

United Fiber System Limited and its Subsidiaries

Independent auditor's report

For the financial year ended 31 December 2014

Independent auditor's report to the members of United Fiber System Limited and its subsidiaries

Report on the Financial Statements

We have audited the accompanying financial statements of United Fiber System Limited (the "Company") and its subsidiaries (collectively, the "Group"), which comprise the balance sheets of the Group and Company as at 31 December 2014, the statements of changes in equity of the Group and the Company, consolidated statement of comprehensive income and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the 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 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 management, as well as evaluating the overall presentation of the financial statements.

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

United Fiber System Limited and its Subsidiaries

Independent auditor's report

For the financial year ended 31 December 2014

Independent auditor's report to the members of United Fiber System Limited and its subsidiaries

Basis for Qualified Opinion

As disclosed in Note 23(b) to the financial statements, the Group breached the debt covenant on the loan from a financial institution for which it is entitled to charge the Group default interest of US\$58,615,000 up to 31 December 2014. On 26 September 2014, the financial institution agreed to waive the default interest upon the completion of the Proposed DSS Acquisition. Notwithstanding that the condition has not been met, the Group did not provide for the default interest of US\$58,615,000 and the related charges of US\$6,500,000. This is not in accordance with requirements of FRS 39 Financial Instruments: Recognition and Measurement.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2014 and the results, changes in equity and cash flows of the Group for the year ended on that date.

Emphasis of Matter

We draw attention to Note 1.2 to the financial statements, the Group incurred a net loss of US\$27,514,000 for the financial year ended 31 December 2014 and as at that date, the Group and the Company are in a net current liability position of US\$126,533,000 and US\$119,591,000 respectively. Furthermore the Group and the Company are in a net liability position of US\$95,081,000 and US\$88,198,000 respectively. These factors indicate the existence of a material uncertainty which may cast significant doubt about the Group and the Company's ability to continue as a going concern. The ability of the Group and the Company to continue as a going concern is dependent on the successful completion of the Proposed DSS Acquisition. If the Group and the Company are unable to continue in operational existence for the foreseeable future, the Group and the Company may be unable to discharge their liabilities in the normal course of business and adjustments may need to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the balance sheet. In addition, the Company may have to reclassify non-current assets and liabilities as current assets and liabilities. No such adjustments have been made to these financial statements. Our opinion is not further qualified in respect of this matter.

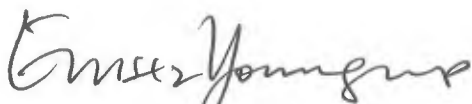
United Fiber System Limited and its Subsidiaries

**Independent auditor's report
For the financial year ended 31 December 2014**

Independent auditor's report to the members of United Fiber System Limited and its subsidiaries

Report on Other Legal and Regulatory Requirements

In our opinion, except for the matter described in the Basis for Qualified Opinion paragraph, the accounting and other records required by the Act to be kept by the Company and by those subsidiaries incorporated in Singapore of which we are the auditor have been properly kept in accordance with the provisions of the Act.



Ernst & Young LLP

Public Accountants and
Chartered Accountants
Singapore

26 February 2015

United Fiber System Limited and its Subsidiaries

Notes to the financial statements For the year ended 31 December 2014

1.2 Going concern

The Group incurred net loss of US\$27,514,000 (2013: US\$10,723,000) for the financial year ended 31 December 2014. As at that date, the Group and the Company are in a net current liability position of US\$126,533,000 (2013: US\$114,605,000) and US\$119,591,000 (2013: US\$112,667,000) respectively. Furthermore, the Group and the Company are in a net liability position of US\$95,081,000 (2013: US\$71,349,000) and US\$88,198,000 (2013: US\$51,447,000) respectively.

As at the balance sheet date, the Group and the Company has loans and borrowings totalling US\$49,000,000 (2013: US\$49,000,000) and US\$49,000,000 (2013: US\$49,000,000) respectively that are due within the next twelve months. The presence of these factors cast doubt on the Group's ability to continue as a going concern.

For the purpose of evaluating the Group's going concern, the Directors have considered the following:-

Proposed DSS Acquisition

On 11 July 2013, the Company and PT Dian Swastatika Sentosa TBK ("DSS") entered into a share purchase agreement (as amended, supplemented or otherwise modified) following the heads of agreement ("HoA") on 4 June 2013 to acquire 3,941,166,500 ordinary shares or approximately 66.9998% of the total issued and paid-up share capital of PT Golden Energy Mines TBK ("GEMS") (the "Proposed DSS Acquisition").

The successful completion of the Proposed DSS Acquisition is subjected to various conditions precedent as detailed in Note 31.

