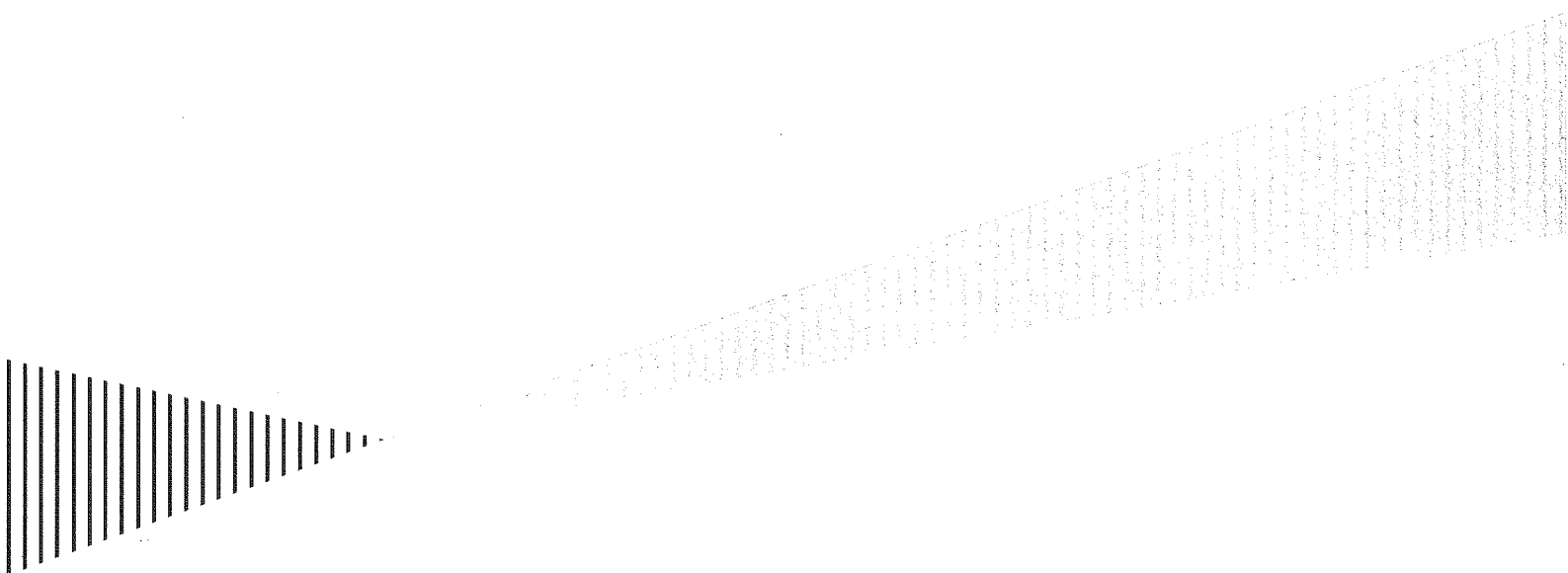


Company Registration. No. 199508589E

**United Fiber System Limited
and its Subsidiaries**

**Annual Financial Statements
31 December 2012**



**Building a better
working world**

United Fiber System Limited and its Subsidiaries

General Information

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United Fiber System Limited and its Subsidiaries

Statement by Directors

We, Chan Kin and Pauline Lee, being two of the Directors of United Fiber System Limited, do hereby state that, in the opinion of the Directors,

- (a) the accompanying consolidated balance sheet, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement together with notes thereto are drawn up so as to give a true and fair view of the state of affairs of the Group as at 31 December 2012 and the results of the business, changes in equity and cash flows of the Group and the changes in equity of the Company for the year ended on that date, and
- (b) at the date of this statement, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they fall due.

