Sateri Holdings Limited

Stock Code: 1768

INTERIM
REPORT
2014

ABOUT Sateri

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

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

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

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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

Non-executive Director
Armin MEYER

Executive Director
TEY Wei Lin (Chief Executive Officer)

Executive Committee

John Jeffrey YING (Chairman)
TEY Wei Lin

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

Independent Board Committee

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

Company Secretary

Winnie LUI Mei Yan

Authorized Representatives

TEY Wei Lin
Winnie LUI Mei Yan

Stock Code

1768

Websites

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

Registered Office

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2 Church Street
Hamilton HM 11
Bermuda

Bermuda Principal Share Registrar and Transfer Office

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

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

Hong Kong Share Registrar

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

Principal Bankers

Hong Kong
China Development Bank Corporation Hong Kong Branch
Taishin International Bank

Macau
Bank of China

Singapore
ABN AMRO Bank N.V.

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

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

Auditor

PricewaterhouseCoopers

FINANCIAL HIGHLIGHTS

Six months ended 30 June US$ Million	2014	2013	Change
Revenue	**366**	337	8%
Cost of sales	**278**	212	31%
Gross profit	**88**	125	(30)%
Gross profit margin	**24%**	37%	
EBITDA[1]	**96**	114	(16)%
EBITDA margin	**26%**	34%	
Profit attributable to shareholders	**24**	23	5%
Net profit margin	**7%**	7%	
Earnings per share (US cents)	**0.7**	0.7	–

US$ Million	At 30 June 2014	At 31 December 2013	Change
Total assets	**2,661**	2,577	3%
Total liabilities	**887**	819	8%
Net assets	**1,774**	1,758	1%
Total debt	**739**	666	11%
Bank balances and cash	**127**	166	(23)%
Net debt	**612**	500	22%
Current ratio	**1.7x**	2.4x	
Net gearing [2]	**34%**	28%	

Notes:

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

Business Review

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

During the first half of 2014, the Group focused on ramping up its VSF plant in Fujian, China, which commenced production in December 2013. As at 30 June 2014, three of the four production lines (each line with a design capacity of 50,000 metric tons per annum) were in operation and were performing well in terms of both production volume and product quality. During this period, the Group's two VSF plants used mainly rayon-grade pulp from its BSC plant and the Group became focused on selling just two products, namely VSF and specialty-grade DWP. As a result, the Group is now much less exposed to market price fluctuations in the rayon-grade DWP market as compared to the past.

In the first half of 2014, VSF market conditions remained challenging. VSF prices faced significant downward pressures despite a slight increase in demand, owing to China's slower economic growth, abundant supply and a weak downstream pricing environment, and fell to under US$1,700 per metric ton at the end of June 2014.

During the period, the Group continued its ongoing strategy to further penetrate into the specialty-grade DWP segment. Sales volume for this segment increased by 13% in the first half of 2014. Discussions on contract terms for 2015 will commence in the second half of 2014 and the Group is in a good position to make further progress in penetrating this market segment, as it continues to improve its product quality according to stringent customer specifications.

The Group's average selling prices ("ASPs") for VSF and specialty-grade DWP for the first six months of 2014 were 12% and 6% lower than the ASP respectively achieved in the corresponding period in 2013. Despite the lower ASPs of VSF and specialty-grade DWP, the Group's revenue increased by 8% to US$366 million as it sold significantly more VSF than before, with additional volume from the Fujian plant, and continued to increase sales of specialty-grade DWP.

The Group recorded a 31% increase in cost of sales as a result of its increased sales of VSF and an increase in its cost of sales per metric ton of DWP, despite the fact that the Group continued to benefit from a drop in the prices of certain key materials for VSF production. As a result, gross profit declined by 30% to US$88 million, and EBITDA declined by 16% to US$96 million. Gross profit margin and EBITDA margin were 24% and 26% compared to 37% and 34%, respectively, in the corresponding period in 2013.

Profit attributable to shareholders increased by 5% to US$24 million. This is after taking into account a positive non-cash impact of US$8 million arising from fair value adjustments relating to forestation assets in Brazil mainly as a result of the appreciation of the Brazilian Reais against the US Dollar in the first half of 2014. There was an adverse non-cash impact of US$16 million of a similar nature in the same period of 2013. Also, the appreciation of the Brazilian Reais against the US Dollar during the first half of 2014 had a positive impact on the deferred income tax assets as well as the Brazilian Reais denominated monetary assets of the Group, resulting in a positive non-cash impact on its profit attributable to shareholders.

On 4 April 2014, the Ministry of Commerce ("MOFCOM") of the PRC announced its final ruling ("Final Ruling") on the antidumping investigation commenced in February 2013 and as a result, antidumping duties were imposed on dissolving pulp products manufactured in the United States of America, Canada and Brazil, which meet the specifications set out in the Final Ruling, with effect from 6 April 2014 for a period of five years. At the same time, MOFCOM accepted the price undertaking ("Price Undertaking") proposed by BSC. As long as the Price Undertaking is effective, BSC's dissolving pulp products sold into the PRC will not be subject to antidumping duties. According to the Final Ruling, in the event that the Price Undertaking becomes ineffective, PRC importers of BSC dissolving pulp products, which meet the specifications set out in the Final Ruling, will have to pay an antidumping duty at the rate of 6.8% of the dutiable value. BSC had proposed the Price Undertaking to MOFCOM in view of the Group's integrated business model where dissolving pulp products from BSC are supplied to the Group's two VSF mills in the PRC as raw materials. While the Price Undertaking is effective, the Final Ruling is not expected to have any material financial impact on the Group.

Segment Review

DWP Business

Six months ended 30 June	**2014**	2013	Change
Production volume(Note) (metric tons)	**204,768**	202,662	1%
Sales volume(Note) (metric tons)	**71,345**	149,542	(52)%
ASP (US$/metric ton)	**1,395**	1,152	21%
Revenue (US$'000)	**98,246**	172,283	(43)%
Gross profit (US$'000)	**45,552**	73,805	(38)%
Gross profit margin (%)	**46%**	43%	
EBITDA (US$'000)	**51,713**	69,362	(25)%
EBITDA margin (%)	**53%**	40%	

Note: 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.

Production volume of DWP increased slightly to 204,768 metric tons in the first six months of 2014, representing an increase of 1% compared to the same period in 2013.