Following the completion and approval obtained from the shareholders on the Proposed DSS Acquisition, the Group will undertake compliance share placement of up to 226,500,000 ordinary shares to restore the public float and to maintain the listing status of the Group on the SGX-ST. The proceeds from the compliance share placement will contribute approximately US\$160.4 million (estimated S\$200.2 million) proceeds, after deducting estimated expenses including professional fees, placement commission and miscellaneous expenses. While the Company shall, as required under the SPA, use all reasonable endeavours to procure the underwriting of the Proposed Compliance Placement at the appropriate time, at the date of this report, the Company has not received any formal commitment from any financial institution to underwrite the Proposed Compliance Placement.

1.2 Going concern (cont'd)

Proposed DSS Acquisition (cont'd)

The net proceeds from the compliance placement shares will be used to settle the Group's loans and borrowings due to certain financial institutions as disclosed in Note 23(a), (b) and (c); for expansion plans and general working capital purposes.

On 21 January 2015, the Company obtained the in-principle approval from the SGX-ST in respect of, *inter alia*, the listing and quotation of the new UFS Shares to be issued pursuant to or in connection with the Proposed DSS Acquisition. The in-principle approval is subject to certain key conditions and is valid for three (3) months from the date of issue. Additionally, the enlarged group is allowed up to one (1) month from the date of suspension of UFS Shares following the completion of the Proposed DSS Acquisition, to complete the post-completion placement to fulfil the free float requirement.

On 4 March 2015 and in April 2015 respectively, the Company and DSS will convene extraordinary general meeting to obtain shareholders approval in connection to the Proposed DSS Acquisition.

Pursuant to the conditions precedent in the Proposed DSS Acquisition, on 30 August 2013, 31 July 2014 and 23 January 2015 respectively, the Company entered into a settlement agreement and supplemental agreement (collectively, "Settlement Agreement") with various banks and financial institutions (collectively known as "Unsecured Creditors") in relation to the existing corporate guarantees entered into in favour of Poh Lian Construction (Pte.) Ltd. ("PLC"), a material subsidiary of the Company, which was put under interim judicial management on 7 March 2013. On 10 October 2014, the High Court of Singapore discharged PLC's judicial management order and on the same day, a winding up order was made against PLC.

According to the Settlement Agreement, the Company will issue up to US\$36,726,328.97 (equivalent to S\$45,834,458.56) in aggregate principal amount of 5% bonds ("Bonds") upon the receipt of in-principle approval from SGX-ST on the Proposed DSS Acquisition and will allot and issue up to a maximum 2,447,368,421 ordinary shares in the capital of the Company at the agreed conversion price of S\$0.019 per share, which is inter-conditional on the Company's shareholders' approval in respect of the Proposed DSS Acquisition transaction, the proposed consolidation, the proposed white wash resolution, the proposed post completion placement and the issuance of the DSS compensation shares (if applicable) and DSS' shareholders approval of the Proposed DSS Acquisition at DSS forthcoming EGM in April 2015.

On 13 February 2015, the Bonds closing date, an aggregate principal amount of S\$45,834,458.56 of Bonds was issued by the Company to the Unsecured Creditors. The Bonds issued to Unsecured Creditors shall constitute full and final settlement by the Company of (i) the aggregate liabilities and indebtedness to these Unsecured Creditors; and (ii) all amounts due and owing by the PLC Companies to these Unsecured Creditors, and the Unsecured Creditors shall be deemed to have fully and irrevocably released and discharged the Company from all its obligations and liabilities (whether actual or contingent) under the corporate guarantee to the Unsecured Creditors.

1.2 Going concern (cont'd)

Proposed DSS Acquisition (cont'd)

The success of the Proposed DSS Acquisition and the compliance share placement will result in the settlement of the corporate guarantee claims through the issuance of shares of the Company and that the loans and borrowings will be repaid using the proceeds received from the compliance share placement. Accordingly the directors are of the opinion that the Group is able to continue as going concern, and that the financial statements have been prepared on the basis that the Group will continue as going concern. If the Group are unable to continue in operational existence for the foreseeable future, the Group may be unable to discharge its liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the balance sheet. In addition, the Group may have to reclassify long term assets and liabilities as current assets and liabilities. No such adjustments have been made to these financial statements.

United Fiber System Limited and its Subsidiaries

Notes to the financial statements For the year ended 31 December 2014

23. Loans and borrowings

	Note	Group		Company	
		2014 US\$'000	2013 US\$'000	2014 US\$'000	2013 US\$'000
Current:					
Short-term loan, secured	(a)	10,000	10,000	10,000	10,000
Short term loan, secured	(b)	35,000	35,000	35,000	35,000
Short-term loan, unsecured	(c)	4,000	4,000	4,000	4,000
		49,000	49,000	49,000	49,000

- (a) The loan is secured by a corporate guarantee given by a subsidiary, a share pledge over the entire issued and paid up capital of a subsidiary, and the woodchip mill asset. The loan bears effective interest from 7.36% to 7.79% per annum (2013: 6.91% to 7.32% per annum).