On behalf of the Board of Directors,



Chan Kin
Director



Pauline Lee
Director

Singapore

29 NOV 2013

United Fiber System Limited and its Subsidiaries

Independent Auditor's Report For the financial year ended 31 December 2012

To the Members of United Fiber System and its subsidiaries

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of United Fiber System Limited and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2012, the consolidated statement of comprehensive income, consolidated statement of changes in equity 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 and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of 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 financial statements based on conducting the audit in accordance with Singapore Standards on Auditing. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

As disclosed in Note 35 to the financial statements, the Group's material subsidiary Poh Lian Construction (Pte) Ltd ("PLC") was placed under interim judicial management on 7 March 2013 which was subsequently approved by the High Court of the Republic of Singapore on 5 April 2013. The financial position and financial results of PLC for the financial year ended 31 December 2012 are included in this consolidated financial statement. However we were unable to carry out procedures necessary to satisfy ourselves as to whether the carrying values of the assets, liabilities, income and expenses of PLC are appropriate for the purpose of the preparation of the financial statements of the Group for the year ended 31 December 2012.

The Group incurred a net loss of US\$153,575,000 for the financial year ended 31 December 2012 and as at that date, the Group is in a net current liability position of US\$132,931,000 and net liability position of US\$60,773,000. These factors indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

As disclosed in Note 1.2, the directors have prepared these financial statements on the going concern assumption. Based on the information available to us, we are unable to perform procedures to determine the appropriateness of the use of going concern assumption.

United Fiber System Limited and its Subsidiaries

**Independent Auditor's Report
For the financial year ended 31 December 2012**

To the Members of United Fiber System and its subsidiaries

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements.

Other matters

Purpose and restriction on distribution and use

The financial statements for the year ended 31 December 2012 prepared in accordance with International Financial Reporting Standards have been prepared for inclusion in the Circular to Shareholder in connection with the Proposed Acquisition of 66.9998% in PT. Golden Energy Mines Tbk. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the shareholders of the Company and should not be used by any other parties.

Separate audit report issued

We also issued a separate audit report on the financial statements of the Group for the same period prepared in accordance with Singapore Financial Reporting Standards on 16 April 2013. We issued a disclaimer of opinion on those financial statements as based on the information provided by management we were unable to obtain sufficient audit evidence on the following matters:

- the appropriateness of the carrying value of the assets and liabilities of Poh Lian Construction (Pte) Ltd included in the those financial statements;
- the reasonableness of the key assumptions and bases used by management in the determination of the carrying value of the of the concession land-use rights included in those financial statements; and
- the appropriateness of the use of the going concern assumption in preparing those financial statements.



Ernst & Young LLP
Public Accountants and Chartered Accountants
Singapore

29 November 2013

United Fiber System Limited and its Subsidiaries

Consolidated Statement of Comprehensive Income for the year ended 31 December 2012

(In United States Dollars)

	Note	2012 US\$'000	2011 US\$'000
Revenue	4	234,857	179,533
Cost of sales		(251,193)	(166,382)
Gross (loss)/profit		(16,336)	13,151
Other income	5	14,109	48,728
Selling and distribution expenses		(538)	(1,774)
Administrative expenses		(7,436)	(8,972)
Other operating expenses		(106,228)	(8,449)
Fair value loss on forest asset	10	(32,161)	(46,987)
Finance costs	6	(18,060)	(5,895)
Loss before tax	7	(166,650)	(10,198)
Income tax benefit	8	13,075	1,318
Loss for the year		(153,575)	(8,880)
Other comprehensive income:			
Foreign currency translation		2,372	53
Total comprehensive income for the year		(151,203)	(8,827)
Loss attributable to:			
Owners of the Company		(153,574)	(8,879)
Non-controlling interests		(1)	(1)
		(153,575)	(8,880)
Total comprehensive income attributable to:			
Owners of the Company		(151,202)	(8,826)
Non-controlling interests		(1)	(1)
		(151,203)	(8,827)
Loss per share attributable to owners of the Company (cents per share)			
Basic and diluted	9	(4.21)	(0.26)

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

United Fiber System Limited and its Subsidiaries

Consolidated Balance Sheet as at 31 December 2012

(In United States Dollars)

