Sateri Holdings Limited

Stock Code: 1768

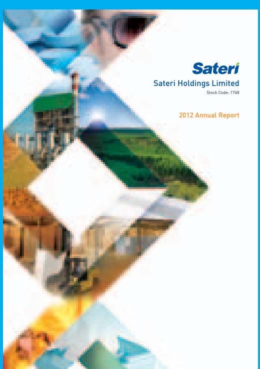
2012 Annual Report

About Sateri

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

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

Sateri attaches high priority to its social and sustainability responsibilities and is committed to preserve and protect the environment in every aspect of its operations. Sateri is a constituent stock of the Morgan Stanley Capital International (MSCI) Hong Kong Small Cap Index and has corporate offices located in Shanghai and Hong Kong.



Cover Design of 2012 Annual Report

Sateri attaches high priority to its social and sustainability responsibilities and is committed to preserve and protect the environment in every aspect of its operations. Its products are made from plantation trees, which are natural and renewable resources. The connected square chain illustrates the sustainability concept of Sateri, resembling the infinity sign. The core (middle chain) links with its two-prong strategy and its end product applications.

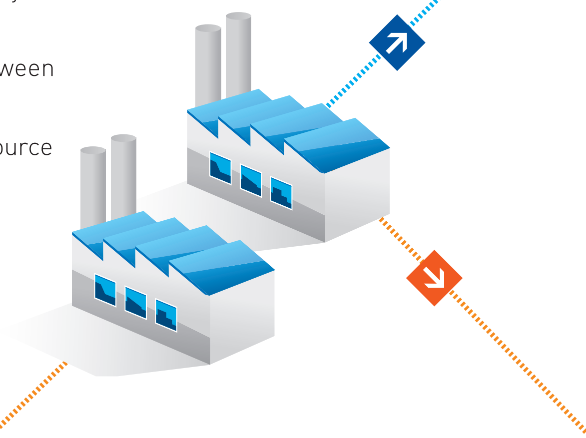
Contents

What We Do- Our Integrated Value Chain

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

Dissolving Wood Pulp Facility

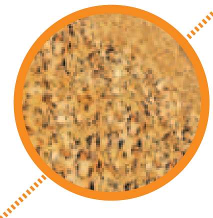
- Two production lines in Bahia, Brazil with an annual design production capacity of 485,000 tons
- Flexibility to switch production between rayon and specialty grades of pulp
- Strategically located near our wood source

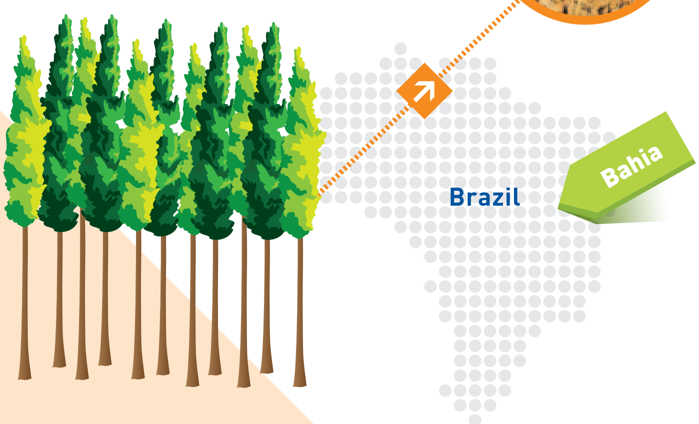


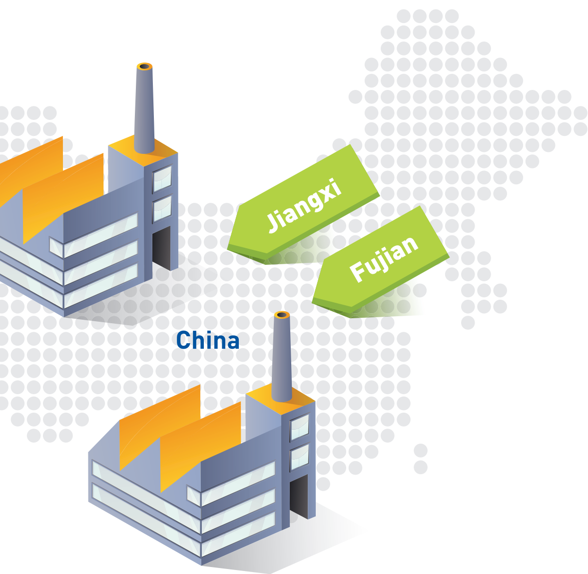
Plantations

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

Wood Chips







Viscose Staple Fiber Facility

- Four production lines in Jiangxi, China, with an annual design production capacity of 160,000 tons
- New greenfield project in Fujian, China, with an annual design production capacity of 200,000 tons, expected to be operational by end of 2013

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

16 August 2012
(Announcement of 2012 Interim Results)

15 March 2013
(Announcement of 2012 Annual Results)

21 May 2013
(Annual General Meeting)

Registrar & Transfer Offices

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

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

Share Information

Board lot size: 500 shares

Shares outstanding as at 31 December 2012
3,417,920,250

Market Capitalization as at 31 December 2012
HK$5,981 million (approximately US$769 million)

Investor Relations Contact

Lisa Cheong
Vice President, Investor Relations
Tel: (852) 2864 6638
Fax: (852) 2865 5499
Email: ir@sateri.com

Sateri Holdings Limited
21/F, Aon China Building
29 Queen's Road Central
Central, Hong Kong

Websites

www.sateri.com
www.irasia.com/listo/hk/sateri

Financial Highlights

Year ended 31 December US$ Million	2012	2011	Change %
Revenue	**720**	807	(11)%
Gross profit	**220**	323	(32)%
Gross profit margin	**31%**	40%	
EBITDA[(1)]	**200**	288	(31)%
EBITDA margin	**28%**	36%	
Profit attributable to shareholders	**56**	155	(64)%
Net profit margin	**8%**	19%	
Earnings per share (US cents)	**1.6**	4.5	
Recommended dividend per share (HK cents)	**2.5**	2.5	

At 31 December US$ Million	2012	2011	Change %
Total assets	**2,392**	2,522	(5)%
Total liabilities	**669**	845	(21)%
Net assets	**1,723**	1,677	3%
Total debt	**497**	578	(14)%
Cash and cash equivalents	**195**	329	(41)%
Net debt	**302**	249	21%
Current ratio	**1.4x**	1.7x	
Net gearing[(2)]	**18%**	15%	
Operating cash flows before movements in working capital	**199**	314	(37)%

Notes:

(1) EBITDA (Earnings before interest, income tax, depreciation and amortization) is calculated as profit before income tax, excluding finance costs, depreciation of property, plant and equipment and investment properties, reversal of impairment loss in respect of property, plant and equipment, amortization of intangible assets, decrease due to harvest, and changes in fair value of forestation and reforestation assets.

(2) Net gearing is calculated by dividing (i) long-term and short-term borrowings minus pledged bank deposits, bank balances and cash by (ii) total equity (including non-controlling interests).

Chairman's Statement

I am pleased to report that Sateri Holdings Limited continued to achieve substantial progress in realizing our strategic vision of building a vertically-integrated, leading global producer of specialty cellulose products. The demand for this high purity, renewable, versatile and organic resource is driven by fundamental consumer needs, and our products are essential ingredients in a wide variety of products, ranging from textiles, cigarette filters, baby wipes and eyeglass frames to cosmetics, ice cream, pharmaceuticals and tire cords.

John Jeffrey YING
Chairman

Though financial results were disappointing during 2012 due to a weak pricing environment for our industry, I am pleased to report that Sateri Holdings Limited continued to achieve substantial progress in realizing our strategic vision of building a vertically-integrated, leading global producer of specialty cellulose products. The demand for this high purity, renewable, versatile and organic resource is driven by fundamental consumer needs, and our products are essential ingredients in a wide variety of products, ranging from textiles, cigarette filters, baby wipes and eyeglass frames to cosmetics, ice cream, pharmaceuticals and tire cords.

Sateri is well-positioned in our industry to benefit from any improvements in the pricing environment due to an integrated business platform that combines our freehold timberland in Brazil of 150,000 hectares (370,700 acres); a technologically-advanced and low cost dissolving wood pulp (DWP) production facility; increasing penetration into the specialty-grade pulp market, providing stable and premium pricing for a growing proportion of our revenues; our new 200,000-ton viscose staple fiber (VSF) mill in Fujian, China that will enable us to become more vertically integrated upon its projected completion by the end of 2013; and a significant market position enjoyed by our downstream operations in China, at the heart of the world's fastest growing consumer market with continuing robust demand growth for VSF.

Until the completion of the new Fujian VSF mill, the Company remains exposed to pricing fluctuations in the commodity rayon-grade pulp market for a significant proportion of our revenues. This sector experienced an influx of new supply after product prices peaked in the first quarter of 2011, exerting downward pressure on product pricing and world operating rates thereby creating a challenging environment for all rayon-grade pulp producers. In 2014, we believe our strategy to achieve integration between our upstream DWP and downstream VSF operations will enable us to optimize profitability along the DWP-VSF value chain.

During 2012, the Company reported an EBITDA margin of 28% and a net profit margin of 8%, even in the face of weak pricing in the industry. The spot market price for rayon-grade DWP dropped from the peak of above US$2,600 per metric ton in March 2011, to approximately US$1,100 at the end of 2011 and continued further to under US$900 at the end of 2012. The spot market price of our downstream product, VSF, dropped from the historic high of approximately US$3,700 per metric ton in March 2011, to approximately US$2,200 at the end of 2011 and continued further to approximately US$1,900 by the end of 2012. As a result in 2012, our realized average selling price for rayon-grade DWP and VSF decreased by 38% and 20%, respectively, and negatively impacted our overall financial results.

For the fiscal year ended 31 December 2012, our revenues decreased 11% to US$720 million from US$807 million in 2011, and EBITDA decreased 31% to US$200 million from US$288 million in 2011. Resulting profit attributable to shareholders decreased 64% to US$56 million from US$155 million in 2011. During this challenging operating environment, Sateri continued to focus on improving operating efficiency and cost competitiveness, and maintained our position as a leading, sustainable low-cost global producer of specialty cellulose.

Chairman's Statement

In 2014, we believe our strategy to achieve integration between our upstream DWP and downstream VSF operations will enable us to optimize profitability along the DWP-VSF value chain.

We also focused on managing our balance sheet conservatively. Despite the difficult market conditions, Sateri successfully refinanced our original US$470 million syndicated loan, arranged before our IPO in 2010, with a US$500 million dual-tranche syndicated facility and extended the tenor of our existing loan profile. The Company's balance sheet as at 31 December 2012 remained healthy with US$195 million of cash and cash equivalents against total debt of US$497 million, compared to US$329 million and US$578 million, respectively, in 2011.

As Sateri continues to develop, human resources remain one of the most critical components for our future success. In September 2012, Mr. Will Hoon resigned as Chief Executive Officer, and Mr. Tey Wei Lin, an Executive Director, was appointed as Acting Chief Executive Officer. We also continued to enhance our management team across key functional areas of operations, commercial and finance. The Company will continue investing in people and will deepen and broaden our team to build a world-class company, in which each individual is valued for bringing different perspectives, complementary experiences and skill sets.

The Board of Directors continues to strive for international best practices in corporate governance and sustainability to ensure the long-term success of Sateri and to best serve the interests of all our shareholders and other stakeholders. We are pleased that our achievements in corporate governance continued to win awards and receive market recognition during 2012.

Looking ahead, we believe the rayon-grade DWP industry will continue to be challenging in the near term. While signs of economic recovery in China and other parts of the world are gradually appearing, new upgrades and conversions of mills continue in the industry and will further expand world capacity of rayon-grade pulp. Given these dynamics, we believe spot market prices will continue to be cyclical as the market works its way towards demand-supply balance. In the longer run, we strongly believe our competitive strengths will differentiate us from our peers, giving us a unique and leading position in the global specialty cellulose market. We are confident that Sateri is well-positioned to deliver attractive long-term value to our shareholders.

After considering our earnings, cash position and future financial needs, I am pleased to report that the Board of Directors has recommended the payment of a final dividend of HK2.5 cents per share for the year ended 31 December 2012.

On behalf of the Board of Directors, I would like to thank all Sateri staff for their dedication and hard work during 2012. I also would like to thank Mr. Will Hoon for his contributions and to wish him the best in his future endeavors. I am most grateful to the Directors for their invaluable advice and assistance and to all our shareholders, customers and business associates for your unwavering support.

John Jeffrey YING
Chairman
Hong Kong, 15 March 2013

In the longer run, we strongly believe our competitive strengths will differentiate us from our peers, giving us a unique and leading position in the global specialty cellulose market. We are confident that Sateri is well-positioned to deliver attractive long-term value to our shareholders.

Management Discussion and Analysis

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

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

Management Discussion and Analysis

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

Business Review

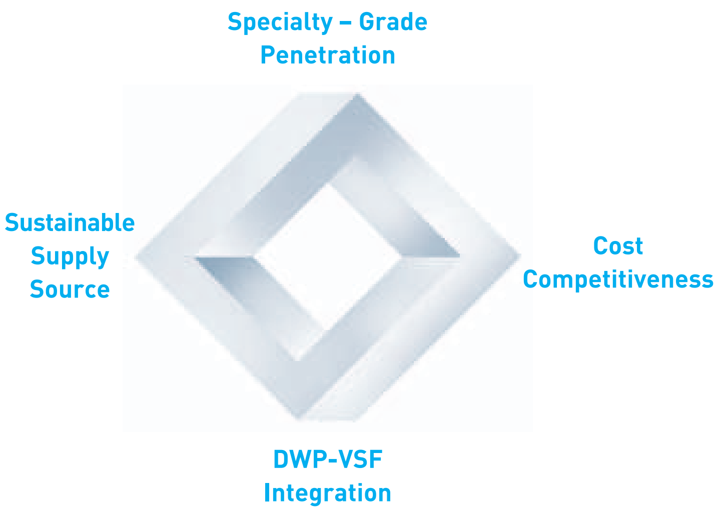
Sateri is a leading global specialty cellulose company. The Group produces dissolving wood pulp ("DWP") at its Bahia Specialty Cellulose ("BSC") plant in Brazil using wood resources grown from its captive eucalyptus plantations; and viscose staple fiber ("VSF") in Jiangxi, China using DWP as its main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

In 2012, market conditions continued to prove challenging and the product pricing environment for rayon-grade pulp and viscose staple fiber remained weak. The rayon-grade pulp industry has experienced a significant wave of new supply since the second half of 2011, coming from new mills, upgrades or conversions. From late 2011, this led to a significant drop in spot market prices as the market needed time to digest the new supply. Spot market prices of rayon-grade pulp declined from the peak of above US$2,600 per metric ton in March 2011, to approximately US$1,100 at the end of 2011, and further to under US$900 at the end of 2012. As a consequence, our profitability was significantly impacted. However, our scale, cost competitiveness and high product quality enabled us to compete effectively in a challenging market environment faced by all rayon-grade pulp producers.

In respect of our specialty-grade pulp products, we saw an increased market penetration, albeit at a slower rate than we expected. Nonetheless, we are fully committed to our ongoing strategy to penetrate further into this segment, due to its lower pricing volatility and superior positioning in the value chain. We have made progress, and we will continue to refine our product quality according to stringent customer specifications in order to enlarge our market share.

In 2012, the average selling prices ("ASP") for the Group's rayon-grade DWP and VSF were 38% and 20%, respectively, lower than those achieved in 2011. The ASP for specialty-grade DWP, on the other hand, remained fairly stable.

During the year, the Group continued to focus on improving cost competitiveness to maintain its position as a leading, sustainable low-cost global producer of specialty cellulose. Production volume of DWP and VSF in 2012 increased by 4% and 20%, respectively, whilst sales volume to third party customers increased by 13% and 22%, respectively. Total cost of sales increased modestly by 4% as a result of the Group's continuing cost control measures.



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

Management Discussion and Analysis

During the year, the Group continued the ongoing construction of its greenfield VSF project in Fujian, China, which is expected to be operational by the end 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. This will more than double our downstream capacity, further increase the integration between the Group's upstream and downstream operations, move us towards capacity balance along the DWP-VSF value chain, and position us to capture the long-term demand growth in one of the fastest-growing economies in the world.

On the financing front, on 15 February 2013, the Group completed a US$500 million senior secured trade related facility agreement consisting of a five-year term loan of US$440 million and a committed revolving credit facility of US$60 million. This demonstrates the strength of the Group's ability to raise financing even during difficult market conditions.

DWP Business

Year ended 31 December	**2012**	**2011**	**Change %**
Production volume[1] *(metric tons)*	**432,102**	413,990	4%
Sales volume[1] *(metric tons)*	**288,761**	256,627	13%
ASP *(US$/metric ton)*	**1,278**	1,728	(26)%
Revenue *(US$'000)*	**368,947**	443,525	(17)%
Gross profit *(US$'000)*	**154,414**	237,878	(35)%
Gross profit margin *(%)*	**42%**	54%	
EBITDA *(US$'000)*	**145,875**	206,165	(29)%
EBITDA margin *(%)*	**40%**	46%	

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

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

Rayon-grade pulp

Rayon-grade pulp is the principal raw material used for the production of VSF. In 2012, China continued to be the largest rayon-grade pulp market by demand and BSC remained its largest offshore supplier by volume, according to RISI (a leading information provider for the global forest products industry), PCI Fibres (a specialist consultancy to the global fibers and related industries) and China Customs data.

The weak pricing environment of the rayon-grade pulp market persisted in 2012. The industry has experienced a significant wave of new supply since the second half of 2011, coming from new mills, upgrades or conversions. From late 2011, this led to a significant drop in spot market prices as the market needed time to digest the new supply. Spot market prices of rayon-grade pulp declined from the peak of above US$2,600 per metric ton in March 2011 to approximately US$1,100 at the end of 2011, and further to under US$900 at the end of 2012.

In spite of current over-supply throughout the rayon-viscose value chain, demand growth for rayon-grade pulp continues to be robust. Current world demand for rayon-grade pulp is approximately 4.3 million metric tons annually, which grew by approximately 10% per year from 2010 to 2012, mainly from China, and is estimated to grow at similar rates per year from 2012 to 2014, according to RISI. In 2012, the Group sold 191,646 metric tons of rayon-grade pulp to third parties, an increase of 17% compared to 2011. 143,979 metric tons were sold internally from BSC to Sateri Jiangxi, representing a 44% 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, the business is inherently more cyclical than the market for the specialty grades. Accordingly, the Group's strategy is to increase its exposure to the specialty-grade pulp market, and optimize the production and sales mix of rayon grades and specialty grades of pulp in light of prevailing market conditions and customer demand.

Specialty-grade pulp

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

Total global demand for specialty grades is currently approximately 1.5 million metric tons annually and is estimated to grow at 4% to 5% per year from 2012 to 2014, 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 therefore been more stable and less susceptible to market volatility.

In 2012, the Group sold 97,115 metric tons of specialty-grade DWP, representing a 5% increase from a year ago. The Group's penetration into this market has been slower than expected. Nonetheless, we are fully committed to our ongoing strategy to penetrate further into this segment, owing to its more stable pricing, which is also at a significant premium to rayon-grade pulp. We have made progress, and we will continue to refine our product quality according to stringent customer specifications in order to enlarge our market share.

VSF Business

Year ended 31 December	2012	2011	Change %
Production volume *(metric tons)*	**168,383**	140,576	20%
Sales volume *(metric tons)*	**170,634**	140,260	22%
ASP *(US$/metric ton)*	**2,059**	2,588	(20)%
Revenue *(US$'000)*	**351,338**	363,049	(3)%
Gross profit(2) *(US$'000)*	**65,292**	85,195	(23)%
Gross profit margin *(%)*	**19%**	23%	
EBITDA(2) *(US$'000)*	**56,930**	89,410	(36)%
EBITDA margin *(%)*	**16%**	25%	

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

The Group's VSF Business segment comprises sales of VSF to third parties. VSF, produced from rayon-grade pulp, is a high purity, high absorbent and biodegradable material typically used in a variety of textile products to enhance comfort and add a silky touch and colour brilliance.

