jeffrey Ying *(Chairman)*
David Yu Hon To
Jeffrey Lam Kin Fung
Lim Ah Doo

Executive Directors:

Will Hoon Wee Teng *(Chief Executive Officer)*
Tey Wei Lin

Non-Executive Director:

John Seto Gin Chung

Executive Committee

John Jeffrey Ying *(Chairman)*
Will Hoon Wee Teng
Tey Wei Lin
John Seto Gin Chung

Remuneration Committee

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

Audit Committee

David Yu Hon To *(Chairman)*
Jeffrey Lam Kin Fung
Lim Ah Doo

Nomination Committee

Lim Ah Doo *(Chairman)*
David Yu Hon To
Tey Wei Lin

Company Secretary

Winnie Lui Mei Yan

Authorised Representatives

Will Hoon Wee Teng
Winnie Lui Mei Yan

Stock Code

1768

Websites

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

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Bermuda Principal Share Registrar and Transfer Office

Codan Services Limited
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Bermuda

Principal Bankers

Hong Kong

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

Singapore

ABN AMRO Bank N.V.

China

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

Brazil

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

Auditor

PricewaterhouseCoopers

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

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Financial Highlights

- **Reduced profitability amidst continuing weak pricing environment in the first six months of 2012**
- **Adverse non-cash impact on net profit arising from fair value adjustments relating to forestation assets in Brazil and foreign exchange hedges**
- **Ongoing progress in execution of our dissolving wood pulp — viscose staple fiber integrated strategy, including continued investment in our greenfield viscose staple fiber project at Fujian, supported by committed debt financing facilities**

Six months ended 30 June (unaudited) **US$ Million**	**2012**	2011	Change
Revenue	**373**	384	(3)%
Gross profit	**100**	169	(41)%
Gross profit margin	**27%**	44%	
EBITDA[1]	**96**	208	(54)%
EBITDA margin	**26%**	54%	
Profit attributable to shareholders	**13**	139	(90)%
Net profit margin	**4%**	36%	
Earnings per share (US cents)	**0.4**	4	(90)%

(1) EBITDA (Earnings before interest, tax, depreciation and amortization) is calculated as profit before income tax, excluding finance costs, depreciation of property, plant and equipment and investment properties, amortization, decrease due to harvest and changes in fair value of forestation and reforestation assets. EBITDA therefore includes changes in fair value and gains on settlement of derivative financial instruments.

Management Discussion and Analysis

Business Review

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

In the first half of 2012, market conditions continued to be challenging and the product pricing environment for rayon-grade DWP and VSF remained weak. Although the Group sold 50% more rayon-grade DWP and VSF to third parties in the first six months of 2012 compared to the corresponding period in 2011, average selling prices ("ASP") for rayon-grade DWP and VSF were, respectively, 45% and 29% lower than the ASP achieved in the first half of 2011. Sales volume of specialty-grade DWP, on the other hand, sold mainly under multi-year contracts, increased by 5% compared to the corresponding period in 2011, with ASP broadly similar to those achieved in the first half of 2011.

The depreciation of the Brazilian Reais against the US Dollar in the first half of 2012 gave rise to adverse non-cash foreign exchange movements from fair value adjustments due to revaluation of the Group's forestation and reforestation assets and currency hedging positions, totaling US$16 million, compared to a net gain of US$21 million in the corresponding period in 2011.

As a result of the above, profit attributable to shareholders declined by 90% to US$13 million.

Despite the tough operating environment, the Group reported a consolidated EBITDA margin of 26% for the six months ended 30 June 2012 (1H 2011: 54%). Net cash from operating activities increased to US$80 million from US$34 million, mainly due to a lower level of inventory as at the end of June 2012 and other working capital changes. The Group continues to be adequately capitalized, with low gearing and ample liquidity, and is capable of funding its foreseeable capital expenditure requirements with cash flows from operating activities and secured banking facilities.

The Group continued to make progress in executing its two-pronged business strategy — first, in selling more specialty grades of pulp that is less prone to price volatility and has a superior positioning within the value chain; and second, in further integrating its DWP and VSF manufacturing operations, which uniquely connect fast growing tree plantations in Brazil, with a rapidly expanding consumer market in China. This two-pronged business strategy is pursued in order to create a capacity-balanced, vertically-integrated value chain and to maximize long term shareholder value from a flexible and cost competitive business platform.

The Group continued the development of its greenfield VSF project in Fujian, China, which is expected to be operational in the second half of 2013, with a design capacity of 200,000 metric tons per annum. Total investment is expected to be approximately RMB3.5 billion (approximately US$550 million), supported by committed project finance facilities of RMB2.0 billion. Total capital expenditure up to 30 June 2012 on the Fujian project amounted to US$69 million. Management believes that the inception of this new state-of-the-art VSF mill in 2013 will enable the Group to increase the scale and market share of its VSF business in China, thereby positioning it to profitably tap into long-term growth in consumer spending in one of the fastest-growing economies in the world.

Segment Review

In accordance with the revised segment presentation in the 2011 annual report, in order to provide a more meaningful representation of the Group's business operations, consistent with its long term business strategy and with how business segment performance is assessed by the Board, the management has restated the presentation of the Group's segment results for the six months ended 30 June 2011. Under this revised business segment presentation, the costs of producing rayon-grade pulp by BSC used by our own VSF manufacturing operation are recorded within the VSF Business segment. Previously, those costs, together with the profit realized from inter-segment sales, were recorded in the DWP Business segment.

DWP Business

Six months ended 30 June (unaudited)	2012	Restated 2011	Change
Production volume[2] *(metric tons)*	**209,336**	205,198	2%
Sales volume[2] *(metric tons)*	**149,816**	113,282	32%
ASP *(US$/metric ton)*	**1,310**	1,921	(32)%
Revenue *(US$'000)*	**196,337**	217,626	(10)%
Gross profit *(US$'000)*	**72,707**	128,510	(43)%
Gross profit margin *(%)*	**37%**	59%	
EBITDA *(US$'000)*	**73,551**	154,716	(52)%
EBITDA margin *(%)*	**37%**	71%	

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

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

Rayon-grade pulp

Rayon-grade pulp is the principal raw material ingredient used for the production of VSF. China is the largest rayon-grade pulp market by demand and BSC remains its largest supplier by volume, according to China Customs data and RISI, a leading information provider for the global forest products industry.

In the first half of 2012, the weak pricing environment experienced since the second half of 2011 persisted. Spot market prices declined to approximately US$1,000 per metric ton by the end of June 2012, from a record high of approximately US$2,600 per metric ton in March 2011.

Despite the weak pricing environment, the Group sold 102,694 metric tons of rayon-grade pulp to third parties in the first six months of 2012, an increase of 50% compared to the corresponding period in 2011. 79,376 metric tons were also sold internally from BSC to Sateri Jiangxi, representing a 81% increase.

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

Management Discussion and Analysis

Specialty-grade pulp

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

Total global demand for specialty grades is currently approximately 1.5 million metric tons annually, according to RISI. Barriers of entry into this market are high due to the advanced technological know-how required to produce the high purity products, and the detailed customization required by customers. Market prices of specialty-grade pulp have historically been less susceptible to market volatility than rayon-grade pulp, and trended upward at a 7% compound annual growth rate per annum in the past decade, according to RISI.

In the first half of 2012, Sateri continued to increase its exposure to the specialty-grade pulp segment. Sales volume increased by 5% to 47,122 metric tons in the first six months of 2012, from 44,795 metric tons in the corresponding period in 2011. BSC's current design capacity allows it to produce up to approximately 320,000 metric tons of specialty-grade pulp per annum, and our strategy is to expand further in this market.

