# Bracell Limited

Stock Code: 1768

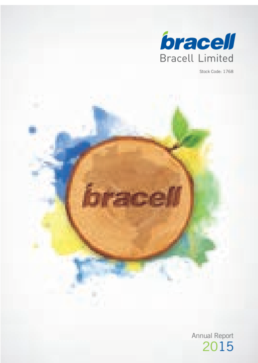

Annual Report

2015

# ABOUT bracell

Listed on the Hong Kong Stock Exchange, Bracell Limited (“Bracell”; stock code: 1768) is one of the largest specialty cellulose producers in the world. Bracell’s 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 both specialty-grade and rayon-grade dissolving wood pulp. They 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.

Bracell attaches high priority to its social and sustainability responsibilities and is committed to preserving and protecting the environment in every aspect of its operations.




### COVER DESIGN OF 2015 ANNUAL REPORT

2015 was the first year Bracell reported as a leading global pure-play specialty cellulose producer. The cross section of the wood shows the age of the wood, an analogy of Bracell building its track record as a pure-play specialty cellulose producer. Bracell attaches high priority to its social and sustainability responsibilities and is committed to preserving and protecting the environment in every aspect of its operations. All of Bracell's products are made from trees, which are natural and biodegradable ingredients of everyday items.

# BRACELL IS A WORLD LEADER IN THE SPECIALTY CELLULOSE INDUSTRY

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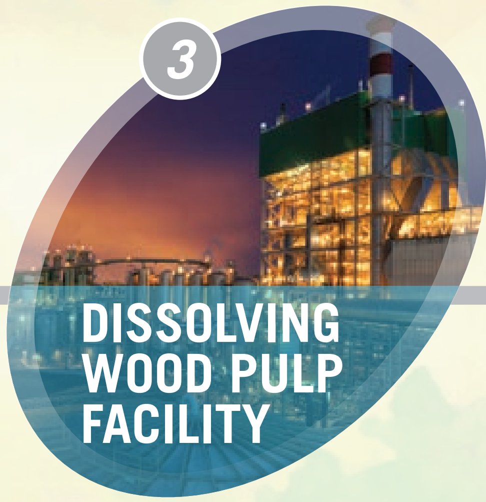
# WHAT WE DO – OUR INTEGRATED FORESTRY AND MILL OPERATION IN BRAZIL

Bracell Limited is a leading global pure-play dissolving wood pulp producer, which is engaged in the production and sale of both specialty-grade and rayon-grade dissolving wood pulp ("DWP") from its Bahia Specialty Cellulose ("BSC") plant in Brazil using wood resources grown from its own eucalyptus plantations.






- Over 150,000 hectares of freehold timberland in Bahia, Brazil, of which 84,000 hectares are reserved for eucalyptus plantation
- Short harvest cycle of six to seven years

- Two production lines in Bahia, Brazil with an annual design production capacity of 485,000 metric tons (350,000 metric tons of specialty-grade pulp)
- Flexibility to switch production between specialty and rayon grades of pulp
- Strategically located near our wood source

## SPECIALTY-GRADE PULP

### End Product Applications

- Acetate eyeglass frames

- Pharmaceutical tablets

- High-performance tire cords

## RAYON-GRADE PULP

### End Product Applications

- Textile products

- Non-woven products

# 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 August 2015
(Announcement of 2015 Interim Results)

14 March 2016
(Announcement of 2015 Annual Results)

16 May 2016
(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 2015:
3,421,420,250 shares

Market capitalization as at 31 December 2015:
HK$3,079 million (approximately US$397 million)

## Investor Relations Contact

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Central
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## Websites

www.brazilcellulose.com
www.irasia.com/listco/hk/bracell

# FINANCIAL HIGHLIGHTS

| For the year ended 31 December<br>US$ Million | 2015 | 2014 | Change |
|---|---|---|---|
| **Continuing operations** [1] | | | |
| Revenue | **444** | 479 | (7)% |
| Cost of sales | **274** | 300 | (9)% |
| Gross profit | **170** | 179 | (5)% |
| Gross profit margin | **38%** | 37% | |
| EBITDA [2] | **184** | 200 | (8)% |
| EBITDA margin | **41%** | 42% | |
| Profit before income tax | **60** | 55 | 9% |
| Profit from continuing operations | **57** | 15 | 272% |
| **Discontinued operations** [1] | | | |
| Profit from discontinued operations | **–** | 24 | |
| **Profit attributable to shareholders** | **58** | 37 | 55% |
| **Earnings per share (US cents)** | **1.7** | 1.1 | 55% |
| **Dividend per share (HK cents)** | **4.0** | 2.5 | 60% |
| Interim dividend per share declared and paid (HK cents) | **1.0** | – | |
| Proposed final dividend per share (HK cents) | **3.0** | 2.5 | |
| Special dividend per share declared and paid (HK dollars) | **–** | 1.40 | |

| As at 31 December<br>US$ Million | 2015 | 2014 | Change |
|---|---|---|---|
| Total assets | **1,382** | 1,578 | (12)% |
| Total liabilities | **305** | 492 | (38)% |
| Net assets | **1,077** | 1,086 | (1)% |
| Total debt | **233** | 376 | (38)% |
| Bank balances and cash | **96** | 101 | (5)% |
| Net debt | **137** | 275 | (50)% |
| Current ratio | **1.8x** | 1.7x | |
| Net debt / EBITDA ratio | **0.7x** | 1.4x | |
| Net gearing [3] | **13%** | 25% | |

Notes:

(1) Continuing operations refer to the dissolving wood pulp business of the Group, which include the sales to third parties as well as to a related party, and discontinued operations refer to the viscose staple fiber business of the Group which was disposed of in December 2014.

(2) 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.

(3) Net gearing is calculated by dividing (i) net debt by (ii) total equity (including non-controlling interests).

# CHAIRMAN'S STATEMENT

**John Jeffrey YING**
*Chairman*

The 2015 financial year is the first full one following our strategic decision to focus solely on being a leading global pure-play specialty cellulose producer. Since the disposal of our viscose staple fiber business in December 2014, I am pleased to report that we have achieved record production volumes and improved profitability, despite continued challenging market conditions. The Company's streamlined business model allows us to focus on our higher margin products, and with this confidence, we paid our first interim dividend and propose to increase our total ordinary dividend to shareholders this year.

# CHAIRMAN'S STATEMENT

Bracell Limited ("Bracell") is a leading global pure-play specialty cellulose producer, with the world's second-largest specialty-grade dissolving wood pulp ("DWP") potential production capacity as well as the third-largest total DWP capacity. We are completely vertically integrated with plantations on our 150,000 hectares (370,000 acres) of freehold timberland in Brazil that fully cover the timber requirements of our modern 485,000 metric ton design capacity DWP mill. Using the secure raw materials supplied from our own plantations, our state-of-the-art mill produces both specialty-grade and rayon-grade DWP, a natural raw material and key ingredient in everyday consumer items such as mass-market and designer textiles, baby wipes, specialty filters, sunglass frames, cosmetics, sausage casings and pharmaceutical products.

During 2015, production reached record levels, sales volumes were higher for both specialty-grade and rayon-grade DWP and the Company recorded higher profits to shareholders, despite continued challenging market conditions. Our revenues from continuing operations fell 7% to US$444 million from US$479 million in 2014 due to lower average selling prices despite higher sales volumes. Through higher capacity utilization, better cost efficiencies and the depreciation of Brazilian Reais, however, we were able to maintain stable EBITDA margins of 41% compared to 42% in 2014 and gross profit margins of 38% compared to 37% in 2014. We changed the functional currency of our major Brazilian plantation subsidiaries in 2015 to the Brazilian Reais, which continued to depreciate during the year. These two factors combined with non-recurring non-cash adjustments in 2014 resulted in our profit from continuing operations increasing by 272% to US$57 million from US$15 million.

# CHAIRMAN'S STATEMENT

Bracell's operations continue to generate significant cash flow during 2015, and we continue to manage our balance sheet in a conservative manner. As of 31 December 2015, we have reduced our net debt to EBITDA ratio to less than 1:1, and the Company had US$96 million of cash and cash equivalents and net debt of US$137 million, compared with US$101 million and US$275 million, respectively, at the end of 2014.

The Company continues to focus on human resources as a key driver of its future success and critical to its journey to becoming a world-class company. We will continue to grow the breadth and depth of our team by recruiting the best talent and tapping the diverse expertise, complementary experiences and skill sets they bring.

The Board of Directors continues to work towards the best global practices in corporate governance and sustainability, to comply with all relevant laws and regulations, and to best serve the collective interests of our shareholders and stakeholders. We are pleased that our achievements in corporate governance continue to be recognized by the market and have won "The Excellence of Listed Enterprise Awards" from *Capital Weekly* each year since 2011.

Looking forward, we will continue to focus on increasing our market share of specialty-grade pulp and maintaining our operational excellence and cost competitiveness in an environment marked by uncertainty. Barriers of entry into the specialty-grade market remain high, reinforcing the long-term attractiveness of our business model. The current political and economic environment in Brazil has not impacted our operations. We continue to assess the situation.

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 HK3.0 cents per share for the year ended 31 December 2015. I also am very pleased to note Bracell paid its first interim dividend during 2015 of HK1.0 cent per share. The total dividend of HK4.0 cents per share represents an increase of 60% from HK2.5 cents per share of ordinary dividends paid in 2014.

On behalf of the Board of Directors, I would like to thank all Bracell staff for their commitment and hard work in 2015. I also would like to extend my fullest gratitude to all the Directors for their invaluable advice and assistance, and to all our shareholders, customers and business associates for their continuing support.

**John Jeffrey YING**
*Chairman*
Hong Kong, 14 March 2016


PURE-PLAY
SPECIALTY
CELLULOSE
PRODUCER

## MANAGEMENT DISCUSSION AND ANALYSIS

The Group's focus is to continue to penetrate into the specialty-grade pulp segment in view of its superior positioning within the value chain.

The Group's integrated forestry and mill operation in Brazil supports its ongoing commitment to continuously enhance product quality and consistently offer reliable products to meet stringent customer specifications.

Bracell Limited is a leading global pure-play dissolving wood pulp ("DWP") producer. The Group's business comprises the production and sale of both specialty-grade and rayon-grade dissolving wood pulp at its Bahia Specialty Cellulose ("BSC") plant in Brazil using wood resources grown from its own eucalyptus plantations.

## Business Review

Following the completion of the disposal of its viscose staple fiber ("VSF") business in December 2014, the Group is now a leading global pure-play dissolving wood pulp producer. The continuing operations of the Group comprise the production and sale of both specialty-grade and rayon-grade dissolving wood pulp ("DWP") at its Bahia Specialty Cellulose ("BSC") plant in Brazil using wood resources grown from its own eucalyptus plantations.

In 2015, the Group's production volume reached record high, as a result of its continued focus on operational excellence.

For specialty-grade DWP, the Group continued to make progress in penetrating into this segment. Sales volume during the year increased by 4% amidst slower growth in demand and the inventory destocking of both acetate pulp and acetate tow that took place especially in the first half of the year. In the face of continued oversupply in the segment, product prices faced pressure as competitors reacted with more aggressive pricing strategies in order to maintain their market share. As such, the Group's average selling price ("ASP") for specialty-grade saw a decline of 11% during the year.

In the rayon-grade DWP segment, the Group's sales volume increased by 2%. Under a three-year pulp supply agreement which became effective on 1 January 2015, all rayon-grade DWP was sold to a company controlled by the ultimate controlling shareholder of the Company at market prices. During the year, rayon-grade DWP spot market prices rose from US$800 per metric ton in the beginning of the year to approximately US$900 per metric ton at the end of 2015. Despite this, the Group's ASP for rayon-grade recorded a decline of 9% compared to 2014. This was due to the fact that for most of 2014, the Group sold all its rayon-grade DWP to the disposed VSF plants in China at the price undertaking accepted by the Ministry of Commerce of China, which was higher than the prevailing spot market prices.

As the world's second largest specialty-grade DWP producer in terms of potential production capacity and backed by its own eucalyptus plantations, the Group will continue to further penetrate the specialty-grade DWP segment by improving its product quality according to stringent customer specifications.

Despite increased sales volume for both specialty-grade and rayon-grade DWP, lower ASPs led to a 7% decline in the Group's revenue to US$444 million.

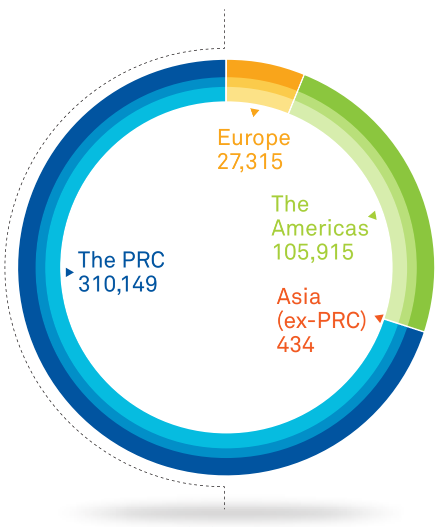
The more efficient operations of the Group's mill in Brazil, and the depreciation of the Brazilian Reais ("BRL") against the US Dollar ("USD") during the year contributed to lower cost of sales, which decreased by 9% to US$274 million. Gross profit dropped by 5% to US$170 million due to lower ASPs.

The selling, general and administrative expenses also declined by 7% during the year, reflecting the depreciation of BRL, as well as the Group's cost savings efforts across all aspects of its operations. EBITDA decreased by 8% to US$184 million. Gross profit and EBITDA margins were comparable to 2014 at 38% and 41% respectively despite lower ASPs, due to lower cost as a result of higher capacity utilization, better cost efficiencies and the depreciation of BRL against the USD.

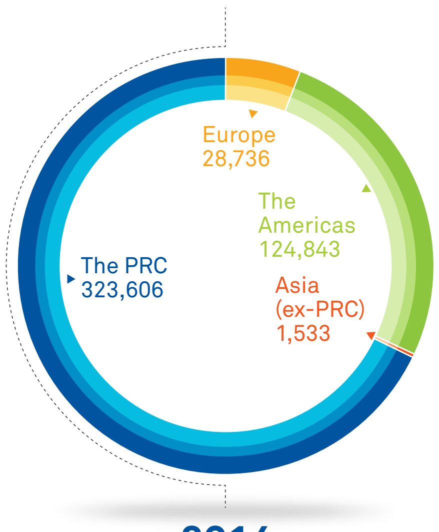
In 2015, there was a decrease in fair value of the forestation assets of the Group of approximately US$8 million which compared with a decrease of US$21 million in 2014 mainly arising from the depreciation of the BRL. From 1 January 2015, two of the Group's subsidiaries which held a majority of its forestation assets changed their functional currency from USD to BRL and as a result, the majority of the effect of the depreciation of the BRL on the fair value of the forestation assets during the current year is reflected in other comprehensive income.

Profit after tax from continuing operations improved by 272% to US$57 million, up sharply from a low base of US$15 million. In 2014, profit was negatively impacted by the non-cash write off of deferred income tax assets, which was non-recurring in 2015. The decrease in the fair value of forestation and reforestation assets was also lower in 2015 compared to 2014. Profit attributable to shareholders improved by 55% to US$58 million.

**Revenue of Continuing Operations by Geographical Markets**
US$'000




2015




2014

### DWP Business

| Year ended 31 December | 2015 | 2014 (Restated) | Change |
|---|---|---|---|
| Production volume [1] (metric tons) | **443,056** | 435,589 | 2% |
| Sales volume (metric tons) | **460,294** | 449,037 | 3% |
| ASP (US$'000) | **964** | 1,066 | (10)% |
| Revenue (US$'000) | **443,813** | 478,718 | (7)% |
| Gross profit (US$'000) | **170,293** | 178,773 | (5)% |
| Gross profit margin (%) | **38%** | 37% | |
| EBITDA [2] (US$'000) | **183,826** | 199,725 | (8)% |
| EBITDA margin [2] (%) | **41%** | 42% | |

Notes:

(1) Production volume represents total production volume of the DWP business.

(2) The EBITDA and EBITDA margin for 2014 are restated to include unallocated expenses of the Group to conform to the current year's presentation.

The Group's DWP Business comprises the production and sale of specialty-grade pulp and rayon-grade pulp. In 2015, production volume increased by 2% to 443,056 metric tons and sales volume increased by 3% to 460,294 metric tons.

#### Specialty-grade pulp

Specialty-grade pulp is the natural key ingredient of a wide array of everyday use consumer products. The Group'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-grade pulp is approximately 1.4 million metric tons annually, and is estimated to grow at approximately 2% per year from 2014 to 2019, according to Hawkins Wright (an independent consultancy providing market intelligence and business information relating to international forest products). Barriers to 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 a result, market prices for specialty-grade pulp trended upward at approximately 8% compound annual growth rate ("CAGR") in the past decade, up to 2013. In 2013, one of the major industry players added significant capacity into this segment. Even though this additional supply has now been removed, supply remains abundant while demand growth has been subdued. This has placed pressure on product pricing as competitors adopted more aggressive pricing strategies to maintain their market share.