Against the backdrop of global macroeconomic weakness and slower economic growth in China, market prices of VSF fell from a record high of US$3,700 per metric ton in March 2011, to approximately US$2,200 at the end of 2011, and further to approximately US$1,900 by the end of 2012. Realized ASP of VSF for the Group dropped by 20% year-on-year to US$2,059 per metric ton in 2012. This resulted in a 23% drop in gross profit.

Management Discussion and Analysis

Amidst the difficult trading environment, the Group continued to focus on improving its operations, cost competitiveness and product quality so as to enhance its competitive positioning within the VSF industry in China. Access to a captive, low-cost DWP supply from our Brazil mill also gives us a distinct competitive edge over VSF producers who need to acquire feedstock from the spot market. Production volume increased by 20% to 168,383 metric tons and sales volume increased by 22% to 170,634 metric tons.

Rising disposable incomes and the resulting growth in demand for comfortable clothing and absorbent non-woven products make China both the largest producer and largest consumer of VSF in the world. The majority of customers for Sateri's VSF production are textile manufacturers located in China, South East Asia and Europe. Global demand for VSF grew by 8% per annum in the past decade according to Fiber Organon, a statistical journal published by Fiber Economics Bureau in the United States, and by approximately 15% in China according to China Chemical Fibers and Textiles Consultancy ("CCF").

The Group's strategy in the VSF Business segment is to increase integration with the Group's rayon-grade DWP operations by building a new greenfield VSF plant in Fujian; and also to increase penetration into the specialty VSF markets, which will further enhance Sateri's competitive positioning in the fragmented VSF market.

Future Development Plan

In 2013 and beyond, the Group will continue its strategy to produce and sell more specialty-grade pulp, in view of its lower level of pricing volatility and superior positioning within the value chain. The Group's strategy is to become one of the global leaders in this market, particularly in the acetate segment.

As part of our DWP-VSF integration strategy, the Group's greenfield VSF project in Fujian, China is scheduled to be operational by the end of 2013, with a design capacity of 200,000 metric tons per annum. We believe that the inception of this new state-of-the-art VSF mill will not only enable the Group to increase integration with its rayon-grade DWP business, it will also increase the scale and improve the competitive positioning of our VSF business in China, thereby placing us in a good position to capture the long-term demand growth 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$107 million capital expenditure on this project in 2012 (2011: US$38 million) and total capital expenditure up to 31 December 2012 amounted to US$152 million. As at 31 December 2012, the Group had approximately US$157 million of capital expenditure contracted but not provided for relating to this project.

The Group will continue to manage dynamically the production and sales mix of its DWP and VSF products in order to optimize profitability from its integrated business platform. We will continue to penetrate into targeted segments for specialty-grade pulp and increase our market share in VSF.

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

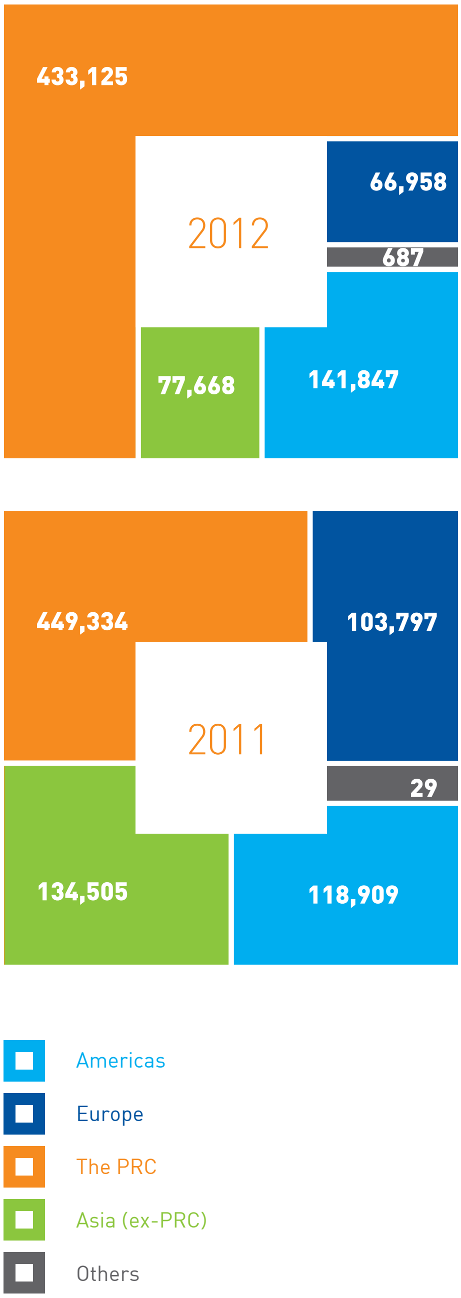
Outlook

Current trading conditions in the rayon-grade pulp market remain challenging. Though we are currently seeing clear improvement in the pricing environment compared to the fourth quarter of 2012, current spot prices for rayon-grade pulp remain below the average levels achieved for the whole of 2012. Looking forward, continued demand growth should be supported by signs of economic recovery in China and other parts of the world. However, new capacity additions can be expected to exert continuing pressure on the market at least in the near term.

Nonetheless, in spite of the current abundance of supply throughout the DWP-VSF value chain, demand for our products continues to grow strongly. The Group is well-positioned to emerge stronger from the difficult current trading environment owing to its sustainable source of wood supply from its freehold timberland in Brazil and competitive cost structure. The Group is focused on the execution of its business strategy – to further penetrate into the specialty-grade pulp market which has more stable and premium pricing than rayon-grade pulp, and to further integrate its operation in Brazil into its VSF business in China by completing its Fujian VSF plant. We believe this two-prong strategy together with our conservative cash flow and balance sheet management will support the Group's ability to grow further in future, and deliver attractive long-term shareholder value.

Revenue by Geographical Markets

US$'000



Management Discussion and Analysis

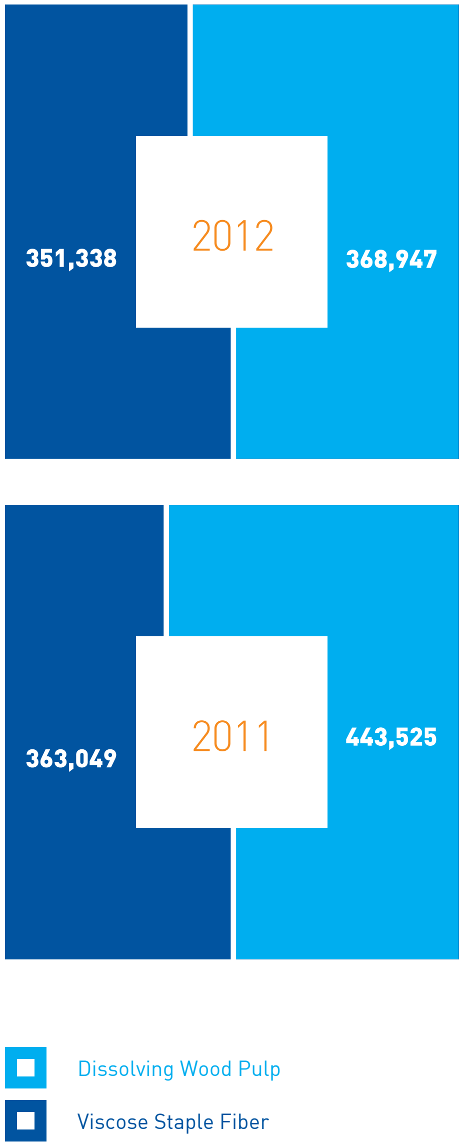
Financial Review

Consolidated Results

The Group's total revenue decreased by 11% to US$720 million for the year ended 31 December 2012 from US$807 million in 2011. Total cost of sales increased by 4% to US$500 million from US$484 million. Gross profit decreased by 32% to US$220 million and EBITDA decreased by 31% to US$200 million. Profit attributable to shareholders decreased by 64% to US$56 million from US$155 million, and earnings per share decreased to US 1.6 cents from US 4.5 cents.

The 11% decrease in total revenue was mainly a result of the lower ASP achieved in 2012 whereas the 4% increase in total cost of sales was mainly attributable to an increased proportion of VSF within overall sales. Gross profit margin, therefore, decreased from 40% to 31% and EBITDA margin decreased from 36% to 28%. Net profit margin decreased from 19% to 8%.

Revenue by Products
US$'000



Cost of Sales

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

The Group's cost of sales increased by 4% to US$500 million for the year ended 31 December 2012 mainly due to an increased proportion of VSF within overall sales, which in turn gave rise to increased input costs such as chemicals and labour costs. The increase was mitigated by reduced conversion costs and a lower amount of dissolving pulp procured from third parties used in the production of VSF as the Group continued to improve its manufacturing processes and operational efficiency.

The Group also benefited from a weaker average exchange rate between the BRL and USD during the year which lowered reported cost of sales. The average exchange rate depreciated by 16% from US$1: BRL1.68 in 2011 to US$1: BRL1.95 in 2012.

Other Profit and Loss Account Items

Selling and Distribution and Administrative Expenses

Selling and distribution expenses increased by 18% to US$61 million for the year ended 31 December 2012, from US$52 million in 2011, mainly due to an increase in sales volume of DWP and VSF by 13% and 22%, respectively. Administrative expenses, by contrast, decreased by 25% as a result of lower professional and consultancy fees, reduced provisions and tighter cost control within all Group companies throughout the year.

Finance Costs

The Group's finance costs decreased to US$30 million for the year ended 31 December 2012 from US$42 million in 2011 as a result of lower levels of total debt and a tight rein on working capital. The Group commenced repayment of its US$470 million international syndicated loan facility (the "Old Facility") in the fourth quarter of 2011. In February 2013, the Old Facility was fully repaid and refinanced by a new US$500 million international syndicated loan facility. See "Events after the Balance Sheet Date" for more details.

(Loss)/Gain on Settlement of Derivative Financial Instruments and Decrease in Fair Value 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. A small loss of US$1 million was recorded in the consolidated income statement for settlement of such derivative financial instruments for the year ended 31 December 2012, compared to a gain of US$12 million in 2011.

Effective from 1 July 2012, the Group adopted hedge accounting for its currency hedging risk management program under International Accounting Standards 39 whereby the changes in fair value of derivative financial instruments are recorded in the consolidated statement of changes in equity. As at 31 December 2012, these changes in fair value of derivative instruments amounted to a gain of US$1 million. As at 31 December 2011, these changes in fair value of derivative instruments amounted to a loss of US$31 million and were recorded in the consolidated income statement.

Management Discussion and Analysis

Decrease in Fair Value of Forestation and Reforestation Assets

Fair value of forestation and reforestation assets is estimated using a discounted cash flow model with reference to estimates in growth, harvest, sales prices and costs. The volume of forest harvested and recoverable as estimated by the Group is based on statistical information and data obtained from physical measurements and other information gathering techniques.

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

Revaluation of the Group's forestation and reforestation assets is conducted semi-annually at each reporting date. The Group recognized a decrease in fair value of forestation and reforestation assets of US$15 million in 2012, compared with a decrease of US$8 million in 2011, due primarily to the prevailing exchange rates of the Brazilian Reais against the US Dollar at the respective year ends.

Income Tax Credit

The Group recorded an income tax credit of US$4 million for the year ended 31 December 2012, compared to a credit of US$7 million in 2011. The Group is subject to taxation at the rates prevailing in the jurisdictions in which each of the Group's entities principally operates. The Group enjoys certain tax exemptions and concessions granted by the appropriate competent authorities in Brazil, Macau and Singapore.

Capital Expenditure

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

Overall, the Group incurred US$206 million in capital expenditure for the year ended 31 December 2012, compared to US$188 million in 2011. Of the US$206 million, US$91 million was incurred in Brazil, including US$37 million spent on forestation and reforestation assets, and US$8 million was incurred in Jiangxi.

As set out in "Future Development Plan" above, the Group continued the construction of its new VSF mill in Fujian and incurred US$107 million on this project in 2012 (2011: US$38 million). The Group expects to increase its capital expenditure on the Fujian project significantly prior to its commencement of operation before the end of 2013.

Charges on Assets

As at 31 December 2012, certain assets of the Group with an aggregate carrying value of US$1,282 million (2011: US$1,315 million) were pledged with banks for banking facilities used by our subsidiaries.

Cash Flow, Liquidity and Financial Position

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

As at 31 December 2012, the Group's cash and cash equivalents (including bank balances and cash and pledged bank deposits) amounted to US$195 million, compared with US$329 million as at 31 December 2011. Net debt as at 31 December 2012 amounted to US$302 million, compared with US$249 million 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 18% as at 31 December 2012, compared to 15% as at 31 December 2011.

As at 31 December 2012, the Group had total banking facilities available for draw-down of US$528 million.

Operating cash flows before movements in working capital decreased to US$199 million for the year ended 31 December 2012 from US$314 million in 2011, mainly due to the lower operating profit arising from the weak business environment.

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 and Chinese Renminbi. Most of its borrowings are in US Dollars and Chinese Renminbi and largely carry floating interest rates, except that the Group entered into interest rate swap agreements to swap its floating interest rate into a fixed interest rate for its Old Facility.

Events after the Balance Sheet Date

On 6 February 2013, the Ministry of Commerce of the PRC ("MOFCOM") announced an antidumping investigation against pulp products imported into the PRC originating from the United States of America, Canada and Brazil. BSC has been included in the MOFCOM announcement as one of the manufacturers under consideration in the investigation. Please refer to the Company's announcement dated 14 February 2013 for more details. The Company's position is that BSC has at all times acted in accordance with all applicable laws, and any allegations of product dumping are entirely without merit.

On 15 February 2013, the Group completed a US$500 million senior secured trade related facility agreement, consisting of a five-year term loan tranche of US$440 million and a committed revolving credit facility of US$60 million. The proceeds were used to prepay the outstanding balance, as at both 31 December 2012 and 15 February 2013, of US$336 million of the Old Facility, as well as for general working capital.

Corporate Social Responsibility

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

Environment

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

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

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

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

Sateri Jiangxi controls all gas emissions through its high concentration exhaust condenser, acid bath degassing system and activated carbon absorption workshops. Simultaneously, it controls all of the facility's wastewater discharge through its dedicated physiochemical and biochemical system. These are closely monitored internally and online by the Chinese government regulatory bodies.

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

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

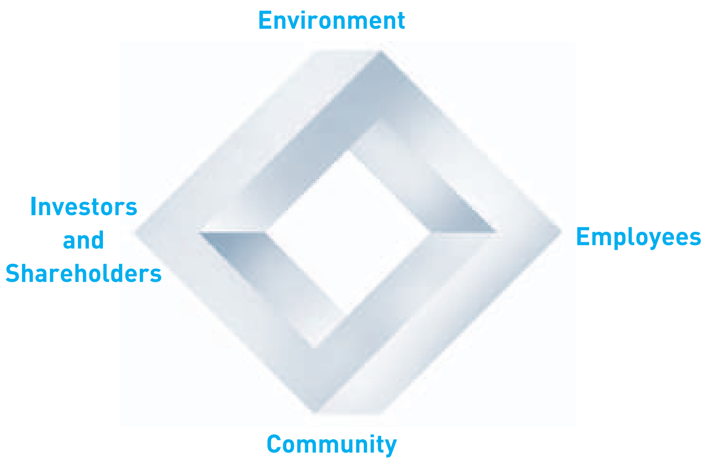
Both BSC and Sateri Jiangxi have been certified under the ISO 14001 for the environmental management systems implemented at our mills in Brazil and China respectively.

Investors & Shareholders

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

The Group maintains continuous communications with shareholders, analysts and the media, ensuring fair disclosure through regular meetings, conference calls, and other investor events. Through our investor relations websites, (www.sateri.com and www.irasia.com/listco/hk/sateri) investors and shareholders can access Sateri's annual and interim reports, announcements, and news releases. Sateri values ongoing feedback from investors and shareholders, and makes all efforts to handle incoming enquiries and requests in a timely manner.

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



Corporate Social Responsibility

Employees

Our sustainability relies on the growth of trees and people. People are one of the most important assets of Sateri. As at 31 December 2012, the Group's total employee count was 2,423 with 1,095 employees working in Brazil, 1,311 in China and the remaining in other parts of the world. Of this figure, about 98% are operational staff working in our mills in Brazil, Jiangxi and Fujian, China.

Remuneration packages, including basic salaries, bonuses and benefits-in-kind are structured with reference to market terms and individual merit and are reviewed annually. In September 2012, the Company granted restricted share units (RSU) to key employees as part of a broader incentive plan.

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

Community

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

In Brazil, the Group has established the Community Planting Program since 2006 where it provides for the cultivation of eucalyptus by small rural landowners on their properties, with a commitment to sell the wood back to the Group. The aim is to plant up to 20,000 hectares of farm trees over the next six years and to date, approximately 6,400 hectares have been planted with eucalyptus trees, providing a source of income to over 70 families under this program.

The Group also established the Piassava Program in Brazil, which helps 250 families to generate additional income from the sales of handicrafts that are made with the Piassava fiber, harvested from the local Piassava palms growing within our land area. We not only provide access for the participants to grow the palms on a re-growth basis between our plantation trees, but we also help to disseminate sustainable management concepts and practices to them.

In addition, the Group's forestry operation has cooperation contracts with beekeepers to install beehives in certain areas of our land to extract honey. Known as the Beekeeper Program, it is a partnership with the Beekeepers' Associations operating in the North Forest District of Bahia that supports approximately 200 beekeepers living there.

To step up our support to meeting the growing needs of the community in Bahia, Brazil, the Group developed programs to promote environmental education in the city and state schools in areas in which the Group operates in Brazil. Through the program, the Group offers guided tours of its environmentally-protected areas and offers workshops about the recovery of damaged areas and restoration of the riparian forest. Ecological Corridor Coconut-tree Coast Institute and University of the State of Bahia are our partners in this project. In 2011/2012, more than 1,200 students benefited from the program.

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

In China, the Group has long-established financial aid programs for students from under-privileged families as well as scholarships for excellent academic performance in Jiangxi province, China. In 2012, Sateri was named one of the winners in the first "Best Employer in Jiujiang" – jointly organized by Jiujiang Federation of Trade Unions, Department of Human Resources and Social Security of Jiujiang City and Jiujiang Daily.

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

Board of Directors

Chairman

John Jeffrey YING, 50, has been the chairman and an independent non-executive Director of the Company since October 2010. He is also the chairman of the executive committee (the "Executive Committee") and a member of the remuneration committee (the "Remuneration Committee") of the Company. Mr. Ying is the founder and managing director of Peak Capital, a private equity firm formed in 1999 that invests in growth and expansion capital transactions in the Greater China region. He has also been a non-executive director of Tai Ping Carpets International Limited, a global luxury carpet company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), since 1999. He was a director of Mecox Lane Limited, a retail and e-commerce firm in China listed on the US NASDAQ exchange, since 1999, and its vice-chairman since October 2010 and ceased both positions in May 2011. From 2008 to 2009, Mr. Ying concurrently served as a managing director of Arctic Capital Limited, a private equity firm, where he was responsible for managing investments in North Asia. He served as a managing director in Asia of The Carlyle Group, a private global investment firm, in Hong Kong from 1998 to 1999, where he was responsible for managing investments in China and Thailand. He also worked at Merrill Lynch & Co. from 1984 to 1986 and from 1989 to 1998, and his last position held was as a director in investment banking. Mr. Ying sits on the board of several not-for-profit organizations, including as the chairman of The Hong Kong Ballet since 2007 and as a director emeritus and previously a director of the Graduate Executive Board of The Wharton School since 2003. He was a trustee of the Hong Kong International School between 2002 and 2011 and acted as its vice chairman between 2006 and 2009. Mr. Ying received both a master of business administration degree in finance from The Wharton School and a master of arts degree in international studies from the University of Pennsylvania in 1989. He graduated from the Massachusetts Institute of Technology with a bachelor of science degree in electrical engineering in 1984.