VSF Business

Six months ended 30 June (unaudited)	**2012**	Restated 2011	Change
Production volume *(metric tons)*	**82,189**	60,794	35%
Sales volume *(metric tons)*	**83,095**	55,532	50%
ASP *(US$/metric ton)*	**2,132**	3,005	(29)%
Revenue *(US$'000)*	**177,126**	166,870	6%
Gross profit *(US$'000)*	**27,677**	40,099	(31)%
Gross profit margin *(%)*	**16%**	24%	
EBITDA *(US$'000)*	**24,661**	50,470	(51)%
EBITDA margin *(%)*	**14%**	30%	

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

The rapidly expanding consumer market in China makes it both the largest producer and largest customer of VSF in the world. The majority of customers for Sateri's VSF production are textile manufacturers located in China, South East Asia and Europe. Global demand for VSF has grown by 8% per annum in the last decade according to Fiber Organon, a statistical journal published by Fiber Economics Bureau in the United States, and by more than 10% in China according to China Chemical Fibers and Textiles Consultancy ("CCF")[3]. The VSF producer market is competitive and fragmented, where most producers acquire feedstock raw material supply in the open market, rather than from captive, low cost sources.

(3) Zhejiang Huarui Information and Technology Co. Ltd., an independent consultant providing information on the chemical fiber industry in China.

Against the backdrop of macroeconomic market uncertainties and slower China economic growth, demand along the textile value chain weakened in the first half of 2012. Market prices of VSF fell to approximately US$2,000 per metric ton by the end of June 2012, from a record high of approximately US$3,700 per metric ton in March 2011. Realized ASP of VSF for the Group dropped by 29% to US$2,132 per metric ton in the first half of 2012, from US$3,005 per metric ton in the corresponding period in 2011.

Despite the short-term market volatility, the Group sold 83,095 metric tons of VSF in the first half of 2012, an increase of 50% compared to the corresponding period in 2011.

The Group further increased the integration between its DWP and VSF business operations and expanded its annual design production capacity of its VSF mill in Jiangxi, China, from 130,000 metric tons to 160,000 metric tons by June 2011. Coupled with the Group's effort in maximizing operating efficiency, our VSF mill in Jiangxi maintained full operating rate and increased production volume by 35% to 82,189 metric tons in the first half of 2012.

The Group's strategy in the VSF Business segment is to invest further in its downstream manufacturing operations and create a capacity-balanced, vertically-integrated value chain, and to expand its production of higher-grade VSF, which would enhance Sateri's competitive positioning in the fragmented VSF market.

Future Development Plan

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

The Group is committed to investing further in its vertically-integrated business platform, which it believes is a source of competitive advantage. Despite the pricing volatility experienced in first half of 2012, demand for VSF in China has grown by more than 10% per annum in the last decade, and is expected to grow at 7% per annum in 2012 to 2013, according to CCF.

In the first half of 2012, the Group continued the development of its greenfield VSF project in Fujian, China, which is expected to be operational in the second half of 2013, with a design capacity of 200,000 metric tons per annum. Management believes that the inception of this new state-of-the-art VSF mill in 2013 will enable the Group to increase the scale and market share of its VSF business in China, thereby positioning it to profitably tap into long-term growth in consumer spending in one of the fastest-growing economies in the world.

Total investment in the Fujian project is expected to be approximately RMB3.5 billion in total (approximately US$550 million), of which RMB2.0 billion will be funded by committed project finance facilities, including a working capital loan of RMB0.3 billion, and the remainder will be funded by equity. The Group incurred US$24 million capital expenditure on this project in the first half of 2012 (1H2011: US$32 million) and total capital expenditure to-date amounted to US$69 million. As at 30 June 2012, the Group had approximately US$100 million of capital expenditure contracted but not provided for relating to this project in its consolidated financial information.

The Group will continue to manage dynamically the production and sales mix of its DWP and VSF products in order to maximize long-term shareholder value from its integrated business platform. We will continue to broaden our customer base in North America and Europe in targeted segments for specialty-grade pulp and increase our market share in VSF.

Management Discussion and Analysis

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

Outlook

Current market conditions remain challenging, with spot market prices at the end of 30 June 2012 for rayon-grade pulp and VSF significantly lower than those achieved in 2011 overall. Market prices for specialty-grade pulp, on the other hand, remain fairly stable. Prospects for the global macroeconomic environment in the second half of 2012, and their impact on the Group's product prices, remain uncertain.

Nonetheless, the Group remains confident that it has the right business strategy and is well-positioned to tackle the challenges that lie ahead, given its flexible and integrated business model, and competitive cost structure. Investment in the Fujian project will also deliver better balance between the Group's DWP and VSF manufacturing capacity. We believe our conservative cash flow and balance sheet management will support the Group's ability to grow further in future, and deliver long-term shareholder value.

Financial Review

Consolidated Results

For the six months ended 30 June 2012, the Group's total revenue decreased by 3% to US$373 million from US$384 million in the corresponding period in 2011. Gross profit decreased by 41% to US$100 million from US$169 million and group EBITDA decreased by 54% to US$96 million from US$208 million. Profit attributable to shareholders fell to US$13 million from US$139 million and earnings per share decreased to US 0.4 cents from US 4 cents.

The fall in gross profit was due to the combined effect of a decrease in total revenue and an increase in total cost of sales for the six months ended 30 June 2012, compared to the corresponding period in 2011. The Group's sales volume of DWP and VSF grew 32% and 50%, respectively. However, this was offset by a lower ASP achieved in the first six months of 2012 driven by the weak product pricing environment, resulting in a slight drop of 3% in the Group's total revenue. Total cost of sales increased by 26%, mainly due to an increased sales volume during the reporting period.

In addition to the above, the non-cash impact of fair value adjustments booked in accordance with IFRS relating to the Group's forestation and reforestation assets in Brazil and foreign exchange hedges, totaled a US$16 million loss in the first half of 2012, compared to a US$21 million gain in the corresponding period in 2011, which further contributed to the decline in profit attributable to shareholders.

Cost of Sales

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

The Group's cost of sales increased by 26% to US$273 million for the six months ended 30 June 2012 from US$216 million in the corresponding period in 2011. The increase was mainly due to the increased input costs including energy, chemicals and wood as a result of 32% higher DWP and 50% higher VSF sales volume achieved in the first half of 2012.

Other Profit and Loss Account Items

Selling and Distribution Expenses

Selling and distribution expenses increased by 65% to US$31 million for the six months ended 30 June 2012, from US$19 million in the corresponding period in 2011, mainly as a result of increased sales volumes during the reporting period.

Finance Costs

The Group's finance costs decreased to US$16 million in the first half of 2012, from US$22 million in the corresponding period in 2011, as a result of lower levels of total debt during the reported six-month period and a tight rein on working capital.

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

The Group mitigates the currency fluctuations affecting its operations mainly through a hedging program using plain vanilla non-deliverable forward contracts. The combined realized and unrealized loss on derivative instruments was US$2 million in the first half of 2012, compared with a net gain of US$23 million in the corresponding period in 2011.

As at 30 June 2012, the Group had foreign exchange hedges between Brazilian Reais ("BRL") and US Dollar ("USD") relating to operating and capital expenditure in the second half of 2012 amounting to US$140 million. As at 30 June 2012, the Group had no foreign exchange hedges relating to forecast operating and capital expenditure beyond the end of 2012. The Group recorded non-cash mark-to-market exchange rate losses of US$5 million in respect of unrealized currency hedging positions in the first six months of 2012, compared to a gain of US$17 million in the corresponding period in 2011.