Rayon-grade pulp

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

In the first half of 2014, the weak pricing environment resulting from the wave of new supply coming to the industry since the second half of 2011 persisted. Spot market prices declined to about US$840 per metric ton by the end of June 2014, from a record high of approximately US$2,600 per metric ton in March 2011.

The Group sold 15,418 metric tons of rayon-grade pulp to third parties in the first six months of 2014, representing a significant decrease of 85% compared to the corresponding period in 2013. On the other hand, 154,322 metric tons were sold internally from BSC to Sateri Jiangxi and Sateri Fujian, representing a 115% increase from a year ago.

With the Fujian VSF plant in operation, the majority of the rayon-grade DWP from BSC will be sold internally to the Group's two VSF plants in China. Where necessary, Sateri Jiangxi and Sateri Fujian will buy rayon-grade DWP from third party suppliers to supplement BSC's production, as the Group remains focused on its strategy of increasing its specialty-grade DWP production and sales. As such, going forward, the Group does not expect to sell significant volume of rayon-grade DWP to third parties and hence will be minimally exposed to pricing fluctuations in this market segment.

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, pharmaceutical tablets and high-performance tire cords.

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

In the first half of 2014, the Group increased penetration into the specialty-grade pulp market and sold 55,927 metric tons of specialty-grade DWP, representing a 13% increase compared to the same period in 2013. Discussions on contract terms for the next year will commence in the second half of 2014 and the Group is in a good position to make further progress in penetrating this market segment, as it continues to improve its product quality according to stringent customer specifications.

VSF Business

Six months ended 30 June	2014	2013	Change
Production volume (metric tons)	**162,953**	88,668	84%
Sales volume (metric tons)	**160,687**	87,253	84%
ASP (US$/metric ton)	**1,663**	1,891	(12)%
Revenue (US$'000)	**267,297**	164,968	62%
Gross profit(Note) (US$'000)	**42,293**	51,616	(18)%
Gross profit margin (%)	**16%**	31%	
EBITDA(Note) (US$'000)	**49,732**	47,192	5%
EBITDA margin (%)	**19%**	29%	

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

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

The rapidly expanding consumer market in China makes it both the largest producer and largest customer of VSF in the world according to CCF. The majority of customers for Sateri's VSF production are textile manufacturers located in China, South East Asia and Europe. Global demand for VSF has grown by approximately 8% per annum in the last decade, and by more than 10% in China according to Fiber Organon (a statistical journal published by Fiber Economics Bureau in the United States). In 2013, the demand in China recorded an impressive growth of over 20% compared with the previous year according to CCF.

Despite the robust demand growth, VSF capacity was abundant in China. Amidst slower China economic growth and a weak downstream pricing environment, market prices of VSF continued to be under significant downward pressure during the period, and spot prices fell under US$1,700 per metric ton in the first half of 2014, compared to a record high of approximately US$3,700 per metric ton in the first quarter of 2011. The Group's ASP for VSF declined by 12% to US$1,663 per metric ton in the first half of 2014, from US$1,891 per metric ton in the same period in 2013.

The Group's production of VSF during the first six months of 2014 increased by 84% from the same period in 2013 to 162,953 metric tons and sales volume increased by 84% from 2013 to 160,687 metric tons. The significant increase in both the production and sales volume during the first six months of 2014 was contributed by the Group's new VSF plant in Fujian, China, which commenced production in December 2013. The Group's Jiangxi VSF plant produced 91,201 metric tons, which is above its design capacity, while its Fujian VSF plant produced 71,752 metric tons.

Cost of sales excluding pulp cost ("VSF conversion cost") per metric ton for the segment saw a reduction during the first six months of 2014, compared to the same period in 2013, despite the addition of the new VSF plant in Fujian which inevitably brought in higher VSF conversion cost per metric ton at the initial stage of its operation. This reduction in VSF conversion cost per metric ton was achieved as a result of the Group's continuing effort to improve cost competitiveness in VSF manufacturing, a drop in the prices of certain key materials for VSF production as well as the Group's success in achieving a good start-up at its Fujian VSF plant, hence accelerating the lowering of VSF conversion cost per metric ton from the initial high levels. However, after including pulp cost, the cost of sales per metric ton for the segment increased slightly during the first six months of 2014, compared to the same period in 2013.

Notwithstanding the increase in sales volume mentioned above, the significant decrease in the ASP of VSF and the slight increase in cost of sales per metric ton in the first six months of 2014 resulted in the segment gross profit dropping by 18% to US$42 million while the segment EBITDA only increased slightly to US$50 million.

Future Development Plan

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

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

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

Outlook

With its new VSF plant in Fujian in operation, the Group is now focused on selling just two products, namely VSF and specialty-grade DWP and hence much less exposed to market price fluctuations in the rayon-grade DWP market.

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

Financial Review

Consolidated Results

For the six months ended 30 June 2014, the Group's total revenue increased by 8% to US$366 million from US$337 million in the corresponding period in 2013, mainly as a result of additional sales from the Group's new VSF plant in Fujian, China. At the same time, total cost of sales increased by 31% to US$278 million.

Gross profit decreased by 30% to US$88 million and gross profit margin dropped from 37% for the first half of 2013 to 24% for the same period in 2014. EBITDA also decreased by 16% to US$96 million and EBITDA margin reduced from 34% to 26%. Such decrease is largely due to the lower ASPs of both VSF and specialty-grade DWP and an increase in the cost of sales per metric ton of DWP as compared with the corresponding period in 2013. However, profit attributable to shareholders increased by 5% to US$24 million for the first half of 2014 and earnings per share maintained at US0.7 cents.

Cost of Sales

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

The Group's cost of sales increased by 31% to US$278 million for the six months ended 30 June 2014 from US$212 million in the corresponding period in 2013. The increase was mainly due to the Group's increased sales of VSF and an increase in its cost of sales per metric ton of DWP.

Other Income Statement Items

Selling and Distribution and Administrative Expenses

Selling and distribution expenses decreased by 18% to US$24 million for the six months ended 30 June 2014, from US$29 million in the corresponding period in 2013. Administrative expenses also decreased by 6% to US$36 million.

Finance Costs

The Group's finance costs decreased to US$14 million in the first half of 2014, from US$18 million in the corresponding period in 2013, because of the absence of the one-off costs associated with the drawdown of the US$440 million term loan tranche of the US$500 million senior secured trade related facility agreement in early 2013.