Executive Director

TEY Wei Lin, 41, was appointed as a non-executive Director of the Company in June 2010. He was re-designated as an executive Director of the Company with effect from 27 March 2012, and appointed as the Acting Chief Executive Officer of the Company with effect from 7 September 2012. Subsequent to his re-designation, Mr. Tey ceased to be a member of the audit committee (the "Audit Committee") of the Company and has been appointed as a member of the Remuneration Committee. He remains a member of the Executive Committee and the nomination committee (the "Nomination Committee"). Mr. Tey is the president of RGE Pte Ltd ("RGE"), a company which oversees a group of companies focused on resource-based manufacturing industries (the "RGE group of companies"). He has held senior management positions with the RGE group of companies since 2001 and, as president of RGE, he currently has management responsibility for group corporate functions such as corporate finance, treasury and banking, and strategic planning. Since 2006, Mr. Tey has been a director of Pacific Eagle Asset Management Limited ("PEAML"), where he has also been appointed as a responsible officer pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) since 2005. He has been a non-executive director of Asia Pacific Resources International Limited ("APRIL") since 2008. From 1995 to 2000, Mr. Tey worked with GIC Real Estate, the real estate investment arm of the Government of Singapore Investment Corporation, and his last position with GIC Real Estate was vice president. Mr. Tey graduated with a first class honors bachelor of business administration degree from the National University of Singapore in 1996.

Non-Executive Director

John SETO Gin Chung, 64, has been a non-executive Director of the Company since October 2010. Mr. Seto was appointed as a member of the Executive Committee with effect from 27 March 2012. He has ceased to be the chairman and a member of the Nomination Committee with effect from 16 August 2012. Mr. Seto has been a director of PEAML since 2006. Mr. Seto serves as an independent non-executive director of three companies listed on the Stock Exchange, namely Kowloon Development Company Limited since 2002, China Everbright Limited since 2003 and Hop Hing Group Holdings Limited since 2006. Mr. Seto was also a non-executive director of Hong Kong Exchanges and Clearing Limited from 2000 to 2003. He was a council member of the Stock Exchange from 1994 to 2000, during which period of time he acted as its first vice chairman from 1997 to 2000. From 1982 to 2001, Mr. Seto served as the chief executive officer of HSBC Broking Services (Asia) Limited. Mr. Seto graduated from New York University in 1973 with a master of business administration degree in finance.

Independent Non-Executive Directors

Jeffrey LAM Kin Fung, *GBS, JP*, 61, has been an independent non-executive Director of the Company since October 2010. Mr. Lam was appointed as the chairman of the Remuneration Committee with effect from 27 March 2012. He is also a member of the Audit Committee. Mr. Lam is also an independent non-executive director of a number of companies listed on the Stock Exchange, including China Overseas Grand Oceans Group Limited, Wynn Macau, Limited, Hsin Chong Construction Group Limited, CC Land Holdings Limited and Chow Tai Fook Jewellery Group Limited. Mr. Lam has over 30 years of experience in the toy industry and is currently the managing director of Forward Winsome Industries Limited which is engaged in toy manufacturing. Mr. Lam is a member of the National Committee of the Chinese People's Political Consultative Conference, a member of the Hong Kong Legislative Council, the chairman of the Assessment Committee of the Mega Events Fund, a member of the board of the West Kowloon Cultural District Authority and a member of the board of Airport Authority Hong Kong. Mr. Lam is also a council member of the Hong Kong Trade Development Council, a general committee member of the Hong Kong General Chamber of Commerce, the vice chairman of The Hong Kong Shippers' Council and a member of the Fight Crime Committee. Mr. Lam was appointed as a non-official member of the Executive Council with effect from 17 October 2012.

Mr. Lam was awarded the Young Industrialist Award of Hong Kong in 1989 and the Outstanding Award – Hong Kong Toy Industry in 1999. In 1996, Mr. Lam was appointed justice of the peace and became a member of the Most Excellent Order of the British Empire. He was awarded the Silver Bauhinia Star Award in 2004 and the Gold Bauhinia Star Award in 2011 respectively. Mr. Lam was conferred university fellow of Tufts University in the US and Hong Kong Polytechnic University in 1997 and in 2000 respectively. He received a bachelor's degree in mechanical engineering from Tufts University in 1974.

Board of Directors

David YU Hon To, 64, has been an independent non-executive Director of the Company since October 2010. Mr. Yu was appointed as a member of the Nomination Committee with effect from 16 August 2012. He is also the chairman of the Audit Committee and a member of the Remuneration Committee. Mr. Yu has extensive experience in the fields of corporate finance, auditing and corporate management, and is the vice chairman of MCL Partners Limited, a Hong Kong-based financial advisory and investment firm. Mr. Yu is a fellow member of the Institute of Chartered Accountants in England and Wales and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Yu serves as an independent non-executive director of several other companies listed on the Stock Exchange, namely China Datang Corporation Renewable Power Co., Limited, Great China Holdings Limited, Haier Electronics Group Co., Ltd., China Renewable Energy Investment Limited (formerly known as Hong Kong Energy (Holdings) Limited), Media Chinese International Limited, One Media Group Limited, Playmates Holdings Limited, Synergis Holdings Limited, TeleEye Holdings Limited and VXL Capital Limited. Mr. Yu was appointed as an independent non-executive director of China Resources Gas Group Limited on 28 December 2012. Mr. Yu obtained a bachelor's degree in social sciences from the Chinese University of Hong Kong in 1971.

LIM Ah Doo, 63, was appointed as an independent non-executive Director of the Company, a member of the Audit Committee and the Nomination Committee with effect from 27 March 2012. Mr. Lim was appointed as the chairman of the Nomination Committee with effect from 16 August 2012. Mr. Lim has extensive experience as a former senior banker and corporate executive. He is currently an independent director of U Mobile Sdn Bhd. Mr. Lim is also on the board of several listed entities, acting as an independent director of SM Investments Corporation, shares of which are listed on The Philippine Stock Exchange, and independent director and chairman of the audit committees of each of Sembcorp Marine Ltd ("Sembcorp"), GP Industries Ltd ("GP Industries") and ARA-CWT Trust Management (Cache) Limited, trustee manager of listed Cache Logistics Trust. Shares of Sembcorp and GP Industries and units of Cache Logistics Trust are listed on the Stock Exchange of Singapore (the "Singapore Stock Exchange"). Mr. Lim is also a member of the Ethics Sub-Committee of the Public Accountants Oversight Committee, Singapore and an adjunct professor of Nanyang Business School, Nanyang Technological University in Singapore. During his 18 years with Morgan Grenfell, he held several key positions including chairing Morgan Grenfell (Asia) Limited. Mr. Lim also chaired the Singapore Investment Banking Association in 1994. From 2003 to 2008, Mr. Lim was the president and then non-executive vice chairman of RGM International Pte Ltd, and concurrently from 2007 to 2008 as acting president and then deputy chairman of AAA Oils and Fats Pte Ltd. Both of RGM International Pte Ltd and AAA Oils and Fats Pte Ltd are companies which are deemed to be controlled by the Tanoto Family, of whom our ultimate Controlling Shareholder is a part and Mr. Lim received remuneration for his employment in these positions. Mr. Lim was formerly an independent commissioner and chairman of the audit committee of PT Indosat, a council member of Singapore-Shandong Business Council and Singapore-Jiangsu Cooperation Council, and served as chairman of EDBV Management Pte. Ltd from 2005 to 2006. Mr. Lim 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 and an independent director of PST Management Pte Ltd on 8 March 2013. Mr. Lim obtained an honours degree in engineering from the Queen Mary College, University of London in 1971 and a master degree in business administration from the Cranfield School of Management, England in 1976.

Sateri is the largest and one of the most modern producers of DWP in Latin America. Our DWP mill employs advanced production techniques and technology. Products are manufactured to a high degree of purity and have desirable properties that make them suitable for use in many applications.

Senior Management

Corporate

ANG Eugene, 44, has been Vice President for Corporate Finance of Sateri since 2007, and is responsible for corporate finance, including capital markets and acquisition projects, strategic planning and corporate development. Mr. Ang has extensive experience in finance, tax and banking. Prior to joining Sateri in 2004, Mr. Ang was senior vice president at BNP Paribas. Mr. Ang graduated with a bachelor's degree in accountancy from National University of Singapore in 1992. He has been an associate member of Institute of Chartered Accountants in England and Wales since 1997 and a chartered financial analyst with the CFA Institute since 2001.

AU-YANG Peter, 52, has been Chief Financial Officer of Sateri since January 2013, and has overall responsibility for the accounting and finance functions of the Group. Mr. Au-Yang has over 17 years of experience in the investment banking industry in Asia and was an executive director and the chief operating officer of The Securities and Futures Commission between 2003 and 2006. Mr. Au-Yang graduated with a bachelor of science degree in business studies from University of Bradford in 1982 and a master of science degree in accounting and finance from the London School of Economics and Political Science in 1983.

DOHRN Peer, 50, has been Vice President for Specialty-grade Pulp Sales of Sateri since 2010, and is responsible for sales and marketing of specialty-grade pulp. Mr. Dohrn joined Sateri in 2007 and was initially in charge of dissolving wood pulp sales in Europe. Prior to joining Sateri, Mr. Dohrn was sales manager for Europe of Western Pulp Limited in Vancouver, Canada and Buckeye Technologies in Memphis, USA for over 10 years. Mr. Dohrn graduated with a diploma engineer degree from University of Technology in Dresden in 1989 and a master of business marketing degree from Free University of Berlin in 1996.

GOWLLAND Nick, 44, has been Senior Vice President for Finance of Sateri since 2011, and is responsible for oversight of Sateri's finance and investor relations departments, and senior participation in the overall financial and strategic planning for the Group. Mr. Gowlland has extensive experience in the corporate and investment banking industries in Asia and Europe. Prior to joining Sateri, Mr. Gowlland was a managing director at Standard Chartered Bank in Hong Kong, and previously was head of industrials, Asia for Rothschild. Mr. Gowlland graduated with a first class honours degree from Bristol University in the UK in 1991. He qualified as a chartered accountant in 1994, and has been a fellow of the Institute of Chartered Accountants in England and Wales since 2008.

LEE Kai Meng, 53, has been Senior Vice President for Operations of Sateri since May 2012, and is responsible for the operations of the manufacturing plants in Brazil, Jiangxi and Fujian. Mr. Lee has extensive experience in plant operations, supply chain and large projects, business strategies development, and mergers and acquisitions in various businesses including synthetic fibers, specialty chemicals and engineering polymers. Prior to joining Sateri, Mr. Lee spent more than 20 years at Koch Industries/DuPont with his last position as vice president of operations, Asia Pacific for INVISTA. Mr. Lee graduated with an engineering degree (honors) from National University of Singapore in 1983.

LIU Heidi, 42, has been Vice President for Human Resources of Sateri since 2010, and is responsible for developing and implementing Sateri's human resources strategy, aligning human resources with the overall business plan and leading all people management based activities. Ms. Liu has extensive experience in organizational development, strategic staffing and people development. Prior to joining Sateri, Ms. Liu worked as the head of group HR at CeDo Group in the UK. Ms. Liu graduated with a master of business administration degree from Rutgers Business School at Newark New Jersey, USA in 2008. She has been a fellow member of the Chartered Institute of Personnel and Development in the UK since 2012.

POON Wai Yip Ben, 49, has been Senior Vice President for Commercial of Sateri since April 2012, and is responsible for overall commercial functions including sales, marketing, technical service and supply chain. Prior to joining Sateri, Mr. Poon was Asia Pacific managing director for Cookson Electronic-Enthone division. Mr. Poon also spent 21 years at The Dow Chemical Company with his last position as global commercial vice president for MEGlobal. Mr. Poon graduated with a master of business administration degree from University of Louisiana at Monroe in 1988. He is a member of both Chartered Institute of Management Accountants and Hong Kong Institute of Certified Public Accountants.

SUN Yongning, 63, has been Associate Director for Marketing of Rayon-grade Pulp and Viscose Staple Fiber of Sateri since 2009, and is responsible for sales and marketing of viscose staple fiber in China. Mr. Sun has more than 40 years of experience in consultancy, sales and customer service in the viscose staple fiber industry. Mr. Sun joined Sateri as a consultant in the marketing department in 2002, and was appointed as senior manager of sales and customer service for viscose staple fiber in 2007. Mr. Sun graduated with a diploma in economics from Beijing Economic Management College in 1987. He has been a member of China Chemical Fiber Industry Association since 2009.

Brazil Operations

LEITE Marcelo, 55, has been Technical Director of Bahia Specialty Cellulose since 2009, and is primarily responsible for research and development, process and product quality control, laboratory, product development, customer technical services and process optimization. Mr. Leite joined Bahia Specialty Cellulose as a process and technology manager in 2006. Prior to then, he held managerial roles in pulp process engineering and technology at Kvaerner Pulping Ltd., Jaakko Poyry Brasil, and Cia. Suzano de Papel e Celulose between 1985 and 2006. Mr. Leite graduated with a bachelor's degree in chemical engineering from São Paulo University in Brazil in 1980.

LINDBLOM Per, 47, has been Managing Director of Bahia Specialty Cellulose since January 2012, and is responsible for the Group's Brazilian operations. Mr. Lindblom has worked for more than 10 years in APRIL, a member of the RGE group, with his last position as business unit head for Riau Pulp, one of the largest pulp mills in the world. Mr. Lindblom graduated with a master's degree in mechanical engineering from Lulea University in Sweden in 1990.

PASSOS Cotrim, 46, has been Head of Common Services of Bahia Specialty Cellulose since March 2012, and is responsible for overseeing corporate affairs, banking relationships, legal affairs, taxation, information technology and business control of forestry operations. Mr. Passos previously served as finance director of Bahia Specialty Cellulose. He held senior management positions of corporate finance at Prima Empreendimentos S.A. and Griffin do Brasil Ltda. between 1997 and 2007. Mr. Passos graduated with a bachelor's degree in business administration from University of Salvador – Unifacs in Brazil in 1994 and a master of business administration degree in finance from Fundação Getulio Vargas in Brazil in 2000. He was a member of the board of the Federation of Industries of the State of Bahia from 2006 to 2010.

WEITZL Otto, 60, has been Finance Director of Bahia Specialty Cellulose since March 2012 and is responsible for business control, accounting and treasury. Mr. Weitzl previously served as vice president, sales & marketing administration and business controller of China, based in Shanghai. He has more than 30 years of experience in finance and the viscose staple fiber industry. Prior to joining Sateri in 2007, Mr. Weitzl was chief financial officer of TCG Unitech GmbH, a light metal component and module producer in Austria, from 2005 to 2006. Between 1973 and 2005, he worked at Lenzing AG as head of finance and treasury of the group and chief financial officer for various group entities.

Senior Management

China Operations

CHEN Xiaorong, 45, has been General Manager of Sateri Jiangxi since January 2012, and is responsible for Sateri Jiangxi operations. Mr. Chen has more than 20 years of experience in manufacturing operations including more than 13 years of operation management experience in US companies. He was a quality manager of ABB Zhongshan for more than 4 years, a quality and operation system manager of Kohler Foshan for 3 years, and a plant director of PGI non-woven company for more than 6 years. Mr. Chen graduated with a bachelor of electric degree from Hunan University in 1992. He was certified for six-sigma black belt in 2002, with experience in six-sigma and lean manufacturing for cost saving.

LIN Wu Kun, 61, has been Senior Advisor, Technical (viscose staple fiber) of Sateri since 2010, and is responsible for Sateri China's research and development. Mr. Lin joined Sateri in 2003 as managing director of Sateri Jiangxi. Mr. Lin has over 34 years of experience in viscose production. Prior to joining Sateri, he worked in Formosa Chemical & Fiber Corporation in Taiwan as senior administrator. Mr. Lin graduated with a bachelor's degree in chemical engineering from Chinese Culture University in Taiwan in 1976.

LIU Jeff, 46, has been General Manager of Sateri Fujian since 2011, and is responsible for Sateri Fujian's corporate and legal affairs. Mr. Liu previously served as the general manager of Sateri Jiangxi from May 2011 to June 2012, and was responsible for its overall operations. He has over 20 years of experience in production management. Prior to joining Sateri, Mr. Liu was general manager of Rhodia's plant in Liyang and operations manager of Shell's plant in Tianjin. Mr. Liu graduated with a bachelor's degree in chemical engineering from Tianjin University of Science & Technology in 1989.

WU Heping, 46, has been Head of Operations of Sateri Fujian since 2011, and is responsible for Sateri Fujian operations. Mr. Wu joined Sateri Jiangxi in 2003 and was initially in charge of the instruments and electronics at the Jiangxi plant. Mr. Wu was appointed as assistant to the general manager in 2006, and was promoted to senior manager in 2007, production director in 2008, and assistant general manager in 2010, all prior to being transferred to Sateri Fujian. Mr. Wu graduated with a diploma from Zhongyuan University of Technology (formerly known as Zhengzhou Textile Institute) in 1989.

The Group will further integrate its DWP operation in Brazil with its VSF mills in China. This integrated business model is a competitive advantage for Sateri and will deliver long term shareholder value.

Corporate Governance Report

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

The Code on Corporate Governance Practices (the "Old CG Code") was amended with effect from 1 April 2012 and renamed as the Corporate Governance Code and Corporate Governance Report (the "CG Code") as contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). 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 CG Code.

During the year ended 31 December 2012, the Company has applied the principles of, and complied with its 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 CG Code (effective from 1 April 2012) during the period from 1 April 2012 to 31 December 2012, save for the deviations as disclosed below:

Code provision A.4.1 of both the Old CG Code and the CG Code stipulates that non-executive directors should be appointed for a specific term, subject to re-election. Our Non-executive Directors (including Independent Non-executive Directors) are not appointed for a specific term but are subject to retirement by rotation at the Company's annual general meetings (the "AGM(s)") 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 CG Code.

Following the amendments to the Old CG Code, code provision A.5.1 of the 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 Board meeting held on 16 August 2012 and upon identification of a suitable candidate, 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 CG Code.

Following the amendments to the Old CG Code, code provision A.6.7 of the 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. Owing to an overseas engagement, a Non-executive Director who retired at the AGM 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 of the Company (the "Shareholders").

The Board of Directors

Board Leadership

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

The Board may delegate aspects of its management and administration functions to the management by giving clear directions as to the management's powers. In particular, the day-to-day management of the Company is delegated to the Chief Executive Officer and his management team.

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

The Company had arranged appropriate Directors' and officers' liabilities insurance coverage for the Directors and officers of the Company.

Composition

The composition of the Board during the year ended 31 December 2012 and up to the date of this report is set out as follows:

Independent Non-executive Directors:

John Jeffrey YING (Chairman)
Jeffrey LAM Kin Fung
David YU Hon To
LIM Ah Doo (appointed on 27 March 2012)

Executive Directors:

TEY Wei Lin (re-designated as an Executive Director on 27 March 2012 and appointed as the Acting Chief Executive Officer on 7 September 2012)
Will HOON Wee Teng (resigned as the Chief Executive Officer on 7 September 2012 and ceased to be a Director with effect from 1 January 2013)

Non-executive Directors:

John SETO Gin Chung
LOH Meng See (retired on 25 May 2012)
Rohan Seneka WEERASINGHE (retired on 25 May 2012)

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

Corporate Governance Report

Independence of Independent Non-executive Directors

For a Director to be considered independent, the Board must be satisfied that the Director does not have any direct or indirect material relationship with the Group. The Board has received from each Independent Non-executive Director an annual written confirmation of his independence and is of the view that all the Independent Non-executive Directors meet the guidelines for assessing independence as set out in Rule 3.13 of the Listing Rules and are independent.