Changes in Fair Value of Forestation and Reforestation Assets

Fair value of forestation and reforestation assets in Brazil 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.

Revaluation of the Group's forestation and reforestation assets in Brazil is conducted semi-annually at each reporting date. The exchange rate between the BRL and USD depreciated from US$1 = BRL1.88 as at 31 December 2011 to US$1 = BRL2.02 as at 30 June 2012. Accordingly, revaluation of the Group's forestation and reforestation assets as at 30 June 2012 resulted in a non-cash loss of US$11 million in the first six months of 2012, compared to a US$4 million gain in the corresponding period in 2011.

Capital Expenditure

In light of the poor economic visibility and continuing weak trading environment, the Group continued to exercise careful control over capital expenditure and to constrain expenditure as appropriate during the period.

The Group incurred US$78 million in capital expenditure for the six months ended 30 June 2012, compared to US$139 million in the corresponding period in 2011. Of the US$78 million, US$50 million (1H2011: US$89 million) was incurred in Brazil, including US$16 million spent on forestation and reforestation assets, and US$4 million was incurred in Jiangxi (1H2011: US$18 million).

Management Discussion and Analysis

As set out in "Future Development Plan" above, the Group continued the construction of its new VSF mill in Fujian and incurred US$24 million on this project in the first six months of 2012 (1H2011: US$32 million). The Group expects to increase its capital expenditure on the Fujian project significantly in the second half of 2012.

Cash Flow, Liquidity and Financial Position

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

As at 30 June 2012, the Group's cash and cash equivalents (including bank balances and cash and pledged bank deposits) amounted to US$246 million, compared with US$329 million as at 31 December 2011. Total debt was US$515 million and net debt was US$269 million as at 30 June 2012, compared with US$578 million and US$249 million, respectively, as at 31 December 2011. The Group's net gearing ratio (which is calculated by dividing (i) long-term and short-term borrowings minus pledged bank deposits, bank balances and cash by (ii) total equity (including non-controlling interests)) was 16%, compared to 15% as at 31 December 2011.

As at 30 June 2012, the Group had total undrawn banking facilities of US$269 million, excluding the committed project finance facilities associated with the Fujian project.

In spite of reduced profitability, net cash from operating activities increased to US$80 million for the six months ended 30 June 2012, from US$34 million in the corresponding period in 2011, mainly due to reduced inventory and other working capital changes.

Net cash used in financing activities increased to US$89 million for the six months ended 30 June 2012, from US$30 million in the corresponding period in 2011. The Group repaid a total of US$54 million of its US$470 million syndicated loan facility in the first half of 2012 (1H2011: nil).

Treasury Policies and Risk Management

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

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

Other Changes Since 31 December 2011

On 25 May 2012, the Company disposed of its entire shareholding interest in its subsidiary, Sateri China Investment Limited, to a connected person. Details are set out in the announcement dated 25 May 2012.

Save as disclosed in the Company's interim results announcement dated 16 August 2012 and the previous announcements made by the Company in 2012, there were no other material changes in the Group's financial position or from the information disclosed under the Management Discussion and Analysis in the Company's Annual Report for the year ended 31 December 2011.

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 the shareholders and other stakeholders of the Company and are essential for encouraging accountability and transparency so as to sustain the success of the Group and to create long-term value for the shareholders of the Company.

The Board

The Board currently comprises the following Directors:

Independent Non-Executive Directors:

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

Executive Directors:

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

Non-Executive Director:

John Seto Gin Chung

The roles of the Chairman and Chief Executive Officer are segregated. The Chairman, John Jeffrey Ying, who is an Independent Non-executive Director, is responsible for leadership of the Board, for ensuring that the Board functions effectively and independently, and for providing expert advice so as to create value for the shareholders of the Company ("Shareholders"). 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 effective implementation of the strategies and policies adopted by the Board. The senior management team is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer.

The Board is responsible for setting up the overall strategy as well as reviewing the operation and financial performance of the Group. The Board is expected to meet regularly and at least four times a year. The Board met five times to date in 2012 (with an average attendance rate of approximately 98%).

Changes in Directors' Information

Pursuant to Rule 13.51B(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), the changes in the information of Directors since the publication of the Company's 2011 Annual Report are set out below:

(a) Mr. Will Hoon Wee Teng, an Executive Director and the Chief Executive Officer, was appointed as director of a subsidiary of the Company, namely SC International Macao Commercial Offshore Limited, on 18 August 2011;

(b) Mr. Loh Meng See retired as Non-executive Director at the annual general meeting of the Company with effect from 25 May 2012;

(c) Mr. Rohan Seneka Weerasinghe retired as Non-executive Director at the annual general meeting of the Company with effect from 25 May 2012;

(d) Mr. John Seto Gin Chung, a Non-executive Director, ceased to be the chairman and a member of the Nomination Committee of the Company with effect from 16 August 2012;

(e) Mr. David Yu Hon To, an Independent Non-executive Director, was appointed as a member of the Nomination Committee of the Company with effect from 16 August 2012; and

Corporate Governance

(f) Mr. Lim Ah Doo, an Independent Non-executive Director, was appointed as the chairman of the Nomination Committee of the Company with effect from 16 August 2012. Mr. Lim retired as an independent director of Chemoil Energy Limited, a company listed on the Singapore Stock Exchange, on 26 April 2012 and ceased to be an independent director of EDBI Pte Ltd on 30 June 2012.

Board Committees

The Board has established the Audit Committee, the Remuneration Committee, the Nomination Committee, and the Executive Committee with written terms of reference approved by the Board. Terms of reference of the above committees were made available on the websites of The Stock Exchange of Hong Kong Limited ("Stock Exchange") and the Company. Each of the Audit Committee, the Remuneration Committee, the Nomination Committee and the Executive Committee is currently chaired by an Independent Non-executive Director.

Remuneration Committee

The Remuneration Committee currently comprises the following Directors:

Independent Non-Executive Directors:

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

Executive Director:

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

The Remuneration Committee shall meet as and when appropriate, but at least once a year and otherwise as appropriate. The Remuneration Committee met once to date in 2012 (with 100% attendance rate) to consider and review, inter alia, the policy and structure for the remuneration of Directors and senior management and to determine, with delegated responsibility, the remuneration packages of Executive Directors and senior management.

Audit Committee

The Audit Committee currently comprises the following Directors:

Independent Non-Executive Directors:

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

The Audit Committee shall meet at least four times a year. The Audit Committee met three times to date in 2012 (with 100% attendance rate) to review with senior management, the Company's internal auditor and external auditors, 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 mainly covers the audit plans and findings of the internal auditor and external auditors, external auditors' independence, appointment of external auditors, the Group's accounting principles and practices, the Listing Rules and statutory compliance, internal controls, risk management, financial reporting matters and the adequacy of resources, qualification and experience of staff of the Group's accounting and financial reporting function, and their training programs and budget. The Audit Committee was satisfied that such internal controls system was effective and adequate.

Nomination Committee

The Nomination Committee currently comprises the following Directors:

Independent Non-Executive Directors:

Lim Ah Doo *(appointed as the Chairman of the Nomination Committee on 16 August 2012)*
David Yu Hon To (appointed as a committee member on 16 August 2012)

Executive Director:

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

The Nomination Committee shall meet as and when appropriate, but at least once a year and otherwise as appropriate. The Nomination Committee met twice to date in 2012, (with 100% attendance rate) to consider and review, inter alia, the Board composition, the retirement of Directors by rotation, the nomination of an Independent Non-executive Director as chairman of the Nomination Committee and the change of its composition.