During the year, amidst slower growth in demand for acetate and temporary destocking of acetate pulp and acetate tow, the Group's sales volume in this segment was resilient against the market situation and managed to increase its sales volume by 4% to 118,310 metric tons. However, the Group recorded lower ASP due to continuing pricing headwinds. Nevertheless, the Group continued to enhance product quality and cost competitiveness and is confident to further penetrate this segment going forward.

### 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 Hawkins Wright and China Chemical Fibers and Textile Consultancy.

With effect from 1 January 2015, under a three-year pulp supply agreement, the Group supplies rayon-grade DWP produced by BSC only to a company controlled by the ultimate controlling shareholder of the Company at prevailing open market spot prices. This enables the Group to focus its efforts on the production and sale of specialty-grade DWP, with a view that all rayon-grade DWP produced by BSC will be contractually purchased in its entirety under the pulp supply agreement at prevailing open market prices. This arrangement also provides BSC with certainty on the capacity utilization of its mill in Brazil by ensuring it is operating at the optimal level, thereby allowing economies of scale and better cost competitiveness. The Group sold 341,984 metric tons of rayon-grade pulp in 2015, an increase of 2% from the previous year.

During the year, VSF pricing environment improved from the second quarter, consequently enabling rayon-grade pulp producers to raise their prices. Meanwhile, some Chinese DWP players reverted to producing paper pulp during the year, which mitigated the oversupply situation. As a result, rayon-grade market prices rose from US$800 per metric ton in the beginning of the year to approximately US$900 per metric ton at the end of 2015. Nevertheless, the Group recorded lower ASP for rayon-grade pulp. This was due to the fact that for most of 2014, the Group sold all its rayon-grade DWP to the disposed VSF plants in China at the price undertaking accepted by the Ministry of Commerce of China, which was higher than the prevailing spot market prices.

Current global demand for rayon-grade pulp is estimated at approximately 5 million metric tons annually with growth primarily recorded in China. Such demand is expected to grow at approximately 4% per annum from 2014 to 2019, according to Hawkins Wright.

## Future Development Plan

The Group is a leading global pure-play specialty cellulose producer. The Group's main facility of BSC in Brazil is the third largest DWP producer in the world with an annual design production capacity of 485,000 metric tons. In addition to its state-of-the-art production facilities, the Group also owns over 150,000 hectares of freehold timberland in Brazil, which fully meets all the wood requirements of the BSC facility.

As the world's second largest specialty-grade DWP producer in terms of potential production capacity and backed by its own eucalyptus plantations, the Group will continue to further penetrate into the specialty-grade DWP segment by improving its product quality according to stringent customer specifications.

The Group's three-year pulp supply agreement to sell its rayon-grade DWP only to a single customer ending 2017 enables the Group's BSC mill to operate at the optimal level and achieve greater operational efficiency. Also, this arrangement allows the Group to focus its efforts on shifting its product mix further towards specialty-grade DWP, particularly in the acetates, in view of its lower level of pricing volatility and superior positioning within the value chain.

The Group will also continue to explore the feasibility of further greenfield or brownfield expansions and/or acquisition opportunities if they meet the Group's stringent strategic and financial return targets.

### Outlook

On specialty-grade DWP, the destocking of acetate pulp and acetate tow is continuing, particularly in China as Chinese demand for acetate tow is now projected to be lower than initially expected. Outside China, it is expected that tow orders will return to more normalised rates. However, the current abundant supply and subdued demand growth will continue to limit price increases in the short to mid term. Bracell is dedicated to continuously enhancing its product quality to meet stringent customer requirements and is confident that, despite slower demand growth in acetate, it is in a good position to further penetrate into the segment going forward to capture market share.

Rayon-grade DWP prices rose from the second quarter of 2015 mainly because of higher VSF prices and some players reverted to produce paper pulp, which mitigated the oversupply situation. However, VSF prices turned down sharply towards the end of 2015, and consequently rayon-grade DWP dropped swiftly from US$900 to under US$850 per metric ton at the beginning of 2016. Looking forward, rayon-grade DWP product prices are expected to fluctuate along with VSF prices which could remain under pressure due to the weak downstream markets, depressed competing fiber prices and global economic uncertainties. Nevertheless, the Group's three-year pulp supply agreement gives it certainty on its sales volume on rayon-grade DWP at prevailing market spot prices.

The Group will continuously strive to improve operational efficiencies and maintain cost competitiveness to enable the Group to mitigate margin erosion even during uncertain market conditions. The Group will invest some capital expenditure in 2016 to further de-bottleneck its BSC plant, in order to increase its production closer to its designed capacity. The above, together with its conservative cash flow management, strong balance sheet, and an experienced management team, allows the Group to be well positioned to grow further and deliver attractive long-term shareholder value.

## Financial Review

### Consolidated Income Statement

For the year ended 31 December 2015, the Group's revenue from continuing operations declined by 7% to US$444 million despite a 3% increase in the sales volume, owing to a 11% and 9% drop in the ASPs of specialty-grade DWP and rayon-grade DWP respectively. Cost of sales declined notably by 9%, gross profit declined by 5% to US$170 million and EBITDA dropped by 8% to US$184 million. Gross profit and EBITDA margins were comparable to 2014 at 38% and 41% respectively despite lower ASPs.

Profit after tax from continuing operations for 2015 increased by 272% to US$57 million, up sharply from a low base of US$15 million. In 2014, profit was negatively impacted by the non-cash write off of deferred income tax assets, which was non-recurring in 2015. The decrease in the fair value of forestation and reforestation assets was also lower in 2015 compared to 2014. Profit attributable to shareholders increased by 55% to US$58 million. Earnings per share also increased by 55% to US1.7 cents from US1.1 cents in 2014.

### Cost of Sales

Cost of sales primarily consists of the cost of planting and harvesting wood, chemicals and conversion costs including energy, labor costs and depreciation.

The Group's cost of sales from continuing operations declined by 9% to US$274 million mainly reflecting the Group's continued efforts on cost savings as well as the depreciation of BRL against the USD during the year.

### Selling and Distribution and Administrative Expenses

Selling and distribution expenses of the continuing operations was maintained at US$41 million for the year ended 31 December 2015. Administrative expenses of the continuing operations decreased by 13% to US$39 million reflecting the depreciation of BRL against the USD during the year, as well as the Group's cost savings efforts across all aspects of its operations.

### Changes in Fair Value of Forestation and Reforestation Assets

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

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

With effect from 1 January 2015, the functional currency of two subsidiaries of the Group which own the bulk of its forestation and reforestation assets in Brazil was changed from USD to BRL. From this date onwards, the non-cash impact on the fair value of the forestation and reforestation assets of the above-mentioned subsidiaries arising from a change in the exchange rate between the BRL and USD will be recorded under the line item "currency translation differences" as part of the other comprehensive income of the Group. Hence, going forward, fluctuation in the exchange rate between the BRL and USD will result in less non-cash impact on the consolidated income statement of the Group.

Taking into effect the change in functional currency mentioned above, the Group recognized a decrease in fair value of forestation and reforestation assets of US$8 million for 2015. This compares with a decrease of US$21 million in fair value of forestation and reforestation assets for 2014 when the functional currency of the two subsidiaries was USD.

### Finance Costs

The Group's finance costs of the continuing operations decreased from US$24 million to US$19 million because of lower loan balances as a result of repayments made to its five-year term syndicated loan.

## Consolidated Statement of Comprehensive Income

### Currency Translation Differences

The Group's presentation currency is USD. The Group has currency translation differences in the year mainly because two of its subsidiaries in Brazil have their functional currencies in BRL which is different from the presentation currency of the Group. For 2014, the currency translation differences of the Group mainly arose from its discontinued VSF business as the VSF companies in China have their functional currencies in Chinese Renminbi.

The exchange rate between the BRL and USD depreciated from US$1 = BRL2.66 as at 31 December 2014 to US$1 = BRL3.90 as at 31 December 2015. As a result, the Group recorded currency translation losses of US$55 million arising from its two subsidiaries in Brazil which have their functional currency in BRL. Out of this US$55 million, US$37 million related to the forestation and reforestation assets of the two subsidiaries.

#### Unrealized Gain/(Loss) on Cash Flow Hedge

The Group manages its interest rate risk through the use of interest rate swaps and it mitigates the currency fluctuations affecting its operations mainly through a hedging program using plain vanilla non-deliverable forward contracts.

For the year ended 31 December 2015, there was an unrealized gain on cash flow hedge of US$4 million.

### Capital Expenditure

The Group continued to exercise careful control over capital expenditure as appropriate in 2015.

The Group's continuing operations incurred US$51 million in capital expenditure for the year ended 31 December 2015, compared to US$92 million in 2014. The capital expenditure includes US$31 million spent on forestation and reforestation assets in Brazil and US$20 million on other capital expenditure.

### Charge on Assets

As at 31 December 2015, certain assets of the Group with an aggregate carrying value of US$815 million (31 December 2014: US$829 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, with ample liquidity, and is capable of funding its foreseeable capital expenditure requirements with cash flows from operating activities and banking facilities.

As at 31 December 2015, the Group's bank balances and cash amounted to US$96 million, compared with US$101 million as at 31 December 2014. Net debt as at 31 December 2015 amounted to US$137 million, compared with US$275 million as at 31 December 2014. 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 13%, compared to 25% as at 31 December 2014.

As at 31 December 2015, the Group had total banking facilities available for draw-down of US$57 million.

Net cash from operating activities of the continuing operations improved to US$222 million for the year ended 31 December 2015. This compares to US$190 million in 2014 for the continuing operations. The improvement is mainly due to increased efficiency in working capital management.

### 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 USD. Its main costs are denominated in BRL where it has its production facilities. The Group's 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 cash of the Group's continuing operations is generally placed in short-term deposits denominated in USD. All of its borrowings are in USD and most carry floating interest rates and the Group has entered into interest rate swap agreements to swap its floating interest rate borrowing for fixed interest rate to mitigate potential increases in future interest rates.

# CORPORATE SOCIAL RESPONSIBILITY

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

## Environment

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

In Brazil, approximately 40% of the Group's forest areas are occupied by native vegetation including areas of permanent preservation, legal reserve and other areas. These areas are interspaced with the eucalyptus plantations forming a 91-kilometer ecological corridor. Our Group employs advanced eco-friendly cultivation techniques, namely the "Mosaic plantation concept", which facilitates water retention and soil fertility while minimizing soil erosion and wood wastage. This concept intersperses 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 we become less dependent on fossil fuel. As a result, we produce excess electricity, which are sold to the Brazilian national power grid.

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

Our Group has actively participated in environmental education by organizing 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.

BSC obtained the Cerflor NBR14789 (Forest Management) and Cerflor NBR14790 (Chain of Custody) certified by the Programme for the Endorsement of Forest Certification (PEFC). Apart from these certifications, BSC has also obtained ISO 14001 for environmental management, and its manufacturing facilities are also ISO 9001 certified.

Our Group published our Brazil operations' most recent Sustainability Report in 2015. Interested stakeholders can refer to this report from our website:
http://www.brazilcellulose.com/en/sustainability/sustainability-reports

## Investors & Shareholders

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

Our 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.brazilcellulose.com and www.irasia.com/listco/hk/bracell), investors and shareholders can access our annual and interim reports, announcements, and news releases. Bracell values ongoing feedback from investors and shareholders, and makes all efforts to handle incoming enquiries and requests in a timely manner.

Our Group was awarded "The Excellence of Listed Enterprise Awards" from *Capital Weekly* since 2011, displaying our Group's continuous professionalism in investor relations and corporate governance.

We consider the Annual General Meeting 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.

## Customers & Suppliers

We pay special attention to our customers from development to delivery of our products and our Group has a system to manage customer complaints and deal with such complaints as they arise. In addition, all products sold by our Group are assessed for risks including security risks, health and environment-related risks. Chemical product information data sheets and safety material data sheets are made available to customers via our sales team.

There were no reported cases of non-compliance with regulations and voluntary codes related to the impacts caused by products and services offered by BSC in health and safety during their life cycles.

Our Group has strong relationships with our suppliers. Whenever there is availability of products and services in the local market with comparable quality and at competitive prices, we prioritize these suppliers in order to contribute to the development of the region where we operate.

Our Group requires our suppliers to fulfill their labor and social security obligations. In particular, our Brazilian contracts include clauses which prohibit exploitation of slave or child labor and discrimination based on color, sex, race and creed.

## Employees

Our sustainability relies on the growth of our people. People are one of the most important assets of Bracell. As at 31 December 2015, there were 1,379 employees globally.

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 2015, the Company granted 1,050,000 restricted share units to key employees as part of a broader incentive plan.

Our Group is committed to staff development and our employees attended various external courses and in-house training programs to improve employee competencies and productivity.

## Community

Bracell 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.

# CORPORATE SOCIAL RESPONSIBILITY

In Brazil, our Group has established a Social Responsibility Policy that is structured in five main areas of activity which are in education, entrepreneurship, agribusiness, dialogue with communities and other social programs. Some of the projects carried out under these programs include:

## Education

(i) **Environment Education Project (since 2012):** Our Group developed activities that focused on raising awareness on the conservation of the riparian forest, protection of water sources, waste treatment and disposal. In 2015, 508 people from local communities were involved.

(ii) **Social Mobilization for Education Project (since 2013):** Our Group established projects to motivate children and adolescents of neighboring communities to engage in sports, music and arts. In 2015, approximately 550 children and adolescents of the neighboring communities were benefited.

(iii) **Pedagogical Guidance Project (since 2013):** Partnered with the Chapada Institute of Education and Research, the project provided qualified pedagogical guidance to teachers, in order to strengthen class practice and to improve students' learning results. 11,150 students and 637 education professionals have benefited from the program during the year.

## Entrepreneurship

(i) **Fibers of the Land (previously named "Piassava Project", since 2011):** To encourage residents from rural communities to generate income from raw materials found in their own communities, the "Fibers of the Land" Program has a reach to rural communities of Entre Rios and Mata de São João municipalities and also to Itanagra. It has helped 180 families in 2015 to generate additional income from the sales of handicrafts from sustainable extraction of fibers.

(ii) **Swallows Project (since 2014):** The project helped 40 local women in rural communities to generate income while they made uniforms for the Group's mill workers and to other companies in the region.

(iii) **Rural Entrepreneurship (since 2014):** Our Group partnered with the National Rural Learning Service that teaches participants to produce jam, jellies, soft candies and cassava derivatives. Approximately 150 families have benefited from the program.

(iv) **School of Ceramics (2015):** Our Group supported the School of Ceramics that helped 80 people who live in neighboring communities to produce high quality craftsmanship with ceramic to generate income for their families.

## Agribusiness

(i) **Community Planting Program (since 2006):** Our Group has developed community planting programs where it provides for the cultivation of eucalyptus by small rural landowners on their properties, with a commitment to sell the wood back to our Group. To date, over 7,000 hectares have been planted with eucalyptus trees.

(ii) **Family Farming Project (since 2014):** Our Group provided technical assistance to small rural producers to plant fruits and vegetables. These programs provide a source of income to rural families and since its inception, about 280 families have benefited from the programs.

(iii) **Beekeeping Project (since 2007):** Our Group's forestry operation has cooperation contracts with beekeepers to install beehives in certain areas of our land to extract honey. It is a partnership with the Beekeepers' Associations operating in the North Forest District of Bahia that supports approximately 150 partner beekeepers living there.

### Dialogue With Communities

(i) **Meeting With The Communities:** Our Group is dedicated to establishing good relationships with local residents in neighboring communities and started ongoing dialogues with the relevant communities. In 2015, over 500 people participated in formal meetings with our representatives.

(ii) **Visiting Program:** Our Group arranged visits to the industrial area and forestry operations, and visits to our forest workers for teachers, students and other residents to enhance understanding of our business.

(iii) **Movie At The Field (since 2014):** Our Group provided residents of rural communities access to quality cinema exhibition sessions, with topics related to the reality. In 2015, the activity benefited about 8,000 local residents.

(iv) **Community Forestry Safety Committee:** In 2015, we encouraged the creation of a Community Committee, to involve the private sector, community leaders and institutions that work with safety in the municipalities, with the aim to address major issues that affect the quality of security.

### Other Social Programs

(i) **Citizenship Fair (since 2008):** Our Group participated in the Citizenship Fair promoted by the Camaçari Industrial Development Committee in partnership with the state government. Our Group held workshops to raise environmental awareness with over 160 participants in the fair.