Changes in Fair Value of Derivative Financial Instruments

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

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

For the six months ended 30 June 2014, the increase in fair value of currency derivative financial instruments amounted to US$7 million. This amount is recorded in the consolidated statement of comprehensive income, under the line item "unrealized gain/(loss) on cash flow hedge". This line item for the six months ended 30 June 2014 included a decrease in fair value of IRS of US$2 million, resulting in a net increase of US$5 million.

Increase/(Decrease) in Fair Value of Forestation and Reforestation Assets

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

The Group assumes a six-year harvest cycle of trees within this model. Such information gathered and data used requires, to a certain extent, estimates and 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 consolidated statement of financial position, and be taken in the consolidated income statement in the period.

Revaluation of the Group's forestation and reforestation assets in Brazil is conducted semi-annually at each reporting date. The exchange rate between the Brazilian Reais ("BRL") and US$ appreciated from US$1 = BRL 2.34 as at 31 December 2013 to US$1 = BRL 2.20 as at 30 June 2014. Accordingly, revaluation of the Group's forestation and reforestation assets as at 30 June 2014 resulted in a non-cash gain of US$8 million in the first six months of 2014, compared to a US$16 million loss in the corresponding period in 2013.

Capital Expenditure

The Group continued to exercise careful control over capital expenditure as appropriate during the first six months in 2014.

The Group incurred a total US$99 million in capital expenditure for the six months ended 30 June 2014, compared to US$243 million in the corresponding period in 2013. Of the US$99 million, US$50 million (1H 2013: US$37 million) was incurred in Brazil, including US$18 million spent on forestation and reforestation assets, and US$3 million was incurred in Jiangxi (1H 2013: US$3 million).

During the first six months of 2014, the Group's new VSF plant in Fujian incurred US$46 million of capital expenditure (1H 2013: US$203 million) and total capital expenditure up to 30 June 2014 amounted to US$433 million. As at 30 June 2014, the Group had approximately US$24 million of capital expenditure contracted but not provided for relating to this project.

Charges on Assets

As at 30 June 2014, certain assets of the Group with an aggregate carrying value of US$1,034 million (31 December 2013: US$1,073 million) were pledged with banks for banking facilities used by its subsidiaries.

Cash Flow, Liquidity and Financial Position

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

As at 30 June 2014, the Group's bank balances and cash amounted to US$127 million, compared with US$166 million as at 31 December 2013. Total debt was US$739 million and net debt was US$612 million as at 30 June 2014, compared with US$666 million and US$500 million, respectively, as at 31 December 2013. The Group's net gearing ratio (which is calculated by dividing (i) long-term and short-term borrowings minus bank balances and cash by (ii) total equity (including non-controlling interests) was 34%, compared to 28% as at 31 December 2013.

As at 30 June 2014, the Group had total undrawn banking facilities of US$259 million.

Net cash from operating activities decreased to US$14 million for the six months ended 30 June 2014, from US$97 million in the corresponding period in 2013, mainly due to the working capital requirements of the new VSF plant in Fujian and a decrease in operating profit.

Treasury Policies and Risk Management

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

The Group's cash is generally placed in short term deposits denominated in US Dollars and Chinese Renminbi. All of its borrowings are in US Dollars and Chinese Renminbi and largely carry floating interest rates and the Group has entered into certain interest rate swap agreements to swap part of its floating rate borrowing for fixed interest rate to mitigate potential increases in future interest rates.

Other Changes Since 31 December 2013

Save as disclosed in the Company's interim results announcement dated 11 August 2014 and the previous announcements made by the Company in 2014, there were no other material changes in the Group's financial position or from the information disclosed under the "Management Discussion and Analysis" in the Company's annual report for the year ended 31 December 2013.

CORPORATE GOVERNANCE

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

The Board

The Board currently comprises the following Directors:

Independent Non-executive Directors:

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

Non-executive Director:

Armin MEYER (appointed with effect from 1 June 2014)

Executive Director:

TEY Wei Lin (appointed as the Chief Executive Officer with effect from 18 March 2014)

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 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.

The Board is responsible for setting up the overall strategy as well as reviewing the operation and financial performance of the Group. The Board is expected to meet regularly and at least four times a year with at least 14 days' notice. Additional meetings with reasonable notice will be held as and when the Board considers appropriate. Regular Board meetings each year are scheduled in advance to maximize attendance of Directors. The Board held three meetings to date in 2014 (with a 100% attendance rate).

Changes in Directors' Information

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

Changes in information of Directors which are required to be disclosed pursuant to Rule 13.51B(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), since the publication of the Company's annual report for the year ended 31 December 2013, are set out below:

(a) Mr. John Jeffrey YING, an Independent Non-executive Director, was appointed the chairman and co-founder of Asian Republican Coalition with effect from 13 March 2014;

(b) Mr. TEY Wei Lin, an Executive Director, (i) resigned as a director of Pacific Eagle Asset Management Limited with effect from 3 June 2014; and (ii) started to receive a fixed emolument of HK$1,820,000 per annum (payable in Singapore Dollars at a fixed rate of HK$1.000 = SGD0.157) with effect from 1 July 2014 and a discretionary annual bonus based on the performance of Mr. Tey and the Group and as determined by the Remuneration Committee of the Company;

(c) Mr. Jeffrey LAM Kin Fung, an Independent Non-executive Director, (i) resigned as an independent non-executive director of Hsin Chong Construction Group Ltd. with effect from 10 May 2014; and (ii) was appointed as the chairman of Aviation Security Company Limited with effect from 17 June 2014;

(d) Mr. David YU Hon To, an Independent Non-executive Director, resigned as an independent non-executive director of VXL Capital Limited with effect from 27 May 2014; and

(e) Mr. LIM Ah Doo, an Independent Non-executive Director, was appointed as a director, the chairman of the audit committee and a member of the remuneration committee of GDS Holdings Limited with effect from 13 August 2014.

Board Committees

The Board has established the Executive Committee, the Audit Committee, the Remuneration Committee and the Nomination Committee with written terms of reference approved by the Board. Terms of reference of the above Board committees are available on the websites of The Stock Exchange of Hong Kong Limited ("Stock Exchange") and the Company as appropriate. In addition, the Company has established an Independent Board Committee to review all connected transactions entered into by the Group. Each of the above Board committees is chaired by an Independent Non-executive Director.

Executive Committee

The Executive Committee currently comprises the following Directors:

Independent Non-executive Director:
John Jeffrey YING (Chairman of the Executive Committee)

Executive Director:
TEY Wei Lin

The Executive Committee met four times to date in 2014 (with a 100% attendance rate) to perform its duties and responsibilities under its terms of reference, including reviewing the operating performance and financial position of the Group and evaluating the business strategies of the Group.