Corporate Governance Functions

The Board is responsible for performing the corporate governance duties. Specific terms of reference are set out in the Corporate Governance Manual of the Company in light of the latest amendments to the Listing Rules and the relevant duties include the following:

- to develop and review the Company's policies and practices on corporate governance;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors; and
- to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

During the year, the Board reviewed the corporate governance policies and practices of the Group. New and existing policies and guidelines were adopted and revised and compliance with the CG Code was reviewed. At a Board meeting held on 15 March 2013, the Board also reviewed the disclosure in the Corporate Governance Report of this annual report.

Roles of Chairman and Chief Executive Officer

The roles of the Chairman and Chief Executive Officer are segregated. The Chairman, who is an Independent Non-executive Director, is responsible for leadership of the Board, for ensuring that the Board functions effectively and independently. The Chief Executive Officer (and the Acting Chief Executive Officer, as the case may be) is responsible for leading the operations of the Group's businesses to achieve their business and financial targets, proposing strategies to the Board and ensuring the effective implementation of the strategies and policies adopted by the Board. The senior management team is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer (and the Acting Chief Executive Officer, as the case may be).

Board Meetings & Supply of and Access to Information

The Board is responsible for setting up the overall strategy as well as reviewing the operation and financial performance of the Group. The Board is expected to meet regularly and at least four times a year with at least 14 days' notice and additional meetings with reasonable notice will be held as and when the Board considers appropriate. Regular Board meetings each year are scheduled in advance to facilitate maximum attendance of Directors. During the year ended 31 December 2012, six Board meetings were held.

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

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

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

Every Director has right of access to information on the Group at any reasonable time on reasonable notice and has access to the advice and services of the Company Secretary and/or the Vice President, Legal of the Company. Each of the Directors also has separate and independent access to the Company's senior management and are entitled to seek independent professional advice in appropriate circumstances at the Company's expense to perform their duties. From April 2012 onwards, the Board has been provided, on a monthly basis, with the Group's monthly management information updates of major business operations, giving a balanced and understandable assessment of the Group's performance, position and prospects.

Details of Directors' attendance at the Board meetings, the Board committees meetings, and the general meetings held in 2012 are set out below:

Directors' attendance at meetings

	Board	Audit Committee	Remuneration Committee	Nomination Committee	Executive Committee	Annual General Meeting	Special General Meeting
Number of Meetings held	6	4	2	2	5	1	1
				Meetings Attended/Held			
Independent Non-executive Directors							
John Jeffrey YING	6/6	–	2/2	–	5/5	1/1	1/1
Jeffrey LAM Kin Fung	6/6	4/4	1/1	–	–	1/1	1/1
David YU Hon To	6/6	4/4	2/2	1/1	–	1/1	1/1
LIM Ah Doo(1)	5/5	3/3	–	1/1	–	1/1	1/1
Non-executive Directors							
John SETO Gin Chung	6/6	–	–	2/2	4/4	1/1	1/1
LOH Meng See(2)	3/3	–	1/1	1/1	1/1	1/1	0/0
Rohan Seneka WEERASINGHE(2)	2/3	–	–	–	–	0/1	0/0
Executive Directors							
TEY Wei Lin(3)	6/6	1/1	1/1	2/2	5/5	1/1	1/1
Will HOON Wee Teng(4)	6/6	–	–	–	4/5	1/1	1/1

Notes:

1. Mr. Lim Ah Doo was appointed as an Independent Non-executive Director with effect from 27 March 2012.
2. Mr. Loh Meng See and Mr. Rohan Seneka Weerasinghe both retired as the Non-executive Directors after the conclusion of the AGM held on 25 May 2012. The special general meeting was held on 28 September 2012.
3. Mr. Tey Wei Lin was re-designated as an Executive Director with effect from 27 March 2012 and appointed the Acting Chief Executive Officer with effect from 7 September 2012.
4. Mr. Will Hoon Wee Teng resigned as the Chief Executive Officer with effect from 7 September 2012 and ceased to be a Director of the Company with effect from 1 January 2013.

Corporate Governance Report

Appointment, Re-election and Rotation of Directors

The Non-executive Directors (including Independent Non-executive Directors) are not appointed for a specific term. However, all Directors are subject to retirement by rotation and re-election by Shareholders at the AGM(s) at least once every three years in accordance with the Bye-laws of the Company.

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

Induction, Board Visit and Continuous Professional Development of Directors

Each newly appointed Director receives a comprehensive, formal and tailored induction on the first occasion of his appointment so as to help ensure that he has an appropriate understanding of the business and operations of the Company and that he is fully aware of his responsibilities and obligations under the Listing Rules and relevant regulatory requirements. From time to time, Directors will attend corporate events or visits as arranged by the Company for a deeper understanding of the Group's business operations.

The Company Secretary from time to time provides updated materials to Directors and organizes in-house seminars conducted by professional organizations in relation to the latest development and changes to the Listing Rules and relevant legal and regulatory requirements relating to Directors' duties and responsibilities in the discharge of their duties.

A summary of Directors' participation in continuous professional development in 2012 according to the records provided by the Directors is as follow:

Name of Directors	Directors' participation in Continuous Professional Development Corporate governance or regulatory development related	Business or management related
Independent Non-executive Directors		
John Jeffrey YING	✓	✓
Jeffrey LAM Kin Fung	✓	✓
David YU Hon To	✓	✓
LIM Ah Doo	✓	✓
Non-executive Directors		
John SETO Gin Chung	✓	✓
LOH Meng See(1)	✓	✓
Rohan Seneka WEERASINGHE(1)	✓	✓
Executive Directors		
TEY Wei Lin	✓	✓
Will HOON Wee Teng(2)	✓	✓

Notes:

1. Mr. Loh Meng See and Mr. Rohan Seneka Weerasinghe retired as the Non-executive Directors after the conclusion of the AGM held on 25 May 2012.
2. Mr. Will Hoon Wee Teng ceased to be a Director with effect from 1 January 2013.

Compliance with the Model Code for Securities Transactions by Directors and Relevant Employees

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

Specific enquiries have been made with the Directors, and all Directors confirmed that they have complied with the required standard set out in the Company's Guidelines on Securities Transactions and the Model Code regarding Directors' securities transactions for the year ended 31 December 2012.

Board Committees

The Company established an Audit Committee, a Remuneration Committee, a Nomination Committee and an Executive Committee with written terms of reference approved and adopted by the Board.

The procedures and arrangements for a Board meeting, as mentioned in the section headed "The Board" of this report, have been adopted for the committee meetings so far as practicable. The Board committee chairmen shall report formally to the Board on the Board committee's decisions and recommendations where appropriate.

Audit Committee

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

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)

Mr. Tey Wei Lin ceased to be a member of the Audit Committee upon his re-designation from a Non-executive Director to an Executive Director with effect from 27 March 2012.

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

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

The Audit Committee shall meet at least four times a year to discuss the internal controls and other audit, accounting and financial related issues. During the year ended 31 December 2012, four meetings of the Audit Committee were held and the attendance of each committee member is set out in the section headed "The Board" of this report.

Pre-meeting sessions with external auditors are held without management presence. In addition to committee meetings, the Audit Committee also dealt with matters by way of circulation during 2012. For the year ended 31 December 2012 and up to the date of this report, the Audit Committee's duties performed mainly covered 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, Listing Rules and statutory compliance, internal controls, risk management, financial reporting matters and the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programs and budget. The Audit Committee was satisfied that such internal controls system was effective and adequate.

Corporate Governance Report

Remuneration Committee

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

Independent Non-executive Directors:

Jeffrey LAM Kin Fung (appointed as Chairman of the Remuneration Committee on 27 March 2012)
John Jeffrey YING
David YU Hon To

Executive Director:

TEY Wei Lin (appointed as a committee member on 27 March 2012)

Mr. Loh Meng See, a former Non-executive Director, ceased to be the Chairman of the Remuneration Committee on 27 March 2012 and ceased to be a member of the Remuneration Committee upon his retirement on 25 May 2012.

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

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

The Remuneration Committee shall meet at least once a year. During the year ended 31 December 2012, two meetings of the Remuneration Committee were held and the attendance of each member is set out in the section headed "The Board" of this report.

In addition to the committee meeting, the Remuneration Committee also dealt with matters by way of circulation during 2012. For the year ended 31 December 2012 and up to the date of this report, the Remuneration Committee's duties performed mainly covered the review of the policy and structure for the remuneration of Directors and senior management, the review and recommendation for Board approval of proposed Directors' fee to each of the Executive Director, Non-executive Directors and Independent Non-executive Directors, the review and determination of remuneration packages of Executive Directors and senior management, the recommendation for Board approval of the adoption of the Remuneration Policy of the Company, and the review and recommendation for Board approval of the granting and/or cancellation of Restricted Share Units (the "RSUs") pursuant to the Pre-IPO RSU Scheme and Post-IPO RSU Scheme.

Nomination Committee

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

Independent Non-executive Directors:

LIM Ah Doo (appointed as a committee member on 27 March 2012 and 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

Mr. John Seto Gin Chung, a Non-executive Director, ceased to be a member and the Chairman of the Nomination Committee on 16 August 2012. Mr. Loh Meng See, a former Non-executive Director, ceased to be a member of the Nomination Committee upon his retirement on 25 May 2012.

The Nomination Committee is responsible for reviewing the structure, size and composition of the Board at least annually for recommendations on any proposed changes to the Board to complement the Company's corporate strategy. It shall carry out a selection process by making reference to the candidate's skill, experience, professional knowledge, personal integrity and time commitments, the Company's needs and other relevant statutory requirements and regulations, and make recommendations to the Board on the selection of candidates for directorship.

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

The Nomination Committee shall meet at least once a year. During the year ended 31 December 2012, two meetings of the Nomination Committee were held and the attendance of each member is set out in the section headed "The Board" of this report.

For the year ended 31 December 2012 and up to the date of this report, the Nomination Committee's duties performed mainly covered the review of the Board composition, the retirement of Directors by rotation, the nomination of an Independent Non-executive Director, the re-designation of a Director, and the proposed change of chairman of each of the Remuneration Committee and Nomination Committee and composition of respective Board committees in response to the Listing Rules amendments.

Executive Committee

The Executive Committee currently is chaired by an Independent Non-executive Director and comprises three Directors. Current composition of the Executive Committee is as follow:

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 Director:
TEY Wei Lin

Mr. Loh Meng See, a former Non-executive Director, ceased to be a member of the Executive Committee upon his retirement on 25 May 2012. Mr. Will Hoon Wee Teng, a former Executive Director, ceased to be a member of the Executive Committee upon his cessation as a Director on 1 January 2013.

During the year ended 31 December 2012, five meetings of the Executive Committee were held and the attendance of each member is set out in the section headed "The Board" of this report.

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

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

Corporate Governance Report

Accountability and Audit

Financial Reporting

The Directors acknowledge their responsibility for the preparation of the financial statements of the Company to ensure that these financial statements give a true and fair presentation in accordance with the International Financial Reporting Standards. The statement by the auditor about their reporting responsibilities is set out in the Independent Auditor's Report on pages 58 and 59.

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

Independent Auditor

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

The remuneration payable to the independent auditor of the Company in respect of audit and non-audit services provided to the Group for the year ended 31 December 2012 amounted to approximately US$1,100,000 and approximately US$100,000 respectively. The non-audit services mainly consist of tax advisory services in Brazil and the PRC.

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

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

The Board will continue to identify, evaluate and manage the significant risks faced by the Group, and to enhance the internal control system of the Group with the assistance of its Internal Audit on an ongoing basis.

For the year ended 31 December 2012 and up to the date of this report, the Audit Committee reviewed and considered the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programs and budget. The findings of the Audit Committee have been reported to the Board.

Internal Audit

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

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

Whistleblowing Policy

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

Company Secretary

The Company Secretary is a full time employee of the Company and has day-to-day knowledge of the Company's affairs. The Company Secretary reports to the Chairman of the Board and is mainly responsible for ensuring Board meeting procedures are followed, advising the Board on governance matters, and facilitating induction and continuous professional development of the Directors. During 2012, the Company Secretary has exceeded the 15 hours of professional training requirement of the Listing Rules.

Constitutional Documents

In 2012, there was no significant change in the Company's constitutional documents.

Communication with Shareholders

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

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

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

In 2012, an AGM was held on 25 May 2012 and a Special General Meeting (the "SGM") to approve a continuing connected transaction was held on 28 September 2012. Details of the matters to be resolved at the AGM and SGM were set out in circulars to the Shareholders. All resolutions put to the Shareholders at the AGM and the SGM were passed.

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

Corporate Governance Report

Shareholders' Rights

Procedures for Shareholders to convene a SGM

Pursuant to bye-law 58 of the Company's Bye-laws, registered Shareholder(s) holding, at the date of the deposit of the requisition, not less than one-tenth (10%) of the paid up capital of the Company carrying the right of voting at general meetings of the Company (the "SGM Requisitioners"), shall have the right to submit a written requisition requiring a SGM to be called by the Board. The written requisition (i) must state the object(s) of the meeting; and (ii) must be signed by the SGM Requisitioners and be deposited at the registered office of the Company, which is presently situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda (the "Registered Office") for the attention of the Board or the Company Secretary. It may consist of several documents in like form, each signed by one or more of the SGM Requisitioners.

If the Directors do not within 21 days from the date of the deposit of the requisition (after being verified to be valid by the share registrar of the Company) proceed duly to convene a SGM for a day within two months after the date of the deposit of such requisition, the SGM Requisitioners, or any of them representing more than one-half (50%) of the total voting rights of all SGM Requisitioners, may themselves convene a SGM, but any SGM so convened shall not be held after the expiration of three months from the date of the deposit of the requisition. A meeting convened by the SGM Requisitioners shall be convened in the same manner, as nearly as possible, as that in which meetings are to be convened by the Directors.

Procedures for Shareholders to make enquiries to the Board

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

Procedures for Shareholders to put forward proposals at a general meeting

Pursuant to Sections 79 and 80 of the Bermuda Companies Act 1981, either any number of the registered Shareholders holding not less than one-twentieth (5%) of the paid-up capital of the Company carrying the right of voting at general meetings of the Company (the "Requisitioners"), or not less than 100 of such registered Shareholders, can request the Company in writing to (i) give to Shareholders entitled to receive notice of the next general meeting notice of any resolution which may properly be moved and is intended to be moved at the meeting; and (ii) circulate to Shareholders entitled to have notice of any general meeting any statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

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

Procedures for nomination of Directors for election

As regards the procedures for proposing a person for election as a Director, please refer to the procedures made available under the Company – Corporate Governance section of the Company's website.

Directors' Report

The Directors present their Report together with the audited financial statements for the year ended 31 December 2012.

Principal Activities

The principal activity of Sateri Holdings Limited (the "Company") is investment holding, and the principal activities of its subsidiaries are set out in note 38 to the financial statements.

Results and Dividend

Results of the Group for the year ended 31 December 2012 are set out in the consolidated income statement on page 60.

The Board has recommended a final dividend of HK2.5 cents per share for the year ended 31 December 2012 (2011: HK2.5 cents per share) payable to the shareholders of the Company (the "Shareholders") whose names appear on the register of members of the Company on 28 May 2013.

Closure of Register of Members

The register of members of the Company will be closed from 16 May 2013 to 21 May 2013, both days inclusive, during which period no transfer of shares of the Company will be effected. In order to determine the entitlement to attend and vote at the forthcoming annual general meeting (the "AGM"), all transfer forms accompanied by the relevant share certificates of the Company must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 15 May 2013.

The register of members will be closed on 28 May 2013, on which no transfer of shares of the Company will be effected. In order to qualify for the proposed final dividend (subject to Shareholders' approval at the AGM), all transfer forms accompanied by the relevant share certificates of the Company must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 27 May 2013.

Financial Summary

A summary of the results and assets and liabilities of the Group for the past five financial years is set out on page 124 of this annual report.

Property, Plant and Equipment

Details of the movements in property, plant and equipment are set out in note 15 to the financial statements.

Share Capital

Details of the movements in the share capital of the Company during the year are set out in note 29 to the financial statements.

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

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

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

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

(ii) the realizable value of the Company's assets would, upon payment of a dividend or making a distribution, be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

Reserves

Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 65.

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

Directors' Report

Pre-emptive Rights

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

Bank Borrowings and Interest

Details of the Group's bank borrowings are set out in note 27 to the financial statements. Bank borrowings repayable within one year or on demand are classified as current liabilities in the financial statements. Bank borrowings repayable over one year are classified as non-current liabilities.

Major Customers and Suppliers

During the year ended 31 December 2012, the Group's five largest customers accounted for approximately 30.6% of the Group's total revenue and the Group's largest customer for the year accounted for approximately 9.7% of the Group's total revenue. The Group's five largest suppliers accounted for approximately 21.9% of the Group's total purchases, including raw materials, fuels and logistics expenses, while the largest supplier for the year accounted for approximately 6.7% of the Group's total purchases.

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

Employees

As at 31 December 2012, the Group had 2,423 employees in total. Total staff costs for the year under review amounted to approximately US$75,559,000 and the details are set out in note 8 to the financial statements. Remuneration for employees is based upon their qualification, experience, job nature, performance and market condition.

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

Directors

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

Independent Non-executive Directors:

John Jeffrey YING (Chairman)
Jeffrey LAM Kin Fung
David YU Hon To
LIM Ah Doo (appointed on 27 March 2012)

Executive Directors:

TEY Wei Lin (re-designated as an Executive Director on 27 March 2012 and appointed as Acting Chief Executive Officer on 7 September 2012)
Will HOON Wee Teng (resigned as Chief Executive Officer on 7 September 2012 and ceased to be an Executive Director on 1 January 2013)

Non-executive Directors:

John SETO Gin Chung
LOH Meng See (retired on 25 May 2012)
Rohan Seneka WEERASINGHE (retired on 25 May 2012)

Bye-law 84 of the Company's Bye-laws provides that at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. In accordance therewith, John Jeffrey Ying and John Seto Gin Chung shall retire from office by rotation at the AGM. Except for John Seto Gin Chung, being eligible, does not stand for re-election, John Jeffrey Ying, being eligible, has offered himself for re-election.

Directors' Remuneration

Details of Directors' remuneration are set out in note 11 to the financial statements. The emoluments of the Executive Directors of the Company are determined, with delegated responsibility, by the Remuneration Committee, having regard to the Company's operating results and individual performance, while those of the Non-executive Directors are reviewed and considered by the Board, taking into account responsibility of the role, industry complexity and comparable market statistics.

Directors' Service Contracts

Each Director has entered into a letter of appointment with the Company for an indefinite term, subject to the retirement requirement as set out in the Bye-laws of the Company. None of the Directors, including those Directors who are proposed for re-election at the forthcoming annual general meeting, has a service contract with any member of the Group which is not determinable within one year without payment of compensation other than statutory compensation.

Directors' Interests in Contracts of Significance

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

Directors' Interests in Competing Businesses

None of the Directors or their respective associates has any competing interests which need to be disclosed pursuant to Rule 8.10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Independence Confirmation

The Company has received from all of its Independent Non-executive Directors confirmation of their independence pursuant to Rule 3.13 of the Listing Rules and considers all of them to be independent.