Going forward, we will continue to actively support the local community and partner with local government bodies and schools on initiatives to benefit the community.

# BOARD OF DIRECTORS

**John Jeffrey YING**, 53, 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 the independent board committee (the "Independent Board 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 investment firm formed in 1999 that invests in growth and expansion capital transactions in the Greater China region. He is a non-executive director of Tai Ping Carpets International Limited, a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). 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 the chairman of Asian Republican Coalition, the chairman emeritus of The Hong Kong Ballet and a director emeritus of the Graduate Executive Board of The Wharton School. 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.

**TEY Wei Lin**, 44, has been the Chief Executive Officer of the Company since March 2014. He is also a member of the Executive Committee, the Remuneration Committee and the nomination committee (the "Nomination Committee") of the Company. He was appointed as a non-executive Director in June 2010 and subsequently redesignated as an executive Director of the Company in March 2012 and appointed as the Acting Chief Executive Officer of the Company in September 2012. 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") and has held senior management positions with the RGE group of companies since 2001. He is a responsible officer (pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)) of Pacific Eagle Asset Management Limited. 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.

**Jeffrey LAM Kin Fung, GBS, JP**, 64, has been an independent non-executive Director of the Company since October 2010. He is also the chairman of the Remuneration Committee and a member of the Independent Board Committee. 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. He serves as an independent non-executive director of several other companies listed on the Stock Exchange, namely China Overseas Grand Oceans Group Limited, Wynn Macau, Limited, CC Land Holdings Limited, Chow Tai Fook Jewellery Group Limited and HNA International Investment Holdings Limited (formerly known as Shougang Concord Technology Holdings Limited). He is a member of the National Committee of the Chinese People's Political Consultative Conference, a member of the Hong Kong Legislative Council, a non-official member of the Executive Council, the chairman of the Assessment Committee of the Mega Events Fund, a member of the board of Airport Authority Hong Kong cum chairman and director of Aviation Security Company Limited, the chairman of the Independent Commission Against Corruption Complaints Committee and the director on the Board of Heifer International Hong Kong Limited. 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 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.

**David YU Hon To**, 67, has been an independent non-executive Director of the Company since October 2010. He is also the chairman of the audit committee (the "Audit Committee") and a member of the Nomination Committee and the Independent Board Committee. Mr. Yu has extensive experience in the fields of corporate finance, auditing and corporate management. He serves as an independent non-executive director of several other companies listed on the Stock Exchange, namely Great China Holdings Limited, Haier Electronics Group Co., Ltd., China Renewable Energy Investment Limited, Media Chinese International Limited, One Media Group Limited, Playmates Holdings Limited, Synergis Holdings Limited, China Resources Gas Group Limited, Keck Seng Investments (Hong Kong) Limited and New Century Asset Management Limited (as manager of New Century Real Estate Investment Trust). Mr. Yu obtained a bachelor's degree in social sciences from the Chinese University of Hong Kong. He 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.

# BOARD OF DIRECTORS

**LIM Ah Doo**, 66, has been an independent non-executive Director of the Company since March 2012. He is also the chairman of the Nomination Committee and a member of the Audit Committee and the Independent Board Committee. Mr. Lim has extensive experience as a former senior banker and corporate executive. He is currently an independent and non-executive director, the chairman of the audit committee and a member of the remuneration committee of each of U Mobile Sdn Bhd and GDS Holdings Limited. Mr. Lim is also on the board of several listed entities, acting as an independent and non-executive director and a member of the audit committee of each of SM Investments Corporation ("SM Investments") and Singapore Technologies Engineering Ltd ("ST Engineering"), an independent and non-executive director, the chairman of the board risk committee and a member of the audit committee of Sembcorp Marine Ltd ("Sembcorp Marine"), an independent and non-executive director, the chairman of the audit committee and a member of the remuneration committee of GP Industries Ltd ("GP Industries") and an independent and non-executive director and the chairman of the audit committee of ARA-CWT Trust Management (Cache) Limited, trustee manager of listed Cache Logistics Trust. Shares of SM Investments are listed on the Philippine Stock Exchange and shares of ST Engineering, Sembcorp Marine 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. During his 18 years with Morgan Grenfell, he held several key positions including chairing Morgan Grenfell (Asia) Limited. 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.

**LOW Weng Keong**, 63, has been an independent non-executive Director of the Company since April 2013. He is also a member of the Audit Committee, the Remuneration Committee and the Independent Board Committee. Mr. Low has extensive experience in accounting, taxation and advisory services. He is currently an independent director of UOL Group Limited ("UOL"), Riverstone Holdings Limited ("Riverstone") and iX Biopharma Ltd. ("iX"). UOL and Riverstone are companies listed on the Singapore Stock Exchange and iX is a company listed on Catalist of the Singapore Stock Exchange. He is also a director of the Singapore Institute of Accredited Tax Professionals Limited, a director of the Confederation of Asian and Pacific Accountants and a former global president and chairman of CPA Australia Limited. He was a former head of tax services as well as country managing partner and head of Ernst & Young Singapore from which firm he retired in 2005 after 19 years of service. Prior to that he was the far east area tax manager for Brown & Root Inc., a US Fortune 500 company. Mr. Low is a life member of CPA Australia, a fellow member of the Institute of Chartered Accountants in England & Wales and the Institute of Singapore Chartered Accountants, an associate member of the UK Chartered Institute of Taxation and an accredited tax advisor of the Singapore Institute of Accredited Tax Practitioners.

**Armin MEYER**, 66, was appointed as an independent non-executive Director of the Company with effect from 17 August 2015. He is also a member of each of the Remuneration Committee and the Independent Board Committee of the Company. Mr. Meyer was an advisor to the Board of the Company from June 2011 to May 2014, appointed as a non-executive Director of the Company in June 2014 and subsequently redesignated as an independent non-executive Director of the Company in August 2015. Mr. Meyer has broad international corporate experience and is a qualified electrical engineer. He is currently an independent non-executive director and the deputy chairman of Amcor Limited, a company listed on the Australian Securities Exchange. He served as the chairman of the board and the chief executive officer of Ciba Ltd from 2001 to 2007 and as its chairman of the board from 2008 to 2009. From 1995 to 2000, Mr. Meyer was an executive vice president and a member of the group executive committee of ABB Ltd, a company listed on the stock exchanges of Zurich, Stockholm and New York. He was previously a director of Zurich Financial Services Ltd from 2001 to 2013 and a member of the executive committee and the foundation board of IMD International Institute for Management Development from 1999 to 2011. Mr. Meyer obtained a master's degree in electrical engineering in 1974 and a doctoral degree in science and technology in 1976, both from the Swiss Federal Institute of Technology.

# SENIOR MANAGEMENT

**ANG Eugene**, 47, has been the Chief Financial Officer of the Company since September 2015. Mr. Ang had been the Vice President for Corporate Finance of the Group since 2007. Mr. Ang has extensive experience in finance, tax and banking. Prior to joining the Group in 2004, he 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.

**DOHRN Peer**, 53, has been the Vice President for Specialty-grade Pulp Sales of the Group since 2010 and he joined the Group in 2007. Prior to joining the Group, 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.

**POON Wai Yip Ben**, 52, has been the Senior Vice President for Commercial of the Group since 2012. Prior to joining the Group, 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.

**SIM Sze Kuan**, 51, has been the Vice President for Legal Affairs of the Group since 2012. Mr. Sim was previously the Acting Head, Legal for RGE Pte Ltd until 2011. Prior to then, Mr. Sim was a partner in private practice at Singapore law firm Khattar Wong and Partners from 1992 to 2000, and Director Legal with a Singapore venture capital fund, Bio-One Capital, from 2001 to 2008. He is a certified lawyer admitted in the jurisdictions of England and Wales, Singapore, Hong Kong and New York. Mr. Sim graduated with a LLB degree from the London School of Economics and Political Science in 1988.

**LEITE Marcelo**, 58, has been the Managing Director of Bahia Specialty Cellulose ("BSC") since January 2016. Mr. Leite had been the Deputy Managing Director of BSC since 2014 and he joined BSC 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**, 50, has been the Executive Vice President of the Company since January 2016. Mr. Lindblom had been the Managing Director of BSC since he joined BSC in 2012. Mr. Lindblom worked for more than 10 years in Asia Pacific Resources International Limited, 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.

**WEITZL Otto**, 62, has been the Finance Director of BSC since 2012 and he joined the Group in 2007. He has more than 30 years of experience in finance and the viscose staple fiber industry. Prior to joining the Group, 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.

# 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.

During the year ended 31 December 2015, 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 (the "CG Code") as contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 the shareholders of the Company (the "Shareholders") 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 "Bye-laws"). The Company in practice has complied with the relevant code provision of the CG Code.

## The Board

### 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.

### Composition

The composition of the Board during the year ended 31 December 2015 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
LOW Weng Keong
Armin MEYER (redesignated as an Independent Non-executive Director on 17 August 2015)

#### Executive Director:

TEY Wei Lin (Chief Executive Officer)

The biographical details of all current Directors (including their roles, functions, education and experience) are set out in the section "Board of Directors" on pages 24 to 27 of the annual report for the year ended 31 December 2015 (the "2015 Annual Report"), and are also available 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 of Hong Kong Limited (the "Stock Exchange") and the Company an updated list of its Directors and their roles and functions.

### 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 commitments. 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 Listing Rules, since the publication of the Company's interim report for the six months ended 30 June 2015, are set out below:

(a) Mr. Jeffrey LAM Kin Fung, an Independent Non-executive Director, (i) was appointed as the chairman of the Independent Commission Against Corruption Complaints Committee for a term of two years with effect from 1 January 2016; and (ii) was appointed as the director on the Board of Heifer International Hong Kong Limited with effect from 12 January 2016;

(b) Mr. LIM Ah Doo, an Independent Non-executive Director, was appointed as the independent and non-executive director and a member of the audit committee of Singapore Technologies Engineering Ltd with effect from 10 November 2015; and

(c) Mr. LOW Weng Keong, an Independent Non-executive Director, ceased acting as a member of the Singapore Goods and Services Tax Board of Review with effect from 1 January 2016.

### 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. In determining the independence of Directors, the Board follows the requirements set out in the Listing Rules and considers all of the Independent Non-executive Directors as independent. In addition, the Board has received from each Independent Non-executive Director an annual written confirmation of his independence and is of the view that all Independent Non-executive Directors meet the guidelines for assessing independence as set out in Rule 3.13 of the Listing Rules and are independent. There are seven Directors on the Board, of which, six are Independent Non-executive Directors. The proportion of Independent Non-executive Directors well exceeds the requirements of the Listing Rules which require listed issuers to have independent non-executive directors representing at least one-third of the board. All Independent Non-executive Directors are identified as such in the updated list and in all corporate communications that disclose the names of the Directors.

### Roles of Chairman and Chief Executive Officer

The roles of the Chairman and the Chief Executive Officer are segregated. The Chairman, who is an Independent Non-executive Director, is responsible for leadership of the Board and 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.

### Board Process

The Board is responsible for setting up the overall strategy as well as reviewing the operation and financial performance of the Group. The Board meets 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 facilitate maximum attendance of Directors. During the year ended 31 December 2015, the Board held four Board meetings and also approved matters by way of written resolutions.

Draft agenda for each Board meeting is circulated to all Directors such that all Directors are given the opportunity to include matters for discussion in the agenda. Meeting agenda, together with Board papers, are sent to all relevant 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, decisions 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 and the Listing Rules, 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 the purpose of determining quorum.

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 Affairs of the Company. Each of the Directors also has separate and independent access to the Company's senior management and is entitled to seek independent professional advice in appropriate circumstances at the Company's expense to perform their duties.

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

### Directors' Attendance at Meetings

Details of Directors' attendance at the Board meetings, the Board committees meetings, and the general meetings held in 2015 are set out below:

| | Board | Audit Committee | Remuneration Committee | Nomination Committee | Executive Committee | Independent Board Committee | Annual General Meeting | Special General Meeting |
|---|---|---|---|---|---|---|---|---|
| **Number of Meetings held** | 4 | 4 | 3 | 3 | 2 | 2 | 1 | 1 |
| | | | | **Meetings Attended/Held** | | | | |
| **Independent Non-executive Directors** | | | | | | | | |
| John Jeffrey YING | 4/4 | – | 3/3 | – | 2/2 | 2/2 | 1/1 | 1/1 |
| Jeffrey LAM Kin Fung | 4/4 | – | 3/3 | – | – | 2/2 | 1/1 | 1/1 |
| David YU Hon To | 4/4 | 4/4 | – | 3/3 | – | 2/2 | 1/1 | 1/1 |
| LIM Ah Doo | 4/4 | 3/4 | – | 2/3 | – | 1/2 | 1/1 | 1/1 |
| LOW Weng Keong | 4/4 | 4/4 | 3/3 | – | – | 2/2 | 1/1 | 1/1 |
| Armin MEYER (1) | 4/4 | – | 1/1 | – | – | – | 1/1 | 1/1 |
| **Executive Director** | | | | | | | | |
| TEY Wei Lin | 4/4 | – | 3/3 | 3/3 | 2/2 | – | 1/1 | 1/1 |

Note:

(1) Mr. Armin MEYER was redesignated as an Independent Non-executive Director with effect from 17 August 2015.

### Appointment, Re-election and Rotation of Directors

Each Director has entered into a service contract with the Company and is subject to retirement by rotation and re-election by the Shareholders at the AGM(s) at least once every three years in accordance with the Bye-laws. 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 paragraph headed "Nomination Committee" of this report.

### 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 attend corporate events or visits as arranged by the Company. In October 2015, four Independent Non-executive Directors, namely Messrs. John Jeffrey YING, David YU Hon To, LOW Weng Keong and Armin MEYER, conducted a Board visit to the Bahia Specialty Cellulose mill in Brazil for a deeper understanding of the Group's business operations.

All Directors are encouraged to participate in continuous professional development to enhance their knowledge and skills. The Company has arranged in-house seminars conducted by professional organizations and reading materials to Directors to provide them with 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. All Directors have provided to the Company their records of continuous professional development during the year 2015, a summary of which is set out below:

| Name of Directors | 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 | ✓ | ✓ |
| LOW Weng Keong | ✓ | ✓ |
| Armin MEYER [(1)] | ✓ | ✓ |
| **Executive Director** | | |
| TEY Wei Lin | ✓ | ✓ |

Note:

(1) Mr. Armin MEYER was redesignated as an Independent Non-executive Director with effect from 17 August 2015.

### Compliance with the Model Code for Securities Transactions by Directors

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

The Company made specific enquiries with the Directors, and all Directors confirmed that they had complied with the required standards set out in the Guidelines and the Model Code regarding Directors' securities transactions during the year ended 31 December 2015.

### Inside Information Reporting Procedure

The Company has adopted a procedure on reporting of Inside Information (the "Reporting Procedure") in accordance with the Guidelines on Disclosure of Inside Information issued by the Securities and Futures Commission. The Reporting Procedure sets out the proper standards and procedures for the handling and dissemination of Inside Information and is circulated across all relevant departments and subject to annual review by the Board.

## Board Committees

The Board has established the Audit Committee, the Remuneration Committee, the Nomination Committee and the Executive Committee with written terms of reference approved by the Board. Terms of reference of the above Board committees are made available on the websites of the 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. The procedures and arrangements for a Board meeting, as mentioned in the paragraph 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 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. The current composition of the Audit Committee is as follows:

Independent Non-executive Directors:

David YU Hon To (Chairman of the Audit Committee)
LIM Ah Doo
LOW Weng Keong

The primary duties of the Audit Committee are to review 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, risk management and internal control systems, and recommending 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 is made available at the websites of the Company and the Stock Exchange.

The Audit Committee shall meet at least four times a year to review, with senior management as well as 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. During the year ended 31 December 2015, the Audit Committee held four meetings and met with the external auditor twice at pre-meeting sessions in the absence of the management of the Group. The attendance of each member of the Audit Committee is set out in the paragraph headed "Directors' Attendance at Meetings" of this report.

During the year ended 31 December 2015, 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 and the audit fee, 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, and the review of the revised terms of reference of the Audit Committee in light of the amended CG Code. The Audit Committee is satisfied that the Company's internal control system is effective and adequate.

### Remuneration Committee

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

#### Independent Non-executive Directors:

Jeffrey LAM Kin Fung (Chairman of the Remuneration Committee)
John Jeffrey YING
LOW Weng Keong
Armin MEYER (appointed as a committee member on 17 August 2015)

#### Executive Director:

TEY Wei Lin

The Remuneration Committee is responsible for making recommendations to the Board on the Company's policy and structure for the remuneration of the Directors and the senior management of the Group. It shall determine, with delegated responsibility, the remuneration packages of the Executive Director and the senior management of the Group. 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 2015, the Remuneration Committee held three meetings and also dealt with matters by way of written resolutions. The attendance of each member of the Remuneration Committee is set out in the paragraph headed "Directors' Attendance at Meetings" of this report.