Executive Committee

The Executive Committee currently comprises the following Directors:

Independent Non-Executive Director:

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

Non-Executive Director:

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

Executive Directors:

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

The Executive Committee met three times to date in 2012 (with 100% attendance rate) to discuss potential projects and human resource issues and to review the operating performance and financial position of the Group.

For duties of the respective Board Committees, please refer to pages 44 to 48 of the 2011 Annual Report of the Company.

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.

The Group's internal audit department ("Internal Audit") had monitored on an ongoing basis the implementation of the recommendations made by PricewaterhouseCoopers, our external consultant, in respect of its comprehensive review in 2011 regarding the effectiveness of the system of internal control of the Group covering all material financial, operational and compliance controls and risk management functions.

As at 30 June 2012, the majority of the recommendations made by PricewaterhouseCoopers had been implemented. The Board will continue to identify, evaluate and manage the significant risks faced by the Group and to enhance the internal control system of the Group with the assistance of its Internal Audit.

Corporate Governance

Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted its own Guidelines on Securities Transactions regarding securities transactions by Directors 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 to 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 Transactions and the Model Code regarding Directors' securities transactions during the six months ended 30 June 2012.

Compliance with the Corporate Governance Code

The Code on Corporate Governance Practices ("Old CG Code") was recently amended with effect from 1 April 2012 and renamed as the Corporate Governance Code ("2012 CG Code") as contained in Appendix 14 to the Listing Rules. Accordingly, the Company has, in March 2012, modified its Corporate Governance Manual in light of the amendments. The Board is responsible for performing the corporate governance duties set out in the 2012 CG Code.

During the six months ended 30 June 2012, the Company has applied the principles of, and complied with the Corporate Governance Manual and the applicable code provisions of the Old CG Code (effective until 31 March 2012) during the period from 1 January 2012 to 31 March 2012 and the 2012 CG Code (effective from 1 April 2012) during the period from 1 April 2012 to 30 June 2012, save as disclosed below:

Code provision A.4.1 of both the Old CG Code and 2012 CG Code stipulates that non-executive directors should be appointed for a specific term, subject to re-election. The Non-executive Directors (including Independent Non-executive Directors) are not appointed for a specific term but are subject to retirement by rotation at the Company's annual general meetings at least once every three years in accordance with the Bye-laws of the Company. The Company in practice has complied with the relevant code provision of both the Old CG Code and the 2012 CG Code.

Following the amendments to the Old CG Code, code provision A.5.1 of the 2012 CG Code stipulates that a nomination committee should be chaired by the chairman of the Board or an independent non-executive director and should comprise a majority of independent non-executive directors. At a meeting of the Board on 16 August 2012 and upon identification suitable candidates, the Company resolved to appoint an Independent Non-executive Director as the chairman of the Nomination Committee and to constitute the Nomination Committee to comprise a majority of Independent Non-executive Directors with immediate effect for compliance with the relevant code provision of the 2012 CG Code.

Following the amendments to the Old CG Code, code provision A.6.7 of the 2012 CG Code stipulates that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Due to an overseas engagement, a Non-executive Director who retired at the annual general meeting of the Company held on 25 May 2012 was unable to attend the said meeting. Save as disclosed above, all other Directors were present in the said meeting for effective communication with the Shareholders.

Review of Unaudited Financial Information

The unaudited financial information of the Group for the six months ended 30 June 2012 has been reviewed by the Audit Committee of the Company and by the external auditors.

Restricted Share Unit Schemes and Share Option Scheme

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") on 8 November 2010. 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 at 30 June 2012, 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 were Directors and one of the grantees was a retired Director. Total RSUs in respect of 2,465,517 underlying shares to six grantees (one was a retired Director) had been cancelled. Total RSUs in respect of 192,118 underlying shares to a Director had been cancelled. As at 30 June 2012, total RSUs in respect of 5,507,391 underlying shares to 12 grantees (two were Directors) were still valid, of which a total of 883,746 RSUs were vested under the Pre-IPO RSU Scheme.

As at 30 June 2012, RSUs in respect of 1,677,276 underlying shares have been granted to 15 grantees pursuant to the Post–IPO RSU Scheme, of which one of the grantees was a Director. Total RSUs in respect of 160,020 underlying shares to three grantees (no Director) had been cancelled. As at 30 June 2012, total RSUs in respect of 1,517,256 underlying shares to 12 grantees (one was a Director) were still valid, of which a total of 633,752 RSUs were vested under the Post–IPO RSU Scheme.

The Company also adopted a share option scheme on 8 November 2010 ("Share Option Scheme"). As at 30 June 2012, 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 53 to 56 and 137 to 145 of the Company's 2011 Annual Report.

Investor Relations and Communications

The Group maintains continuous communications with institutional shareholders, analysts and the media, ensuring 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. In March 2012, the Board has established a shareholders' communication policy and will review it on a regular basis to ensure its effectiveness. The procedures for Shareholders to propose a person for election as a Director are also published on the Company's website.

Employees

As at 30 June 2012, the Group had 2,086 employees in total. The staff costs for the Group for the six months ended 30 June 2012 amounted to approximately US$28.2 million, compared with US$26.7 million for the same period in 2011. 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 of the Company may be granted share options to subscribe for shares in the Company as well as RSU units in accordance with the terms and conditions of the share option scheme and the 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 2012, the interests of the Directors and chief executive of the Company in the shares of the Company ("Shares"), underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules ("Model Code") were as follows:

Long positions in the Shares and the underlying Shares

Name of Director	Capacity	Number of Shares held	Number of Shares underlying Restricted Share Units ("RSUs") granted	Vesting period of RSUs granted		Approximate % of the issued share capital of the Company
				Under the Pre-IPO RSU Scheme	Under the Post-IPO RSU Scheme	
John Jeffrey Ying	Beneficial owner	288,177	672,414	288,177 (15 February 2013) 384,237 (15 February 2014)	—	0.028%
Will Hoon Wee Teng	Beneficial owner	482,678	2,916,174	480,296 (15 February 2013) 640,393 (15 February 2014) 640,393 (15 February 2015) 960,592 (15 February 2016)	194,500 (30 April 2013)	0.10%

Save as disclosed above, as at 30 June 2012, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' and Other Person's Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2012, the following persons, 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, had interests in the Shares or the underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO as follow:

Long positions in the Shares and the underlying Shares

Name	Capacity	Number of Shares held	Approximate % of the issued share capital of the Company
Gold Silk Holdings Limited ("Gold Silk")[(1)]	Beneficial owner	2,863,496,750	83.83%
Fiduco Trust Management AG ("Fiduco")[(1) (2)]	Interest in a controlled corporation	2,863,496,750	83.83%
Mr. Sukanto Tanoto ("Mr. Tanoto")	Person who set up a discretionary trust	2,863,496,750	83.83%

Notes:

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

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

Save as disclosed above, as at 30 June 2012, no other 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, had any interests or short positions in the Shares or the underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

Purchase, Sale or Redemption of Securities

During the six months ended 30 June 2012, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Interim Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2012. The Group will review its dividend policy and the possibility of a final dividend for the full 2012 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 2012 annual results.