Directors' Report

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

As at 31 December 2012, the interests of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") were as follows:

Long positions in the Shares and the underlying Shares

Name of Director	Capacity	Number of Shares held	Number of Shares underlying RSUs granted	Vesting period of RSUs granted under the Pre-IPO RSU Scheme	Approximate % of the issued share capital of the Company
John Jeffrey YING ("Mr. Ying")[(1)]	Beneficial owner	288,177	672,414	288,177 (15 February 2013) 384,237 (15 February 2014)	0.028%
Will HOON Wee Teng ("Mr. Hoon")[(2)]	Beneficial owner	482,678	–	–	0.01%

Notes:

1. On 15 February 2012, 288,177 Shares under the Pre-IPO RSU Scheme were vested to Mr. Ying. On 15 February 2013, 288,177 Shares under the Pre-IPO RSU Scheme were further vested to Mr. Ying.
2. Mr. Hoon ceased to be a Director with effect from 1 January 2013. On 15 February 2012, 288,178 Shares under the Pre-IPO RSU Scheme were vested and 192,118 Shares under the Pre-IPO RSU Scheme were cancelled and not vested to Mr. Hoon. On 30 April 2012, 194,500 Shares under the Post-IPO RSU Scheme were vested to Mr. Hoon. On 31 December 2012, 2,721,674 Shares under the Pre-IPO RSU Scheme and 194,500 Shares under the Post-IPO RSU Scheme were cancelled and not vested to Mr. Hoon.

Save as disclosed above, as at 31 December 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 Persons' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 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 31 December 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.

Directors' Report

Restricted Share Unit Schemes and Share Option Scheme

1. Restricted Share Unit Schemes

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

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

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

1.1 Pre-IPO RSU Scheme

As at 31 December 2012, RSUs in respect of 8,165,026 underlying Shares had been granted to 18 grantees (one was a Director and two were former Directors) pursuant to the Pre-IPO RSU Scheme. Total RSUs in respect of 5,558,619 underlying Shares to 9 grantees had been cancelled since the adoption of the Pre-IPO RSU Scheme, of which 3,093,102 underlying Shares to 3 grantees (one was a former Director) had been cancelled during the year ended 31 December 2012. Total RSUs in respect of 2,606,407 underlying Shares to 9 grantees (one was a Director) were still valid, of which a total of 883,746 RSUs were vested under the Pre-IPO RSU Scheme as at 31 December 2012.

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

1.2 Post-IPO RSU Scheme

At any time during the period within which the Post-IPO RSU Scheme is valid and effective, the maximum aggregate number of Shares that may underlie the RSUs granted pursuant to the Post-IPO RSU Scheme shall be calculated in accordance with the following formula:

$$X = A - B$$

where:

X = the maximum aggregate number of Shares that may underlie the RSUs granted pursuant to the Post-IPO RSU Scheme;

A = such number of Shares representing (i) 10% of the Shares in issue on the date of listing of the Company's Shares on the Stock Exchange, which is 8 December 2010 (the "Listing Date") or (ii) 10% of the Shares in issue as at the New RSU Approval Date (as defined below) (as the case may be) (the "RSU Scheme Mandate Limit"); and

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

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

Shares underlying the RSUs cancelled in accordance with the terms of the Post-IPO RSU Scheme will not be counted for the purposes of determining the maximum aggregate number of Shares that may underlie the RSUs granted pursuant to the Post-IPO RSU Scheme.

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

As at the date of this report, RSUs in respect of 3,177,276 underlying Shares had been granted to 19 grantees (one was a former Director) pursuant to the Post-IPO RSU Scheme. Total RSUs in respect of 452,867 underlying Shares to 6 grantees had been cancelled since the adoption of the Post-IPO RSU Scheme, of which 292,847 underlying Shares to 3 grantees (one was a former Director) had been cancelled during the year ended 31 December 2012 and up to the date of this report. Total RSUs in respect of 2,724,409 underlying Shares to 13 grantees were still valid, of which a total of 633,752 RSUs were vested under the Post-IPO RSU Scheme as of the date of this report.

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

For further details of the RSU Schemes, please refer to note 30 of the Notes to the consolidated financial statements for the year ended 31 December 2012.

2. Share Option Scheme

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

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

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

(1) Purpose of the Share Option Scheme

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

(2) Participants of the Share Option Scheme

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

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

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

$$X = A - B - C$$

where:

X = the maximum aggregate number of Shares in respect of which options may be granted pursuant to the Share Option Scheme;

A = such number of Shares representing (i) 10% of the Shares in issue on the Listing Date; or (ii) 10% of the Shares in issue as at the New Option Approval Date (as defined below) (as the case may be) (the "Option Scheme Mandate Limit");

B = the maximum aggregate number of Shares underlying the options already granted pursuant to the Share Option Scheme; and

C = the maximum aggregate number of Shares underlying the options already granted pursuant to any other share option schemes of the Company.

Directors' Report

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

Shares in respect of options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option schemes of the Company will not be counted for the purpose of determining the maximum aggregate number of Shares in respect of which options may be granted pursuant to the Share Option Scheme.

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

As of 31 December 2012, the total number of Shares available for grant under the Share Option Scheme was 336,882,675, representing 9.86% of the Company's issued share capital as of 31 December 2012.

(4) Maximum entitlement of each participant

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

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

The period during which an option may be exercised (the "Option Period") by a Grantee (as defined below) shall be the period to be determined and notified by the Board to the Grantee at the time of making an offer, which shall not expire later than 10 years from the date of grant.

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

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

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

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

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

(8) Basis of determining the exercise price

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

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

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

(c) the nominal value of the Shares.

(9) Remaining life

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

Purchase, Sale or Redemption of Securities

During the year ended 31 December 2012, other than the issue of 2,038,000 new Shares under the general mandate of the Company, details of which are set out in the Company's announcement dated 15 February 2012, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Public Float

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

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

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

Directors' Report

Connected Transaction

Set out below is information in relation to the connected transaction entered into by the Group and required under the Listing Rules to be disclosed in the annual report of the Company:

Transfer of the Fengdu Project to RGE Limited

On 25 May 2012, Sateri International Co. Ltd ("Sateri International"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement (the "Sale and Purchase Agreement") and a call option and right of first refusal agreement (the "Call Option and ROFR Agreement") with RGE Limited ("RGE"), which is a company controlled by Mr. Tanoto, the ultimate controlling shareholder of the Company and Gold Silk (the immediate controlling shareholder of the Company).

Pursuant to the Sale and Purchase Agreement, Sateri International transferred the entire issued share capital of Sateri China Investment Limited ("SCI"), previously a wholly-owned subsidiary of Sateri International, to RGE (the "Transfer"). The consideration for the Transfer was approximately US$2.7 million which was paid in cash on completion and was arrived at after arm's length negotiations between the parties with reference to the expenditure incurred by Sateri International on the dissolving pulp, related raw material and research and development, and viscose staple fiber projects in Fengdu County, Chongqing, the PRC (the "Fengdu Project") up to the date of the Transfer.

In consideration of Sateri International transferring the entire issued share capital of SCI to RGE pursuant to the Sale and Purchase Agreement, RGE granted to Sateri International the following rights under the Call Option and ROFR Agreement: (i) a call option, exercisable by Sateri International during the five year period commencing from 25 May 2012 and ending on 24 May 2017 (both days inclusive) (the "Option Period"), to purchase the entire issued and fully paid share capital of SCI (the "Relevant Shares") from RGE; and (ii) a right of first refusal whereby if RGE receives an offer from a bona fide third party purchaser during the Option Period to purchase the Relevant Shares which it wishes to accept, it shall first offer to sell the Relevant Shares to Sateri International on terms no less favourable than those set out in the bona fide third party purchaser's offer.

The terms of the Transfer of the Fengdu Project and the Call Option and ROFR Agreement were on an arm's length basis, fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Continuing Connected Transactions

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

1. Renewed Agency Agreement with DP Macao

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

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

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

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

SC International Macao has commission income of approximately US$3,699,000 from DP Macao under the former agency agreement for the year ended 31 December 2012. The annual caps for the maximum amount of commission income to SC International Macao by DP Macao under the Renewed Agency Agreement for each of the years ending 31 December 2013, 2014 and 2015 have been set pursuant to the requirement of the Listing Rules at US$6,026,800.

2. Sales Framework Agreement with DP Macao

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

Under the Renewed Sales Framework Agreement, all transactions for the sale of dissolving wood pulp by DP Macao to Sateri Jiangxi and Sateri Fujian must be on normal commercial terms and at a price that is no greater than the open market spot price at the time of the transaction that would be payable in a contract between independent third parties for a comparable quantity and quality of dissolving wood pulp.

The value of sales of dissolving wood pulp by DP Macao to Sateri Jiangxi for the year ended 31 December 2012 was approximately US$23,732,000. The annual caps for the maximum amount of purchase by Sateri Jiangxi and Sateri Fujian to DP Macao under the Renewed Sales Framework Agreement for the years ending 31 December 2013, 2014 and 2015 have been set pursuant to the requirement of the Listing Rules at US$148,655,780, US$205,831,080, and US$205,831,080 respectively.

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

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

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

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

(2) on normal commercial terms; and

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

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

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

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

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

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

Related Party Transactions

Details of the significant related party transactions undertaken in the normal course of business are set out in note 34 to the financial statements. Other than those transactions disclosed in the section headed "Continuing Connected Transactions" above, none constitutes a discloseable connected transaction as defined under the Listing Rules.

Deed of Non-Competition

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

The Independent Non-executive Directors have reviewed compliance by the Controlling Shareholders and Pinnacle and confirm that based on confirmations and information provided by each of the Controlling Shareholders and Pinnacle, they are in compliance with the Deed of Non-Competition during the period from 1 January 2012 to 31 December 2012.

The Independent Non-executive Directors were not required to review any matter in relation to compliance and enforcement of the Deed of Non-Competition during the period from 1 January 2012 to 31 December 2012.

Corporate Governance

A report on the principal corporate governance practice adopted by the Company is set out on pages 34 to 44 of the annual report.

Auditor

Deloitte Touche Tohmatsu ("Deloitte") retired as auditor of the Company from the conclusion of the annual general meeting of the Company held on 25 May 2012 and a resolution for the appointment of PricewaterhouseCoopers as auditor of the Company following the retirement of Deloitte and to hold office until the conclusion of the next annual general meeting of the Company was passed at the said annual general meeting.

The consolidated financial statements for the year ended 31 December 2012 have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as the auditor of the Company will be proposed at the AGM to be held on 21 May 2013.

On behalf of the Board

John Jeffrey YING
Chairman

Hong Kong, 15 March 2013

Independent Auditor's Report

羅兵咸永道

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

We have audited the consolidated financial statements of Sateri Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 60 to 123, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 15 March 2013

Consolidated Income Statement

For the year ended 31 December 2012

	Notes	2012 US$'000	2011 US$'000
Revenue	5	**720,285**	806,574
Cost of sales	6	**(500,579)**	(483,501)
Gross profit		**219,706**	323,073
Selling and distribution expenses		**(61,268)**	(51,816)
General and administrative expenses		**(64,576)**	(86,105)
		93,862	185,152
Other income and (losses)/gains, net			
Decrease in fair value of derivative financial instruments		**–**	(30,712)
(Loss)/gain on settlement of derivative financial instruments		**(1,419)**	12,161
Decrease in fair value of forestation and reforestation assets	14	**(14,808)**	(8,349)
Others	7	**4,358**	27,865
		(11,869)	965
Operating profit	8	**81,993**	186,117
Finance costs	9	**(29,970)**	(42,267)
Profit before income tax		**52,023**	143,850
Income tax credit	10	**4,257**	6,675
Profit for the year		**56,280**	150,525
Profit for the year attributable to:			
Owners of the Company		**55,561**	154,713
Non-controlling interests		**719**	(4,188)
		56,280	150,525
Earnings per share			
– basic and diluted (US cents)	13	**1.6**	4.5

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	2012 US$'000	2011 US$'000
Profit for the year	**56,280**	150,525
Other comprehensive income		
Foreign exchange differences	**679**	10,699
Loss on cash flow hedge	**(37)**	(7,767)
Other comprehensive income for the year	**642**	2,932
Total comprehensive income for the year	**56,922**	153,457
Total comprehensive income attributable to:		
Owners of the Company	**55,080**	158,283
Non-controlling interests	**1,842**	(4,826)
	56,922	153,457

Consolidated Statement of Financial Position

At 31 December 2012

	Notes	2012 US$'000	2011 US$'000
Non-current assets			
Forestation and reforestation assets	14	**185,678**	187,797
Property, plant and equipment	15	**1,539,447**	1,455,966
Prepaid lease payments	16	**30,978**	29,199
Investment properties	17	**1,762**	1,867
Intangible assets	18	**575**	675
Deferred income tax assets	21	**52,783**	105,496
Other non-current assets	19	**89,829**	69,265
		1,901,052	1,850,265
Current assets			
Inventories	22	**143,634**	180,590
Trade, bills and other receivables	23	**151,104**	153,232
Bills receivables discounted		**–**	8,119
Prepaid lease payments	16	**–**	612
Derivative financial instruments	26	**1,043**	–
Pledged bank deposits		**73**	5,294
Bank balances and cash	24	**195,403**	323,705
		491,257	671,552
Current liabilities			
Trade and other payables	25	**147,267**	136,574
Advance drawn on bills receivables discounted		**–**	8,119
Derivative financial instruments	26	**–**	30,712
Current income tax payable		**18,780**	31,079
Bank borrowings	27	**195,792**	198,403
Obligations under finance leases	28	**689**	1,170
		362,528	406,057
Net current assets		**128,729**	265,495
Total assets less current liabilities		**2,029,781**	2,115,760

Consolidated Statement of Financial Position

At 31 December 2012

	Notes	2012 US$'000	2011 US$'000
Non-current liabilities			
Bank borrowings	27	**301,980**	379,970
Obligations under finance leases	28	**–**	589
Derivative financial instruments	26	**4,501**	3,421
Deferred income tax liabilities	21	**–**	55,245
		306,481	439,225
		1,723,300	1,676,535
Capital and reserves			
Share capital	29	**170,896**	170,794
Share premium and reserves		**1,519,692**	1,474,871
Equity attributable to owners of the Company		**1,690,588**	1,645,665
Non-controlling interests		**32,712**	30,870
		1,723,300	1,676,535

The consolidated financial statements on pages 60 to 123 were approved and authorized for issue by the Board of Directors on 15 March 2013 and were signed on its behalf by:

John Jeffrey YING
Director

TEY Wei Lin
Director

Statement of Financial Position

At 31 December 2012

	Notes	2012 US$'000	2011 US$'000
Non-current assets			
Investment in a subsidiary	37	**983,979**	983,979
Loan to a subsidiary	37	**411,415**	394,062
		1,395,394	1,378,041
Current assets			
Other receivables		**132**	132
Amounts due from subsidiaries	37	**42,690**	17,084
Bank balances		**5,231**	763
		48,053	17,979
Current liabilities			
Accrued charges		**297**	863
Amounts due to subsidiaries	37	**23,224**	1,159
		23,521	2,022
Net current assets		**24,532**	15,957
		1,419,926	1,393,998
Capital and reserves			
Share capital	29	**170,896**	170,794
Share premium and reserves	35	**1,249,030**	1,223,204
		1,419,926	1,393,998

The consolidated financial statements on pages 60 to 123 were approved and authorized for issue by the Board of Directors on 15 March 2013 and were signed on its behalf by:

John Jeffrey YING
Director

TEY Wei Lin
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	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	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)**	**963**	**736,228**	**1,645,665**	**30,870**	**1,676,535**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(444)**	**(37)**	**-**	**55,561**	**55,080**	**1,842**	**56,922**
Transactions with owners											
Issue of new shares (note 29)	**102**	**610**	**-**	**-**	**-**	**-**	**-**	**-**	**712**	**-**	**712**
Cost of issuing new shares	**-**	**(19)**	**-**	**-**	**-**	**-**	**-**	**-**	**(19)**	**-**	**(19)**
Transfers	**-**	**-**	**-**	**15**	**-**	**-**	**-**	**(15)**	**-**	**-**	**-**
Dividend (note 12)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(11,000)**	**(11,000)**	**-**	**(11,000)**
Awarded shares compensation expense (note 30)	**-**	**-**	**-**	**-**	**-**	**-**	**(124)**	**274**	**150**	**-**	**150**
Total transactions with owners	**102**	**591**	**-**	**15**	**-**	**-**	**(124)**	**(10,741)**	**(10,157)**	**-**	**(10,157)**
At 31 December 2012	**170,896**	**425,521**	**277,394**	**3,438**	**34,910**	**(3,458)**	**839**	**781,048**	**1,690,588**	**32,712**	**1,723,300**
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 year	-	-	-	-	11,337	(7,767)	-	154,713	158,283	(4,826)	153,457
Transactions with owners											
Issue of new shares (note 29)	2,353	37,524	-	-	-	-	-	-	39,877	-	39,877
Cost of issuing new shares	-	(1,328)	-	-	-	-	-	-	(1,328)	-	(1,328)
Awarded shares compensation expense (note 30)	-	-	-	-	-	-	1,725	53	1,778	-	1,778
Purchase of shares for the purpose of awarded shares compensation scheme	-	-	-	-	-	-	(959)	-	(959)	-	(959)
Total transactions with owners	2,353	36,196	-	-	-	-	766	53	39,368	-	39,368
At 31 December 2011	170,794	424,930	277,394	3,423	35,354	(3,421)	963	736,228	1,645,665	30,870	1,676,535

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 reorganization 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.

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Note	2012 US$'000	2011 US$'000
Cash flows from operating activities			
Net cash generated from operations	33	146,945	184,863
Income taxes paid		(1,554)	(968)
Net cash from operating activities		145,391	183,895
Cash flows from investing activities			
Purchase of property, plant and equipment		(122,517)	(136,810)
Additions of forestation and reforestation assets		(36,788)	(41,608)
Additions to prepaid lease payments		(1,308)	(17,994)
Additions of unlisted investments		(1,855)	(3,580)
Decrease in pledged bank deposits		5,221	3,135
Interest received		3,042	2,673
Proceeds on disposals of property, plant and equipment		363	21
Proceeds on disposals of subsidiaries	34(b)	2,701	–
Net cash used in investing activities		(151,141)	(194,163)
Cash flows from financing activities			
Drawdown of bank borrowings		202,483	141,906
Repayment of bank borrowings		(287,267)	(236,669)
Interest paid		(26,820)	(37,903)
Repayment of obligations under finance leases		(1,070)	(2,052)
Net proceeds from issuance of shares		693	38,549
Payment of dividend		(11,000)	–
Net cash used in financing activities		(122,981)	(96,169)
Net decrease in cash and cash equivalents		(128,731)	(106,437)
Foreign exchange differences		429	2,348
Cash and cash equivalents at beginning of the year		323,705	427,794
Cash and cash equivalents at end of the year			
Represented by bank balances and cash		195,403	323,705

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2012

1 General information

Sateri Holdings Limited (the "Company") was incorporated on 8 June 2010 and registered as an exempted company with limited liability in Bermuda under the Companies Act 1981 of Bermuda (as amended). The Company is controlled by Gold Silk Holdings Limited, a limited liability company incorporated in Cayman Islands and 100% owned and controlled by Mr. Sukanto Tanoto and certain members of his family (the "Major Shareholder"). The address of its registered office is 21/F, Aon China Building, 29 Queen's Road Central, Central, Hong Kong.

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are set out in note 38.

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

These consolidated financial statements are presented in United States dollars ("US$"), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 15 March 2013.

2 Summary of significant accounting policies

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

(a) Basis of preparation

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

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

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

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

International Accounting Standards ("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 statements.

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2012

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

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

New or revised 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
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in other Entities: Transition Guidance	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
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 new or revised standards and amendments. Management has made a preliminary assessment that the adoption of these new or revised standards and amendments is not expected to have a significant impact on the Group's measurement of assets, liabilities and results.

(b) Basis of consolidation

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

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

2 Summary of significant accounting policies (continued)

(b) Basis of consolidation (continued)

De-facto control may arise from circumstances where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

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

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

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

(i) Business combinations

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

Acquisition-related costs are expensed as incurred.