Audit Committee

The Audit Committee currently comprises the following Directors:

Independent Non-executive Directors:
David YU Hon To (Chairman of the Audit Committee)
LIM Ah Doo
LOW Weng Keong

The Audit Committee shall meet at least four times a year to review with senior management, the Company's internal and external auditors the Group's significant internal controls, risk management and financial matters as set out in the Audit Committee's written terms of reference. The Audit Committee met three times to date in 2014 (with a 100% attendance rate) and met with the external auditor twice at pre-meeting sessions in the absence of the management of the Company. The Audit Committee's review mainly covers audit plans and findings of the internal and external auditors, the external auditor's independence, re-appointment of the external auditor, the Group's accounting principles and practices, the Listing Rules and statutory compliance, internal controls, risk management, financial reporting matters and the adequacy of resources, qualification and experience of staff of the Group's accounting and financial reporting function, and their training programs and budget. The Audit Committee was satisfied that the internal controls system was effective and adequate.

Remuneration Committee

The Remuneration Committee currently comprises the following Directors:

Independent Non-executive Directors:

Jeffrey LAM Kin Fung (Chairman of the Remuneration Committee)
John Jeffrey YING
LOW Weng Keong

Executive Director:

TEY Wei Lin

The Remuneration Committee shall meet at least once a year. The Remuneration Committee met three times to date in 2014 (with a 100% attendance rate) and also dealt with matters by way of circulation. The Remuneration Committee's duties performed mainly covered the review of the policy and structure for the remuneration of Directors and the senior management of the Company, the review and recommendation for Board approval of proposed Director's fee for the appointment of a Non-executive Director, and the review and determination of, with delegated responsibility, the remuneration packages of the Executive Director and the senior management for the year 2014.

Nomination Committee

The Nomination Committee currently comprises the following Directors:

Independent Non-executive Directors:

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

Executive Director:

TEY Wei Lin

The Nomination Committee shall meet at least once a year. The Nomination Committee met two times to date in 2014 (with a 100% attendance rate). The Nomination Committee's duties performed included the review of the structure, size, and composition of the Board, the review of the independence of Independent Non-executive Directors, the nomination of Directors retiring by rotation and their re-election, as well as the nomination of a new Non-executive Director.

Independent Board Committee

The Independent Board Committee currently comprises the following Directors:

Independent Non-executive Directors:

John Jeffrey YING (Chairman of the Independent Board Committee)
Jeffrey LAM Kin Fung
David YU Hon To
LIM Ah Doo
LOW Weng Keong

The Independent Board Committee met three times to date in 2014 (with a 87% attendance rate) to perform its duties and responsibilities, mainly to review the connected transactions of the Group.

Internal Control and Risk Management

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

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

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

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

Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted its own Guidelines on Securities Transactions regarding securities transactions by Directors, directors of 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 standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as contained in Appendix 10 of the Listing Rules. Reminders are sent during each year to Directors, directors of subsidiaries, and relevant employees that they should not deal in the securities of the Company during the "black-out period" specified in the Model Code.

Specific enquiries have been made with the Directors, and all Directors confirmed that they have complied with the required standards set out in the Company's Guidelines on Securities Transactions and the Model Code regarding Directors' securities transactions for the six months ended 30 June 2014.

Compliance with the Corporate Governance Code

During the six months ended 30 June 2014, the Company has applied the principles of, and complied with, its Corporate Governance Manual and the applicable code provisions of the Corporate Governance Code and Corporate Governance Report ("CG Code") as contained in Appendix 14 of the Listing Rules, save for the deviation as disclosed below:

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

Review of Unaudited Financial Information

This unaudited consolidated financial information of the Group for the six months ended 30 June 2014 has been reviewed by the Audit Committee of the Company and the external auditor.

Restricted Share Unit Schemes and Share Option Scheme

The Company adopted the Pre-IPO Restricted Share Unit Scheme ("Pre-IPO RSU Scheme") and the Post-IPO Restricted Share Unit Scheme ("Post-IPO RSU Scheme", and together with the Pre-IPO RSU Scheme "RSU Schemes") on 8 November 2010. The purpose of the RSU Schemes is to attract skilled and experienced personnel, to incentivize participants to remain with the Group and to motivate them to strive for the future development and expansion of the Group by providing them with the opportunity to acquire equity interests in the Company.

As at 30 June 2014, restricted share unit(s) ("RSU(s)") in respect of 8,165,026 underlying shares were granted to 18 grantees (one of which is a Director and two of which are former Directors) pursuant to the Pre-IPO RSU Scheme. Total RSUs in respect of 5,638,668 underlying shares granted to 10 grantees were canceled since the adoption of the Pre-IPO RSU Scheme, of which 80,049 underlying shares granted to one grantee were canceled during the six months ended 30 June 2014. Total RSUs in respect of 2,526,358 underlying shares were vested under the Pre-IPO RSU Scheme, of which a total of 960,591 RSUs were vested during the six months ended 30 June 2014. As at 30 June 2014, there was no RSU granted pursuant to the Pre-IPO RSU Scheme outstanding.

As at 30 June 2014, RSUs in respect of 5,777,276 underlying shares were granted to 23 grantees (one of which is a former Director) pursuant to the Post-IPO RSU Scheme. Total RSUs in respect of 1,527,867 underlying shares granted to 11 grantees were canceled since the adoption of the Post-IPO RSU Scheme, of which 425,000 underlying shares granted to two grantees were canceled during the six months ended 30 June 2014. Total RSUs in respect of 3,399,409 underlying shares were vested under the Post-IPO RSU Scheme, of which a total of 1,585,097 RSUs were vested during the six months ended 30 June 2014. As at 30 June 2014, there were 850,000 RSUs granted pursuant to the Post-IPO RSU Scheme outstanding. On 18 August 2014, a total of 1,900,000 RSUs were granted to 7 grantees pursuant to the Post-IPO RSU Scheme.

The Company also adopted a share option scheme on 8 November 2010 ("Share Option Scheme"). As at 30 June 2014, no options have been granted by the Company pursuant to the Share Option Scheme.

For more information on the RSU Schemes and the Share Option Scheme, please refer to pages 49 to 52 and 112 and 113 of the Company's annual report for the year ended 31 December 2013.