During the year ended 31 December 2015, the Remuneration Committee's duties performed mainly covered the review of the policy and structure for the remuneration of the Directors and the senior management of the Group, the review and determination of, with delegated responsibility, the remuneration packages of the Executive Director and the senior management of the Group for the year 2015, the review and recommendation for Board approval of proposed Directors' fees to each of the Executive Director and Independent Non-executive Directors, the recommendation of the granting of restricted share units (the "RSUs") pursuant to the Post-IPO RSU Scheme and other RSUs related matter for Board approval, and the review of the Remuneration Policy and the terms of reference of the Remuneration Committee.

During the year ended 31 December 2015, details of the remuneration of Directors on individual-name basis and the senior management of the Group by band are set out in note 10 of the notes to the consolidated financial statements on pages 92 and 93 of the 2015 Annual Report.

### Nomination Committee

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

Independent Non-executive Directors:

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

Executive Director:

TEY Wei Lin

The Nomination Committee is responsible for reviewing the balance of skills, experience and diversity of the Board and making recommendations to the Board on the appointment and re-appointment of Directors to complement the Company's corporate strategy.

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 Company has adopted the Board Diversity Policy which provides that the Board should have a balance of skills, experience and diversity of perspectives in contributing to the achievement of the Company's strategic objectives and sustainable development. The Nomination Committee will consider a number of factors, including but not limited to gender, age, cultural and educational background, professional experience and skills, and knowledge, in the selection of Directors to the Board. Board appointment will be based on merit, and candidates will be considered against objective criteria, with due regard to the benefits of diversity of the Board. The Nomination Committee and the Board will review the Board Diversity Policy, at least annually, to ensure its continued effectiveness.

The Nomination Committee shall meet at least once a year. During the year ended 31 December 2015, the Nomination Committee held three meetings and also dealt with matters by way of written resolutions. The attendance of each member of the Nomination Committee is set out in the paragraph headed "Directors' Attendance at Meetings" of this report.

During the year ended 31 December 2015, the Nomination Committee's duties performed included the review of the structure, size and composition of the Board, the independence of Independent Non-executive Directors, the Board Diversity Policy and the terms of reference of the Nomination Committee, and the recommendation of the nomination of Directors retiring by rotation and their re-election, the redesignation of a Director as an Independent Non-executive Director, the subsequent change of the composition of the Board committees, and the change of the Chief Financial Officer for Board approval.

### Executive Committee

The Executive Committee is chaired by an Independent Non-executive Director who is also the Board Chairman and comprises two Directors. The current composition of the Executive Committee is as follows:

Independent Non-executive Director:

John Jeffrey YING (Chairman of the Executive Committee)

Executive Director:

TEY Wei Lin

During the year ended 31 December 2015, two meetings of the Executive Committee were held. The attendance of each member of the Executive Committee is set out in the paragraph headed "Directors' Attendance at Meetings" of this report.

The Executive Committee performed 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.

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.

### Independent Board Committee

The Independent Board Committee is chaired by an Independent Non-executive Director who is also the Board Chairman and comprises six Directors. The current composition of the Independent Board Committee is as follows:

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
Armin MEYER (appointed as a committee member on 17 August 2015)

During the year ended 31 December 2015, two meetings of the Independent Board Committee were held. The attendance of each member of the Independent Board Committee is set out in the paragraph headed "Directors' Attendance at Meetings" of this report.

During the year ended 31 December 2015, the Independent Board Committee reviewed all connected transactions entered into by the Group.

### Corporate Governance

The Board is responsible for performing the corporate governance functions as set out under code provision D.3.1 of the CG Code. During the year ended 31 December 2015, significant corporate governance issues as reviewed and discussed by the Board included the regular review of policies and practices on corporate governance and compliance, review of training and continuous professional development of Directors and the senior management of the Group, and review of disclosure in this report.

## Accountability and Audit

### Financial Reporting

The Directors acknowledge their responsibility for overseeing the preparation of the consolidated financial statements of the Company to ensure that the consolidated financial statements give a true and fair presentation in accordance with the International Financial Reporting Standards. Management provides the Board with monthly management information updates in relation to the Group's major business operations, which present a balanced and clear assessment of the Group's performance, position and prospects, to enable the Board as a whole and each Director to discharge their duties. The statement by the independent auditor about their reporting responsibilities is set out in the Independent Auditor's Report on pages 55 and 56 of the 2015 Annual Report.

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 and objectivity and the 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 their audit, approve their fees, and the scope and appropriateness of non-audit services, if any, to be provided by them. 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 2015 amounted to approximately US$772,000 and approximately US$621,000 respectively. The non-audit services mainly consist of tax advisory services on the disposal of the viscose staple fiber business in the PRC.

## Risk Management and Internal Controls

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's oversight function. The Group's internal audit department (the "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, through the Audit Committee, has conducted a review of the effectiveness of the internal control system of the Group for the year ended 31 December 2015, and is satisfied that the internal control system was effective and adequate. In addition, it has also reviewed and is satisfied with the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function of Group, and their training programs and budget.

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

### Internal Audit

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

The IA department adopts a risk-based approach to conduct its annual audits and assesses the risk levels faced by the Group and its operations through its past audit findings, risk assessment and consultations with both the management and the Audit Committee. The scope of work performed by the IA department 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, the IA department is independent of the activities it audits. This does not preclude the IA department's proactive engagement of the management of the Company in planning processes or special assignments that have been approved by either the Chief Executive Officer or the Audit Committee. The IA department communicates the results of its projects to the senior management of the Company through its reports on an as-completed basis as well as to the Audit Committee on a regular basis in the Audit Committee meetings.

### Whistleblowing Policy

The Company has established a whistleblowing policy and system for employees and other stakeholders 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 responsible for ensuring Board meeting procedures are followed, advising the Board on governance matters, and facilitating induction and continuous professional development of the Directors. In 2015, the Company Secretary had over 15 hours of professional training to update her skills and knowledge.

## Constitutional Documents

With effect from 30 January 2015, the name of the Company has been changed to "Bracell Limited" and the amendment to the Bye-laws to reflect the new name of the Company became effective. The updated Memorandum of Association of the Company and the Bye-laws are available on the websites of the Company and the Stock Exchange. Save as disclosed above, no changes were made to the Company's constitutional documents during the year ended 31 December 2015.

## 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 (such as interim and annual reports, announcements, circulars, press releases, and key corporate governance policies and documents, including the terms of reference of the various Board committees).

The Company's AGM is a valuable forum for the Board to communicate directly with the Shareholders. For the AGM, notice to the 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 are required to 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 the Shareholders in relation to voting by poll. The Company follows its practice of proposing separate resolutions on each substantive issue, including the election of individual Directors. The Company's Hong Kong branch share registrar acts as scrutineer 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 2015 and up to the date of this report, a Special General Meeting (the "SGM") was held on 29 January 2015 to approve the change of the name of the Company and the amendment to the Bye-laws following completion of the disposal of the Group's viscose staple fiber business in the PRC and an AGM was held on 18 May 2015. Details of the matters to be resolved at the SGM and the AGM were set out in the respective circulars to the Shareholders. The resolution put to the Shareholders at the SGM was passed as a special resolution and all resolutions put to the Shareholders at the AGM were passed as ordinary resolutions.

The Shareholders may direct their questions about their shareholdings to the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited. The 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 the section headed "Information for Investors" of the 2015 Annual Report.

## Shareholders' Rights

### Procedures for the Shareholders to convene a SGM

Pursuant to bye-law 58 of the Bye-laws and Section 74 of the Companies Act 1981 of Bermuda (the "Act"), registered Shareholder(s) holding not less than one-tenth of the paid-up capital of the Company carrying voting rights at general meetings of the Company (the "SGM Requisitionist(s)") can request the convening of a SGM by written requisition. The written requisition, with the proposed object(s) of the SGM, must be signed and validly deposited at the registered office of the Company, which is situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda (the "Registered Office") for the attention of the Board or the Company Secretary.

If the Board does not within 21 days from the date of deposit of the written requisition proceed to convene a SGM, the SGM Requisitionist(s), or any of them representing more than one-half of the total voting rights of all of them, 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 written requisition.

### Procedures for the Shareholders to make enquiries to the Board

The 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 headed "Information for Investors" of the 2015 Annual Report. The Shareholders may also make enquires with the Board at the general meetings of the Company.

### Procedures for the Shareholders to put forward proposals at a general meeting

Pursuant to Sections 79 and 80 of the Act, either any number of the registered Shareholders holding not less than one-twentieth of the paid-up capital of the Company carrying the voting right at general meetings of the Company, or not less than 100 of such registered Shareholders (the "Requisitioner(s)"), can request the Company in writing to (i) give to the 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 the 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 the Shareholders to propose a person for election as a Director

As regards the procedures for proposing a person for election as a Director, details are available at the Company's website as set out in the section headed "the Company – Corporate Governance".

# DIRECTORS' REPORT

The Directors present their Report together with the audited financial statements of Bracell Limited (the "Company") and its subsidiaries (together with the Company, the "Group") for the year ended 31 December 2015.

## Principal Activities

The principal activity of the Company is investment holding, and the principal activities of its subsidiaries are set out in note 32 of the notes to the consolidated financial statements.

## Business Review

The business review of the Group for the year ended 31 December 2015 that consists of a review of the Group's business, the principal risks and uncertainties that the Group may be facing, the Group's compliance with the relevant laws and regulations and the future business development is set out in the "Chairman's Statement" on pages 6 to 9 and the "Management Discussion and Analysis" on pages 10 to 19 of the annual report for the year ended 31 December 2015 (the "2015 Annual Report").

An analysis of the Group's performance for the year ended 31 December 2015 using financial key performance indicators is provided in the "Chairman's Statement" on pages 6 to 9 and the "Financial Highlights" on page 5 of the 2015 Annual Report. The financial risk management objectives and policies of the Group are shown in note 3 to the financial statements of the 2015 Annual Report.

A discussion on the Group's environmental policies and performance and the Group's relationships with its employees, customers and suppliers is provided in the "Corporate Social Responsibility" on pages 20 to 23 of the 2015 Annual Report. These discussions form part of this report.

## Results and Dividend

The results of the Group for the year ended 31 December 2015 are set out in the consolidated income statement of the Group on page 57 of the 2015 Annual Report.

The Board has recommended a final dividend of HK3.0 cents per share for the year ended 31 December 2015 (2014: HK2.5 cents per share) payable on or around 3 June 2016 to the shareholders of the Company (the "Shareholders") whose names appear on the register of members of the Company on 24 May 2016. Together with the interim dividend of HK1.0 cent per share paid to the Shareholders on 11 September 2015, total dividend for the year ended 31 December 2015 will be HK4.0 cents per share (2014: HK$1.425 per share).

## Closure of Register of Members

The register of members of the Company will be closed from 12 May 2016 to 16 May 2016, 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 11 May 2016.

The register of members of the Company will be closed on 24 May 2016, on which no transfer of shares of the Company will be effected. In order to qualify for the proposed final dividend (subject to the 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 23 May 2016.

## Financial Summary

A summary of the financial results and financial position of the Group for the past five financial years is set out on pages 115 and 116 of the 2015 Annual Report.

## Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group are set out in note 14 of the notes to the consolidated financial statements.

## Share Capital

During the year ended 31 December 2015, the Company issued 1,000,000 new ordinary shares of the Company under the general mandate of the Company at HK$0.81 per share to Credit Suisse (Hong Kong) Limited, an independent third party, by private arrangement, details of which are set out in the Company's announcement dated 17 December 2015. Details of the movements in the share capital of the Company during the year ended 31 December 2015 are set out in note 25 of the notes to the consolidated financial statements.

Under the Companies Act 1981 of Bermuda (as amended), in addition to retained profits, contributed surplus and share premium are also distributable to the Shareholders.

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

In addition, the Company shall not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that:

(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 thereby be less than its liabilities.

## Reserves

Details of the movements in the reserves of the Group during the year ended 31 December 2015 are set out in the consolidated statement of changes in equity on pages 61 and 62 of the 2015 Annual Report.

As at 31 December 2015, the Company's reserves, comprising the retained profits, contributed surplus and share premium that are available for distribution to the Shareholders amounted to approximately US$820,119,000 (2014: US$838,106,000).

## Donations

During the year ended 31 December 2015, the Group made donations in the total amount of US$202,000 (2014: US$227,000).

## 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

Details of the Group's bank borrowings are set out in note 24 of the notes to the consolidated financial statements. Bank borrowings repayable within one year or on demand are classified as current liabilities in the consolidated financial statements. Bank borrowings repayable over one year are classified as non-current liabilities in the consolidated financial statements.

## Major Customers and Suppliers

During the year ended 31 December 2015, the Group's five largest customers accounted for approximately 97% of the Group's total revenue and the Group's largest customer for the year accounted for approximately 65% of the Group's total revenue. The Group's five largest suppliers accounted for approximately 13% of the Group's total purchases, including raw materials, fuels and logistics expenses, while the Group's largest supplier for the year accounted for approximately 6% of the Group's total purchases.

Pursuant to the Pulp Supply Agreement dated 17 December 2014, all rayon grade dissolving wood pulp produced by the Group will be supplied only to DP Marketing International Macao Commercial Offshore Limited ("DP Macao"), a company controlled by the ultimate controlling shareholder, and one of the top five customers of the Company. Save for the foregoing, and to the knowledge of the Directors, none of the Directors, their close associates, or any of the Shareholders who owns more than 5% of the number of issued shares of the Company has any interest in any of the Group's five largest customers or suppliers.

## Employees

Total staff costs of the Group for the year ended 31 December 2015 amounted to approximately US$38,434,000 (2014: US$75,675,000). As at 31 December 2015, the Group had 1,379 employees in total (2014: 1,367). Details of the staff cost of the Group are set out in note 7 of the notes to the consolidated 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
LOW Weng Keong
Armin MEYER [1]

Note:

(1) Mr. Armin MEYER was redesignated as an Independent Non-executive Director with effect from 17 August 2015.

### Executive Director:

TEY Wei Lin (Chief Executive Officer)

Bye-law 84 of the Company's Bye-laws provides that at each AGM, 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, Messrs. John Jeffrey YING, David YU Hon To and LOW Weng Keong shall retire from office by rotation at the AGM and, being eligible, offer themselves for re-election.

## Directors' Remuneration

Details of Directors' remuneration are set out in note 10 of the notes to the consolidated financial statements. The emoluments of the Executive Director of the Company are determined, with delegated responsibility, by the Remuneration Committee, having regard to relevant factors, including the Company's operating results and individual performance, while those of the Non-executive Directors (including Independent Non-executive Directors) are reviewed and considered by the Board, taking into account relevant factors, including 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 AGM, 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.

## Permitted Indemnity and Directors' and Officers' Liability Insurance

Pursuant to the Bye-law 164(1) of the Company's Bye-laws, every Director and other officers of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which he/she may incur or sustain in or about the execution of the duties of his/her office or otherwise in relation thereto, provided that the indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of said persons. The Company has arranged appropriate Directors' and Officers' liability insurance coverage for the Directors and officers of the Company during the year. Such permitted indemnity provisions are in force during the year ended 31 December 2015 and at the time of approval of this report.

## Directors' Interests in Transaction, Arrangement or Contract of Significance

There were no transactions, arrangements or contracts of significance to which the Company, its holding company, or any of its subsidiaries was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

## Directors' Interests in Competing Businesses

None of the Directors or their respective associates are interested in any business apart from the Group's business which competes or is likely to compete, directly or indirectly, with the business of the Group.

## Independence Confirmation

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

## Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2015, 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 by the Company 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 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") (1) | Beneficial owner | 960,591 | 0.03% |

Note:

(1) As at 31 December 2015, 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 31 December 2015, 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 31 December 2015, 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 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 | 83.69% |
| Fiduco Trust Management AG ("Fiduco") (1)(2) | Interest in a controlled corporation | 2,863,496,750 | 83.69% |
| Mr. Sukanto TANOTO ("Mr. Tanoto") | Person who set up a discretionary trust | 2,863,496,750 | 83.69% |

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 2015, 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 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.

## 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", and together with the Pre-IPO RSU Scheme, 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

All RSU(s) granted under the Pre-IPO RSU Scheme were either vested or canceled as at 31 December 2015. Since the adoption of the Pre-IPO RSU Scheme and up to 31 December 2015, RSUs 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 scheme, of which 5,638,668 underlying shares were canceled and 2,526,358 underlying shares were vested.