	Note	2012 US\$'000	2011 US\$'000
Non-Current Assets			
Forest concession	10	47,855	102,236
Property, plant and equipment	11	24,758	23,190
Club membership	13	82	77
Deferred tax assets	14	176	276
Goodwill on consolidation	15	–	22,696
Trade and other receivables	19	13,335	12,431
		<u>86,206</u>	<u>160,906</u>
Current Assets			
Gross amount due from customers for contract work-in-progress	16	830	16,334
Investment properties held for sale	17	1,453	1,432
Inventories	18	2,145	2,015
Trade and other receivables	19	51,155	41,046
Fixed deposits	20	7,207	3,314
Cash and bank balances	20	7,927	34,394
		<u>70,717</u>	<u>98,535</u>
Current Liabilities			
Gross amount due to customers for contract work-in-progress	16	14,104	42,564
Trade and other payables	21	80,293	43,578
Provision	22	48,453	–
Hire purchase creditors	23	310	344
Provision for taxation		7,104	8,751
Derivative	30(a)	1,151	–
Loans and borrowings	24	52,233	62,604
		<u>203,648</u>	<u>157,841</u>
Net Current Liabilities		(132,931)	(59,306)

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

United Fiber System Limited and its Subsidiaries

Consolidated Balance Sheet as at 31 December 2012 (cont'd)

(In United States Dollars)

	Note	2012 US\$'000	2011 US\$'000
Non-Current Liabilities			
Trade payables	21	7,632	4,948
Deferred tax liabilities	14	5,941	19,077
Hire purchase creditors	23	475	247
		<u>14,048</u>	<u>24,272</u>
Net (Liabilities)/Assets		<u>(60,773)</u>	<u>77,328</u>
Equity Attributable to Equity Holders of the Company			
Share capital	25	256,613	243,511
Reserves		(317,381)	(166,179)
		<u>(60,768)</u>	<u>77,332</u>
Non-controlling interests		(5)	(4)
Total Equity		<u>(60,773)</u>	<u>77,328</u>

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

United Fiber System Limited and its Subsidiaries

Consolidated Statement of Changes in Equity for the year ended 31 December 2012

(In United States Dollars)

	Attributable to owners of the Company						
	Share Capital (Note 25) US\$'000	Foreign Currency Translation ⁽¹⁾ US\$'000	Other Reserves ⁽²⁾ US\$'000	Accumulated Losses US\$'000	Total Reserves US\$'000	Non- controlling Interests US\$'000	Total Equity US\$'000
2012							
At 1 January 2012	243,511	8,972	(62,479)	(112,672)	(166,179)	(4)	77,328
Loss for the year	–	–	–	(153,574)	(153,574)	(1)	(153,575)
<u>Other comprehensive income</u>	–	2,372	–	–	2,372	–	2,372
Foreign currency translation	–	2,372	–	(153,574)	(151,202)	(1)	(151,203)
Total comprehensive income for the year							
<u>Contribution by owners</u>							
Issuance of ordinary shares	13,257	–	–	–	–	–	13,257
Shares issuance expense	(155)	–	–	–	–	–	(155)
Total transactions with owners in their capacity as owners	13,102	–	–	–	–	–	13,102
At 31 December 2012	256,613	11,344	(62,479)	(266,246)	(317,381)	(5)	(60,773)

(1) Foreign currency translation reserves are used to record exchange differences arising from the translation of the financial statements of the Group's foreign operations whose functional currencies are different from that of the Group's presentation currency.

(2) Other reserves comprise equity-settled liability for acquisition of Anrof Singapore Limited ("ASL") Group of companies in year 2002.

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

United Fiber System Limited and its Subsidiaries

Consolidated Statement of Changes in Equity for the year ended 31 December 2012 (cont'd)

(In United States Dollars)

	Attributable to owners of the Company					Non- controlling Interests US\$'000	Total Equity US\$'000
	Share Capital (Note 25) US\$'000	Foreign Currency Translation (1) US\$'000	Other Reserves (2) US\$'000	Accumulated Losses US\$'000	Total Reserves US\$'000		
2011							
At 1 January 2011	243,511	8,919	(62,479)	(103,793)	(157,353)	(3)	86,155
Loss for the year	-	-	-	(8,879)	(8,879)	(1)	(8,880)
<u>Other comprehensive income</u>							
Foreign currency translation	-	53	-	-	53	-	53
Total comprehensive income for the year	-	53	-	(8,879)	(8,826)	(1)	(8,827)
At 31 December 2011	243,511	8,972	(62,479)	(112,672)	(166,179)	(4)	77,328

(1) Foreign currency translation reserves are used to record exchange differences arising from the translation of the financial statements of the Group's foreign operations whose functional currencies are different from that of the Group's presentation currency.