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

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

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the consolidated income statement.

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2012

2 Summary of significant accounting policies (continued)

(b) Basis of consolidation (continued)

(ii) Disposal of subsidiaries

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

(c) Separate financial statements

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

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

(d) Segment reporting

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

(e) Revenue recognition

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

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

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

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

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

2 Summary of significant accounting policies (continued)

(f) Financial instruments

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

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

(i) Financial assets

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

(1) Effective interest method

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

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

(2) Financial assets at fair value through profit or loss ("FVTPL")

Financial assets at FVTPL are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(3) Available-for-sale financial assets

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

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

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2012

2 Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

(i) Financial assets (continued)

(4) Loans and receivables

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

(5) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For financial assets other than those at FVTPL, objective evidence of impairment could include:

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

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

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

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

2 Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

(i) Financial assets (continued)

(5) Impairment of financial assets (continued)

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

(ii) Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

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

(1) Effective interest method

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

Interest expense is recognized on an effective interest basis.

(2) Other financial liabilities

Other financial liabilities including bank borrowings, trade and other payables, advance drawn on bills receivables discounted and obligations under finance leases are subsequently measured at amortized cost, using the effective interest method.

(3) Equity instruments

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

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

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2012

2 Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

(iii) Derivative financial instruments and hedging

Derivatives are classified as financial assets or liabilities held for trading and are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognized in the consolidated income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the consolidated income statement depends on the nature of the hedge relationship.

(1) Hedge accounting

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

(2) Cash flow hedges

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

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

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

2 Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

(iv) Derecognition

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

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in the consolidated income statement.

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

The Group derecognizes financial liability when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in the consolidated income statement.

(g) Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful lives is provided on a straight line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

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

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2012

2 Summary of significant accounting policies (continued)

(h) Forestation and reforestation assets

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

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

Forestation and reforestation assets are stated at fair value less estimated costs to sell at the end of the reporting period.

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

(i) Property, plant and equipment

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

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

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

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

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

2 Summary of significant accounting policies (continued)

(i) Property, plant and equipment (continued)

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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

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

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

(j) Investment properties

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

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

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

(k) Borrowing costs

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

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

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2012

2 Summary of significant accounting policies (continued)

(l) Inventories

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

(m) Impairment losses on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

(n) Income tax

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

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

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

2 Summary of significant accounting policies (continued)

(n) Income tax (continued)

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

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

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

(o) Foreign currencies

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

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

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. United States dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Foreign exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

2 Summary of significant accounting policies (continued)

(o) Foreign currencies (continued)

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

(p) Leasing

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

The Group as lessor

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

The Group as lessee

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as obligations under finance leases.

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

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

(q) Leasehold land and building

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

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

2 Summary of significant accounting policies (continued)

(r) Retirement benefit costs

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

(s) Provisions

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

(t) Share-based payment transactions

(i) Equity-settled share-based payment transactions

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

Restricted share unit schemes comprise the Company's Pre-IPO Restricted Share Unit Scheme and Post-IPO Restricted Share Unit Scheme.

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

When trustee purchases the Company's shares from the open market, the consideration paid, including any directly attributable incremental costs, is presented as "Awarded shares compensation reserve" in the consolidated statement of changes in equity and deducted from total equity. No gain or loss is recognized on the transactions of the Company's own shares.

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

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

(2) Share options scheme

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

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

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2012

2 Summary of significant accounting policies (continued)

(t) Share-based payment transactions (continued)

(i) Equity-settled share-based payment transactions (continued)

(2) Share options scheme (continued)

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

(u) Cash and cash equivalents

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

(v) Related parties

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

3 Financial risk management

(a) Financial risk factors

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

(i) Foreign currency risk management

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

The Group entered into forward foreign exchange contracts to cover the anticipated foreign currency exposures. These contracts were arranged mainly to hedge the currency fluctuation of Brazilian Reais against USD, with USD as the functional currency of the Company and its Brazilian operating subsidiaries.

During the year, the Group has enhanced its internal documentation in order to comply with the requirements of IAS 39 to be able to apply hedge accounting. As a result, forward foreign exchange contracts entered from 1 July 2012 qualify for hedge accounting under IFRS, and the Group has duly adopted hedge accounting for its foreign exchange contracts entered into after that date.

The Group's treasury's risk management policy is to hedge up to 100% of anticipated cash flows (mainly operating costs incurred in Brazil) in Brazilian Reais and Renminbi for up to the subsequent 18 months.

3 Financial risk management (continued)

(a) Financial risk factors (continued)

(i) Foreign currency risk management (continued)

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

	2012 US$'000	2011 US$'000
Assets		
Brazilian Reais	**91,653**	120,339
Renminbi	**73,139**	117,307
USD	**6,558**	8,181
Liabilities		
Brazilian Reais	**43,633**	62,478
USD	**44,502**	42,013

Sensitivity analysis

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

The following table details the increase and decrease by 5% (2011: 5%) in the functional currency of relevant group entity against Brazilian Reais, USD and Renminbi with other variables held constants. The sensitivity analysis includes only outstanding foreign currency denominated items and adjusts their translation at the period end. A 5% (2011: 5%) strengthening of USD and Renminbi (functional currencies) against the Brazilian Reais, USD and Renminbi (foreign currencies) respectively will give rise to the following impact to post-tax profit/loss for the year.

	USD Impact (note i)		Brazilian Reais Impact (note ii)		Renminbi Impact (note iii)	
	2012 US$'000	2011 US$'000	2012 US$'000	2011 US$'000	2012 US$'000	2011 US$'000
Increase/(decrease) in post-tax profit for the year	**1,423**	1,480	**(1,585)**	(1,909)	**(3,657)**	(5,865)

For a 5% (2011: 5%) weakening of USD, Brazilian Reais and Renminbi, there would be an equal and opposite impact.

Notes:

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

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

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

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2012

3 Financial risk management (continued)

(a) Financial risk factors (continued)

(i) Foreign currency risk management (continued)

For the forward foreign exchange contracts, the sensitivity analysis has been estimated based on the contracts outstanding at the end of the respective reporting periods. If the market bid and ask forward exchange rate of USD strengthens against Brazilian Reais by 5% (2011: 5%), the potential effect on post-tax profit for the year, as a result of the change in the market ask foreign currency forward exchange rate of USD against Brazilian Reais is as follows:

	2012 US$'000	2011 US$'000
Decrease in post-tax profit for the year	–	11,191

All forward foreign exchange contracts effective before 1 July 2012 expired during 2012. No outstanding forward foreign exchange contracts would impact post-tax profit for the year ended 31 December 2012.

(ii) Interest rate risk management

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank borrowings which are based on LIBOR plus an applicable margin (see note 27 for details of these borrowings). The Group aims to keep certain borrowings at fixed rates of interest. In order to achieve this result, the Group entered into interest rate swaps to minimize its exposure to interest rate risk. At 31 December 2012, the outstanding interest rate swaps have been designated as highly effective hedging instruments. The critical terms of these interest rate swaps are similar to those of hedged borrowings. The Group's bank deposits and bank balances also have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank deposits and bank balances.

Interest rate swap contracts

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

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

3 Financial risk management (continued)

(a) Financial risk factors (continued)

(ii) Interest rate risk management (continued)

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivatives and non-derivative instruments mainly include pledged bank deposits, bank balances and bank borrowings that are not under cash flow hedge. The analysis has been prepared assuming these financial instruments outstanding at the end of the reporting period were outstanding for the whole year.

At 31 December 2012, interest rates increased by 50 (2011: 50) basis points with all other variables held constant, the potential effect on post-tax profit for the year is as follows:

	2012 US$'000	2011 US$'000
Increase in post-tax profit for the year	**486**	1,645

If interest rates decreased by 50 (2011: 50) basis points with all other variables held constant, these would be an equal and opposite impact on the profit.

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

(iii) Credit risk management

As at 31 December 2012, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties is arising from the carrying amount of the respective recognized financial assets as stated in the consolidated statement of financial position.

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

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

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

The Group has concentration of credit risk on its top three customers which in aggregate accounted for 20% (2011: 33%) of the Group's total trade receivables as at 31 December 2012. These top three customers have good credit rating and repayment history and are well-known manufacturers of fiber in the world. The credit period granted to them ranged from 30 to 90 days. The Group has no significant concentration of credit risk in respect of other trade receivables, with exposure spread over a number of counterparties and customers.

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

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2012

3 Financial risk management (continued)

(a) Financial risk factors (continued)

(iv) Liquidity risk management

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilization of borrowings.

The following tables detail the Group's outstanding contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates on which the Group can be required to pay. The tables include both interest and principal cash flows. For variable rate non-derivative financial liabilities, the undiscounted cash flows on interest are estimated based on interest rates at the end of the reporting period, and therefore subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

In addition, the following tables detail the Group's liquidity analysis for its derivative financial liabilities. The tables have been drawn up based on the undiscounted contractual net cash outflows on derivative instruments settled on a net basis. Floating rate is determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period. The liquidity analysis for the Group's derivative financial liabilities are prepared based on the contractual maturities as management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

	Weighted average effective interest rate %	0-90 days US$'000	91-365 days US$'000	1-2 years US$'000	2-3 years US$'000	Over 3 years US$'000	Total undiscounted cash flows US$'000	Carrying amount US$'000
At 31 December 2012								
Non-derivative financial liabilities								
Trade and other payables	-	83,985	-	-	-	-	83,985	83,985
Bank borrowings								
– Fixed rate	5.8	971	39,918	22,478	10,857	-	74,224	67,909
– Variable rate	4.1	4,348	172,052	115,271	120,788	55,109	467,568	429,863
Obligations under finance leases	19.0	205	522	-	-	-	727	689
		89,509	212,492	137,749	131,645	55,109	626,504	582,446
Derivative financial liabilities								
Interest rate swap		645	1,665	1,543	718	187	4,758	4,501

3 Financial risk management (continued)

(a) Financial risk factors (continued)

(iv) Liquidity risk management (continued)

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

(b) Capital risk management

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

The capital structure of the Group consists of debt, which includes bank borrowings and obligations under finance leases disclosed in notes 27 and 28, respectively, net of cash and cash equivalents and equity attributable to owners of the Company, comprising share capital, share premium, various reserves and retained profits.

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

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2012

3 Financial risk management (continued)

(c) Categories of financial instruments

	2012 US$'000	2011 US$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	387,277	501,662
Unlisted available-for-sale investment	15,988	14,133
Derivative financial instruments	1,043	–
Financial liabilities		
Amortized cost	581,757	654,382
Derivative financial instruments	4,501	34,133

(d) Fair value estimation

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

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

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

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

Fair value measurements recognized in the consolidated statement of financial position

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

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

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

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

3 Financial risk management (continued)

(d) Fair value estimation (continued)

	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
2012				
Financial assets				
Derivative financial instruments	**–**	**1,043**	**–**	**1,043**
Financial liabilities				
Derivative financial instruments	**–**	**4,501**	**–**	**4,501**
2011				
Financial assets				
Derivative financial instruments	–	–	–	–
Financial liabilities				
Derivative financial instruments	–	34,133	–	34,133

4 Critical accounting estimates and judgements

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

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

(a) Income taxes

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

As described in note 21, deferred income tax assets are related to certain unused tax losses of the Group. The realizability of the deferred income tax assets mainly depends on whether sufficient future profits will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred income tax assets may arise, which would be recognized in the consolidated income statement for the period in which such a reversal takes place.

(b) Fair value of derivative financial instruments and investments

As described in note 26, management of the Company uses their judgment in selecting an appropriate valuation technique for derivative financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Fair values of the forward foreign exchange contracts have been arrived at using the forward rates of similar instruments as at the end of the reporting period. Fair values of interest rate swaps have been determined based on valuations provided by the counterparty banks as at each reporting period with reference to market data such as settlement prices and interest rates. Actual results may differ when the assumptions and selections of valuation technique changes. In addition, the Group has certain unlisted investments where the directors of the Company are of the opinion that the fair value cannot be measured reliably.

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2012

4 Critical accounting estimates and judgements (continued)

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

In determining whether there is any impairment loss on VAT recoverable, the Group estimates the amount, timing and the ways in which these VAT recoverable are to be utilized, including the utilization through offsetting of VAT payable on future sales and import of equipment, transfer of VAT recoverable to third parties and/or utilization through offsetting with other tax payables. Where the actual amount utilized in offsetting against VAT payable on future sales are less than expected, a material impairment loss may arise and charge to the consolidated income statement for the period.

(d) Estimated impairment of trade, bills and other receivables

The provision policy for doubtful debts of the Group is based on the ongoing evaluation of collectability and aging analysis of the outstanding receivables and on management's judgments. When there is objective evidence of impairment loss, the Group estimates the future cash flows to determine the impairment loss. A considerable amount of judgment is required in assessing the ultimate realization of these receivables, including creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, material amount of allowances may be required.

(e) Depreciation of property, plant and equipment

The Group depreciates the property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual values, using the straight line method. The estimated useful lives reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. The residual values reflect management's estimated amount that the Group would currently obtain from disposal of the assets, after deducting the estimated costs of disposal, if the assets were already of the age and in the condition expected at the end of their useful lives. Changes in the above estimates will affect the depreciation charged to the consolidated income statement for the period in which such changes take place in future periods.

(f) Fair value of forestation and reforestation assets

As described in note 14, management of the Company uses their judgment in selecting an appropriate valuation technique for forestation and reforestation assets.

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

Fair value of forestation and reforestation assets has been estimated using the discounted cash flow model with reference to estimates in growth, harvest, sales prices and costs. Details of the assumptions are listed in note 14. If the expectation on assumptions differs from the original estimate, such difference will impact the carrying amount of forestation and reforestation assets whenever such estimates are changed.

4 Critical accounting estimates and judgements (continued)

(g) Inventory valuation

Inventories are valued at the lower of the actual cost and net realizable value. Cost is determined using the weighted average method. Net realizable value is generally the merchandise's selling price quoted from the market for similar items. The Group reviews its inventory levels in order to identify slow-moving and obsolete merchandise. When the Group identifies items of inventories which have a market price that is lower than its carrying amount, the Group estimates the amount of allowance on inventories charged to the consolidated income statement for the year.

(h) Provisions

The Group made provisions for all loss contingencies when information available prior to the issuance of these consolidated financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of these consolidated financial statements and the amount of loss can be reasonably estimated. For provisions related to litigation, the Group makes provisions based on information from legal counsel and the best estimation of management. The actual resolution of these contingencies may differ from the estimation made by the Group. If the contingencies were settled for an amount greater than the Group's estimate, an additional charge to the consolidated income statement would result. Likewise, if the contingencies were settled for an amount that is less than the Group's estimate, a credit to the consolidated income statement would result.

5 Revenue and segment information

(a) Revenue

	2012 **US$'000**	2011 US$'000
DWP Business	**368,947**	443,525
VSF Business	**351,338**	363,049
	720,285	806,574

(b) Segment information

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. The 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.

The Group is organized into the following two major operating divisions, each of which represents an operating and reportable segment of the Group:

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

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

Information regarding the above segments is reported below.

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2012

5 Revenue and segment information (continued)

(b) Segment information (continued)

Segment revenue and results

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

For the year ended 31 December 2012

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

For the year ended 31 December 2011

	DWP Business US$'000	VSF Business US$'000	Unallocated US$'000	Consolidated US$'000
Segment revenue from external customers	443,525	363,049	–	806,574
Segment gross profit	237,878	85,195	–	323,073
EBITDA (as defined below)	206,165	89,410	(7,425)	288,150
Depreciation of property, plant and equipment	(33,947)	(29,237)	(101)	(63,285)
Depreciation of investment properties	–	–	(109)	(109)
Amortization of intangible assets	–	–	(100)	(100)
Decrease due to harvest	(26,585)	(10,367)	–	(36,952)
Decrease in fair value of forestation and reforestation assets	(6,007)	(2,342)	–	(8,349)
Reversal of impairment loss in respect of property, plant and equipment	–	6,762	–	6,762
Finance costs	(24,199)	(18,068)	–	(42,267)
Segment results and profit/(loss) before income tax	115,427	36,158	(7,735)	143,850

5 Revenue and segment information (continued)

(b) Segment information (continued)

Segment revenue and results (continued)

Earnings before interest, income tax, depreciation and amortization ("EBITDA") is calculated as profit before income tax, excluding finance costs, depreciation of property, plant and equipment and investment properties, reversal of impairment loss in respect of property, plant and equipment, amortization of intangible assets, decrease due to harvest and changes in fair value of forestation and reforestation assets. EBITDA includes decrease in fair value and (losses)/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.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 2.

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.

Geographical information

The Group's customers are mainly located in the Americas, the PRC, other Asian countries and Europe.

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

	2012 US$'000	2011 US$'000
The PRC	**433,125**	449,334
Asia (excluding the PRC)	**77,668**	134,505
The Americas	**141,847**	118,909
Europe	**66,958**	103,797
Others	**687**	29
	720,285	806,574

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2012

5 Revenue and segment information (continued)

(b) Segment information (continued)

Geographical information (continued)

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

	2012 US$'000	2011 US$'000
The Americas (primarily Brazil)	**1,230,000**	1,247,396
The PRC	**528,380**	428,022
Europe (primarily Switzerland)	**38**	49
Asia (excluding the PRC)	**22**	37
	1,758,440	1,675,504

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

Information about major customers

No customer contributed over 10% of the Group's sales in 2012 (2011: one customer contributed sales of US$156,656,000).

6 Cost of sales

	2012 US$'000	2011 US$'000
Wood	**96,393**	100,353
Pulp products	**58,496**	80,218
Chemicals	**100,025**	74,602
Conversion	**133,907**	139,301
Labor costs	**37,192**	30,822
Depreciation	**74,566**	58,205
	500,579	483,501

7 Other income and (losses)/gains, net – Others

	2012 US$'000	2011 US$'000
Commission income from a related party	**3,699**	3,880
Foreign exchange (loss)/gain	**(3,587)**	11,385
Rental income in respect of investment properties	**178**	151
Bank interest income	**3,042**	2,673
Loss on disposals of property, plant and equipment	**(1,986)**	(130)
Reversal of impairment loss in respect of property, plant and equipment	**–**	6,762
Insurance claim received	**6,037**	–
Gain on disposal of subsidiaries (Note 34(b))	**794**	–
Loss from fire in wood yard	**(1,879)**	–
Others	**(1,940)**	3,144
	4,358	27,865

8 Operating profit

	2012 US$'000	2011 US$'000
Operating profit has been arrived at after charging:		
Salaries, wages and allowances	**71,956**	67,306
Retirement benefit scheme contributions – defined contribution plans	**3,453**	2,468
Awarded shares compensation expense, net	**150**	1,778
Total staff costs	**75,559**	71,552
Auditor's remuneration	**1,168**	1,231
Amortization of intangible assets	**100**	100
Depreciation of property, plant and equipment	**78,200**	63,285
Depreciation of investment properties	**110**	109
Impairment loss on inventories	**–**	529
Operating lease expense of land and buildings	**221**	166

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2012

9 Finance costs

	2012 US$'000	2011 US$'000
Interest expenses on:		
– bank borrowings	23,924	29,560
– obligations under finance leases	347	633
	24,271	30,193
Other finance costs (note)	6,254	12,074
Total borrowing costs	30,525	42,267
Less: amounts capitalized	(555)	–
	29,970	42,267
Total borrowing costs were capitalized at the following rates per annum	6.76%	–

Note: Other finance costs represent primarily the loss on settlement of interest rate swap which was designated as hedging instrument under hedge accounting amounted to US$3,066,000 (2011: US$4,392,000) and the amortization of syndicated loan's upfront structure fee amounted to US$3,150,000 (2011: US$4,364,000).