羅兵咸永道

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION
TO THE BOARD OF DIRECTORS OF SATERI HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 19 to 45, which comprises the condensed consolidated statement of financial position of Sateri Holdings Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2012 and the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes. The 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 Standard 34, "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34, "Interim Financial Reporting". 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". A review of interim financial information consists of making inquiries, 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 International Accounting Standard 34, "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 16 August 2012

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Condensed Consolidated Income Statement

For the six months ended 30 June 2012

	Notes	Unaudited Six months ended 30 June 2012 US$'000	 2011 US$'000
Revenue	5	**373,463**	384,496
Cost of sales	6	**(273,079)**	(215,887)
Gross profit		**100,384**	168,609
Selling and distribution expenses		**(31,201)**	(18,918)
General and administrative expenses		**(30,658)**	(26,062)
		38,525	123,629
Other income and gains/(expenses), net			
Commission income from a related party		**1,853**	2,020
Changes in fair value of derivative financial instruments		**(4,854)**	16,852
Gains on settlement of derivative financial instruments		**2,671**	6,236
(Decrease)/increase in fair value of forestation and reforestation assets		**(11,069)**	4,136
Others	7	**2,454**	9,237
		(8,945)	38,481
Operating profit	8	**29,580**	162,110
Finance costs	9	**(16,190)**	(21,773)
Profit before income tax		**13,390**	140,337
Income tax credit/(expense)	10	**107**	(2,609)
Profit for the period		**13,497**	137,728
Profit attributable to:			
Owners of the Company		**13,405**	138,540
Non-controlling interests		**92**	(812)
		13,497	137,728
Earnings per share			
Basic and diluted (US cents)	11	**0.4**	4

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012

	Unaudited Six months ended 30 June 2012 US$'000	 2011 US$'000
Profit for the period	**13,497**	137,728
Other comprehensive (loss)/income:		
Currency translation differences	**(1,051)**	5,197
Loss on cash flow hedge	**(1,159)**	(4,816)
Other comprehensive (loss)/income for the period	**(2,210)**	381
Total comprehensive income for the period	**11,287**	138,109
Total comprehensive income for the period attributable to:		
Owners of the Company	**10,199**	138,982
Non-controlling interests	**1,088**	(873)
	11,287	138,109

Condensed Consolidated Statement of Financial Position

At 30 June 2012

	Notes	Unaudited 30 June 2012 US$'000	Audited 31 December 2011 US$'000
Non-current assets			
Forestation and reforestation assets	13	**176,168**	187,797
Property, plant and equipment	13	**1,476,681**	1,455,966
Prepaid lease payments	13	**29,643**	29,199
Investment properties	13	**1,805**	1,867
Intangible assets	13	**625**	675
Deferred income tax assets	15	**52,610**	105,496
Other non-current assets	14	**65,451**	69,265
		1,802,983	1,850,265
Current assets			
Inventories		**149,691**	180,590
Trade, bills and other receivables	16	**163,332**	153,232
Bills receivables discounted		**—**	8,119
Prepaid lease payments	13	**—**	612
Pledged bank deposits		**4,305**	5,294
Bank balances and cash		**241,241**	323,705
		558,569	671,552
Current liabilities			
Trade and other payables	17	**108,477**	136,574
Advance drawn on bills receivables discounted		**—**	8,119
Derivative financial instruments		**22,932**	30,712
Current income tax payable		**30,939**	31,079
Bank borrowings	18	**198,547**	198,403
Obligations under finance leases		**1,145**	1,170
		362,040	406,057
Net current assets		**196,529**	265,495
Total assets less current liabilities		**1,999,512**	2,115,760

Condensed Consolidated Statement of Financial Position

At 30 June 2012

	Notes	Unaudited 30 June 2012 US$'000	Audited 31 December 2011 US$'000
Non-current liabilities			
Bank borrowings	18	**316,695**	379,970
Obligations under finance leases		**77**	589
Derivative financial instruments		**4,580**	3,421
Deferred income tax liabilities	15	**—**	55,245
		321,352	439,225
		1,678,160	1,676,535
Capital and reserves			
Share capital	19	**170,896**	170,794
Share premium and reserves		**1,475,306**	1,474,871
Equity attributable to owners of the Company		**1,646,202**	1,645,665
Non-controlling interests		**31,958**	30,870
		1,678,160	1,676,535

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012

For the six months ended 30 June 2012

	Unaudited											
	Attributable to owners of the Company											
	Share capital US$'000	Share premium US$'000	Special reserve US$'000 (note a)	Other non-distributable reserves US$'000 (note b)	Translation reserve US$'000	Cashflow hedging reserve US$'000	Shares held under awarded shares compensation scheme US$'000	Awarded shares compensation reserve US$'000	Retained profits US$'000	Total US$'000	Non-controlling interests US$'000	Total US$'000
At 1 January 2012	170,794	424,930	277,394	3,423	35,354	(3,421)	(959)	1,922	736,228	1,645,665	30,870	1,676,535
Total comprehensive income for the period	–	–	–	–	(2,047)	(1,159)	–	–	13,405	10,199	1,088	11,287
Transactions with owners												
Issue of new shares	102	610	–	–	–	–	–	–	–	712	–	712
Cost of issuing new shares	–	(19)	–	–	–	–	–	–	–	(19)	–	(19)
Transfers	–	–	–	15	–	–	–	–	(15)	–	–	–
Dividend	–	–	–	–	–	–	–	–	(11,000)	(11,000)	–	(11,000)
Awarded shares compensation reserve	–	–	–	–	–	–	–	645	–	645	–	645
Total transactions with owners	102	591	–	15	–	–	–	645	(11,015)	(9,662)	–	(9,662)
At 30 June 2012	170,896	425,521	277,394	3,438	33,307	(4,580)	(959)	2,567	738,618	1,646,202	31,958	1,678,160

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012

For the six months ended 30 June 2011

	Share capital US$'000	Share premium US$'000	Special reserve US$'000 (note a)	Other non-distributable reserves US$'000 (note b)	Translation reserve US$'000	Cashflow hedging reserve US$'000	Awarded shares compensation reserve US$'000	Retained profits US$'000	Total US$'000	Non-controlling interests US$'000	Total US$'000
	Unaudited										
	Attributable to owners of the Company										
At 1 January 2011	168,441	388,734	277,394	3,423	24,017	4,346	197	581,462	1,448,014	35,696	1,483,710
Total comprehensive income for the period	—	—	—	—	5,258	(4,816)	—	138,540	138,982	(873)	138,109
Transactions with owners											
Issue of new shares	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
Total transactions with owners	2,353	36,196	—	—	—	—	777	—	39,326	—	39,326
At 30 June 2011	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 shareholders 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 group reorganisation in preparation of the listing of the Company's shares on The Stock Exchange of Hong Kong Limited 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 mainly represent statutory reserves required to be appropriated from net profit after tax of subsidiaries established in the People's Republic of China (the "PRC") under the relevant laws and regulations at an amount determined 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.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2012