(2) Other reserves comprise equity-settled liability for acquisition of Anrof Singapore Limited ("ASL") Group of companies in year 2002.

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

United Fiber System Limited and its Subsidiaries

Consolidated Cash Flow Statement for the year ended 31 December 2012

(In United States Dollars)

	2012 US\$'000	2011 US\$'000
Cash flows from operating activities		
Loss before tax	(166,650)	(10,198)
Adjustments for:		
Compensation income	—	(48,047)
Depreciation of property, plant and equipment	1,250	2,844
(Gain)/loss on disposal of property, plant and equipment	(21)	28
Impairment loss on other receivables	39	—
Impairment loss on trade receivables	1,959	—
Impairment loss of investment properties held for sale	—	969
Impairment loss of goodwill on consolidation	23,651	—
Fair value gain on derivative	(12,415)	—
Fair value loss on forest asset	32,161	46,987
Write down of compensation income receivable	22,912	—
Write down of inventories	247	241
Expenses for proposed acquisition ⁽¹⁾	2,648	—
Potential losses arising from termination of construction contracts	48,453	—
Interest expenses	18,060	5,895
Interest income	(119)	(10)
Net exchange differences	(93)	(1,764)
Operating cash (outflow)/inflow before changes in working capital	(27,918)	(3,055)
Decrease/(increase) in gross amount due from customers for contract work-in-progress	13,678	(12,026)
(Decrease)/increase in gross amount due to customers for contract work-in-progress	(28,460)	13,900
(Increase)/decrease in inventories	(376)	1,208
(Increase)/decrease in trade and other receivables	(12,910)	8,670
Increase/(decrease) in trade and other payables	33,567	(1,161)
Cash flows (used in)/from operations	(22,419)	7,536
Income tax paid	(2,036)	(259)
Interest paid	(508)	(3,148)
Net cash flows (used in)/from operating activities	(24,963)	4,129

⁽¹⁾ Expenses for proposed acquisition are incurred for the proposed acquisition as disclosed under Note 34.

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

United Fiber System Limited and its Subsidiaries

Consolidated Cash Flow Statement for the year ended 31 December 2012 (cont'd)

(In United States Dollars)

	2012 US\$'000	2011 US\$'000
Cash flows from investing activities		
Addition to forest asset	(470)	(639)
Interest received	119	10
Proceeds from disposal of property, plant and equipment	25	4
Purchase of property, plant and equipment	(404)	(184)
Net cash flows used in investing activities	(730)	(809)
Cash flows from financing activities		
(Increase)/decrease in pledged fixed deposits	(3,690)	539
Payment of share issuance expenses	(155)	—
Proceeds from loans and borrowings	13,010	39,949
Repayment of loans and borrowings	(9,563)	(21,427)
Repayment to hire purchase creditors	(430)	(349)
Payment of expenses for proposed acquisition	(1,657)	—
Net cash flows (used in)/from financing activities	(2,485)	18,712
Net (decrease)/increase in cash and cash equivalents	(28,178)	22,032
Effect of exchange rate changes on cash and cash equivalents	1,711	(145)
Cash and cash equivalents at 1 January	34,394	12,507
Cash and cash equivalents at 31 December (Note 20)	7,927	34,394

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

United Fiber System Limited and its Subsidiaries

Notes to the Consolidated Financial Statements – for the year ended 31 December 2012

1. General information

1.1 Corporate information

United Fiber System Limited ("Unifiber" or the "Company") is a limited liability company, incorporated and domiciled in Singapore. The Company's shares are publicly traded on the Singapore Exchange Securities Trading Limited (SGX-ST).

The registered office of the Company is located at 50 Raffles Place #32-01, Singapore Land Tower, Singapore 048623.

The principal activities of the Company are those of an investment holding company and provision of management services to entities within the Unifiber Group of companies. The principal activities of the subsidiaries are set out in Note 3 to the financial statements.

1.2 Going concern

The Group incurred net loss of US\$153,575,000 (2011: US\$8,880,000) for the financial year ended 31 December 2012. As at 31 December 2012, the Group is in a net current liability position of US\$132,931,000 (2011: US\$59,306,000) and in a net liability position of US\$60,773,000 (2011: Net asset position of US\$77,328,000).