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 canceled 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 31 December 2015, (i) total RSUs in respect of 8,727,276 underlying Shares were granted to 23 grantees (one of which is a former Director) pursuant to the Post-IPO RSU Scheme; (ii) total RSUs in respect of 2,302,867 underlying Shares granted to 14 grantees were canceled since the adoption of the Post-IPO RSU Scheme, of which no underlying Shares were canceled during the year ended 31 December 2015; (iii) total RSUs in respect of 4,699,409 underlying Shares were vested under the Post-IPO RSU Scheme, of which a total of 1,300,000 RSUs were vested during the year ended 31 December 2015; and (iv) total RSUs in respect of 1,725,000 underlying Shares granted pursuant to the Post-IPO RSU Scheme were outstanding. During the year ended 31 December 2015, RSUs in respect of 1,050,000 underlying Shares were granted pursuant to the Post-IPO RSU Scheme, of which 700,000 RSUs were granted to two directors of certain subsidiaries of the Company and remaining 350,000 RSUs were granted to one grantee who was not a director, chief executive, or substantial shareholder of the Company or its subsidiaries, nor an associate of any of them as at the grant date, details of which are set out in the Company's announcement dated 6 July 2015. The maximum number of new Shares that may underlie the RSUs granted pursuant to the Post-IPO RSU Scheme as approved by the Shareholders at the annual general meeting held on 18 May 2015 and as at 31 December 2015 was 331,508,266 Shares and 330,458,266 Shares respectively.

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 26 of the notes to the consolidated financial statements.

## 2. Share Option Scheme

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

As at 31 December 2015, 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.

"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 2015, the total number of Shares available for grant under the Share Option Scheme was 336,882,675, representing approximately 9.85% of the Company's issued share capital as of 31 December 2015.

(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, canceled 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 and expiring on 7 November 2020.

## Purchase, Sale or Redemption of Securities

During the year ended 31 December 2015, other than the placing of 1,000,000 new ordinary shares of the Company issued under the general mandate of the Company at HK$0.81 per share to Credit Suisse (Hong Kong) Limited, an independent third party, by private arrangement, details of which are set out in the Company's announcement dated 17 December 2015, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

The purpose of the placing was to maintain the Company's public float following the transfer of Shares to satisfy the vesting of certain RSUs granted by the Company to the 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. Total cash consideration of the placing was HK$810,000. Taking into account the fees and expenses incurred by the Company in connection of the placing, the net proceeds of the placing was approximately HK$740,000 and the net price per Share issued is approximately HK$0.74. The closing price of the Shares as quoted on the Stock Exchange on 17 December 2015, being the date of the relevant placing agreement, was HK$0.86 per Share. The Company intends to apply the net proceeds from the placing for general working capital purposes.

## 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.

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 the prescribed public float under the Listing Rules.

## Continuing Connected Transaction

Set out below is information in relation to the continuing connected transaction (the "CCT") entered into by the Group and required under the Listing Rules to be disclosed in the 2015 Annual Report:

### 1. Pulp Supply Agreement with DP Macao

On 17 December 2014, the Company's subsidiary, SC International Macao Commercial Offshore Limited ("SC International Macao"), and 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, entered into a pulp supply agreement for a term of three years commencing on 1 January 2015 and ending on 31 December 2017 (the "Pulp Supply Agreement").

Pursuant to the Pulp Supply Agreement, SC International Macao would supply commercial rayon-grade dissolving wood pulp (for use in the production of viscose staple fiber) produced by the Company's subsidiary, Bahia Specialty Cellulose S.A. in Brazil (the "Product") only to DP Macao. DP Macao would purchase from SC International Macao all of the Product. In respect of each calendar month, the net invoice price of the Product for such month would be the global open market spot price at the time of purchase that would be payable in a transaction between independent third parties for a comparable quantity and quality of rayon-grade dissolving wood pulp products.

The Pulp Supply Agreement would give the Group certainty on its sales of rayon-grade dissolving wood pulp at the market price. The Pulp Supply Agreement is on normal commercial terms or better and in the ordinary and usual course of the Group's business and the terms of the Pulp Supply Agreement, including the relevant annual caps, are fair and reasonable and in interests of the Company and the Shareholders as a whole.

The sales under the Pulp Supply Agreement for the year ended 31 December 2015 was approximately US$287,328,000. The annual cap for the maximum amount of sales for each of the years ending 31 December 2015, 2016 and 2017 have been set at US$396,000,000, US$396,750,000 and US$396,000,000 respectively pursuant to the requirement of the Listing Rules and approved by the independent shareholders at the special general meeting of the Company held on 11 December 2014. Further details of the Pulp Supply Agreement are set out in the circular of the Company dated 19 November 2014.

### 2. Confirmations on the CCT

The auditor of the Company, PricewaterhouseCoopers, has confirmed that:

(i) nothing has come to their attention that causes them to believe that the CCT has not been approved by the Board;

(ii) nothing has come to their attention that causes them to believe that the CCT was not, in all material respects, in accordance with the pricing policies of the Company;

(iii) nothing has come to their attention that causes them to believe that the CCT was not entered into, in all material respects, in accordance with the relevant agreement governing such CCT; and

(iv) nothing has come to their attention that causes them to believe that the aggregate amount of the CCT has exceeded the relevant annual cap disclosed above in this section.

The Independent Non-executive Directors of the Company have reviewed the CCT and the report of the auditor and confirmed that the CCT has been entered into:

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

(ii) on normal commercial terms or better; and

(iii) according to the relevant agreement governing it and on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

## Related Party Transactions

Details of the significant related party transactions undertaken in the normal course of business are set out in note 30 of the notes to the consolidated financial statements. Such related party transactions also constitute CCTs of the Company under Chapter 14A of the Listing Rules and the Company has complied with the relevant requirements of Chapter 14A of the Listing Rules in relation to these transactions. Other than the transaction disclosed in the section headed "Continuing Connected Transaction" above, each of these related party transactions constitutes a fully exempt connected transaction as defined under the Listing Rules.

## Deed of Non-Competition

The Company entered into a Deed of Non-Competition (the "Deed") 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, as amended and restated by an amendment deed (the "Amendment Deed") dated 17 December 2014, 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 confirmed that based on confirmations and information provided by each of the Controlling Shareholders and Pinnacle, they are in compliance with the Deed and the Amendment Deed as appropriate during the period from 1 January 2015 to 31 December 2015.

The Independent Non-executive Directors were not required to review any other matter in relation to compliance and enforcement of the Deed and the Amendment Deed during the period from 1 January 2015 to 31 December 2015.

## Corporate Governance

A report on the principal corporate governance practice adopted by the Company is set out in the "Corporate Governance Report" on pages 30 to 41 of the 2015 Annual Report.

## Auditor

The consolidated financial statements of the Group for the year ended 31 December 2015 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 until the conclusion of the next annual general meeting will be proposed at the AGM to be held on 16 May 2016.

On behalf of the Board

**John Jeffrey YING**
*Chairman*

Hong Kong, 14 March 2016

羅兵咸永道

**TO THE SHAREHOLDERS OF BRACELL LIMITED**
*(incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of Bracell Limited (the "Company") and its subsidiaries set out on pages 57 to 114, which comprise the consolidated statement of financial position as at 31 December 2015, 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. 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 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.

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# INDEPENDENT AUDITOR'S REPORT

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Other Matters

This report, including the opinion, has been prepared for and only for 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.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 14 March 2016

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2015

| | Notes | 2015 US$'000 | 2014 US$'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 5 | **443,813** | 478,718 |
| Cost of sales | | **(273,520)** | (299,945) |
| Gross profit | | **170,293** | 178,773 |
| Selling and distribution expenses | | **(41,118)** | (41,214) |
| General and administrative expenses | | **(38,805)** | (44,724) |
| | | **90,370** | 92,835 |
| Other income and (losses)/gains, net | | | |
| Decrease in fair value of forestation and reforestation assets | 13 | **(7,695)** | (20,551) |
| Others | 6 | **(3,865)** | 6,177 |
| | | **(11,560)** | (14,374) |
| Operating profit | 7 | **78,810** | 78,461 |
| Finance costs | 8 | **(18,920)** | (23,628) |
| Profit before income tax | | **59,890** | 54,833 |
| Income tax expense | 9 | **(2,809)** | (39,490) |
| **Profit for the year from continuing operations** | | **57,081** | 15,343 |
| **Discontinued operations** | | | |
| Profit for the year from discontinued operations | 21 | **–** | 24,167 |
| **Profit for the year** | | **57,081** | 39,510 |
| **Profit/(loss) attributable to:** | | | |
| Owners of the Company | | **58,094** | 37,364 |
| Non-controlling interests | | **(1,013)** | 2,146 |
| | | **57,081** | 39,510 |
| **Profit attributable to owner of the Company arising from** | | | |
| Continuing operations | | **58,094** | 15,380 |
| Discontinued operations | 21 | **–** | 21,984 |
| | | **58,094** | 37,364 |
| **Basic and diluted earnings per share (US cents)** | 12 | | |
| From continuing operations | | **1.7** | 0.5 |
| From discontinued operations | | **–** | 0.6 |
| | | **1.7** | 1.1 |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

| | 2015<br>US$'000 | 2014<br>US$'000 |
|---|---|---|
| Profit for the year | **57,081** | 39,510 |
| Other comprehensive income: | | |
| *Items that may be reclassified subsequently to profit or loss* | | |
| Currency translation differences | **(54,686)** | (2,740) |
| Unrealized gain/(loss) on cash flow hedge | **3,560** | (1,668) |
| Release of translation reserve upon disposal of the VSF Business | **–** | (40,486) |
| Other comprehensive income for the year | **(51,126)** | (44,894) |
| Total comprehensive income for the year | **5,955** | (5,384) |
| Total comprehensive income attributable to: | | |
| Owners of the Company | **6,968** | (7,485) |
| Non-controlling interests | **(1,013)** | 2,101 |
| | **5,955** | (5,384) |
| Total comprehensive income attributable to owners of the Company arising from: | | |
| Continuing operations | **6,968** | 13,712 |
| Discontinued operations | **–** | (21,197) |
| | **6,968** | (7,485) |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

| | Notes | 2015 US$'000 | 2014 US$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Forestation and reforestation assets | 13 | **99,260** | 138,942 |
| Property, plant and equipment | 14 | **909,461** | 983,888 |
| Intangible assets | | **275** | 375 |
| Deferred income tax assets | 15 | **11,555** | 13,438 |
| Other non-current assets | 16 | **25,301** | 47,969 |
| | | **1,045,852** | 1,184,612 |
| **Current assets** | | | |
| Inventories | 18 | **54,101** | 80,177 |
| Trade and other receivables | 19 | **186,155** | 212,718 |
| Bank balances and cash | 20 | **95,992** | 100,955 |
| | | **336,248** | 393,850 |
| **Current liabilities** | | | |
| Trade and other payables | 22 | **53,663** | 90,154 |
| Current income tax payable | | **16,001** | 20,767 |
| Derivative financial instruments | 23 | **1,937** | 5,698 |
| Bank borrowings | 24 | **117,875** | 115,578 |
| | | **189,476** | 232,197 |
| **Net current assets** | | **146,772** | 161,653 |
| **Total assets less current liabilities** | | **1,192,624** | 1,346,265 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

| | Notes | 2015 US$'000 | 2014 US$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Bank borrowings | 24 | 115,218 | 260,051 |
| Derivative financial instruments | 23 | 793 | 592 |
| | | 116,011 | 260,643 |
| | | 1,076,613 | 1,085,622 |
| **Capital and reserves** | | | |
| Share capital | 25 | 171,071 | 171,021 |
| Share premium and reserves | | 904,866 | 912,912 |
| Equity attributable to owners of the Company | | 1,075,937 | 1,083,933 |
| Non-controlling interests | | 676 | 1,689 |
| | | 1,076,613 | 1,085,622 |

The consolidated financial statements on pages 57 to 114 were approved and authorized for issue by the Board of Directors on 14 March 2016 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 2015

## For the year ended 31 December 2015

| | Attributable to owners of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital US$'000 | Share premium US$'000 | 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 2015 | 171,021 | 426,151 | (80) | (6,290) | (166) | 493,297 | 1,083,933 | 1,689 | 1,085,622 |
| Profit/(loss) for the year | – | – | – | – | – | 58,094 | 58,094 | (1,013) | 57,081 |
| Currency translation differences | – | – | (54,686) | – | – | – | (54,686) | – | (54,686) |
| Unrealized gain on cash flow hedge | – | – | – | 3,560 | – | – | 3,560 | – | 3,560 |
| Total comprehensive income for the year | – | – | (54,686) | 3,560 | – | 58,094 | 6,968 | (1,013) | 5,955 |
| Transactions with owners | | | | | | | | | |
| Issue of new shares | 50 | 54 | – | – | – | – | 104 | – | 104 |
| Cost of issuing new shares | – | (9) | – | – | – | – | (9) | – | (9) |
| Dividend (note 11) | – | – | – | – | – | (15,160) | (15,160) | – | (15,160) |
| Awarded shares compensation expense (note 26) | – | – | – | – | 196 | (95) | 101 | – | 101 |
| Total transactions with owners | 50 | 45 | – | – | 196 | (15,255) | (14,964) | – | (14,964) |
| **At 31 December 2015** | 171,071 | 426,196 | (54,766) | (2,730) | 30 | 536,136 | 1,075,937 | 676 | 1,076,613 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

## For the year ended 31 December 2014

| | 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 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 year | – | – | – | – | – | – | – | 37,364 | 37,364 | 2,146 | 39,510 |
| Currency translation differences | – | – | – | – | (2,695) | – | – | – | (2,695) | (45) | (2,740) |
| Release of translation reserve upon disposal of the VSF Business | – | – | – | – | (40,486) | – | – | – | (40,486) | – | (40,486) |
| Unrealized loss on cash flow hedge | – | – | – | – | – | (1,668) | – | – | (1,668) | – | (1,668) |
| Total comprehensive income for the year | – | – | – | – | (43,181) | (1,668) | – | 37,364 | (7,485) | 2,101 | (5,384) |
| Transactions with owners | | | | | | | | | | | |
| Disposal of the VSF Business | – | – | – | (6,252) | – | – | – | 6,252 | – | (38,560) | (38,560) |
| Special dividend (note 11) | – | – | (277,394) | – | – | – | – | (340,162) | (617,556) | – | (617,556) |
| Dividend (note 11) | – | – | – | – | – | – | – | (11,000) | (11,000) | – | (11,000) |
| Awarded shares compensation expense (note 26) | – | – | – | – | – | – | (196) | 129 | (67) | – | (67) |
| Total transactions with owners | – | – | (277,394) | (6,252) | – | – | (196) | (344,781) | (628,623) | (38,560) | (667,183) |
| At 31 December 2014 | 171,021 | 426,151 | – | – | (80) | (6,290) | (166) | 493,297 | 1,083,933 | 1,689 | 1,085,622 |

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 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.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

| | Notes | 2015 US$'000 | 2014 US$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net cash generated from operations including continuing and discontinued operations | 29 | 222,164 | 174,130 |
| Income taxes paid | | (342) | (3,616) |
| **Net cash from operating activities** | | 221,822 | 170,514 |
| – Continuing operations | | 221,822 | 190,132 |
| – Discontinued operations | 21 | – | (19,618) |
| | | 221,822 | 170,514 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | (20,257) | (125,966) |
| Additions of forestation and reforestation assets | | (31,492) | (43,400) |
| Additions to prepaid lease payments | | – | (11) |
| Interest received | | 336 | 693 |
| Proceeds on disposals of property, plant and equipment | | 1,761 | 2,385 |
| Net inflow of cash and cash equivalents in respect of the disposal of the VSF Business | 21 | – | 562,540 |
| **Net cash (used in)/generated from investing activities** | | (49,652) | 396,241 |
| **Cash flows from financing activities** | | | |
| Drawdown of bank borrowings | | 2,000 | 167,160 |
| Repayment of bank borrowings | | (147,333) | (135,894) |
| Interest paid | | (16,123) | (34,529) |
| Payment of dividends | | (15,160) | (628,556) |
| Net proceeds from issuance of shares | | 95 | – |
| **Net cash used in financing activities** | | (176,521) | (631,819) |
| **Net decrease in cash and cash equivalents** | | (4,351) | (65,064) |
| Foreign exchange differences | | (612) | (27) |
| **Cash and cash equivalents at beginning of the year** | | 100,955 | 166,046 |
| **Cash and cash equivalents at end of the year** | | | |
| Represented by bank balances and cash | | 95,992 | 100,955 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 1 General information

Bracell 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 principal activity of the Company is investment holding and the principal activities of its subsidiaries are set out in note 32.

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$" or "USD"), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 14 March 2016.

## 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 the years presented, unless otherwise stated.

### (a) Basis of preparation

The consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board. These consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and 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.