On 25 July 2014, the Company and the financial institution agreed to extend the loan maturity to 31 March 2015 subject to the condition that the Company shall provide the financial institution with fortnightly updates on the progress of the on-going Proposed DSS Acquisition. At the date of this report, the financial institution has verbally agreed to extend the loan maturity date. The Company and the financial institution are in the process of finalising the extension.

The Company has breached a covenant for the credit facilities as disclosed below. The loan is expected to be repaid through the proceeds received from the compliance placement shares following the completion of the Proposed DSS Acquisition.

- (b) The loan is secured by a share pledge and a share charge over the entire issued and paid up share capital in certain subsidiaries.

The loan bears interest of 10% (2013: 10%) per annum. The Company and the financial institution has on 14 August 2014, amended and restated the terms of the loan agreement of 12 January 2011 (as supplemented, extended and modified), extending the date of completion of the Proposed Acquisition to 31 March 2015, which are disclosed under Note 31.

The loan is expected to be repaid through the proceeds received from the compliance placement shares following the completion of the Proposed DSS Acquisition.

As the Company did not manage to service the accrued interest on quarterly basis, the Company has breached an event of default when failing to pay any sum payable under the loan agreement (as supplemented, extended and modified). The default interest is charged at 2% per month above the interest of 10% per annum, on the outstanding obligations calculated on a daily basis from 11 May 2011 to 31 December 2014. As at 31 December 2014, the default interest amounted to US\$58,615,000, with the relevant charges estimated to be approximately US\$6,500,000.

On 14 August 2014, the financial institution and the Company entered into an amended loan agreement to waive the breach of the Company's obligation, which are disclosed under Note 33.

23. Loans and borrowings (cont'd)

On 26 September 2014, the Company received a waiver letter from the financial institution to waive all default interest payable in connection with the loan agreement subject to the completion of Proposed DSS Acquisition.

At the date of this report, the financial institution has verbally agreed to extend the loan maturity date. The Company and the financial institution are in the process of finalising the extension

- (c) On 6 November 2012, the Company and a financial institution entered into a US\$4,000,000 loan agreement to finance the expenses relating to the Proposed Acquisition. The loan is unsecured, bears interest at 12.5% per annum, and is repayable by proceeds to be received from the proposed compliance placement following the completion of the Proposed DSS Acquisition no later than 31 March 2015, as disclosed under Note 31.

At 31 December 2014, the Company utilised US\$4,000,000 (31 December 2013: US\$4,000,000) for payment of professional and expenses relating to the Proposed Acquisition.

On 7 August 2014, the Company received a deed of undertaking from the financial institution to waive all default interest payable in connection with the loan agreement and will not declare that an event of default has occurred under the loan agreement provided that the Proposed DSS Acquisition is completed on or before 31 March 2015.

31. Proposed acquisition of PT Golden Energy Mines TBK ("GEMS")

- (a) On 29 June 2012, the Company entered into a tripartite share purchase agreement ("SPA") with PT Dian Swastatika Sentosa TBK ("DSS") and GMR Coal Resources Pte Ltd ("GMR") to acquire approximately 96.9998% of the total issued share capital in PT Golden Energy Mines TBK ("GEMS") (the "Proposed Acquisition"). The SPA has been extended to 31 May 2013 to enable the parties to negotiate on the revised terms of the proposed acquisition.

However, on 31 May 2013, the revised long-stop date to satisfy the conditions precedent in the SPA has lapsed. Since the conditions precedent have not been fulfilled or waived before the long-stop date of 31 May 2013, the agreement was terminated and ceased to have any force and effect. The Group incurred approximately US\$2.6 million transactions costs in connection with this transaction which have been recognised in the profit and loss for the year in 2012.

- (b) On 4 June 2013, the Group entered into a new non-legal binding heads of agreement (HoA) with DSS to set out the new proposed commercial terms in respect of the proposed acquisition of 66.9998% in GEMS.

On 11 July 2013, the Group and DSS entered into a share purchase agreement following the HoA on 4 June 2013 to acquire 3,941,166,500 ordinary shares or approximately 66.9998% of the total issued and paid-up share capital of GEMS (the "Proposed DSS Acquisition"). The purchase consideration for the acquisition shall be satisfied by way of issuance and allotment of new ordinary shares in the Company which represent approximately 94.4745% of the enlarged Company's ordinary share capital.

The Proposed DSS Acquisition, if it proceeds to completion, will result in a change in control of the Group and would constitute a "Very Substantial Acquisition" or a "Reverse Take-over Transaction".