10 Income tax credit

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

	2012 US$'000	2011 US$'000
Current income tax:		
– Provision for the year	(6,877)	(4,323)
– Over-provision in prior years (note)	8,605	843
	1,728	(3,480)
Deferred income tax (note 21)	2,529	10,155
	4,257	6,675

Note: Over-provision of income tax represents primarily the write back of aged tax provision of US$8,718,000, relating to a subsidiary.

During 2012, the EIT rate of the Company's subsidiaries in the PRC was 25% (2011: 12.5% – 25%).

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 of EIT for the years 2009, 2010 and 2011.

10 **Income tax credit** (continued)

Brazilian Corporate Tax ("BCT") consists of income tax and social contributions, which are calculated at the rates of 25% and 9%, respectively on the Brazilian subsidiaries' taxable profit. Pursuant to the Federal Government ("SUDENE") Report 0258/02 and 0182/02, Copener Florestal Ltda's ("Copener"), a subsidiary incorporated in Brazil, is entitled to a reduction of BCT of 12.5% for its profit from forest plantation operations from 1 January 2009 to 31 December 2013. Bahia Specialty Cellulose S. A. ("BSC"), another subsidiary incorporated in Brazil, obtained approval from the SUDENE in 2008 for a 75% reduction in BCT arising from profits attributable to its then existing production line for a ten-year term starting from 1 January 2009. For new production line which commenced production in 2008, an approval from SUDENE for a 75% reduction in BCT was obtained in 2010, and are effective for a ten year term starting 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. ("SC Singapore"), 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 two years starting from 1 January 2011. The tax rate for the other group entities incorporated in Singapore is 17% (2011: 17%).

The corporate income tax of Switzerland incorporated entity is calculated at 28.9725% (2011: 29.0675%) of the estimated assessable profit.

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

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

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

	2012 US$'000	2011 US$'000
Profit before income tax	**52,023**	143,850
Tax at the respective domestic income tax rates applicable to profits in the respective countries/locations	**(3,252)**	(9,604)
Expenses not deductible for tax purposes	**(10,142)**	(10,024)
Income not subject to income tax	**4,720**	4,742
Tax losses not recognized	**(4,703)**	(2,932)
Effect of tax exemption and concession granted (note)	**9,029**	23,650
Over-provision in respect of prior years	**8,605**	843
Income tax credit	**4,257**	6,675

Note: It arises primarily from tax exemption and concession to Copener, BSC and SC Singapore. The tax exemption and concession was granted by the appropriate competent authorities in Brazil and Singapore.

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2012

11 Directors' and management's emoluments

(a) Directors' emoluments

The remuneration of every director is set out below:

For the year ended 31 December 2012

Name	Fees US$'000	Salaries, allowances and other benefits US$'000	Retirement benefit scheme contributions US$'000	Awarded shares compensation US$'000	Total emoluments US$'000
Directors:					
Will HOON Wee Teng (note a)	–	617	11	(540)	88
John Jeffrey YING	64	–	–	161	225
Rohan Seneka WEERASINGHE	26	–	–	–	26
Jeffrey LAM Kin Fung	64	–	–	–	64
David YU Hon To	64	–	–	–	64
TEY Wei Lin (note b)	64	–	–	–	64
John SETO Gin Chung	64	–	–	–	64
LOH Meng See	26	–	–	–	26
LIM Ah Doo	49	–	–	–	49
	421	617	11	(379)	670

For the year ended 31 December 2011

Name	Fees US$'000	Salaries, allowances and other benefits US$'000	Retirement benefit scheme contributions US$'000	Awarded shares compensation US$'000	Total emoluments US$'000
Directors:					
Will HOON Wee Teng (note a)	–	917	10	803	1,730
Craig Edward BARKER	–	182	–	–	182
John Jeffrey YING	64	–	–	308	372
Rohan Seneka WEERASINGHE	64	–	–	–	64
Jeffrey LAM Kin Fung	64	–	–	–	64
David YU Hon To	64	–	–	–	64
TEY Wei Lin	64	–	–	–	64
John SETO Gin Chung	64	–	–	–	64
LOH Meng See	64	–	–	–	64
	448	1,099	10	1,111	2,668

Notes:

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

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

11 Directors' and management's emoluments (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include no (2011: one) director whose emoluments are reflected in the analysis presented above. The emoluments payable to the five (2011: four) individuals are as follows:

	2012 US$'000	2011 US$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**2,175**	2,129
Retirement benefit scheme contributions – defined contribution plans	**124**	14
Awarded shares compensation expense	**308**	297
	2,607	2,440

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

	2012	2011
Emoluments		
HK$3,000,001 to HK$3,500,000	**2**	–
HK$3,500,001 to HK$4,000,000	**2**	1
HK$4,500,001 to HK$5,000,000	**–**	2
HK$5,000,001 to HK$5,500,000	**–**	1
HK$6,000,001 to HK$6,500,000	**1**	–
HK$13,000,001 to HK$13,500,000	**–**	1
	5	5

During the years ended 31 December 2012 and 2011, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the years.

(c) Compensation of key management personnel

During the year ended 31 December 2012, the emoluments paid to the key management personnel of the Group were approximately US$5,357,000 (2011: US$5,564,000). Apart from those five highest paid individuals whose emoluments are disclosed under Note 11(b) above, the remainder of the senior management were all individually paid under HK$3,300,000.

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2012

12 Dividends

	2012 US$'000	2011 US$'000
Proposed final dividend of HK2.5 cents (2011: HK2.5 cents) per share	**11,000**	11,000

At the board meeting held on 15 March 2013, the directors recommended a final dividend of HK2.5 cents per share for the year ended 31 December 2012 (2011: HK2.5 cents). Such dividend, which will be proposed at the annual general meeting of the Company to be held on 21 May 2013, has not been recognized as liabilities in the consolidated financial statements.

13 Earnings per share

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

	2012 US$'000	2011 US$'000
Earnings for the purposes of basic and diluted earnings per share		
Profit for the year attributable to owners of the Company	**55,561**	154,713
Weighted average number of ordinary shares for the purpose of basic earnings per share	**3,417,674,573**	3,415,624,412
Effect of dilutive potential ordinary shares:		
Awarded shares compensation scheme	**1,667,076**	3,468,637
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**3,419,341,649**	3,419,093,049

14 Forestation and reforestation assets

	2012 US$'000	2011 US$'000
At beginning of the year	**187,797**	192,192
Additions	**36,788**	41,608
Decrease due to harvest	**(24,099)**	(37,654)
Decrease in fair value recognized in the consolidated income statement	**(14,808)**	(8,349)
At end of the year	**185,678**	187,797

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

At 31 December 2012 and 2011, management of the Group determined the fair value of forestation and reforestation assets using a discounted cash flow model and the prices and terms agreed in the contracts entered into with local farmers as the reference market price for locally sourced wood in the region in Brazil in which the Group's plantation land is situated.

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

- a six-year harvest cycle of the trees;
- weighted average capital cost of planting of 10% (2011: 10%);
- reference wood price of Brazilian Reais ("BRL") BRL36.58 (2011: BRL 33.93) (equivalent to US$17.09 and US$18.09 respectively) per cubic meter, based on the prices paid under contracts entered into with local farmers during the year ended 31 December 2012;
- wood production rate calculated based on the planting programs during the period from 2007 to 2012;
- wood consumption rate calculated based on the actual and estimated annual production capacity of the mills, which is 460,700 for 2013 and 485,400 for 2014 to 2018, respectively;
- forestry maintenance costs calculated based on the average historical expenses;
- overhead expenses calculated based on the latest budget, that is, BRL9,000,000 (equivalent to US$4,400,000) for 2012 and projected for 2013 to 2018 in a proportional manner to the volume planted annually; and
- exchange rate between US dollars and BRL is US$1.00 = BRL2.04 as at 31 December 2012 and at US$1.00 = BRL 1.88 as at 31 December 2011.

At 31 December 2012, total forestation and reforestation assets were valued at approximately US$185,678,000 (2011: US$187,797,000), with a decrease in fair value of approximately US$14,808,000 (2011: decrease in fair value of US$8,349,000) recognized in the consolidated income statement for the year.

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2012

15 Property, plant and equipment

	Freehold land US$'000 (note i)	Buildings and leasehold improvement US$'000	Plant and machinery US$'000	Other tangible assets US$'000 (note ii)	Construction in progress US$'000	Total US$'000
Cost						
At 1 January 2011	35,216	146,954	1,371,103	23,357	42,098	1,618,728
Additions	–	3,430	6,415	2,340	113,073	125,258
Transfer	–	57,996	34,013	12,775	(104,784)	–
Reclassified as prepaid lease payments	–	–	–	–	(1,473)	(1,473)
Disposals	–	(41)	(10,943)	(102)	–	(11,086)
Foreign exchange differences	–	2,012	10,584	116	835	13,547
At 31 December 2011	35,216	210,351	1,411,172	38,486	49,749	1,744,974
Additions	–	2,904	9,288	416	153,550	166,158
Transfer	–	7,694	16,801	(6,797)	(17,698)	–
Disposals	–	(424)	(395)	(5,898)	–	(6,717)
Foreign exchange differences	–	602	935	11	63	1,611
At 31 December 2012	**35,216**	**221,127**	**1,437,801**	**26,218**	**185,664**	**1,906,026**
Accumulated depreciation and impairment						
At 1 January 2011	–	16,949	196,683	12,657	8,369	234,658
Charge for the year	–	6,875	61,342	1,745	–	69,962
Disposals	–	(18)	(10,298)	(93)	–	(10,409)
Impairment loss reversed in the consolidated income statement	–	–	–	–	(6,762)	(6,762)
Foreign exchange differences	–	155	2,940	71	(1,607)	1,559
At 31 December 2011	–	23,961	250,667	14,380	–	289,008
Charge for the year	–	8,645	67,091	1,603	–	77,339
Disposals	–	(6)	–	(169)	–	(175)
Foreign exchange differences	–	13	389	5	–	407
At 31 December 2012	**–**	**32,613**	**318,147**	**15,819**	**–**	**366,579**
Net book amount						
At 31 December 2012	**35,216**	**188,514**	**1,119,654**	**10,399**	**185,664**	**1,539,447**
At 31 December 2011	35,216	186,390	1,160,505	24,106	49,749	1,455,966

15 Property, plant and equipment (continued)

Notes:

(i) Freehold land comprises land in Brazil.

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

(iii) The carrying values of plant and machinery as at 31 December 2012 include an amount of US$9,262,000 (2011: US$9,795,000) in respect of assets held under finance leases.

(iv) At 31 December 2012, the Group has pledged buildings, plant and machinery and construction in progress having a carrying amount of approximately US$1,267,684,000 (2011: US$1,305,538,000) to secure the bank loans borrowed by the Group (Note 31).

(v) Interest costs of US$555,000 (2011: nil) during the year were capitalized as part of construction in progress (Note 9).

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

16 Prepaid lease payments

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

17 Investment properties

	US$'000
Cost	
At 1 January 2011	2,313
Foreign exchange differences	117
At 31 December 2011	2,430
Foreign exchange differences	6
At 31 December 2012	**2,436**
Accumulated depreciation and impairment	
At 1 January 2011	433
Foreign exchange differences	21
Charge for the year	109
At 31 December 2011	563
Foreign exchange differences	1
Charge for the year	110
At 31 December 2012	**674**
Net book amount	
At 31 December 2012	**1,762**
At 31 December 2011	1,867

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2012

17 Investment properties (continued)

The above investment properties are located in Shanghai, the PRC and depreciated on a straight line basis at a rate of 5% per annum.

The Group's investment properties are stated at historical cost at the end of each reporting period. No valuation had been performed by independent qualified professional valuers at 31 December 2012 and 2011. The directors of the Company estimate the fair value of the investment properties by reference to recent market prices for similar properties. The estimated fair value as at 31 December 2012 was US$3,924,000 (2011: US$3,898,000).

During the year ended 31 December 2012, the property rental income earned by the Group from its investment properties, all of which are leased out under operating leases, amounted to US$178,000 (2011: US$151,000).

18 Intangible assets

	Technical know-how US$'000 (note)	Patent US$'000	Total US$'000
Cost			
At 1 January 2011, 31 December 2011 and 31 December 2012	1,000	441	1,441
Accumulated amortization and impairment			
At 1 January 2011	225	441	666
Charge for the year	100	–	100
At 31 December 2011	325	441	766
Charge for the year	100	–	100
At 31 December 2012	**425**	**441**	**866**
Net book amount			
At 31 December 2012	**575**	**–**	**575**
At 31 December 2011	675	–	675

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

19 Other non-current assets

	2012 US$'000	2011 US$'000
Tax recoverable (a)	**39,055**	51,155
Unlisted equity investment (b)	**15,988**	14,133
Others (c)	**34,786**	3,977
	89,829	69,265

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

(b) The unlisted investment represents 5.7% equity investment in Cetrel S.A. Empresa de Proteçao Ambiental ("Cetrel S.A."), a company which is incorporated in Brazil and is responsible for operating the environmental protection systems in Camaçari industrial complex, within which the Group's Bahia Specialty Cellulose mill is located. The Group invested into Cetrel S.A. for strategic reason as Cetrel S.A. provide effluent treatment for Bahia Specialty Cellulose. The unlisted investment is measured at cost less impairment at 31 December 2012 and 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 years ended 31 December 2012 and 2011.

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

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

	2012 US$'000	2011 US$'000
Brazilian Reais	**59,921**	69,065
USD	**820**	–

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2012

20 Post-employment benefit obligations

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

(i) Plans for PRC employees

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

(ii) Other defined contribution plans

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

The total costs charged to the consolidated income statement during the year ended 31 December 2012 of US$3,453,000 (2011: US$2,468,000) represent contributions to these schemes by the Group.

Under the defined contribution scheme in Brazil, forfeited contributions (by employers on behalf of employees who leave the scheme prior to vesting fully in such contributions) may be used by the employer to reduce the existing level of contributions. There were no utilization of forfeited contribution for the year ended 31 December 2012 and 2011, and the amount available as at 31 December 2012 for such use is US$125,000 (2011: US$155,000).

21 Deferred income tax assets and liabilities

	2012 US$'000	2011 US$'000
Deferred income tax assets	52,783	105,496
Deferred income tax liabilities	–	(55,245)
	52,783	50,251

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 tax 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.

21 Deferred income tax assets and liabilities (continued)

The following are the deferred income tax assets/(liabilities) recognized by the Group and the movements during the current and prior 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
Foreign exchange differences	–	–	–	–	50	93	143
Credited/(charged) to the consolidated income statement 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
Foreign exchange differences	–	–	–	–	2	1	3
Credited/(charged) to the consolidated income statement for the year	12,868	5,035	(154)	770	(16,601)	611	2,529
At 31 December 2012	**(37,255)**	**(87)**	**3,119**	**5,753**	**79,889**	**1,364**	**52,783**

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

As at 31 December 2012, the Group has unused tax losses of approximately US$273,619,000 (2011: US$303,815,000), available for offsetting against future profits. The unused tax losses of US$236,850,000 (2011: US$281,843,000) have been recognized as deferred income tax assets. The majority of unused tax losses may be carried forward indefinitely.

22 Inventories

	2012 US$'000	2011 US$'000
Raw materials	**88,997**	109,867
Work in progress	**464**	1,286
Finished goods	**54,173**	69,437
	143,634	180,590

The cost of inventories recognized as expense and included in "cost of sales" amounted to US$500,579,000 (2011: US$483,501,000).

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2012

23 Trade, bills and other receivables

	2012 US$'000	2011 US$'000
Trade and bills receivables	**109,401**	108,897
Other receivables:		
Prepayments and deposits paid	**6,924**	5,429
Advance to suppliers	**9,136**	12,320
VAT recoverable	**15,098**	25,936
Others	**1,986**	2,422
	33,144	46,107
Less: Impairment loss recognized in respect of other receivables	**–**	(1,772)
	33,144	44,335
Amount due from a related company (note)	**8,559**	–
Trade, bills and other receivables	**151,104**	153,232

Note: Balance with a related company is trade in nature, unsecured and non-interest bearing.

The Group generally 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:

	2012 US$'000	2011 US$'000
0 – 60 days	**82,226**	82,743
61 – 90 days	**14,591**	1,429
91 – 180 days	**12,573**	23,156
Over 180 days	**11**	1,569
	109,401	108,897

Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed regularly. Nearly all of the trade and bills receivables that are neither past due nor impaired have a good credit rating and/or good repayment history for the years ended 31 December 2012 and 2011.

As at 31 December 2012, trade receivables of US$7,140,000 (2011: US$17,874,000) were past due but not impaired. These relate to a number of independent customers for whom based on past experience, the overdue amounts can be recovered.

23 Trade, bills and other receivables (continued)

Movement in the allowance for doubtful debts

	2012 US$'000	2011 US$'000
At beginning of the year	**1,772**	1,772
Other receivables written off during the year	**(1,772)**	–
At end of the year	**–**	1,772

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

	2012 US$'000	2011 US$'000
Brazilian Reais	**23,893**	20,829
USD	**707**	4,383

24 Bank balances and cash

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

	2012 US$'000	2011 US$'000
Renminbi	**73,139**	117,307
Brazilian Reais	**7,839**	30,445
USD	**5,031**	3,798
Euro	**8**	2,228
Hong Kong dollars	**61**	473
Singapore dollars	**152**	340
Macau Pataca	**37**	269

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2012

25 Trade and other payables

	2012 US$'000	2011 US$'000
Trade payables	**32,883**	44,256
Other payables:		
Accruals and other payables	**31,683**	40,852
Advance from customers	**15,034**	11,753
Construction payables	**47,069**	7,621
Other taxes payables	**2,969**	2,556
Provisions (note i)	**13,596**	13,523
	110,351	76,305
Amounts due to related companies (note ii)	**4,033**	16,013
Trade and other payables	**147,267**	136,574

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

	2012 US$'000	2011 US$'000
0 – 90 days	**31,830**	43,023
91 – 180 days	**462**	56
Over 180 days	**591**	1,177
	32,883	44,256

Notes:

(i) Provisions

The provisions represent the Group's liabilities for probable losses on civil, labour 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$26,712,000 (2011: US$25,679,000), which are considered as possible but not probable future losses. No provision has been made in these consolidated financial statements for these possible losses.

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

	2012 US$'000	2011 US$'000
DP Macao	**2,747**	13,951
Averis Sdn. Bhd.	**1,286**	1,172
Pec-Tech Engineering and Consulting (Suzhou) Co., Ltd.	**–**	890
	4,033	16,013

Balances with related companies are unsecured and non-interest bearing.

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

25 Trade and other payables (continued)

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

	2012 US$'000	2011 US$'000
Brazilian Reais	**42,944**	52,219
USD	**1,366**	573

26 Derivative financial instruments

	2012 US$'000	2011 US$'000
Current assets		
– Forward foreign exchange contracts – cash flow hedges	**1,043**	–
Current liabilities		
– Forward foreign exchange contracts	**–**	(30,712)
Non-current liabilities		
– Interest rate swaps – cash flow hedges	**(4,501)**	(3,421)
	(3,458)	(34,133)

(a) Forward foreign exchange contracts

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2012 totaled US$130,600,000 (2011: US$264,745,000).

The Group enters into forward foreign exchange contracts designated as highly effective hedging instruments to cover the anticipated foreign currency exposures. The Group is a party to a variety of forward foreign exchange contracts and options in the management of the exchange rate exposures.

As at 31 December 2012, the increase in fair value of the Group's outstanding forward foreign exchange contracts are estimated to be US$1,043,000, based on fair values arrived at using forward rates of similar instruments of forward foreign exchange contracts and discounting the future cash flows using the interest rate curves at the end of the reporting period. The amount has been recognized as other comprehensive income and accumulated in equity and are expected to be released to the consolidated income statement at the time when settlement occurs.

As at 31 December 2011, the change in fair value arising from forward foreign exchange contracts not designated as hedging instruments was estimated to be a net loss of US$30,712,000 and was recognized in the consolidated income statement.