## 2 Summary of significant accounting policies (continued)

### (a) Basis of preparation (continued)

#### Amendments to existing standards adopted by the Group

During the year, the Group has adopted the following amendments to existing standards which are relevant to the Group's operations and are effective for accounting periods beginning on 1 January 2015:

| | |
|---|---|
| IFRSs (Amendments) | Annual Improvements 2010 – 2012 Cycle |
| IFRSs (Amendments) | Annual Improvements 2011 – 2013 Cycle |
| IAS 19 (Amendment) | Defined Benefit Plans: Employee Contributions |

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

#### New Hong Kong Companies Ordinance (Cap.622)

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

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

At the date of approval of these financial statements, the following new/revised standards and amendments to existing standards have been issued and relevant to the Group but are not yet effective for the year ended 31 December 2015:

| | |
|---|---|
| IFRSs (Amendments) (i) | Annual Improvements 2012 – 2014 Cycle |
| IAS 1 (Amendment) (i) | Disclosure Initiative |
| IAS 16 and IAS 38 (Amendments) (i) | Clarification of Acceptable Methods of Depreciation and Amortization |
| IFRS 9 (2014) (ii) | Financial Instruments |
| IFRS 15 (ii) | Revenue from Contracts with Customers |
| IFRS 16 (iii) | Leases |

(i) Effective for annual periods beginning on or after 1 January 2016

(ii) Effective for annual periods beginning on or after 1 January 2018

(iii) Effective for annual periods beginning on or after 1 January 2019

The Group has not early adopted the above new standards and amendments. Management has made a preliminary assessment that the adoption of these new standards and amendments is not expected to have a significant impact on the Group's consolidated financial statements.

## 2 Summary of significant accounting policies (continued)

### (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 structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceased.

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 recognised in the consolidated income statement.

Any contingent consideration to be transferred by the group is recognised 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 recognised 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.

## 2 Summary of significant accounting policies (continued)

### (b) Basis of consolidation (continued)

#### (i) Business combinations (continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

#### (ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

#### (iii) 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 received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividend 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.

## 2 Summary of significant accounting policies (continued)

### (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) Income from sale of electricity is recognized when the electricity is delivered.

### (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.

## 2 Summary of significant accounting policies (continued)

### (f) Financial instruments (continued)

#### (i) Financial assets (continued)

*(2) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss ("FVTPL"), loans and receivables or held-to-maturity investments. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income when they are measured at fair value. When securities classified as available-for-sale are impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as "impairment loss".

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.

*(3) 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) are carried at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

*(4) 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.

## 2 Summary of significant accounting policies (continued)

### (f) Financial instruments (continued)

#### (i) Financial assets (continued)

*(4) Impairment of financial assets* (continued)

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 180 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.

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.

## 2 Summary of significant accounting policies (continued)

### (f) Financial instruments (continued)

#### (ii) 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)

### (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.

### (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 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.

## 2 Summary of significant accounting policies (continued)

### (i) Property, plant and equipment (continued)

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.

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 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.

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.

## 2 Summary of significant accounting policies (continued)

### (j) Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after balance sheet date.

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.

### (k) Inventories

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

### (l) 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 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.

## 2 Summary of significant accounting policies (continued)

### (m) 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.

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.

## 2 Summary of significant accounting policies (continued)

### (n) 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).

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.

### (o) Leasing

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.

## 2 Summary of significant accounting policies (continued)

### (p) 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.

### (q) 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.

### (r) 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).

### (s) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognized but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognized as a provision.

## 2 Summary of significant accounting policies (continued)

### (t) Share-based payment transactions

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

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

RSU 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 the "Awarded shares compensation reserve". Accordingly, the related expense of the granted shares vested is reversed from the "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.

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.

## 2 Summary of significant accounting policies (continued)

### (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 decision 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.

### (w) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographic area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

When an operation is classified as discontinued, a single amount is presented in the income statement, which comprises the post-tax profit or loss of the discontinued operations and the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operations.

## 3 Financial risk management

### (a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risks (including foreign currency risk 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 receipts and payments, which expose the Group to foreign currency risk. Also, certain trade and other receivables, trade and other payables, bank balances and other non-current 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's treasury's risk management policy is to hedge up to 100% of material foreign currency net cash flows for up to the subsequent 18 months. The Group enters into forward foreign exchange contracts to hedge material forecasted foreign currency exposures where applicable. Currently, forward exchange contracts are arranged mainly to hedge the currency fluctuation of Brazilian Reais ("BRL") against USD, with USD as the functional currency of the Company and its Brazilian operating subsidiary. The Group continues to adopt hedge accounting for its foreign exchange contracts entered into.

## 3 Financial risk management (continued)

### (a) Financial risk factors (continued)

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

The Group is primarily exposed to currencies of BRL and Renminbi 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:

| | 2015<br>US$'000 | 2014<br>US$'000 |
|---|---|---|
| **Assets** | | |
| BRL | **41,437** | 69,844 |
| Renminbi | **955** | 658 |
| **Liabilities** | | |
| BRL | **11,877** | 33,739 |
| Renminbi | **34** | – |

*Sensitivity analysis*

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

The following table details the increase and decrease by 5% (2014: 5%) in the functional currency of relevant group entity against BRL and Renminbi with other variables held constants. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end. A 5% (2014: 5%) strengthening of functional currencies against BRL and Renminbi (foreign currencies) respectively will give rise to the following impact to post-tax profit for the year.

| | BRL Impact (note a) | | Renminbi Impact (note b) | |
|---|---|---|---|---|
| | 2015<br>US$'000 | 2014<br>US$'000 | 2015<br>US$'000 | 2014<br>US$'000 |
| Decrease in post-tax profit for the year | **(975)** | (1,191) | **(46)** | (27) |

For a 5% (2014: 5%) weakening of BRL and Renminbi, there would be an equal and opposite impact.

Notes:

a. This is mainly attributable to the exposure on BRL denominated other non-current assets, trade and other receivables, bank balances and trade and other payables at year end.

b. This is mainly attributable to exposure on Renminbi denominated bank balances, other receivables and other payables at year end.

## 3 Financial risk management (continued)

### (a) Financial risk factors (continued)

#### (ii) Interest rate risk management

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank 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. 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.

*Sensitivity analysis*

The sensitivity analysis below has been determined based on the exposure to interest rates for 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 2015, interest rates increased by 50 (2014: 50) basis points with all other variables held constant, the potential effect on post-tax profit for the year is as follows:

| | **2015**<br>**US$'000** | 2014<br>US$'000 |
|---|---|---|
| Increase in post-tax profit for the year | **480** | 456 |

If interest rates decreased by 50 (2014: 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.

## 3 Financial risk management (continued)

### (a) Financial risk factors (continued)

#### (iii) Credit risk management

As at 31 December 2015, 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 and other receivables, derivative financial instruments and bank balances.

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 bank balances 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 external customers which in aggregate accounted for 83% (2014: 81%) of the Group's total trade receivables as at 31 December 2015. 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 180 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.

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

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.

## 3 Financial risk management (continued)

### (a) Financial risk factors (continued)

#### (iv) Liquidity risk management (continued)

| | 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 2015** | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Trade and other payables | **8,099** | **–** | **–** | **–** | **–** | **8,099** | **8,099** |
| Bank borrowings | | | | | | | |
| – Variable rates | **31,840** | **93,200** | **120,288** | **–** | **–** | **245,328** | **231,093** |
| – Fixed rates | **2,000** | **–** | **–** | **–** | **–** | **2,000** | **2,000** |
| | **41,939** | **93,200** | **120,288** | **–** | **–** | **255,427** | **241,192** |
| **Derivative financial liabilities** | | | | | | | |
| Forward foreign exchange contracts | **547** | **1,437** | **–** | **–** | **–** | **1,984** | **1,937** |
| Interest rate swaps | **162** | **384** | **264** | **18** | **–** | **828** | **793** |
| | **709** | **1,821** | **264** | **18** | **–** | **2,812** | **2,730** |
| At 31 December 2014 | | | | | | | |
| Non-derivative financial liabilities | | | | | | | |
| Trade and other payables | 44,692 | – | – | – | – | 44,692 | 44,692 |
| Bank borrowings | | | | | | | |
| – Variable rates | 33,408 | 97,673 | 128,060 | 121,504 | 30,282 | 410,927 | 375,629 |
| | 78,100 | 97,673 | 128,060 | 121,504 | 30,282 | 455,619 | 420,321 |
| Derivative financial liabilities | | | | | | | |
| Forward foreign exchange contracts | 416 | 5,060 | – | – | – | 5,476 | 5,325 |
| Interest rate swaps | 67 | 591 | 237 | 108 | 6 | 1,009 | 966 |
| | 483 | 5,651 | 237 | 108 | 6 | 6,485 | 6,291 |

## 3 Financial risk management (continued)

### (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 net debt, which includes bank borrowings 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.

### (c) 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

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 derivatives financial instruments were all measured at fair value under level 2 at 31 December 2015 and 2014 and no transfers between any levels had occurred during the year.

## 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.

In prior years, the management regarded USD as the functional currency of certain subsidiaries in Brazil since the operations and cash flows of these subsidiaries were predominantly denominated in USD. Since 1 January 2015, because of changes in circumstances, the management reassessed the functional currency of two subsidiaries in Brazil and changed it from USD to BRL. The change in functional currency has been applied prospectively with effect from 1 January 2015.

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) Impairment and depreciation of property, plant and equipment

The Group performs impairment assessment on property, plant and equipment in accordance with the accounting policy state in Note 2(l) if there is any impairment indicator identified. The impairment assessment compares the recoverable amounts against the carrying values of the property, plant and equipment.

The determination of the recoverable amounts requires management judgements and the use of estimates.

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 year in which such changes take place in future periods.

### (b) Fair value of forestation and reforestation assets

As described in note 13, management of the Company uses their judgment in selecting an appropriate valuation technique for forestation and reforestation assets.

No active market for the forestation and reforestation assets exists and market-determined prices or values for the forestation and reforestation assets are not available. Management has used the present value of expected net cash flows from the assets discounted at the appropriate discount rate to determine the 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 13. 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)

### (c) 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.

### (d) 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 domestic sales, 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.

### (e) Estimated impairment of trade and other receivables

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

### (f) Taxes

The Group is subject to income and other 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 15, deferred income tax assets are related to certain unused tax losses of the Group. The realizability of the deferred income tax asset mainly depends on whether sufficient future profits will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred income tax assets may arise, which would be recognized in the consolidated income statement for the period in which such a reversal takes place.

### (g) Fair value of derivative financial instruments and investments

As described in note 3(c), management of the Company uses their judgment in selecting an appropriate valuation technique for derivative financial instruments not quoted in an active market. 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.

## 4 Critical accounting estimates and judgements (continued)

### (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

| | 2015<br>US$'000 | 2014<br>US$'000 |
|---|---|---|
| **Continuing operations:** | | |
| Dissolving wood pulp business ("DWP Business") | 443,813 | 478,718 |

DWP Business derives its revenue from selling specialty-grade pulp and rayon-grade pulp, which are manufactured by the Group. During the year ended 31 December 2015, DWP is sold to third parties as well as to a related party, namely DP Marketing International Macao Commercial Offshore Limited, according to a three-year pulp supply agreement which became effective on 1 January 2015. The Group entered into the pulp supply agreement upon the completion of the disposal of its viscose staple fiber business ("VSF Business").

### (b) Segment information

Operating segments are identified on the basis of internal reports on 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.

On 17 December 2014, the Group completed the disposal of its VSF Business to a company controlled by the Major Shareholder. Accordingly, the results of the VSF Business have been presented as discontinued operations for the year ended 31 December 2014.

Subsequent to the disposal of the VSF Business, DWP Business is the only reportable operating business segment of the Group and therefore, no business segment information is provided. Further, as the Group's major operations are located in Brazil, the allocation of total assets and liabilities for the operating and reporting segment are not presented.

## 5 Revenue and segment information (continued)

### (b) Segment information (continued)

Geographical information

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

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

| | **2015 US$'000** | 2014 US$'000 |
|---|---|---|
| The PRC | **310,149** | 323,606 |
| The Americas | **105,915** | 124,843 |
| Europe | **27,315** | 28,736 |
| Asia (excluding the PRC) | **434** | 1,533 |
| | **443,813** | 478,718 |

Information about major external customers of the Group's continuing operations

One external customer (2014: one) contributed over 10% of the sales of Group's continuing operations and the Group's sales to this customer was US$75,860,000 (2014: US$76,429,000).

## 6 Other income and (losses)/gains, net – others

### Continuing operations

| | **2015 US$'000** | 2014 US$'000 |
|---|---|---|
| Foreign exchange loss | **(13,088)** | (7,194) |
| Bank interest income | **336** | 563 |
| Loss on disposals of property, plant and equipment | **(602)** | (685) |
| Insurance claims | **6,644** | – |
| Sales of electricity | **6,224** | 12,061 |
| Impairment loss recognized in respect of other non-current assets | **(5,594)** | (4,231) |
| Interest income from the VSF Business | **–** | 4,727 |
| Commission income from a related party | **–** | 813 |
| Others | **2,215** | 123 |
| | **(3,865)** | 6,177 |

## 7 Operating profit

### Continuing operations

| | 2015<br>US$'000 | 2014<br>US$'000 |
|---|---|---|
| Operating profit has been arrived at after charging: | | |
| Salaries, wages and allowances | **36,578** | 45,137 |
| Retirement benefit scheme contributions – defined contribution plans | **1,691** | 2,198 |
| Awarded shares compensation expense, net | **165** | 136 |
| Total staff costs | **38,434** | 47,471 |
| Auditor's remuneration | **1,393** | 995 |
| Depreciation of property, plant and equipment | **67,944** | 60,812 |
| Decrease due to harvest | **29,276** | 39,801 |
| Operating lease expense of land and buildings and others | **142** | 221 |

## 8 Finance costs

### Continuing operations

| | 2015<br>US$'000 | 2014<br>US$'000 |
|---|---|---|
| Interest expenses on: | | |
| – bank borrowings | **13,379** | 17,653 |
| Other finance costs (note) | **5,541** | 5,975 |
| Total borrowing costs | **18,920** | 23,628 |

Note: Other finance costs represent primarily the release of fair value loss of interest rate swap amounting to US$2,201,000 (2014: US$1,068,000) and the amortization charge of a syndicated loan's upfront structure fee amounting to US$2,797,000 (2014: US$3,813,000).

## 9 Income tax expense

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.

### Continuing operations

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Current income tax: | | |
| – Provision for the year | (5,616) | (8,629) |
| – Over-provision in prior years (note) | 4,690 | 2,648 |
| | (926) | (5,981) |
| Deferred income tax (note 15) | (1,883) | (33,509) |
| | (2,809) | (39,490) |

Note: Over-provision of income tax represents primarily the write back of aged tax provision balance amounting to US$4,768,000 (2014: US$2,650,000).

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. Bahia Specialty Cellulose S. A. ("BSC"), a subsidiary incorporated in Brazil, obtained approval from the Federal Government (Sudene) for a 75% reduction in BCT arising from profits attributing to its then existing production line for a ten-year term starting from 1 January 2009.

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

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%-34%.

The corporate income tax of the Group's remaining subsidiaries is calculated at rates ranging from 16.50%-22.03% (2014: 16.50%-22.05%) on the estimated assessable profit of respective entities.

## 9 Income tax expense (continued)

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:

### Continuing operations

| | 2015<br>US$'000 | 2014<br>US$'000 |
|---|---|---|
| Profit before income tax | **59,890** | 54,833 |
| Tax at the respective domestic income tax rates applicable to profits in the respective countries/location | **(6,448)** | (16,170) |
| Expenses not deductible for tax purposes | **(5,417)** | (9,229) |
| Income not subject to income tax | **35** | 1,156 |
| Tax losses not recognized | **–** | (1,726) |
| Effect of tax exemption and concession granted | **4,331** | 9,795 |
| Over-provision in respect of prior years | **4,690** | 2,648 |
| Write-down of deferred income tax assets (note 15) | **–** | (25,964) |
| Income tax expense | **(2,809)** | (39,490) |

## 10 Directors' and management's emoluments

### (a) Directors' emoluments

The remuneration of each director is set out below:

**For the year ended 31 December 2015**

| Name | Fees US$'000 | Salaries, allowances, bonuses and benefit-in-kind US$'000 | Retirement benefit scheme contributions US$'000 | Awarded shares compensation US$'000 | Total emoluments US$'000 |
|---|---|---|---|---|---|
| **Directors:** | | | | | |
| John Jeffrey Ying | 64 | – | – | – | 64 |
| Jeffrey Lam Kin Fung | 64 | – | – | – | 64 |
| David Yu Hon To | 64 | – | – | – | 64 |
| Tey Wei Lin (note a) | 64 | 209 | 10 | – | 283 |
| Lim Ah Doo | 64 | – | – | – | 64 |
| Low Weng Keong | 64 | – | – | – | 64 |
| Armin Meyer (note b) | 64 | – | – | – | 64 |
| | 448 | 209 | 10 | – | 667 |

For the year ended 31 December 2014

| Name | Fees US$'000 | Salaries, allowances, bonuses and benefit-in-kind US$'000 | Retirement benefit scheme contributions US$'000 | Awarded shares compensation US$'000 | Total emoluments US$'000 |
|---|---|---|---|---|---|
| **Directors:** | | | | | |
| John Jeffrey Ying | 64 | – | – | 8 | 72 |
| Jeffrey Lam Kin Fung | 64 | – | – | – | 64 |
| David Yu Hon To | 64 | – | – | – | 64 |
| Tey Wei Lin (note a) | 64 | 122 | 7 | – | 193 |
| Lim Ah Doo | 64 | – | – | – | 64 |
| Low Weng Keong | 64 | – | – | – | 64 |
| Armin Meyer (note b) | 38 | – | – | – | 38 |
| | 422 | 122 | 7 | 8 | 559 |

Notes:

a. Tey Wei Lin was appointed as the Chief Executive Officer with effect from 18 March 2014.

b. Armin Meyer was appointed as a non-executive Director on 1 June 2014 and has been redesignated to become independent non-executive director with effect from 17 August 2015.