	Unaudited Six months ended 30 June	
	2012	2011
	US$'000	US$'000
Net cash from operating activities	**80,108**	33,561
Cash flows from investing activities		
Purchases of property, plant and equipment	**(63,253)**	(99,155)
Additions of forestation and reforestation assets	**(16,304)**	(20,159)
Deposit paid for acquisition of a piece of land	**—**	(10,683)
Additions to prepaid lease payments	**(399)**	(8,308)
Decrease/(increase) in pledged bank deposits	**989**	(2,621)
Additions of unlisted investments	**(1,610)**	(1,834)
Proceeds on disposal of subsidiaries	**2,701**	—
Interest received	**1,359**	1,211
Proceeds on disposal of property, plant and equipment	**331**	56
Net cash used in investing activities	**(76,186)**	(141,493)
Cash flows from financing activities		
Drawdown of bank borrowings	**99,980**	64,170
Repayment of bank borrowings	**(164,382)**	(109,835)
Interest paid	**(13,390)**	(21,773)
Repayment of finance leases obligations	**(537)**	(838)
Net proceeds from issuance of shares	**693**	38,549
Payment of dividend	**(11,000)**	—
Net cash used in financing activities	**(88,636)**	(29,727)
Net decrease in cash and cash equivalents	**(84,714)**	(137,659)
Currency translation differences	**2,250**	4,980
Cash and cash equivalents at 1 January	**323,705**	427,794
Cash and cash equivalents at 30 June		
Represented by bank balances and cash	**241,241**	295,115

Notes to the Interim Financial Information

1 GENERAL INFORMATION

Sateri Holdings Limited (the "Company") was incorporated on 8 June 2010 and registered as an exempted company with limited liability in Bermuda under the Companies Act 1981 of Bermuda (as amended). The Company is controlled by Gold Silk Holdings Limited, a limited liability company incorporated in Cayman Islands and 100% owned and controlled by Mr. Sukanto Tanoto and certain members of his family. The address of its registered office is 2709 Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

This interim financial information is presented in United States dollars ("US$"), unless otherwise stated. This interim financial information was approved for issue on 16 August 2012.

2 BASIS OF PREPARATION

This interim financial information has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and International Accounting Standard ("IAS") 34, "Interim Financial Reporting" issued by the International Accounting Standards Board. It should be read in conjunction with the Company's annual financial statements for the year ended 31 December 2011, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

3 SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the interim financial information for the six months ended 30 June 2012 are consistent with those used in the Group's annual financial statements for the year ended 31 December 2011.

In 2012, the Group adopted the amendments of IFRS below, which are relevant to its operations.

IAS 12 (Amendment)	Deferred Tax — Recovery of Underlying Assets
IFRS 7 (Amendment)	Disclosures — Transfers of Financial Assets

The adoption of these amendments has no significant impact on the Group's results and financial position nor any substantial changes in the Group's accounting policies, presentation and disclosures of the financial information.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

New standards and amendments		Effective for accounting periods beginning on or after
IAS 1 (Amendment)	Presentation of Financial Statements	1 July 2012
IAS 19	Employee Benefits	1 January 2013
IAS 27	Separate Financial Statements	1 January 2013
IFRS 10	Consolidated Financial Statements	1 January 2013
IFRS 12	Disclosures of Interests in Other Entities	1 January 2013
IFRS 13	Fair Value Measurements	1 January 2013
IFRS 7 (Amendment)	Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities	1 January 2013
IAS 32 (Amendment)	Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities	1 January 2014
IFRS 7 and IFRS 9 (Amendments)	Mandatory Effective Date and Transition Disclosures	1 January 2015
IFRS 9	Financial Instruments	1 January 2015
2011 Annual improvements published in May 2012		
Amendment to IAS 1	Presentation of Financial Statements	1 January 2013
Amendment to IAS 16	Property, Plant and Equipment	1 January 2013
Amendment to IAS 32	Financial Instruments: Presentation	1 January 2013
Amendment to IAS 34	Interim Financial Reporting	1 January 2013

The Group has not early adopted the above standards and amendments and is not yet in a position to state whether substantial changes to the Group's accounting policies and presentation of financial information will result.

Notes to the Interim Financial Information

4 ESTIMATES

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2011.

5 SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. The Group's Board of Directors is the chief operating decision maker for the purposes of IFRS 8 as it collectively makes strategic decisions in allocating the Group's resources and assessing performance.

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

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

For the year ended 31 December 2011, management changed the presentation of the information provided to the Board of Directors, in order to present a more meaningful presentation of its business operations, consistent with the Group's long-term business strategy, and with how performance is assessed by the Board of Directors. The Group is organized into the following two major operating divisions, each of which represents an operating and reportable segment of the Group:

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

Under the revised segment presentation, the costs to the Group of producing rayon-grade pulp used by VSF manufacturing operation are recorded within the VSF Business segment. Previously these costs together with the profit realized from inter-segment sales were recorded in the DWP Business segment.

5 SEGMENT INFORMATION (continued)

Information regarding the above segments is reported below. The revised segment presentation was disclosed effective from the year ended 31 December 2011. Amounts reported for the prior period have been restated to conform to the basis of segmentation for the current period.

Segment revenue and results

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

For the six months ended 30 June 2012

	DWP Business US$'000	VSF Business US$'000	Unallocated US$'000	Consolidated US$'000
Segment revenue from external customers	196,337	177,126	—	373,463
Segment gross profit	72,707	27,677	—	100,384
EBITDA	73,551	24,661	(2,254)	95,958
Depreciation of property, plant and equipment	(20,042)	(19,325)	(101)	(39,468)
Depreciation of investment properties	—	—	(57)	(57)
Amortization of intangible assets	—	—	(50)	(50)
Decrease due to harvest	(10,285)	(5,449)	—	(15,734)
Decrease in fair value of forestation and reforestation assets	(7,235)	(3,834)	—	(11,069)
Finance costs	(8,279)	(7,911)	—	(16,190)
Segment results/profit/(loss) before income tax	27,710	(11,858)	(2,462)	13,390

Notes to the Interim Financial Information

5 SEGMENT INFORMATION (continued)

Segment revenues and results (continued)

For the six months ended 30 June 2011 (restated)

	DWP Business US$'000	VSF Business US$'000	Unallocated US$'000	Consolidated US$'000
Segment revenue from external customers	217,626	166,870	—	384,496
Segment gross profit	128,510	40,099	—	168,609
EBITDA	154,716	50,470	2,403	207,589
Depreciation of property, plant and equipment	(20,047)	(14,827)	(176)	(35,050)
Depreciation of investment properties	—	—	(53)	(53)
Amortization of intangible assets	—	—	(50)	(50)
Decrease due to harvest	(10,418)	(4,044)	—	(14,462)
Increase in fair value of forestation and reforestation assets	2,979	1,157	—	4,136
Finance costs	(12,533)	(9,240)	—	(21,773)
Segment results/profit before income tax	114,697	23,516	2,124	140,337

Earnings before interest, tax, depreciation and amortization ("EBITDA") is calculated as profit before income tax, excluding finance costs, depreciation of property, plant and equipment and investment properties, amortization, decrease due to harvest and changes in fair value of forestation and reforestation assets. EBITDA therefore includes changes in fair value and gains on settlement of derivative financial instruments.

Unallocated costs consist of other income and gains/(expenses) (including primarily rental income and certain bank interest income) and certain general and administrative expenses.

During the six months ended 30 June 2012, the Group's VSF business includes pre-operating expenses of Sateri (Fujian) Fibre Co., Ltd. of US$2,682,000 (six months ended 30 June 2011: US$85,000).

5 SEGMENT INFORMATION (continued)

Segment revenues and results (continued)

Management does not provide an analysis of segment assets and liabilities to the Group's Board of Directors as it is not practicable or meaningful to produce such information. Evaluation of the Group's assets and liabilities is undertaken on a consolidated basis. Therefore, the allocation of total assets and liabilities for each operating and reportable segment is not presented.