For the year ended 31 December 2012, a loss on settlement of financial derivative contracts of approximately US$1,419,000 (2011: gain of US$12,161,000) has been recognized in the consolidated income statement.

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2012

26 Derivative financial instruments (continued)

(b) Interest rate swaps

As at 31 December 2012 and 2011, the Group had interest rate swaps designated as highly effective hedging instruments in order to minimize its exposure to interest rate risk on bank borrowings.

The terms of the interest rate swaps have been arranged to match the terms of the respective designated hedged item. At 31 December 2012, the majority of the outstanding interest rate swaps with a notional amount of US$336,000,000 (2011: US$443,200,000), is settled every three months starting from 13 February 2013 to 13 November 2017, to match the amount and repayment period of the syndicated loan as disclosed in note 27.

As at 31 December 2012, the decrease in fair value of US$1,080,000 (2011: US$7,767,000) have been recognized as other comprehensive income and accumulated in equity and are expected to be released to the consolidated income statement at the time when settlement occurs.

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

27 Bank borrowings

	2012 US$'000	2011 US$'000
Bank borrowings:		
Secured	**431,076**	569,873
Unsecured	**66,696**	8,500
	497,772	578,373
Fixed rates	**67,909**	142,783
Variable rates	**429,863**	435,590
	497,772	578,373

At 31 December 2012, the Group's borrowings were repayable as follows:

	2012 US$'000	2011 US$'000
Within one year	**195,792**	198,403
More than one year, but not more than two years	**124,837**	122,230
More than two years but not more than five years	**160,676**	257,740
More than five years	**16,467**	–
	497,772	578,373
Wholly repayable within five years	**451,076**	578,373
Not wholly repayable within five years	**46,696**	–
	497,772	578,373

27 Bank borrowings (continued)

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

	2012 US$'000	2011 US$'000
USD	**43,136**	41,440

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

	2012	2011
Bank borrowings	**4.4%**	4.7%

In November 2010, SC International Macao, a wholly-owned subsidiary of the Company entered into a US$470 million syndicated loan as the borrower which was arranged by internationally recognized financial institutions which is guaranteed by Bahia Specialty Cellulose and DP Marketing International Limited, both are subsidiaries of the Company. This syndicated loan contains certain financial and other covenants, including, among other things, the maintenance of certain financial measures, such as the debt service coverage ratio and debt to EBITDA ratio, and is secured by, inter alia, certain property, plant and equipment, bank deposits, receivables and contractual rights and claims under product purchase and sale contracts of the Group's certain subsidiaries. Interest rate on the outstanding syndicated loan is based on the LIBOR plus an applicable margin. The net proceeds from this syndicated loan were used to refinance the funding provided for the expansion of the Group's Bahia Specialty Cellulose mill. The balance outstanding as at 31 December 2012 amounted to approximately US$331,539,000 (2011: US$435,590,000), net of loan raising cost. Subsequent to year end, the loan has been refinanced (Note 36).

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2012

28 Obligations under finance leases

Certain of the Group's machinery and equipment are held under finance leases. The average lease term was 3 years (2011: 3 years). Interest rates underlying all obligations under finance leases were fixed at respective contract dates ranging from 17.79% to 19.01% (2011: 16.62% to 18.54%) per annum.

	Minimum lease payments		Present value of minimum lease payments	
	2012 US$'000	2011 US$'000	**2012 US$'000**	2011 US$'000
Amounts payable under finance leases				
Within one year	**727**	1,271	**689**	1,170
In more than one year but not more than two years	**–**	731	**–**	589
	727	2,002	**689**	1,759
Less: Future finance charges	**(38)**	(243)	**–**	–
Present value of lease obligations	**689**	1,759	**689**	1,759
Less: Amount due for settlement within one year (shown under current liabilities)			**(689)**	(1,170)
Amount due for settlement after one year			**–**	589

Finance lease obligations are denominated in Brazilian Reais.

29 Share capital of the Company

	Number of shares	Amounts US$'000
Authorized:		
At 1 January 2011, 31 December 2011 and 31 December 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 31 December 2012, at US$0.05 each	**3,417,920,250**	**170,896**

Notes:

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

(b) On 15 February 2012, the Company issued 2,038,000 shares at the subscription price for a total cash consideration of approximately US$712,000 (equivalent to approximately HK$5,380,000).

30 Share-based payment transactions

The Company's share option scheme (the "Scheme"), Pre-IPO Restricted Share Unit Scheme ("Pre-IPO RSU Scheme") and Post-IPO Restricted Share Unit Scheme ("Post-IPO RSU Scheme"), were approved and adopted by the sole shareholder on 8 November 2010 for the primary purpose of attracting skilled and experienced personnel, to incentivize them to remain with the Group and to motivate them to strive for the future development and expansion of the Group by providing them with the opportunity to acquire equity interests in the Company.

Share option scheme

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

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at the date of shareholders' approval of the Scheme from time to time. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue. Any further grant of share option in excess of these limits is subject to shareholders' approval in general meeting.

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

During the years ended 31 December 2012 and 2011, there were no options granted under the Scheme by the Company.

Restricted Share Unit Schemes (the "RSU Schemes")

The terms of the RSU Schemes are not subject to the provisions of Chapter 17 of the Listing Rules as the RSU Schemes do not involve the grant of options by the Company to subscribe for new shares.

An RSU is a contingent right to receive a share granted to a participant, subject to a vesting period.

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

During the year ended 31 December 2012, an aggregate 3,385,949 RSUs granted under the RSU Schemes were forfeited due to resignation of the grantees and 1,517,498 RSUs were vested. In addition, RSUs of 1,500,000 new shares were granted pursuant to the Post-IPO RSU Scheme on 17 September 2012. The estimated fair value of the RSUs granted on this date was US$258,000.

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2012

30 Share-based payment transactions (continued)

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

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

	2012 Number of underlying shares	2011 Number of underlying shares
Outstanding as of 1 January	7,216,765	8,165,026
Granted	1,500,000	1,677,276
Vested	(1,517,498)	–
Forfeited	(3,385,949)	(2,625,537)
Outstanding as of 31 December	3,813,318	7,216,765

The fair values of the RSUs are based on their fair values of the shares awarded at grant dates, ranging from US$0.16 to US$0.71 per share.

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

The fair value of outstanding RSUs granted as at 31 December 2012 is approximately US$1,531,000 (2011: US$4,186,000) in aggregate. The Group recognized a total expense of US$150,000 (2011: US$1,778,000) for the year ended 31 December 2012 in relation to the RSUs granted by the Company.

31 Pledge of assets

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

	2012 US$'000	2011 US$'000
Property, plant and equipment (note 15)	1,267,684	1,305,538
Prepaid lease payments	4,605	2,261
Investment properties	–	1,867
Inventories	6,345	–
Bills receivable	3,671	–
Bank deposits	73	5,294
	1,282,378	1,314,960

32 Commitments

(a) Operating lease commitments

The Group as lessee

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

	2012 US$'000	2011 US$'000
Within one year	205	103
In the second to fifth year inclusive	824	29
After the fifth year	63	–
	1,092	132

(b) Capital commitments

	2012 US$'000	2011 US$'000
Contracted but not provided for		
– acquisition of property, plant and equipment	170,985	147,330
– capital injections in unlisted investment	–	2,596
Authorized but not contracted for		
– acquisition of property, plant and equipment	140,502	101,285

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2012

33 Note to the consolidated statement of cash flows

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

	2012 US$'000	2011 US$'000
Cash flows from operating activities		
Profit before income tax	52,023	143,850
Adjustments for:		
Amortization of intangible assets	100	100
Release of prepaid lease payments	215	551
Depreciation of property, plant and equipment	77,339	69,962
Decrease due to harvest on forestation and reforestation assets	24,099	37,654
Depreciation of investment properties	110	109
Loss on disposals of property, plant and equipment	1,986	130
Loss/(gain) on settlement of derivative financial instruments	1,419	(12,161)
Reversal of impairment loss in respect of property, plant and equipment	–	(6,762)
Impairment loss on inventories	–	529
Decrease in fair value of forestation and reforestation assets	14,808	8,349
Decrease in fair value of derivative financial instruments	–	30,712
Awarded shares compensation expense	150	1,778
Interest income	(3,042)	(2,673)
Finance costs	29,970	42,267
Operating cash flows before changes in working capital	199,177	314,395
Decrease/(increase) in inventories	36,956	(92,483)
Increase in trade, bills and other receivables	(6,892)	(44,496)
Decrease in trade and other payables	(31,456)	(7,484)
Change in derivative financial instruments	(32,131)	33,682
Increase in other non-current assets	(18,709)	(17,792)
Others	–	(959)
Net cash generated from operations	146,945	184,863

34 Related party disclosures

(a) Details of the balances with related parties are set out in notes 23 and 25.

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

Name of related parties	Nature of transactions	2012 US$'000	2011 US$'000
Companies under common control of the Major Shareholder			
DP Marketing International Limited	Purchase of goods	**23,732**	75,355
– Macao Commercial Offshore	Commission income	**3,699**	3,880
Pec-Tech Engineering and Consulting (Suzhou) Co., Ltd.	Consulting service expense	**802**	1,787
Averis Sdn. Bhd.	Service fee expense	**2,761**	2,625
Asian Resources Development Limited	Rental expense	**130**	151
RGE Limited	Proceeds on disposal of subsidiaries (note)	**2,701**	–

Note:

Sateri International Co. Ltd ("Sateri International"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement dated 25 May 2012 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 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.

(c) In the opinion of the directors, the related party transactions were conducted in the normal course of business and based on the terms mutually determined and agreed by the respective parties.

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2012

35 Share premium and reserves of the Company

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

	Share premium US$'000	Contribution surplus US$'000 (Note)	Awarded shares compensation reserve US$'000	(Accumulated losses)/retained profits US$'000	Total US$'000
At 1 January 2011	388,734	806,099	197	(10,314)	1,184,716
Profit for the year	–	–	–	1,473	1,473
Issue of new shares	37,524	–	–	–	37,524
Cost of issuing new shares	(1,328)	–	–	–	(1,328)
Awarded shares compensation expense	–	–	1,725	53	1,778
Purchase of shares for the purpose of awarded shares compensation scheme	–	–	(959)	–	(959)
At 31 December 2011	424,930	806,099	963	(8,788)	1,223,204
Profit for the year	–	–	–	36,085	36,085
Issue of new shares	610	–	–	–	610
Cost of issuing new shares	(19)	–	–	–	(19)
Dividend	–	–	–	(11,000)	(11,000)
Awarded shares compensation expense	–	–	(124)	274	150
At 31 December 2012	**425,521**	**806,099**	**839**	**16,571**	**1,249,030**

Note: Contribution surplus represented the difference between the carrying amount of the equity items of Sateri International and the nominal value of the shares issued at the date of the group reorganization in preparation of the listing of the Company's shares on The Stock Exchange of Hong Kong Limited.

36 Events after reporting period

On 6 February 2013, the Ministry of Commerce of the People's Republic of China ("MOFCOM") announced an antidumping investigation against pulp products imported into the PRC originating from the United States of America, Canada and Brazil. The investigation was commenced on the basis of a petition filed by seven PRC manufactures representing the pulp industry in the PRC. BSC, a subsidiary of the Company, has been included in the MOFCOM announcement as one of the manufacturers under consideration in the investigation. The Company's position is that BSC has at all times acted in accordance with all applicable laws, and any allegations of product dumping are entirely without merit.

On 15 February 2013, the Group completed a US$500,000,000 senior secured trade related facility agreement, consisting of a five-year term loan tranche of US$440,000,000 and a committed revolving credit facility of US$60,000,000. The proceeds were used to prepay the outstanding balance of US$336,000,000 of the old facility, as well as for general working capital.

37 Subsidiaries

	2012 US$'000	2011 US$'000
Non-current assets		
Investment in a subsidiary		
Unlisted shares, at cost	**983,979**	983,979
Loan to a subsidiary	**411,415**	394,062
	1,395,394	1,378,041
Current assets		
Amounts due from subsidiaries (note i)	**42,690**	17,084
Current liabilities		
Amounts due to subsidiaries (note i)	**23,224**	1,159

Notes:

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

(ii) Details of the subsidiaries as at 31 December 2012 are shown in note 38.

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2012

38 List of subsidiaries

The Company had direct and indirect interests in the following subsidiaries for the year ended 31 December 2012:

Name of subsidiary	Place of incorporation	Issued and fully paid share capital/ paid-in capital	Attributable equity interest of the Company	Principal activities
Bahia Specialty Cellulose S.A.	Brazil	3,248,213,308 common shares with no par value 380,869,270 preferential shares with no par value	98.4%	Manufacturing and sales of dissolving wood pulp
Copener Florestal Ltda.	Brazil	Ordinary quotas Reais 74,442,000	99.8%	Plantation in Brazil
Norcell S.A.	Brazil	42,800,334 common shares with no par value 29,771,891 preferential shares with no par value	99.8%	Investment holding
Sateri Bacell Limited	BVI	Ordinary shares US$30,000,000	100%	Investment holding
Sateri China (Hong Kong) Limited	Hong Kong	Ordinary shares HK$10,000	100%	Investment holding
Sateri Copener Limited	BVI	Ordinary shares US$100,000	100%	Investment holding
Sateri (Fujian) Fibre Co., Ltd. (ii)	The PRC	Paid-in capital US$112,447,447 (iii)	100%	Manufacturing and sales of viscose staple fiber
Sateri (Hong Kong) Management Limited	Hong Kong	Ordinary shares HK$10,000	100%	Provision of advisory and administrative services
Sateri International Co. Ltd	BVI	Ordinary shares US$100 Preference shares US$381,799,200	100%	Investment holding
Sateri International (Singapore) Pte Ltd	Singapore	Ordinary shares S$22,634,250	100%	Investment holding
Sateri (Jiangxi) Chemical Fibre Co., Ltd. (ii)	The PRC	Paid-in capital US$113,957,000	81.1%	Manufacturing and sales of viscose staple fiber
Sateri Marketing International Limited	Cayman Islands	Ordinary shares US$1	100%	Investment holding
Sateri Marketing SA	Switzerland	Ordinary shares CHF100,000	100%	Marketing services for dissolving wood pulp
Sateri (Shanghai) Management Limited (ii)	The PRC	Paid-in capital US$2,500,000	100%	Provision of advisory and administrative services

38 List of subsidiaries (continued)

Name of subsidiary	Place of incorporation	Issued and fully paid share capital/ paid-in capital	Attributable equity interest of the Company	Principal activities
Sateri Specialty Cellulose Limited	Cayman Islands	Ordinary shares US$183,939,551	100%	Investment holding
SC International Macao Commercial Offshore Limited	Macau	Ordinary shares MOP100,000	100%	Marketing and sales of dissolving wood pulp
SC Marketing Limited	BVI	Ordinary shares US$100	100%	Marketing and sales of dissolving wood pulp
SC Marketing US Inc.	USA	Ordinary shares US$20,000	100%	Marketing and sales of dissolving wood pulp
Specialty Cellulose Marketing Pte. Ltd.	Singapore	Ordinary shares US$100,001	100%	Marketing and sales of dissolving wood pulp

Notes:

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

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

(iii) The registered capital is US$147,500,000. As at 31 December 2012, the capital has been paid up to US$112,447,447.

Five-Year Financial Summary

For the year ended 31 December

	2012 US$'000	2011 US$'000	2010 US$'000	2009 US$'000	2008 US$'000
CONSOLIDATED INCOME STATEMENT					
Revenue	**720,285**	806,574	923,257	551,998	382,259
Gross profit	**219,706**	323,073	456,723	210,107	78,293
Profit/(loss) before taxation	**52,023**	143,850	332,282	104,414	(11,993)
Profit/(loss) for the year	**56,280**	150,525	328,090	107,430	(9,461)
Profit/(loss) for the year attributable to:					
Owners of the Company	**55,561**	154,713	323,881	106,867	(3,979)
Non-controlling interests	**719**	(4,188)	4,209	563	(5,482)
	56,280	150,525	328,090	107,430	(9,461)
Earnings per share (US$)	**0.02**	0.05	0.11	0.04	(0.00)
Dividend per share (HK cents)	**2.50**	2.50	–	–	–
CONSOLIDATED STATEMENT OF FINANCIAL POSITION					
Non-current assets					
Forestation and reforestation assets	**185,678**	187,797	192,192	177,691	138,544
Property, plant and equipment	**1,539,447**	1,455,966	1,384,070	1,376,386	1,350,787
Deferred income tax assets	**52,783**	50,251	39,953	34,536	23,778
Other non-current assets	**123,144**	101,006	65,254	42,767	25,537
	1,901,052	1,795,020	1,681,469	1,631,380	1,538,646
Current assets					
Inventories	**143,634**	180,590	88,636	53,177	68,935
Trade, bills and other receivables	**151,104**	153,232	108,736	107,402	250,600
Bills receivables discounted	**–**	8,119	39,452	132,231	59,223
Cash and cash equivalents	**195,476**	328,999	435,865	108,807	74,956
Other current assets	**1,043**	612	21,674	5,293	20
	491,257	671,552	694,363	406,910	453,734
Current liabilities					
Trade and other payables	**147,267**	136,574	156,136	77,314	126,998
Advance drawn on bills receivables discounted	**–**	8,119	39,452	132,231	59,223
Bank borrowings	**195,792**	198,403	153,816	177,119	153,480
Other current liabilities	**19,469**	62,961	30,589	44,756	49,823
	362,528	406,057	379,993	431,420	389,524
Net current assets/(liabilities)	**128,729**	265,495	314,370	(24,510)	64,210
Non-current liabilities					
Bank borrowings	**301,980**	379,970	510,483	277,777	310,802
Other non-current liabilities	**4,501**	4,010	1,646	143,559	213,778
	306,481	383,980	512,129	421,336	524,580
Net assets	**1,723,300**	1,676,535	1,483,710	1,185,534	1,078,276
Capital and reserves					
Share capital	**170,896**	170,794	168,441	409,009	409,009
Share premium and reserves	**1,519,692**	1,474,871	1,279,573	745,348	639,465
Equity attributable to owners of the Company	**1,690,588**	1,645,665	1,448,014	1,154,357	1,048,474
Non-controlling interests	**32,712**	30,870	35,696	31,177	29,802
	1,723,300	1,676,535	1,483,710	1,185,534	1,078,276

Corporate Information

Board of Directors

Independent Non-Executive Directors

John Jeffrey YING (Chairman)
Jeffrey LAM Kin Fung
David YU Hon To
LIM Ah Doo
LOW Weng Keong*

Executive Director

TEY Wei Lin (Acting Chief Executive Officer)

Non-Executive Director

John SETO Gin Chung

Executive Committee

John Jeffrey YING (Chairman)
TEY Wei Lin
John SETO Gin Chung

Remuneration Committee

Jeffrey LAM Kin Fung (Chairman)
John Jeffrey YING
David YU Hon To
TEY Wei Lin
LOW Weng Keong*

Audit Committee

David YU Hon To (Chairman)
Jeffrey LAM Kin Fung
LIM Ah Doo
LOW Weng Keong*

Nomination Committee

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

* appointed on 2 April 2013

Company Secretary

Winnie LUI Mei Yan

Authorized Representatives

TEY Wei Lin
Winnie LUI Mei Yan

Stock Code

1768

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Bermuda Principal Share Registrar and Transfer Office

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

Principal Bankers

Hong Kong

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

Singapore

ABN AMRO Bank N.V.

China

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

Brazil

Mizuho Corporate Bank, Ltd.
Banco Santander, S.A.
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

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

Hong Kong Share Registrar

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

Websites

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

Sateri Holdings Limited

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

Tel: (852) 2864 6638
Fax: (852) 2865 5499

Website: www.sateri.com

MIX
Paper from responsible sources
FSC™ C021898
FSC
www.fsc.org