## 10 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 do not include any directors (2014: nil). The emoluments payable to these five (2014: five) individuals are as follows:

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Basic salaries, housing allowances, other allowances, bonuses and benefits in kind | 2,031 | 2,336 |
| Retirement benefit scheme contributions – defined contribution plans | 139 | 160 |
| Awarded shares compensation expense | 72 | 173 |
| | 2,242 | 2,669 |

The emolument of these individuals fell within the following bands:

| | 2015 | 2014 |
|---|---|---|
| **Emoluments** | | |
| HK$2,000,001 to HK$2,500,000 | 1 | – |
| HK$2,500,001 to HK$3,000,000 | 1 | 1 |
| HK$3,000,001 to HK$3,500,000 | 1 | – |
| HK$4,000,001 to HK$4,500,000 | 1 | 2 |
| HK$4,500,001 to HK$5,000,000 | 1 | 2 |
| | 5 | 5 |

During the years ended 31 December 2015 and 2014, 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 have waived any emoluments during the years.

### (c) Compensation of key management personnel

During the year ended 31 December 2015, the emoluments paid to the key management personnel of the Group were approximately US$2,307,000 (2014: US$4,280,000). Apart from those five highest paid individuals whose emoluments are disclosed under Note 10(b) above, the remainder of the senior management were all individually paid under HK$2,400,000 (2014: HK$2,700,000).

## 11 Dividends

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Special dividend declared and paid of HK$1.40 per share (note a) | – | 617,556 |
| Interim dividend of HK1.0 cent per share (2014: nil) | 4,413 | – |
| Proposed final dividend of HK3.0 cents per share (2014: HK2.5 cents) (note b) | 13,244 | 11,000 |

Notes:

a. Following completion of the disposal of VSF Business, the Company paid a special dividend of HK$1.4 per share to all shareholders on 24 December 2014.

b. At the board meeting held on 14 March 2016, the directors recommended a final dividend of HK3.0 cents per share to be paid for the year ended 31 December 2015 (2014: HK2.5 cents per share). Such dividend, which will be proposed at the annual general meeting of the Company to be held on 16 May 2016, has not been recognized as liabilities in the consolidated financial statements.

## 12 Earnings per share

Basic earnings per share is calculated by dividing the 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.

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Earnings for the purposes of basic and diluted earnings per share | | |
| Profit for the year from the continuing operations attributable to owners of the Company | 58,094 | 15,380 |
| Profit for the year from discontinued operations attributable to owners of the Company | – | 21,984 |

| | Number of shares | |
|---|---|---|
| | 2015 | 2014 |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 3,420,228,606 | 3,418,584,003 |
| Effect of dilutive potential ordinary shares: | | |
| Awarded shares compensation scheme | 832,902 | 826,663 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | 3,421,061,508 | 3,419,410,666 |

## 13 Forestation and reforestation assets

| | 2015<br>US$'000 | 2014<br>US$'000 |
|---|---|---|
| At 1 January | **138,942** | 161,554 |
| Additions | **31,492** | 43,400 |
| Decrease due to harvest | **(26,188)** | (45,461) |
| Foreign exchange differences recognized in other comprehensive income | **(37,291)** | – |
| Decrease in fair value recognized in the consolidated income statement | **(7,695)** | (20,551) |
| At 31 December | **99,260** | 138,942 |

Wood is the principal raw materials 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 ("harvest cycle") 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 2015 and 2014, management of the Group determine the fair value of forestation and reforestation assets using a discounted cash flow model and under the Level 3 fair value hierarchy.

## 13 Forestation and reforestation assets (continued)

Management performed the valuation of the forestation and reforestation assets by using the discounted cash flow model with reference to wood price and other parameters as set out in below table. Valuation is performed for interim and annual financial reporting. The following significant unobservable inputs were used to value the Group's forestation and reforestation assets:

| Significant unobservable inputs | Rate/data used | Relationship of unobservable inputs to fair value |
|---|---|---|
| Weighted average capital cost ("WACC") | 10% (2014:10%) | The higher the WACC, the lower the fair value. |
| Reference wood price based on the prices agreed in the contracts entered into with local farmers | BRL44.24 per cubic meter (2014: BRL40.02) (equivalent to US$11.34 and US$15.05 respectively) | The higher the reference wood price used in USD, the higher the fair value. |
| Overhead expenses based on 2016 budget and projection for the remaining years in a proportional manner to the volume planted annually | BRL10,340,000 (equivalent to US$2,651,000) (2014: BRL10,474,000 (equivalent to US$3,944,000)) | The higher the overhead expenses in USD, the lower the fair value. |

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

– a six-year harvest cycle of the trees;

– the wood production rate calculated based on the planting programs during the period from 2010 to 2015;

– the forestry maintenance costs calculated based on the average historical expenses; and

– the exchange rate between USD and BRL.

At 31 December 2015, total forestation and reforestation assets were valued at approximately US$99,260,000 (2014: US$138,942,000). The decrease in fair value of US$7,695,000 (2014: US$20,551,000) was recognized in the consolidated income statement for the year.

## 14 Property, plant and equipment

| | Freehold land US$'000 (note a) | Buildings and leasehold improvement US$'000 | Plant and machinery US$'000 | Other tangible assets US$'000 (note b) | Construction in progress US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2014 | 36,626 | 233,917 | 1,512,392 | 27,728 | 379,845 | 2,190,508 |
| Additions | – | – | 747 | 106 | 123,328 | 124,181 |
| Transfer | 931 | 163,884 | 244,378 | 14,355 | (423,548) | – |
| Disposals | – | – | (10,283) | (562) | – | (10,845) |
| Foreign exchange differences | – | (473) | (2,527) | (44) | (2,206) | (5,250) |
| Disposal of the VSF Business | – | (237,380) | (640,519) | (18,943) | (24,900) | (921,742) |
| At 31 December 2014 | 37,557 | 159,948 | 1,104,188 | 22,640 | 52,519 | 1,376,852 |
| Additions | – | 688 | 1,134 | 2 | 18,433 | 20,257 |
| Transfer | – | – | 57,490 | – | (57,490) | – |
| Disposals | – | – | (3,200) | (318) | – | (3,518) |
| Foreign exchange differences | (7,682) | (10,921) | (9,552) | (793) | (2,522) | (31,470) |
| **At 31 December 2015** | **29,875** | **149,715** | **1,150,060** | **21,531** | **10,940** | **1,362,121** |
| **Accumulated depreciation and impairment** | | | | | | |
| At 1 January 2014 | – | 41,405 | 394,222 | 16,972 | – | 452,599 |
| Charge for the year | – | 12,312 | 86,496 | 2,743 | – | 101,551 |
| Disposals | – | – | (7,342) | (350) | – | (7,692) |
| Foreign exchange differences | – | (61) | (668) | (24) | – | (753) |
| Disposal of the VSF Business | – | (15,430) | (132,951) | (4,360) | – | (152,741) |
| At 31 December 2014 | – | 38,226 | 339,757 | 14,981 | – | 392,964 |
| Charge for the year | – | 6,558 | 60,320 | 960 | – | 67,838 |
| Disposals | – | – | (838) | (317) | – | (1,155) |
| Foreign exchange differences | – | (2,145) | (4,368) | (474) | – | (6,987) |
| **At 31 December 2015** | **–** | **42,639** | **394,871** | **15,150** | **–** | **452,660** |
| **Net book value** | | | | | | |
| **At 31 December 2015** | **29,875** | **107,076** | **755,189** | **6,381** | **10,940** | **909,461** |
| At 31 December 2014 | 37,557 | 121,722 | 764,431 | 7,659 | 52,519 | 983,888 |

Notes:

a. Freehold land comprises the land in Brazil.

b. Other tangible assets comprise furniture, fixtures and fittings, motor vehicles and office equipment.

c. At 31 December 2015, buildings and plant and machinery of approximately US$815,201,000 (2014: US$828,874,000) were pledged to secure the bank loans borrowed by the Group (Note 27).

## 15 Deferred income tax assets

The movement of deferred income tax assets/(liabilities) are as follows:

| | 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$'000 (note b) | Others US$'000 (note a) | Total US$'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2014 | (34,999) | 7,551 | 1,562 | 4,912 | 66,683 | 1,238 | 46,947 |
| Credited/(charged) to the consolidated income statement for the year | | | | | | | |
| – Continuing operations (note 9) | 11,290 | (11,633) | (993) | (320) | (30,000) | (1,853) | (33,509) |
| – Discontinued operations | – | – | – | 266 | – | – | 266 |
| Disposal of the VSF Business | – | – | – | (266) | – | – | (266) |
| At 31 December 2014 | (23,709) | (4,082) | 569 | 4,592 | 36,683 | (615) | 13,438 |
| Credited/(charged) to the consolidated income statement for the year | 16,234 | 2,179 | (441) | (1,239) | (18,538) | (78) | (1,883) |
| **At 31 December 2015** | **(7,475)** | **(1,903)** | **128** | **3,353** | **18,145** | **(693)** | **11,555** |

Notes:

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

b. At 31 December 2015, the Group has unused tax losses of approximately US$95,844,000 (2014: US$143,587,000) available for offsetting against future profits, of which US$53,368,000 (2014: US$107,888,000) have been recognized as deferred income tax assets. The tax effect on these recognized unused tax losses is US$18,145,000 (2014: US$36,683,000).

   During the year ended 31 December 2015, unused tax losses with tax impact of US$18,538,000 (2014: US$15,557,000) was utilized by the Group. During the year ended 31 December 2014, the unused tax losses that are not expected to be utilized in the foreseeable future with tax impact of US$14,443,000 was written off by the Group.

c. At 31 December 2014 and 2015, the unused tax losses of the Group may be carried forward indefinitely.

## 16 Other non-current assets

| | **2015 US$'000** | 2014 US$'000 |
|---|---|---|
| VAT recoverable (note a) | **14,492** | 29,891 |
| Unlisted equity investment (note b) | **6,167** | 11,761 |
| Others | **4,642** | 6,317 |
| | **25,301** | 47,969 |

Notes:

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 domestic sales, transferring of VAT recoverable to third parties and/or offsetting with other tax payables.

b. The unlisted investment represents 4.5% 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 Group's other non-current assets that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

| | **2015 US$'000** | 2014 US$'000 |
|---|---|---|
| BRL | **22,454** | 47,969 |

## 17 Post-employment benefit obligations

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

The total costs charged to the consolidated income statement during the year ended 31 December 2015 of US$1,691,000 (2014: US$2,198,000) represent contributions to these schemes by the continuing operations of the Group.

## 18 Inventories

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Raw materials | **35,438** | 44,291 |
| Work in progress | **575** | 2,022 |
| Finished goods | **18,088** | 33,864 |
| | **54,101** | 80,177 |

The cost of inventories recognized as expense and included in "cost of sales" of the continuing operations amounted to US$254,331,000 (2014: US$298,224,000).

## 19 Trade and other receivables

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Trade receivables | **33,834** | 14,226 |
| Other receivables: | | |
| Prepayments and deposits paid | **4,411** | 5,286 |
| Advance to suppliers | **3,359** | 3,424 |
| VAT recoverable | **7,985** | 6,547 |
| Others | **1,299** | 1,539 |
| | **17,054** | 16,796 |
| Amounts due from related companies (note) | | |
| – Trade | **135,267** | 181,175 |
| – Non-trade | **–** | 521 |
| | **135,267** | 181,696 |
| Trade and other receivables | **186,155** | 212,718 |

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

## 19 Trade and other receivables (continued)

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 receivables and amounts due from related parties presented based on the invoice date at the end of the reporting period is as follows:

| | **2015<br>US$'000** | 2014<br>US$'000 |
|---|---|---|
| 0 – 60 days | **76,616** | 62,163 |
| 61 – 90 days | **25,322** | 33,910 |
| 91 – 180 days | **67,163** | 66,904 |
| Over 180 days | **–** | 32,424 |
| | **169,101** | 195,401 |

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.

As at 31 December 2015, trade receivables of US$3,556,000 (2014: US$1,734,000) were past due within 30 days but not impaired. These relate to a number of independent customers for whom based on past experience, the overdue amounts can be recovered.

No allowance for doubtful trade or other receivables was made in 2015 (2014: Nil).

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

| | **2015<br>US$'000** | 2014<br>US$'000 |
|---|---|---|
| BRL | **13,956** | 15,710 |

## 20 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:

| | **2015<br>US$'000** | 2014<br>US$'000 |
|---|---|---|
| BRL | **5,027** | 6,165 |
| Renminbi | **955** | 651 |

## 21 Discontinued operations

### (a) Analysis of the results of discontinued operations is as follows:

| | 2014<br>US$'000 |
|---|---|
| Revenue | 529,060 |
| Cost of sales | (490,390) |
| Gross profit | 38,670 |
| Selling and distribution expenses | (8,680) |
| General and administrative expenses | (22,842) |
| Other income and gains, net | 5,342 |
| Finance costs | (15,365) |
| Loss before income tax and gain on disposal of the VSF Business | (2,875) |
| Gain on disposal of the VSF Business | 36,254 |
| Profit before income tax | 33,379 |
| Income tax expenses | (13,367) |
| Profit after income tax | 20,012 |
| Eliminations with continuing operations | 4,155 |
| Profit for the year from discontinued operations | 24,167 |
| Profit for the year from discontinued operations attributable to: | |
| – Owners of the Company | 21,984 |
| – Non-controlling interests | 2,183 |
| | 24,167 |

### (b) Analysis of the cash flows for discontinued operations is as follows:

| | 2014<br>US$'000 |
|---|---|
| Net cash outflow from operating activities | (19,618) |
| Net cash outflow from investing activities | (77,530) |
| Net cash inflow from financing activities | 110,520 |
| Net cash inflow from discontinued operations | 13,372 |

## 21 Discontinued operations (continued)

### (c) Assets and liabilities disposed are as follows:

| | 2014<br>US$'000 |
|---|---|
| Consideration – cash | 591,467 |
| Net assets disposed of: | |
| Property, plant and equipment | (769,001) |
| Investment properties | (1,589) |
| Prepaid land lease payments | (32,229) |
| Intangible assets | (119) |
| Deferred income tax assets | (266) |
| Other non-current assets | (1,477) |
| Inventories | (165,525) |
| Trade, bills and other receivables | (241,696) |
| Cash and bank balances | (28,927) |
| Trade and other payables | 283,455 |
| Current income tax payable | 1,543 |
| Bank borrowings | 323,693 |
| Amount due to the Group | 469,189 |
| Non-controlling interests | 38,560 |
| Net assets disposed of | (124,389) |
| Release of translation reserves | 40,486 |
| Transaction costs | (4,000) |
| Assignment of shareholders' loan | (467,310) |
| Net gain on disposal of the VSF Business, before tax | 36,254 |

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of the VSF Business is as follows:

| | US$'000 |
|---|---|
| Cash consideration | 591,467 |
| Cash and bank balances disposed of | (28,927) |
| Net inflow of cash and cash equivalents in respect of the disposal of the VSF Business | 562,540 |

## 22 Trade and other payables

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Trade payables | **7,907** | 14,627 |
| Other payables: | | |
| Accruals and other payables | **33,283** | 30,784 |
| Other taxes payables | **1,472** | 3,445 |
| Provisions (note a) | **10,809** | 11,233 |
| | **45,564** | 45,462 |
| Amounts due to related companies (note b) | **192** | 30,065 |
| Trade and other payables | **53,663** | 90,154 |

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

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| 0 – 90 days | **7,907** | 14,627 |

Notes:

a. 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$40,161,000 (2014: US$47,300,000), which are considered as possible but not probable future losses. No provision has been made in the consolidated financial statements for these possible losses.

b. Amounts due to related companies

The balance at 31 December 2014 mainly represented the amount of US$30,000,000 paid by the purchaser of the VSF Business to the Group pursuant to the agreement for the disposal of the VSF Business. Such US$30 million represented the amounts owed by the VSF Business to the Group according to certain agreed invoices. Following the completion of the disposal, the amount has been fully settled with the purchaser during the year ended 31 December 2015.