As at the balance sheet date, the Group has loans and borrowings totalling US\$52,233,000 (2011: US\$62,604,000) 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 presence of the following mitigating factors:

Proposed DSS Acquisition

On 11 July 2013, the Company and PT Dian Swastatika Sentosa Tbk ("DSS") entered into a share purchase agreement 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 34.

Following the completion and approval obtained from the shareholders on the Proposed DSS Acquisition, the Group will undertake compliance share placement of up to 334,000,000 ordinary shares to restore the public float and to maintain the listing status of the Group on the SGX. The proceeds from the compliance share placement will contribute approximately US\$145.0 million (estimated S\$184.0 million) proceeds, net of transaction costs to the Group.

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 24(e), (g) and (h) and to be used for expansion plans and general working capital purposes.

United Fiber System Limited and its Subsidiaries

Notes to the Consolidated Financial Statements – for the year ended 31 December 2012

1. General information (cont'd)

1.2 Going concern (cont'd)

Proposed DSS Acquisition (cont'd)

Pursuant to the conditions precedent in the Proposed DSS Acquisition, on 30 August 2013, the Company entered into a 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, a material subsidiary of the Company which was put under interim JM on 7 March 2013.

According to the settlement agreement, the Company will issue up to US\$36 million in aggregate principal amount of 5% bonds due 2015 upon the receipt of in-principle approval from SGX on the RTO transaction. The 5% bonds will be immediately converted into ordinary shares in the capital of the Company at the agreed conversion price of S\$0.019 per share upon the approval obtained from the shareholders on the Proposed DSS Acquisition.

The Directors have evaluated that the Proposed DSS Acquisition will be successfully completed and that the compliance placement shares will be executed. 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 Consolidated Financial Statements – for the year ended 31 December 2012

2. Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below.

The financial statements are presented in United States Dollars ("USD" or "US\$") and all values in the tables are rounded to the nearest thousand (US\$'000) as indicated.

2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Group has adopted all the new and revised standards which are effective from annual financial periods beginning on or after 1 January 2012. The adoption of those standards did not have any effect on the financial performance or position of the Group.

2.3 Standards issued but not yet effective

The Group has not adopted the following standards that have been issued but not yet effective:

<i>Description</i>	<i>Effective for annual periods beginning on or after</i>
IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income	1 July 2012
IAS 19 (Revised) Employee Benefits (Amendment)	1 January 2013
IAS 27 (Revised) Separate Financial Statements	1 January 2013
IAS 28 (Revised) Investments in Associates and Joint Ventures	1 January 2013
IFRS 9 Financial Instruments	1 January 2015
IFRS 10 Consolidated Financial Statements	1 January 2013
IFRS 11 Joint Arrangements	1 January 2013
IFRS 12 Disclosure of Involvement with Other Entities	1 January 2013
IFRS 13 Fair Value Measurement	1 January 2013
Amendments to IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
Amendment to IAS 32 Financial Instruments: Offsetting Financial Assets and Financial Liabilities	1 January 2014
Annual improvements to IFRS 2009 – 2011 cycle	1 January 2013
Amendments to IFRS 1 – Government Loans	1 January 2013
Amendments to IFRS 7 and IFRS 9 – Mandatory Effective Date and Transition Disclosures	1 January 2015
Amendments to IFRS 10, IFRS12 and IAS 27 – Investment Entities	1 January 2014

United Fiber System Limited and its Subsidiaries

Notes to the Consolidated Financial Statements – for the year ended 31 December 2012

2. Summary of significant accounting policies (cont'd)

2.3 Standards issued but not yet effective (cont'd)

Except for as below, the directors expect that the adoption of the other standards and interpretations above will have no material impact on the financial statements in the period of initial application. The nature of the impending changes in accounting policy on adoption of the standards are described below.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The Amendments to IAS 1 Presentation of Items of Other Comprehensive Income (OCI) is effective for financial periods beginning on or after 1 July 2012.