- (c) The completion of the Proposed DSS Acquisition will be conditional upon the following condition precedents *inter alia* to be agreed and completed:-
- (a) Satisfactory completion of the due diligence by the Group on GEMS and DSS on the Group;
 - (b) The completion of the share consolidation exercise by the Group;
 - (c) Disposal of all its direct and indirect shareholding in Poh Lian Construction (Pte.) Ltd. ("PLC");
 - (d) Entered into subscription agreement with the Group's unsecured creditors in relation to the corporate guarantees provided by the Group for the due performance or payment of monies by PLC which will be settled through the subscription of the Mandatory Convertible Bonds to be issued by the Group;
 - (e) DSS received the Group's completion financial statements and completion of statement of liabilities;
 - (f) Subject to the approval from the shareholders of DSS and the Group; and
 - (g) Subject to approvals received from the respective regulatory in Singapore and Indonesia.

As at 31 December 2014, the Group incurred approximately US\$1.67 million (2013: US\$2.34 million) transaction costs in connection with this transaction which has been recognised in the profit and loss for the year.

31. Proposed acquisition of PT Golden Energy Mines TBK (“GEMS”) (cont’d)

On 5 July 2014, the Company has entered into a supplemental agreement (“SPA Supplemental Agreement”) with DSS to amend certain terms and conditions of the Share Purchase Agreement. The Company and DSS have agreed to extend the Acquisition Long-Stop Date to 31 March 2015 and also amend such other terms in the Share Purchase Agreement that are affected by the extended timeline for the Proposed DSS Acquisition (“SPA Amendments”).

As announced on 23 January 2015, the Company has, on 21 January 2015, obtained the in-principle approval from the Singapore Exchange Securities Trading Limited in respect of, *inter alia*, the listing and quotation of new UFS shares to be issued pursuant to or in connection with the Proposed DSS Acquisition. The in-principle approval is subject to key conditions and is valid for 3 months from 21 January 2015. Additionally, the enlarged group is allowed up to one month from the completion of the Proposed DSS Acquisition to complete the post-completion placement to fulfil the free float requirement, to comply with Rule 210(1)(a) of the Listing Manual.

On 23 January 2015, the Company and DSS entered into a supplemental agreement to, *inter alia*, extend the long-stop to 3 June 2015, amend certain terms in the SPA that are affected by the extended timeline for the Proposed DSS Acquisition and allowing both the Company and DSS to accommodate the satisfaction of the remaining conditions precedent. The Company and DSS are working towards the satisfaction of the remaining conditions precedent for the purpose of affecting the DSS completion within 3 months from the in-principle approval, but in any event no later than the extended long-stop date.

33. Asia Star Fund Ltd (“ASF”) US\$35,000,000 loan

The Company entered into an amended and restated loan agreement (“ASF Restated Loan Agreement”) with ASF on 11 July 2013, to amend and restate the terms of the original loan agreement dated 12 January 2011 (as supplemented, extended and modified), and on 14 August 2014, to amend the terms of the ASF Restated Loan Agreement. The key terms, *inter alia*, are as follows:

- (a) The repayment date for the repayment of all amounts due and owing under the ASF Restated Loan Agreement (“**Indebtedness**”) has been amended to the earliest of the following:
 - (i) The third business days after the completion of a placement exercise by the Company following the completion of the proposed acquisition by the Company of 66.9998% stake in GEMS from DSS;
 - (ii) The next business after the date of termination of the definitive agreement in relation to the Proposed Acquisition;
 - (iii) The next business day after the expiry of 1 year from the date of the Restated Loan Agreement; and
 - (iv) 31 March 2015
- (b) The Indebtedness shall be payable by the Company to ASF in cash;
- (c) in the event of insufficiency of funds available to the Company on the repayment date, ASF shall be entitled to enforce its rights against the Company for the repayment of the Indebtedness or any balance thereof, including but not limited to the enforcement of ASF’s rights under the Anrof Share Pledge and Shinning Spring Share Charge, subsidiaries of the Group; and
- (d) ASF shall not, at any time before the repayment date demand the payment of all or any part of the Indebtedness due and owing or may have become due or owing by the Company to ASF, subject to the satisfaction of the following conditions:
 - (i) The execution of the definitive agreement(s) in relation to the Proposed DSS Acquisition; and
 - (i) No creditors of the Company have taken any enforcement actions or commence legal proceedings against the Company at any time before the repayment date.
- (e) ASF shall waive the breach of the Company’s obligations, as a result of the Company’s failure to repay the indebtedness in full by the repayment date of 14 July 2014.
- (f) On 26 September 2014, the Company received a waiver letter from the financial institution to waive all default interest payable in connection with the loan agreement subject to the completion of Proposed DSS Acquisition.
- (g) At the date of this report, the Company is in discussion with ASF to extend the repayment date,