Investor Relations and Communications

The Group maintains continuous communications with Shareholders, analysts and the media to ensure fair disclosure through regular meetings, conference calls and investor events. The Group also maintains investor relations websites (www.sateri.com and www.irasia.com/listco/hk/sateri) to disseminate information to investors and Shareholders on a timely basis. The Company has adopted a Shareholders' Communication Policy and will review the same on a regular basis to ensure its effectiveness. The procedures for Shareholders to propose a person for election as a Director are also available at the Company's website as set out in the section headed "Company – Corporate Governance".

Employees

As at 30 June 2014, the Group had 3,197 employees in total. Total staff costs for the six months ended 30 June 2014 amounted to approximately US$35.7 million (for the six months ended 30 June 2013: approximately US$35.8 million). Remuneration for employees is based upon their qualification, experience, job nature, performance and market conditions.

The Group may also pay discretionary year end bonuses to employees based on individual performance. Other benefits to employees include medical insurance, retirement schemes and training programs. Directors and qualified employees of the Company may be granted share options to subscribe for shares in the Company as well as RSUs in accordance with the terms and conditions of the Share Option Scheme and the RSU Schemes approved by the Company on 8 November 2010.

OTHER INFORMATION

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

As at 30 June 2014, the interests of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Model Code") were as follows:

Long positions in the shares and the underlying shares of the Company

Name of Director	Capacity	Number of shares held	Approximate % of the issued share capital of the Company
Mr. John Jeffrey YING ("Mr. Ying")(Note)	Beneficial owner	960,591	0.03%

Note: On 15 February 2014, 384,237 shares underlying RSUs granted under the Pre-IPO RSU Scheme were vested to Mr. Ying. As at 30 June 2014, Mr. Ying held a total of 960,591 shares representing the total number of shares vested to Mr. Ying under the Pre-IPO RSU Scheme.

Save as disclosed above, as at 30 June 2014, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 30 June 2014, the following persons, other than the Director whose interests are set out in the section "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares of Equity Derivatives and Debentures" above, had the following interests in the shares or the underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Long positions in the shares and the underlying shares of the Company

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

Notes:

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

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

Save as disclosed above, as at 30 June 2014, no other person, other than the Director whose interests are set out in the section "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares of Equity Derivatives and Debentures" above, had any interests or short positions in the shares or the underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

Purchase, Sale or Redemption of Securities

During the six months ended 30 June 2014, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

Interim Dividend

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2014. The Group will review the possibility of a final dividend for the year ending 31 December 2014 in light of its then financial positions, the prevailing economic climate and expectations about the future macroeconomic environment, business performance and future investment opportunities, prior to the announcement of the Group's annual results for the year ending 31 December 2014.

羅兵咸永道

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

Introduction

We have reviewed the interim financial information set out on pages 20 to 39, which comprises the condensed consolidated statement of financial position of Sateri Holdings Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2014 and the related condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 11 August 2014

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CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2014

	Notes	Unaudited Six months ended 30 June 2014 US$'000	 2013 US$'000
Revenue	6	**365,543**	337,251
Cost of sales		**(277,698)**	(211,830)
Gross profit		**87,845**	125,421
Selling and distribution expenses		**(23,903)**	(29,053)
General and administrative expenses		**(35,674)**	(38,101)
		28,268	58,267
Other income and gains/(losses), net			
Increase/(decrease) in fair value of forestation and reforestation assets	12	**7,527**	(16,313)
Others		**3,283**	7,888
		10,810	(8,425)
Operating profit	7	**39,078**	49,842
Finance costs	8	**(14,326)**	(17,740)
Profit before income tax		**24,752**	32,102
Income tax credit/(expense)	9	**455**	(6,022)
Profit for the period		**25,207**	26,080
Profit attributable to:			
Owners of the Company		**24,222**	23,091
Non-controlling interests		**985**	2,989
		25,207	26,080
Earnings per share			
Basic and diluted (US cents)	10	**0.7**	0.7

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014

	Unaudited Six months ended 30 June 2014 US$'000	 2013 US$'000
Profit for the period	**25,207**	26,080
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss		
Currency translation differences	**(3,025)**	5,032
Unrealized gain/(loss) on cash flow hedge	**5,224**	(5,022)
Other comprehensive income for the period	**2,199**	10
Total comprehensive income for the period	**27,406**	26,090
Total comprehensive income for the period attributable to:		
Owners of the Company	**26,471**	22,542
Non-controlling interests	**935**	3,548
	27,406	26,090

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014

	Notes	Unaudited 30 June 2014 US$'000	Audited 31 December 2013 US$'000
Non-current assets			
Forestation and reforestation assets	12	**164,226**	161,554
Property, plant and equipment	12	**1,766,082**	1,737,909
Prepaid lease payments		**32,390**	33,091
Investment properties		**1,631**	1,703
Intangible assets		**425**	475
Deferred income tax assets		**50,223**	46,947
Other non-current assets	13	**107,860**	58,091
		2,122,837	2,039,770
Current assets			
Inventories		**202,223**	180,954
Trade, bills and other receivables	14	**206,758**	190,659
Derivative financial instruments		**2,373**	–
Bank balances and cash		**127,436**	166,046
		538,790	537,659
Current liabilities			
Trade and other payables	15	**133,568**	135,732
Current income tax payable		**12,844**	12,963
Derivative financial instruments		**–**	4,555
Bank borrowings	16	**169,857**	72,198
		316,269	225,448
Net current assets		**222,521**	312,211
Total assets less current liabilities		**2,345,358**	2,351,981

	Notes	Unaudited 30 June 2014 US$'000	Audited 31 December 2013 US$'000
Non-current liabilities			
Bank borrowings	16	569,184	593,725
Derivative financial instruments		1,771	67
		570,955	593,792
		1,774,403	1,758,189
Capital and reserves			
Share capital	17	171,021	171,021
Share premium and reserves		1,564,299	1,549,020
Equity attributable to owners of the Company		1,735,320	1,720,041
Non-controlling interests		39,083	38,148
		1,774,403	1,758,189