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

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

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:

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| BRL | **11,877** | 33,739 |
| Renminbi | **34** | – |

## 23 Derivative financial instruments

| | 2015<br>US$'000 | 2014<br>US$'000 |
|---|---|---|
| Current liabilities | | |
| – Forward foreign exchange contracts- cash flow hedges (note a) | **(1,937)** | (5,324) |
| – Interest rate swaps – cash flow hedges (note b) | **–** | (374) |
| Non-current liabilities | | |
| – Interest rate swaps – cash flow hedges (note b) | **(793)** | (592) |
| | **(2,730)** | (6,290) |

Notes:

a. Forward foreign exchange contracts

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2015 was US$30,978,000 (2014: US$126,093,000).

For the year ended 31 December 2015, the increase in fair value of the Group's outstanding forward foreign exchange contracts are estimated to be US$3,387,000 (2014: decrease in fair value of US$769,000). The amount has been recognized as other comprehensive income and accumulated in equity and are expected to be released to the consolidated income statement upon settlement.

For the year ended 31 December 2015, a loss on settlement of financial derivative contracts of approximately US$23,690,000 (2014: US$1,721,000) has been recognized in the consolidated income statement.

b. Interest rate swaps

The notional amount of the outstanding interest rate swaps at 31 December 2015 was US$264,000,000 (2014: US$365,894,000).

For the year ended 31 December 2015, the increase in fair value of the Group's outstanding interest rate swaps are estimated to be US$173,000 (2014: decrease in fair value of US$899,000) have been recognized as other comprehensive income and accumulated in equity and are expected to be released to the consolidated income statement upon settlement.

## 24 Bank borrowings

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Bank borrowings: | | |
| Secured | **231,093** | 375,629 |
| Unsecured | **2,000** | – |
| | **233,093** | 375,629 |

At 31 December 2015, the Group's borrowings were repayable as follows:

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Within one year | **117,875** | 115,578 |
| More than one year, but not more than two years | **115,218** | 115,578 |
| More than two years but not more than five years | **–** | 144,473 |
| | **233,093** | 375,629 |

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

| | 2015 | 2014 |
|---|---|---|
| Bank borrowings | **4.4%** | 4.4% |

In February 2013, the Group entered into a US$500 million senior secured trade related facility agreement consisting of a five-year term syndicated loan of US$440 million and a committed revolving credit facility of US$60 million. The proceed was used to repay the outstanding balance of previous US$470 million international syndicated loan facility as well as for general working capital purpose. 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 net senior debt to EBITDA ratio. Interest rate on the outstanding syndicated loan is based on the London Inter-Bank Offered Rate plus an applicable margin.

## 25 Share capital of the Company

| | Number of shares | Amounts US$'000 |
|---|---|---|
| **Issued and fully paid:** | | |
| At 1 January 2014 and 31 December 2014, at US$0.05 each | 3,420,420,250 | 171,021 |
| Issue of new shares (note) | 1,000,000 | 50 |
| **At 31 December 2015** | **3,421,420,250** | **171,071** |

Note: On 17 December 2015, the Company issued 1,000,000 shares at HK$0.81 per share for a total cash consideration of HK$810,000 (equivalent to approximately US$104,000).

## 26 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 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 2015 and 2014, no options were granted under the Scheme.

## 26 Share-based payment transactions (continued)

### 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.

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.

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

| | Number of underlying shares | |
|---|---|---|
| | **2015** | 2014 |
| Outstanding as of 1 January | **1,975,000** | 3,900,737 |
| Granted | **1,050,000** | 1,900,000 |
| Vested | **(1,300,000)** | (2,545,688) |
| Forfeited | **–** | (1,280,049) |
| Outstanding as of 31 December | **1,725,000** | 1,975,000 |

The estimated fair value of the RSUs granted on 6 July 2015 was US$85,000. The fair values of the outstanding RSUs granted are based on their fair values at the respective grant dates, which ranged from US$0.08 to US$0.15 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 2015 is approximately US$188,000 (2014: US$289,000) in aggregate.

## 27 Pledge of assets

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

| | 2015<br>US$'000 | 2014<br>US$'000 |
|---|---|---|
| Property, plant and equipment (note 14) | **815,201** | 828,874 |

## 28 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:

| | 2015<br>US$'000 | 2014<br>US$'000 |
|---|---|---|
| Within one year | **142** | 220 |
| In the second to fifth year inclusive | **284** | 514 |
| | **426** | 734 |

### (b) Capital commitments

| | 2015<br>US$'000 | 2014<br>US$'000 |
|---|---|---|
| Contracted but not provided for | | |
| – acquisition of property, plant and equipment | **10,669** | 12,651 |

## 29 Notes to the consolidated statement of cash flows

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

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit before income tax | 59,890 | 92,367 |
| Adjustments for: | | |
| Amortization of intangible assets | 100 | 100 |
| Amortization of prepaid lease payments | – | 668 |
| Depreciation of property, plant and equipment | 67,838 | 101,551 |
| Decrease due to harvest on forestation and reforestation assets | 26,188 | 45,461 |
| Depreciation of investment properties | – | 103 |
| Gain on disposal of the VSF Business | – | (36,254) |
| Loss on disposals of property, plant and equipment | 602 | 728 |
| Release of fair value loss of derivative financial instruments | 23,690 | 1,721 |
| Impairment loss recognized in respect of other non – current assets | 5,594 | 4,231 |
| Decrease in fair value of forestation and reforestation assets | 7,695 | 20,551 |
| Awarded shares compensation expense | 165 | 136 |
| Interest income | (336) | (693) |
| Finance costs | 18,920 | 34,266 |
| Operating cash flows before changes in working capital | 210,346 | 264,936 |
| Decrease/(increase) in inventories | 24,713 | (64,748) |
| Decrease/(increase) in trade and other receivables | 20,685 | (65,248) |
| (Decrease)/increase in trade and other payables | (25,468) | 36,497 |
| Change in derivative financial instruments | (23,690) | (1,721) |
| Decrease in other non-current assets | 15,578 | 4,414 |
| Net cash generated from operations | 222,164 | 174,130 |

## 30 Related party disclosures

(a) Details of the balances with related parties are set out in notes 19 and 22.

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

| Name of related parties | Nature of transactions | 2015 US$'000 | 2014 US$'000 |
|---|---|---|---|
| *Companies under common control of the Major Shareholder* | | | |
| DP Marketing International Macao Commercial Offshore Limited | Sale of goods | **287,328** | – |
| | Purchase of goods | – | 16,250 |
| | Commission income | – | 813 |
| Pec-Tech Engineering and Consulting (Suzhou) Co., Ltd. | Consulting service expense | – | 531 |
| Averis Sdn. Bhd. | Service fee expense | **1,471** | 3,951 |
| East Trade Limited | Rental expense | **105** | 186 |
| Pacific Viscose Limited | Disposal of the VSF Business (Note 21) | – | 591,467 |
| | Transfer of interest rate swap arrangement | – | 2,886 |

(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.

## 31 Balance sheet and reserve movement of the Company

### (a) The Company balance sheet

| | 2015<br>US$'000 | 2014<br>US$'000 |
|---|---|---|
| **Non-current assets** | | |
| Investment in a subsidiary | 1,007,993 | 1,007,993 |
| **Current assets** | | |
| Other receivables | 428 | 310 |
| Bank balances | 946 | 1,438 |
| | 1,374 | 1,748 |
| **Current liabilities** | | |
| Accrued charges | 193 | 529 |
| Amounts due to subsidiaries | 17,954 | 251 |
| | 18,147 | 780 |
| **Net current (liabilities)/assets** | (16,773) | 968 |
| | 991,220 | 1,008,961 |
| **Capital and reserves** | | |
| Share capital | 171,071 | 171,021 |
| Share premium and reserves | 820,149 | 837,940 |
| | 991,220 | 1,008,961 |

**John Jeffrey Ying**
*Director*

**Tey Wei Lin**
*Director*

## 31 Balance sheet and reserve movement of the Company (continued)

### (b) Movements in the reserves of the Company are as follows:

| | Share premium US$'000 | Contributed surplus US$'000 (Note) | Awarded shares compensation reserve US$'000 | Retained profits US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| At 1 January 2014 | 426,151 | 806,099 | 30 | 17,382 | 1,249,662 |
| Profit for the year | – | – | – | 216,901 | 216,901 |
| Dividends | – | (617,556) | – | (11,000) | (628,556) |
| Awarded shares compensation expense | – | – | (196) | 129 | (67) |
| At 31 December 2014 | 426,151 | 188,543 | (166) | 223,412 | 837,940 |
| Issue of new shares | 54 | – | – | – | 54 |
| Cost of issuing new shares | (9) | – | – | – | (9) |
| Loss for the year | – | – | – | (2,777) | (2,777) |
| Dividends | – | – | – | (15,160) | (15,160) |
| Awarded shares compensation expense | – | – | 196 | (95) | 101 |
| **At 31 December 2015** | **426,196** | **188,543** | **30** | **205,380** | **820,149** |

Note: Contributed surplus represented the difference between the carrying amount of the equity items of Bracell 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.

## 32 List of subsidiaries

The Company had direct and indirect interests in the following subsidiaries for the years ended 31 December 2014 and 2015:

| 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<br>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 549,374,402.37 | 100% | Plantation in Brazil |
| Norcell S.A. | Brazil | 42,800,334 common shares with no par value<br>29,771,891 preferential shares with no par value | 100% | Investment holding |
| Bracell Company Limited | BVI | Ordinary shares US$30,000,000 | 100% | Investment holding |
| Bracell Copener Limited | BVI | Ordinary shares US$100,000 | 100% | Investment holding |
| Bracell (Hong Kong) Management Limited | Hong Kong | Ordinary shares HK$10,000 | 100% | Provision of advisory and administrative services |
| Bracell International Co. Ltd | BVI | Ordinary shares US$100<br>Preference shares US$381,799,200 | 100% | Investment holding |
| Bracell Marketing International Limited | Cayman Islands | Ordinary shares US$1 | 100% | Investment holding |
| Bracell Marketing SA (formerly known as Sateri Marketing SA) | Switzerland | Ordinary shares CHF100,000 | 100% | Marketing services for dissolving wood pulp |
| Bracell (Shanghai) Investment Consulting Co., Ltd. (Note b) | The PRC | Registered capital RMB1,000,000 | 100% | Consultancy services and capital management |
| Bracell 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 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:

a. Except for Bracell International Co. Ltd, all of the subsidiaries are indirectly owned subsidiaries of the Company.

b. Limited liability company and wholly-foreign owned enterprise established in the PRC in 2014.

# FIVE-YEAR FINANCIAL SUMMARY

For the year ended 31 December

| FINANCIAL RESULTS – CONTINUING OPERATIONS | 2015<br>US$'000 | 2014<br>US$'000 | 2013<br>US$'000 | 2012<br>US$'000 | 2011<br>US$'000 |
|---|---|---|---|---|---|
| Revenue | **443,813** | 478,718 | 455,511 | 517,393 | 607,178 |
| Gross profit | **170,293** | 178,773 | 170,066 | 200,366 | 335,688 |
| Profit before income tax | **59,890** | 54,833 | 35,715 | 58,735 | 161,320 |
| Profit for the year | **57,081** | 15,343 | 30,268 | 67,072 | 165,492 |
| EBITDA | **183,826** | 199,725 | 176,865 | 182,310 | 287,805 |
| **Profit/(loss) for the year attributable to:** | | | | | |
| Owners of the Company | **58,094** | 15,380 | 30,478 | 66,588 | 165,635 |
| Non-controlling interests | **(1,013)** | (37) | (210) | 484 | (143) |
| | **57,081** | 15,343 | 30,268 | 67,072 | 165,492 |
| Earnings per share (US$) | **0.02** | 0.01 | 0.01 | 0.02 | 0.05 |

| FINANCIAL RESULTS – GROUP | 2015<br>US$'000 | 2014<br>US$'000 | 2013<br>US$'000 | 2012<br>US$'000 | 2011<br>US$'000 |
|---|---|---|---|---|---|
| Revenue | **443,813** | 727,617 | 645,681 | 720,285 | 806,574 |
| Gross profit | **170,293** | 230,196 | 217,548 | 219,706 | 323,073 |
| Profit before income tax | **59,890** | 92,367 | 43,310 | 52,023 | 143,850 |
| Profit for the year | **57,081** | 39,510 | 37,759 | 56,280 | 150,525 |
| **Profit/(loss) for the year attributable to:** | | | | | |
| Owners of the Company | **58,094** | 37,364 | 33,344 | 55,561 | 154,713 |
| Non-controlling interests | **(1,013)** | 2,146 | 4,415 | 719 | (4,188) |
| | **57,081** | 39,510 | 37,759 | 56,280 | 150,525 |
| Earnings per share (US$) | **0.02** | 0.01 | 0.01 | 0.02 | 0.05 |
| **Dividend per share (HK cents)** | | | | | |
| Interim and final dividend | **4.00** | 2.50 | 2.50 | 2.50 | 2.50 |
| Special dividend | **–** | 140.00 | – | – | – |
| | **4.00** | 142.50 | 2.50 | 2.50 | 2.50 |

# FIVE-YEAR FINANCIAL SUMMARY

For the year ended 31 December

| FINANCIAL POSITION | 2015 US$'000 | 2014 US$'000 | 2013 US$'000 | 2012 US$'000 | 2011 US$'000 |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Forestation and reforestation assets | **99,260** | 138,942 | 161,554 | 185,678 | 187,797 |
| Property, plant and equipment | **909,461** | 983,888 | 1,737,909 | 1,539,447 | 1,455,966 |
| Deferred income tax assets | **11,555** | 13,438 | 46,947 | 52,783 | 50,251 |
| Other non-current assets | **25,576** | 48,344 | 93,360 | 123,144 | 101,006 |
| | **1,045,852** | 1,184,612 | 2,039,770 | 1,901,052 | 1,795,020 |
| **Current assets** | | | | | |
| Inventories | **54,101** | 80,177 | 180,954 | 143,634 | 180,590 |
| Trade and other receivables | **186,155** | 212,718 | 190,659 | 151,104 | 153,232 |
| Bills receivables discounted | **–** | – | – | – | 8,119 |
| Bank balances and cash | **95,992** | 100,955 | 166,046 | 195,476 | 328,999 |
| Other current assets | **–** | – | – | 1,043 | 612 |
| | **336,248** | 393,850 | 537,659 | 491,257 | 671,552 |
| **Current liabilities** | | | | | |
| Trade and other payables | **53,663** | 90,154 | 135,732 | 147,267 | 136,574 |
| Advance drawn on bills receivables discounted | **–** | – | – | – | 8,119 |
| Bank borrowings | **117,875** | 115,578 | 72,198 | 195,792 | 198,403 |
| Other current liabilities | **17,938** | 26,465 | 17,518 | 19,469 | 62,961 |
| | **189,476** | 232,197 | 225,448 | 362,528 | 406,057 |
| **Net current assets** | **146,772** | 161,653 | 312,211 | 128,729 | 265,495 |
| **Non-current liabilities** | | | | | |
| Bank borrowings | **115,218** | 260,051 | 593,725 | 301,980 | 379,970 |
| Other non-current liabilities | **793** | 592 | 67 | 4,501 | 4,010 |
| | **116,011** | 260,643 | 593,792 | 306,481 | 383,980 |
| **Net assets** | **1,076,613** | 1,085,622 | 1,758,189 | 1,723,300 | 1,676,535 |
| **Capital and reserves** | | | | | |
| Share capital | **171,071** | 171,021 | 171,021 | 170,896 | 170,794 |
| Share premium and reserves | **904,866** | 912,912 | 1,549,020 | 1,519,692 | 1,474,871 |
| Equity attributable to owners of the Company | **1,075,937** | 1,083,933 | 1,720,041 | 1,690,588 | 1,645,665 |
| Non-controlling interests | **676** | 1,689 | 38,148 | 32,712 | 30,870 |
| | **1,076,613** | 1,085,622 | 1,758,189 | 1,723,300 | 1,676,535 |

# 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
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
Armin MEYER

## 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
Armin MEYER

## 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
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

## 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

**Singapore**

ABN AMRO Bank N.V.

**Brazil**

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

## Auditor

PricewaterhouseCoopers

## Websites

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