Other segment information

For the six months ended 30 June 2012

	DWP Business US$'000	VSF Business US$'000	Unallocated US$'000	Consolidated US$'000
Additions to non-current assets (note)	32,410	45,132	11	77,553

For the six months ended 30 June 2011 (restated)

	DWP Business US$'000	VSF Business US$'000	Unallocated US$'000	Consolidated US$'000
Additions to non-current assets (note)	64,352	61,807	30	126,189

Note: Non-current assets exclude deferred income tax assets and other non-current assets.

Notes to the Interim Financial Information

5 SEGMENT INFORMATION (continued)

Geographical information

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

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

	Six months ended 30 June	
	2012	2011
	US$'000	US$'000
The Americas (primarily USA and Brazil)	**68,036**	59,057
Europe (primarily the United Kingdom, Germany, Austria)	**32,915**	60,938
The PRC	**234,760**	220,100
Asia (primarily Indonesia and excluding the PRC)	**37,452**	44,401
Others	**300**	—
	373,463	384,496

6 COST OF SALES

	Six months ended 30 June	
	2012	2011
	US$'000	US$'000
Wood	**42,089**	33,249
Pulp products	**31,551**	45,082
Chemicals	**62,093**	37,543
Conversion	**82,547**	55,459
Labor costs	**16,869**	11,150
Depreciation	**37,930**	33,404
	273,079	215,887

7 OTHER INCOME AND GAINS/(EXPENSES), NET — OTHERS

	Six months ended 30 June	
	2012	2011
	US$'000	US$'000
Foreign exchange (loss)/gain	**(4,701)**	7,296
Bank interest income	**1,461**	1,211
Loss on disposal of property, plant and equipment	**(105)**	(105)
Rental income	**90**	83
Insurance claim received and receivable	**5,540**	—
Gain on disposal of subsidiaries	**794**	—
Others	**(625)**	752
	2,454	9,237

8 OPERATING PROFIT

	Six months ended 30 June	
	2012	2011
	US$'000	US$'000
Operating profit has been arrived at after charging:		
Salaries and other staff benefits	**26,810**	25,314
Retirement benefit scheme contributions	**763**	581
Awarded shares compensation	**645**	777
Total staff costs	**28,218**	26,672
Depreciation of property, plant and equipment	**39,468**	35,050
Depreciation of investment properties	**57**	53
Amortization of intangible assets	**50**	50
Decrease due to harvest	**15,734**	14,462
Amortization of prepaid lease payments	**455**	26
Cost of inventories recognized as an expense (note 6)	**273,079**	215,887

Notes to the Interim Financial Information

9 FINANCE COSTS

	Six months ended 30 June	
	2012	2011
	US$'000	US$'000
Interest expense on		
— bank borrowings	**12,861**	15,234
— obligations under finance leases	**219**	762
	13,080	15,996
Other finance costs	**3,198**	5,777
Total borrowing costs	**16,278**	21,773
Less: amounts capitalized	**(88)**	—
	16,190	21,773

10 INCOME TAX CREDIT/(EXPENSE)

	Six months ended 30 June	
	2012	2011
	US$'000	US$'000
Current income tax		
— Overseas income tax	**(2,265)**	(1,862)
Deferred income tax	**2,372**	(747)
	107	(2,609)

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

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.

10 INCOME TAX CREDIT/(EXPENSE) (continued)

The EIT rate of Group's other subsidiaries in the PRC is 25% (six months ended 30 June 2011: 25%).

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

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

Pursuant to the approval letter issued by International Enterprise Singapore dated 1 December 2010, the Group's Singapore subsidiary, Specialty Cellulose Marketing Pte. Ltd., is entitled to an award of the Global Trader Programme incentive, and hence it is eligible for the preferential income tax rate of 5% for qualified incomes for two years starting from 1 January 2011. The tax rate for the other group entities incorporated in Singapore is 17% (six months ended 30 June 2011: 17%).

The corporate income tax of Switzerland incorporated entity is calculated at 29.034% (six months ended 30 June 2011: 29.0675%) of the estimated assessable profit.

The corporate income tax of Hong Kong incorporated entities are calculated at 16.5% (six months ended 30 June 2011: 16.5%) of the estimated assessable profit.

The corporate income tax of US incorporated entity is calculated based on the estimated assessble profits, multiplied by applicable United States Federal and State corporate income tax rates.

Notes to the Interim Financial Information

11 EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the Group's profit attributable to the owners of the Company divided by the weighted average number of ordinary shares.

	Six months ended 30 June	
	2012	2011
	US$'000	US$'000
Earnings for the purposes of basic and diluted earnings per share		
Profit attributable to owners of the Company	**13,405**	138,540
Weighted average number of ordinary shares for the purpose of basic earnings per share	**3,417,416,349**	3,415,362,300
Effect of dilutive potential ordinary shares:		
Restricted share units	**695,506**	3,882,024
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**3,418,111,855**	3,419,244,324

12 DIVIDENDS

Final dividend of HK2.5 cents per share for the year ended 31 December 2011 was proposed, declared and paid during the six months ended 30 June 2012. The directors do not recommend the payment of an interim dividend (six months ended 30 June 2011: nil).

13 MOVEMENTS IN FORESTATION AND REFORESTATION ASSETS, PROPERTY, PLANT AND EQUIPMENT, PREPAID LEASE PAYMENTS, INVESTMENT PROPERTIES AND INTANGIBLE ASSETS

	Forestation and reforestation assets US$'000	Property, plant and equipment US$'000	Prepaid lease payments US$'000	Investment properties US$'000	Intangible assets US$'000
Balance at 31 December 2011	187,797	1,455,966	29,811	1,867	675
Currency translation differences	—	(1,510)	(112)	(5)	—
Fair value loss	(11,069)	—	—	—	—
Additions	16,304	60,850	399	—	—
Disposals	—	(436)	—	—	—
Decrease due to harvest	(16,864)	—	—	—	—
Depreciation and amortization	—	(38,189)	(455)	(57)	(50)
Balance at 30 June 2012	**176,168**	**1,476,681**	**29,643**	**1,805**	**625**
Balance at 31 December 2010	192,192	1,384,070	7,493	1,880	775
Currency translation differences	—	11,988	382	96	—
Fair value loss	(8,349)	—	—	—	—
Additions	41,608	125,258	22,487	—	—
Disposals	—	(2,150)	—	—	—
Decrease due to harvest	(37,654)	—	—	—	—
Depreciation and amortization	—	(69,962)	(551)	(109)	(100)
Impairment loss reversed in profit or loss	—	6,762	—	—	—
Balance at 31 December 2011	187,797	1,455,966	29,811	1,867	675

As 30 June 2012 and 31 December 2011, management of the Group adopted a discounted cash flow model in determining the fair value of forestation and reforestation assets, 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 2012 have no material changes from 31 December 2011:

— the reference wood price in Brazilian Real ("BRL") is BRL35.01 (31 December 2011: BRL33.93) (equivalent to US$17.32 and US$18.09 respectively) per cubic meter, based on the prices paid under contracts entered into with local farmers during the six months ended 30 June 2012 and year ended 31 December 2011;

— exchange rate between US dollars and BRL is US$1.00 = BRL2.02 as at 30 June 2012 and US$1.00 = BRL1.88 as at 31 December 2011.

Notes to the Interim Financial Information

14 OTHER NON-CURRENT ASSETS

	30 June 2012 US$'000	31 December 2011 US$'000
Tax recoverable (note a)	**45,422**	51,155
Unlisted equity investment (note b)	**15,743**	14,133
Others	**4,286**	3,977
	65,451	69,265

Notes:

(a) This represents mainly value-added tax ("VAT") recoverable in respect of acquisition of property, plant and equipment and raw materials in Brazil that are not expected to be recovered within the next twelve months from the end of the each reporting period, and are accordingly classified as non-current assets. This is 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 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 2012 and 31 December 2011 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 2012 and the year ended 31 December 2011.