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

For the six months ended 30 June 2014

	Unaudited										
	Attributable to owners of the Company										
	Share capital US$'000	Share premium US$'000	Special reserve US$'000 (Note a)	Other non-distributable reserves US$'000 (Note b)	Translation reserve US$'000	Cashflow hedging reserve US$'000	Awarded shares compensation reserve US$'000	Retained profits US$'000	Total US$'000	Non-controlling interests US$'000	Total US$'000
At 1 January 2014	171,021	426,151	277,394	6,252	43,101	(4,622)	30	800,714	1,720,041	38,148	1,758,189
Profit for the period	–	–	–	–	–	–	–	24,222	24,222	985	25,207
Currency translation differences	–	–	–	–	(2,975)	–	–	–	(2,975)	(50)	(3,025)
Unrealized gain on cash flow hedge	–	–	–	–	–	5,224	–	–	5,224	–	5,224
Total comprehensive income for the period	–	–	–	–	(2,975)	5,224	–	24,222	26,471	935	27,406
Transactions with owners											
Appropriation	–	–	–	210	–	–	–	(210)	–	–	–
Dividend (Note 11)	–	–	–	–	–	–	–	(11,000)	(11,000)	–	(11,000)
Awarded shares compensation expense	–	–	–	–	–	–	(321)	129	(192)	–	(192)
Total transactions with owners	–	–	–	210	–	–	(321)	(11,081)	(11,192)	–	(11,192)
At 30 June 2014	171,021	426,151	277,394	6,462	40,126	602	(291)	813,855	1,735,320	39,083	1,774,403

For the six months ended 30 June 2013

	Unaudited										
	Attributable to owners of the Company										
	Share capital US$'000	Share premium US$'000	Special reserve US$'000 (Note a)	Other non-distributable reserves US$'000 (Note b)	Translation reserve US$'000	Cash flow hedging reserve US$'000	Awarded shares compensation reserve US$'000	Retained profits US$'000	Total US$'000	Non-controlling interests US$'000	Total US$'000
At 1 January 2013	170,896	425,521	277,394	3,438	34,910	(3,458)	839	781,048	1,690,588	32,712	1,723,300
Profit for the period	–	–	–	–	–	–	–	23,091	23,091	2,989	26,080
Currency translation differences	–	–	–	–	4,473	–	–	–	4,473	559	5,032
Unrealized loss on cash flow hedge	–	–	–	–	–	(5,022)	–	–	(5,022)	–	(5,022)
Total comprehensive income for the period	–	–	–	–	4,473	(5,022)	–	23,091	22,542	3,548	26,090
Transactions with owners											
Issue of new shares	25	170	–	–	–	–	(195)	–	–	–	–
Appropriation	–	–	–	2,023	–	–	–	(2,023)	–	–	–
Dividend (Note 11)	–	–	–	–	–	–	–	(11,000)	(11,000)	–	(11,000)
Awarded shares compensation expense	–	–	–	–	–	–	(258)	136	(122)	–	(122)
Total transactions with owners	25	170	–	2,023	–	–	(453)	(12,887)	(11,122)	–	(11,122)
At 30 June 2013	170,921	425,691	277,394	5,461	39,383	(8,480)	386	791,252	1,702,008	36,260	1,738,268

Notes:

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

(b) Other non-distributable reserves mainly represent statutory reserves required to be appropriated from net profit after tax of subsidiaries established in the People's Republic of China (the "PRC") under the relevant laws and regulations at an amount determined annually by the respective boards of directors of the subsidiaries, but must not be less than 10% of the net profit after tax of the subsidiaries, until such reserves reach 50% of the registered capital of the relevant subsidiaries. The reserve may be used to offset accumulated losses and/or converted to increase capital of the relevant subsidiaries subject to certain restrictions set out in the Company Law of the PRC.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	Unaudited Six months ended 30 June	
	2014	2013
	US$'000	US$'000
Net cash from operating activities	**13,515**	97,439
Cash flows from investing activities		
Purchases of property, plant and equipment	**(82,046)**	(165,412)
Additions of forestation and reforestation assets	**(18,158)**	(14,636)
Additions to prepaid lease payments	**(11)**	(1,406)
Decrease in pledged bank deposits	**–**	73
Interest received	**314**	677
Proceeds on disposal of property, plant and equipment	**1,169**	120
Net cash used in investing activities	**(98,732)**	(180,584)
Cash flows from financing activities		
Drawdown of bank borrowings	**104,069**	569,355
Repayment of bank borrowings	**(29,648)**	(440,760)
Interest paid	**(16,476)**	(11,925)
Repayment of finance leases obligations	**–**	(600)
Payment of dividend	**(11,000)**	(11,000)
Net cash generated from financing activities	**46,945**	105,070
Net (decrease)/increase in cash and cash equivalents	**(38,272)**	21,925
Foreign exchange differences	**(338)**	270
Cash and cash equivalents at 1 January	**166,046**	195,403
Cash and cash equivalents at 30 June		
Represented by bank balances and cash	**127,436**	217,598

NOTES TO THE INTERIM FINANCIAL INFORMATION

1 General information

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

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

This interim financial information is presented in United States dollars ("US$" or "USD"), unless otherwise stated. This interim financial information was approved for issue by the Board of Directors on 11 August 2014.

2 Basis of preparation

This interim financial information has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board. It should be read in conjunction with the Company's annual financial statements for the year ended 31 December 2013, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

3 Significant accounting policies

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

The accounting policies and methods of computation used in the interim financial information for the six months ended 30 June 2014 are consistent with those used in the Group's annual financial statements for the year ended 31 December 2013.

In 2014, the Group adopted the amendments of IFRS below, which are relevant to its operations.

IAS 32 (Amendment)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
IAS 36 (Amendment)	'Impairment of assets' on Recoverable Amount Disclosures

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

3 Significant accounting policies (Continued)

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

New standards and amendments		Effective for accounting periods beginning on or after
IFRS 7 and IFRS 9 (Amendments)	Mandatory Effective Date and Transition Disclosures	1 January 2015
IAS 16 and IAS 38 (Amendments)	Amendment to Property, Plant and Equipment and Intangible Assets on Depreciation and Amortization	1 January 2016
IFRS 15	Revenue From Contracts With Customers	1 January 2017
IFRS 9	Financial Instruments	1 January 2018
Annual improvements published in 2012		
Amendment to IFRS 2	Share-based Payment	1 July 2014
Amendment to IFRS 8	Operating Segments	1 July 2014
Amendment to IFRS 9	Financial Instruments	1 July 2014
Amendment to IFRS 13	Fair Value Measurement	1 July 2014
Amendment to IAS 16	Property, Plant and Equipment	1 July 2014
Amendment to IAS 37	Provisions, Contingent Liabilities and Contingent Assets	1 July 2014
Amendment to IAS 38	Intangible Assets	1 July 2014
Amendment to IAS 39	Financial instruments – Recognition and Measurement	1 July 2014
Annual improvements published in 2013		
Amendment to IFRS 13	Fair Value Measurement	1 July 2014
Amendment to IAS 40	Investment Property	1 July 2014

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

4 Critical accounting estimates and judgements

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

In preparing this interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2013.

5 Financial risk management and financial instruments

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risks (including foreign exchange risk and cash flow interest rate risk), credit risk and liquidity risk.

The interim financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2013.

(b) Fair value estimation

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

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

Management of the Company uses their 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.

The Group's derivative financial instruments were all measured at fair value under level 2 at 30 June 2014 and 31 December 2013, and no transfers between any levels had occurred during the period.

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

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.

The fair value of the unlisted investment cannot be measured reliably in the opinion of the directors of the Company, and the unlisted investment is, therefore, measured at cost less impairment at 30 June 2014 and 31 December 2013.

6 Segment information

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

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

DWP Business — This segment derives its revenue from selling dissolving wood pulp ("DWP"), including rayon-grade pulp and specialty-grade pulp, which are manufactured by the Group, to third parties.

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

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

Segment revenue and results

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

For the six months ended 30 June 2014

	DWP Business US$'000	VSF Business US$'000	Unallocated US$'000	Consolidated US$'000
Segment revenue from external customers	98,246	267,297	–	365,543
Segment gross profit	45,552	42,293	–	87,845
EBITDA	51,713	49,732	(5,482)	95,963
Depreciation of property, plant and equipment	(9,631)	(34,118)	(79)	(43,828)
Depreciation of investment properties	–	–	(56)	(56)
Amortization of intangible assets	–	–	(50)	(50)
Decrease due to harvest charged to profit or loss	(6,474)	(14,004)	–	(20,478)
Increase in fair value of forestation and reforestation assets	2,380	5,147	–	7,527
Finance costs	(3,849)	(10,477)	–	(14,326)
Segment results and profit/(loss) before income tax	34,139	(3,720)	(5,667)	24,752

6 Segment information (Continued)

Segment revenues and results (Continued)

For the six months ended 30 June 2013

	DWP Business US$'000	VSF Business US$'000	Unallocated US$'000	Consolidated US$'000
Segment revenue from external customers	172,283	164,968	–	337,251
Segment gross profit	73,805	51,616	–	125,421
EBITDA	69,362	47,192	(2,497)	114,057
Depreciation of property, plant and equipment	(19,020)	(18,322)	(85)	(37,427)
Depreciation of investment properties	–	–	(56)	(56)
Amortization of intangible assets	–	–	(50)	(50)
Decrease due to harvest charged to profit or loss	(7,010)	(3,359)	–	(10,369)
Decrease in fair value of forestation and reforestation assets	(11,029)	(5,284)	–	(16,313)
Finance costs	(11,121)	(6,619)	–	(17,740)
Segment results and profit/(loss) before income tax	21,182	13,608	(2,688)	32,102

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

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

6 Segment information (Continued)

Geographical information

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

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

	Six months ended 30 June	
	2014	2013
	US$'000	US$'000
The PRC	**242,260**	215,418
The Americas	**62,157**	69,825
Europe	**36,601**	24,978
Asia (excluding the PRC)	**23,470**	26,267
Others	**1,055**	763
	365,543	337,251

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

	30 June 2014	31 December 2013
	US$'000	US$'000
The Americas (primarily Brazil)	**1,235,081**	1,225,883
The PRC	**837,495**	766,898
Europe (primarily Switzerland)	**26**	26
Asia (excluding the PRC)	**12**	16
	2,072,614	1,992,823

Note: Non-current assets exclude deferred income tax assets.

7 Operating profit

	Six months ended 30 June	
	2014	2013
	US$'000	US$'000
Operating profit has been arrived at after charging/(crediting):		
Total staff costs	**35,743**	35,829
Cost of inventories sold	**276,116**	213,135
Depreciation of property, plant and equipment	**43,828**	37,427
Impairment loss recognized in respect of other receivables	**–**	810
Foreign exchange loss/(gain)	**1,768**	(2,343)
Sales of electricity	**(2,760)**	(3,863)
Operating lease expenses of land and building and others	**278**	117

8 Finance costs

	Six months ended 30 June	
	2014	2013
	US$'000	US$'000
Interest expenses on:		
– bank borrowings	**15,303**	13,214
– obligations under finance leases	**–**	58
	15,303	13,272
Other finance costs	**3,099**	8,059
Total borrowing costs	**18,402**	21,331
Less: amounts capitalized	**(4,076)**	(3,591)
	14,326	17,740

9 Income tax credit/(expense)

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

	Six months ended 30 June	
	2014	2013
	US$'000	US$'000
Current income tax		
– Provision for the period	**(2,821)**	(870)
Deferred income tax	**3,276**	(5,152)
	455	(6,022)

10 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 issued during the period. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential shares.

	Six months ended 30 June	
	2014	2013
	US$'000	US$'000
Earnings for the purposes of basic and diluted earnings per share		
Profit attributable to owners of the Company	**24,222**	23,091

	Number of shares Six months ended 30 June	
	2014	2013
Weighted average number of ordinary shares for the purpose of basic earnings per share	**3,418,304,922**	3,418,022,178
Effect of dilutive potential ordinary shares:		
Awarded shares compensation scheme	**479,928**	694,096
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**3,418,784,850**	3,418,716,274

11 Dividends

Final dividend of HK2.5 cents per share for the year ended 31 December 2013 was declared and paid during the six months ended 30 June 2014. The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: nil).

12 Forestation and reforestation assets and property, plant and equipment

As at 30 June 2014 and 31 December 2013, management of the Group adopted discounted cash flow model in determining the fair value of forestation and reforestation assets, assuming a six-year harvest cycle of the trees. The fair value measurement is under level 3 which has significant unobservable inputs. Other than disclosed below, the principal valuation methodology and assumptions adopted by the Group as at 30 June 2014 have no material changes from 31 December 2013:

– reference wood price in Brazilian Reais ("BRL") is BRL39.54 (31 December 2013: BRL 38.60) (equivalent to US$17.95 and US$16.48 respectively) per cubic meter, based on the prices agreed in the contracts entered into with local farmers during the six months ended 30 June 2014 and year ended 31 December 2013. The higher the reference wood price used in USD, the higher the fair value of the forestation and reforestation assets will be; and

– exchange rate between USD and BRL is US$1.00 = BRL2.20 as at 30 June 2014 and US$1.00 = BRL2.34 as at 31 December 2013. The stronger the USD against BRL, the lower the fair value of the forestation and reforestation assets will be.