15 DEFERRED INCOME TAX ASSETS AND LIABILITIES

	30 June 2012 US$'000	31 December 2011 US$'000
Deferred income tax assets	**52,610**	105,496
Deferred income tax liabilities	**—**	(55,245)
	52,610	50,251

During the period, deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

15 DEFERRED INCOME TAX ASSETS AND LIABILITIES (continued)

The following are the deferred income 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 2011	(60,945)	(10,377)	(301)	2,758	98,204	10,614	39,953
Exchange differences	—	—	—	—	50	93	143
Credit/(charge) to profit or loss for the year	10,822	5,255	3,574	2,225	(1,766)	(9,955)	10,155
At 31 December 2011	(50,123)	(5,122)	3,273	4,983	96,488	752	50,251
Exchange differences	—	—	—	—	(9)	(4)	(13)
Credit/(charge) to profit or loss for the period	12,805	3,519	(2,239)	(216)	(8,839)	(2,658)	2,372
At 30 June 2012	**(37,318)**	**(1,603)**	**1,034**	**4,767**	**87,640**	**(1,910)**	**52,610**

Note:

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

At 30 June 2012, the Group has unused tax losses of approximately US$284,609,000 (31 December 2011: US$303,815,000), available for offsetting against future profits. The unused tax losses for US$262,570,000 (31 December 2011: US$281,843,000) have been recognized as deferred tax assets. The majority of unused tax losses may be carried forward indefinitely.

Notes to the Interim Financial Information

16 TRADE, BILLS AND OTHER RECEIVABLES

	30 June 2012 US$'000	31 December 2011 US$'000
Trade and bills receivables	**108,725**	108,897
Other receivables:		
Prepayments and deposits paid	**3,023**	5,429
Advance to suppliers	**16,270**	12,320
VAT recoverable	**21,737**	25,936
Others	**7,039**	2,422
	48,069	46,107
Less: Impairment loss recognized in respect of other receivables	**—**	(1,772)
	48,069	44,335
Amount due from a related party (note)	**6,538**	—
Trade, bills and other receivables	**163,332**	153,232

16 TRADE, BILLS AND OTHER RECEIVABLES (continued)

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 June 2012 US$'000	31 December 2011 US$'000
0–60 days	79,525	82,743
61–90 days	7,812	1,429
91–180 days	21,388	23,156
Over 180 days	—	1,569
	108,725	108,897

Note:

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

17 TRADE AND OTHER PAYABLES

	30 June 2012 US$'000	31 December 2011 US$'000
Trade payables	43,593	44,256
Other payables:		
Accruals and others	33,119	40,852
Advance from customers	3,296	11,753
Construction payable	6,861	7,621
Other taxes payable (note i)	3,220	2,556
Provisions (note ii)	13,914	13,523
	60,410	76,305
Amounts due to related parties (note iii)	4,474	16,013
Trade and other payables	108,477	136,574

Notes to the Interim Financial Information

17 TRADE AND OTHER PAYABLES (continued)

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 June 2012 US$'000	31 December 2011 US$'000
0–90 days	**42,093**	43,023
91–180 days	**1,271**	56
Over 180 days	**229**	1,177
	43,593	44,256

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, labor and tax lawsuits. Management considers that these provisions are sufficient and appropriate to cover the corresponding contingencies. Additionally, the Group is a party to certain lawsuits and administrative proceedings in the amount of approximately US$22,306,000 (31 December 2011: US$25,679,000), which are considered as possible but not probable future losses. No provision has been made in this interim financial information for these possible losses.

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

18 BORROWINGS

During the six months ended 30 June 2012, the Group obtained new bank borrowings amounting to approximately US$99,980,000 (six months ended 30 June 2011: US$64,170,000). The new bank borrowings comprise secured loans of approximately US$65,980,000 (six months ended 30 June 2011: US$53,354,000) and unsecured loans of approximately US$34,000,000 (six months ended 30 June 2011: US$10,816,000).

19 SHARE CAPITAL

	Number of shares	Amounts US$'000
Authorized:		
At 1 January 2011, 31 December 2011 and 30 June 2012, at US$0.05 each	15,000,000,000	750,000
Issued and fully paid:		
At 1 January 2011, at US$0.05 each	3,368,826,750	168,441
Issue of new shares (note a)	47,055,500	2,353
At 31 December 2011, at US$0.05 each	3,415,882,250	170,794
Issue of new shares (note b)	2,038,000	102
At 30 June 2012, at US$0.05 each	**3,417,920,250**	**170,896**

Notes:

(a) On 3 January 2011, 47,055,500 shares 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 these over-allotment shares, after deduction of share issue cost payable by the Company.

(b) On 15 February 2012, 2,038,000 shares were allotted and issued by the Company at the subscription price for a total cash consideration of HK$5,380,320.

Notes to the Interim Financial Information

20 PLEDGE OF ASSETS

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

	30 June 2012 US$'000	31 December 2011 US$'000
Property, plant and equipment	**1,278,060**	1,305,538
Inventories	**7,298**	—
Prepaid lease payments	**29,523**	2,261
Investment properties	**—**	1,867
Bank deposits	**4,305**	5,294
Bills receivable	**5,334**	—
	1,324,520	1,314,960

21 COMMITMENTS

	30 June 2012 US$'000	31 December 2011 US$'000
Contracted but not provided for		
— acquisition of property, plant and equipment	**127,277**	147,330
— capital injections in unlisted investment	**688**	2,596
Authorized but not contracted for		
— acquisition of property, plant and equipment	**350,034**	101,285

22 RELATED PARTY DISCLOSURES

(a) During the six months ended 30 June 2012, 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 2012 US$'000	2011 US$'000
Companies under the control of the Majority Shareholder			
DP Marketing International Limited — Macao Commercial Offshore	Purchase of goods	**8,276**	39,358
	Commission income	**1,853**	2,020
Averis Sdn. Bhd.	Service fee expense	**2,213**	565
RGE Limited	Proceeds on disposal of subsidiaries (note)	**2,701**	—
Asian Resources Development Limited	Rental expense	**76**	75

Note:

Sateri International Co. Ltd ("Sateri International"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement dated 25 May 2012 to transfer the Fengdu Project to RGE Limited through a sale of the entire issued share capital of Sateri China Investment Limited (a special purpose vehicle set up to undertake the Fengdu Project). The consideration for the transfer was approximately US$2.7 million paid in cash on completion at 25 May 2012. The gain on disposal of US$794,000 was recognized in the condensed consolidated income statement. Details of the transaction are set out in the announcement dated 25 May 2012.

The terms of the transfer (including the basis of the consideration) are determined on an arm's length basis.

(b) Compensation of key management personnel

During the six months ended 30 June 2012, the emoluments paid to the key management personnel of the Group were approximately US$3,189,000 (six months ended 30 June 2011: US$3,032,000).

Information for Investors

Listing Information

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

Index Constituent

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

Key Dates

27 March 2012
(Announcement of 2011 Annual Results)

16 August 2012
(Announcement of 2012 Interim Results)

Registrar & Transfer Offices

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Share Information

Board lot size: 500 shares

Shares outstanding as at 30 June 2012
3,417,920,250 shares

Market capitalization as at 30 June 2012
HK$5,640 million (approximately US$723 million)

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