As at 30 June 2014 and 31 December 2013, the forestation and reforestation assets are stated at fair value less costs to sell of approximately US$164,226,000 (31 December 2013: US$161,554,000), with an increase in fair value of approximately US$7,527,000 (six months ended 30 June 2013: decrease of US$16,313,000) recognized in the consolidated income statement for the period.

During the six months ended 30 June 2014, the Group acquired property, plant and equipment of an aggregate amount of approximately US$81,348,000 (six months ended 30 June 2013: US$226,929,000).

13 Other non-current assets

	30 June 2014 US$'000	31 December 2013 US$'000
VAT recoverable (Note a)	**84,019**	36,221
Unlisted equity investment (Note b)	**15,992**	15,992
Others	**7,849**	5,878
	107,860	58,091

Notes:

(a) This represents mainly value-added tax ("VAT") recoverable in respect of acquisition of property, plant and equipment and raw materials in Brazil and the PRC 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 balances are expected to be utilized by offsetting against VAT payable on future domestic sales, transferring of VAT recoverable to third parties and/or offsetting with other tax payable.

(b) The unlisted investment represents 5.7% equity investment in Cetrel S.A. Empresa de Proteção Ambiental ("Cetrel S.A."), a company which is incorporated in Brazil and is responsible for operating the environmental protection systems in Camaçari industrial complex, within which the Group's Bahia Specialty Cellulose mill is located. The Group invested into Cetrel S.A. for strategic reason as Cetrel S.A. provides effluent treatment for Bahia Specialty Cellulose. The unlisted investment is measured at cost less impairment at 30 June 2014 and 31 December 2013 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 losses are required for the six months ended 30 June 2014 and the year ended 31 December 2013.

14 Trade, bills and other receivables

	30 June 2014 US$'000	31 December 2013 US$'000
Trade and bills receivables	**157,269**	118,969
Other receivables:		
Prepayments and deposits paid	**2,485**	6,225
Advance to suppliers	**26,528**	15,403
VAT recoverable	**12,790**	44,686
Others	**3,387**	1,120
	45,190	67,434
Less: Impairment loss recognized in respect of other receivables	**(963)**	(972)
	44,227	66,462
Amounts due from related companies (Note)	**5,262**	5,228
Trade, bills and other receivables	**206,758**	190,659

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

The Group generally allows an average credit period ranging from 30 to 180 days to its customers. The ageing analysis of the Group's trade and bills receivables presented based on the invoice date at the end of the reporting period is as follows:

	30 June 2014 US$'000	31 December 2013 US$'000
0 – 60 days	**73,460**	71,062
61 – 90 days	**37,114**	13,011
91 – 180 days	**45,616**	34,691
Over 180 days	**1,079**	205
	157,269	118,969

15 Trade and other payables

	30 June 2014 US$'000	31 December 2013 US$'000
Trade payables	**39,563**	25,127
Other payables:		
Accruals and other payables	**38,512**	39,137
Advance from customers	**3,700**	7,101
Construction payables	**27,387**	32,161
Other taxes payables	**4,673**	3,057
Provisions (Note a)	**15,431**	12,844
	89,703	94,300
Amounts due to related companies (Note b)	**4,302**	16,305
Trade and other payables	**133,568**	135,732

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

	30 June 2014 US$'000	31 December 2013 US$'000
0 – 90 days	**38,876**	25,093
91 – 180 days	**687**	34
	39,563	25,127

Notes:

(a) 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$32,285,000 (31 December 2013: US$34,918,000), which are considered as possible but not probable future losses. No provisions have been made in this interim financial information for these possible losses.

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

16 Bank borrowings

During the six months ended 30 June 2014, the Group has drawn down bank borrowings amounting to approximately US$104,069,000 (six months ended 30 June 2013: US$569,355,000), net of loan raising cost. These drawdowns comprise secured loans of approximately US$85,607,000 (six months ended 30 June 2013: US$430,413,000) and unsecured loans of approximately US$18,462,000 (six months ended 30 June 2013: US$138,942,000).

17 Share capital

	Number of shares	Amounts US$'000
Authorized:		
At 1 January 2013, 31 December 2013 and 30 June 2014, at US$0.05 each	15,000,000,000	750,000
Issued and fully paid:		
At 1 January 2013, at US$0.05 each	3,417,920,250	170,896
Issue of new shares (Note a)	500,000	25
Issue of new shares (Note b)	2,000,000	100
At 31 December 2013 and 30 June 2014, at US$0.05 each	**3,420,420,250**	**171,021**

Notes:

(a) On 15 March 2013, the Company issued 500,000 shares at US$0.39 each to the trustee of the Sateri Share Incentive (Employees) Trust to satisfy restricted share units ("RSUs") granted and to be granted to employees under the Group's RSU schemes.

(b) On 3 December 2013, the Company issued 2,000,000 shares at US$0.28 each to the trustee of the Sateri Share Incentive (Employees) Trust to satisfy RSUs granted and to be granted to employees under the Group's RSU schemes.

18 Commitments

	30 June 2014 US$'000	31 December 2013 US$'000
Contracted but not provided for – acquisition of property, plant and equipment	**34,381**	89,559
Authorized but not contracted for – acquisition of property, plant and equipment	**2,907**	4,036

19 Related party disclosures

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

		Six months ended 30 June	
Name of related parties	**Nature of transactions**	**2014 US$'000**	2013 US$'000
Companies under the common control of the Major Shareholder			
DP Marketing International Macao Commercial Offshore Limited (Note)	Purchase of goods	**2,508**	14,889
	Commission income	**141**	780
Pec-Tech Engineering and Consulting (Suzhou) Co., Ltd.	Consulting service expense	**428**	680
Averis Sdn. Bhd.	Service fee expense	**1,855**	1,568
East Trade Limited	Rental expense	**93**	101

Note: Formerly known as DP Marketing International Limited – Macao Commercial Offshore.

INFORMATION FOR INVESTORS

Listing Information

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

Key Dates

17 March 2014
(Announcement of 2013 Annual Results)

20 May 2014
(Annual General Meeting)

11 August 2014
(Announcement of 2014 Interim Results)

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 30 June 2014:
3,420,420,250 shares

Market capitalization as at 30 June 2014:
HK$4,994 million (approximately US$644 million)

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