The Amendments to IAS 1 changes the grouping of items presented in OCI. Items that could be reclassified to profit or loss at a future point in time would be presented separately from items which will never be reclassified. As the Amendments only affect the presentations of items that are already recognised in OCI, the Group does not expect any impact on its financial position or performance upon adoption of this standard.

IFRS 10 Consolidated Financial Statements and Revised IAS 27 Separate Financial Statements

IFRS 10 Consolidated Financial Statements and Revised IAS 27 Separate Financial Statements are effective for financial periods beginning on or after 1 January 2013.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore are required to be consolidated by the Group, compared with the requirements that were in IAS 27. Therefore, IFRS 10 may change which entities are consolidated within a group. The revised IAS 27 was amended to address accounting for subsidiaries, jointly controlled entities and associates in separate financial statements.

The Group does not expect any impact on its financial position or performance upon adoption of this standard.

2. Summary of significant accounting policies (cont'd)

2.3 Standards issued but not yet effective (cont'd)

IFRS 11 Joint Arrangements and Revised IAS 28 Investments in Associates and Joint Ventures

IFRS 11 Joint Arrangements and Revised IAS 28 Investments in Associates and Joint Ventures are effective for financial periods beginning on or after 1 January 2013.

IFRS 11 classifies joint arrangements either as joint operations or joint ventures. Joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement whereas joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. IFRS 11 requires the determination of joint arrangement's classification to be based on the parties' rights and obligations under the arrangement, with the existence of a separate legal vehicle no longer being the key factor. IFRS 11 disallows proportionate consolidation and requires joint ventures to be accounted for using the equity method. The revised IAS 28 was amended to describe the application of equity method to investments in joint ventures in addition to associates.

The Group does not expect any impact on its financial position or performances upon adoption of this standard as currently the investment in joint venture is dormant. Please refer to Note 28.

IFRS 12 Disclosures of Interests in Other Entities

IFRS 12 is effective for financial periods beginning on or after 1 January 2013.

IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. IFRS 12 requires an entity to disclose information that helps users of its financial statements to evaluate the nature and risks associated with its interests in other entities and the effects of those interests on its financial statements. The Group is currently determining the impact of the disclosure requirements. As this is a disclosure standard, it will have no impact to the financial position and financial performance of the Group when implemented.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance, but based on the preliminary analyses, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

2. Summary of significant accounting policies (cont'd)

2.4 Significant accounting judgements and estimates

Estimates and assumptions concerning the future are made in the preparation of the financial statements. They affect the application of the Group's accounting policies, reported amounts of assets and liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

2.4.1 Judgements made in applying accounting policies

Critical judgement made in applying accounting policies

Management is of the opinion that the instances of application of judgement are not expected to have a significant effect on the amounts recognised in the financial statements, apart from those involving estimates.

2.4.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, 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) Valuation of forest assets

Forest asset is measured at its fair value less estimated point-of-sale costs. Annual valuation by independent professional valuer is carried out to ascertain the fair value of forest asset. The assumptions and carrying amount of the Group's forest asset at the end of the reporting period are disclosed in Note 10 to the financial statements.

The valuation of the forest assets is sensitive to the valuation inputs such as log price and foreign exchange rate. A 10% change in these valuation inputs would result in approximately 1.8% variance in the Group's loss for the year ended 31 December 2012 (2011: 68.8%).

(b) Concession land rent-use rights

Compensation income receivable arising from concession land rent-use rights amounting to US\$17,135,000 (2011: US\$40,047,000) is estimated and determined annually by an independent professional valuation. The estimated receivable may differ from the actual amount which the Group could be compensated for the land at the forest concession that are temporarily used for mining purposes at a particular time, since actual amount of the compensation income is subject to regulation and negotiation between the licensed miners and the Group. In addition, certain estimates require an assessment of factors not within the directors' control, such as overall market conditions. The valuation is also sensitive to changes in permitted mining boundaries, plantable area, potential profits generated from the Group's standing tree stocks, the prescribed compensation rates for encroachment of the land and government regulations.

2. Summary of significant accounting policies (cont'd)

2.4 Significant accounting judgements and estimates (cont'd)

2.4.2 Key sources of estimation uncertainty (cont'd)

(b) Concession land rent-use rights (cont'd)

The actual compensation could differ from the estimated valuation set forth in the financial statements. A 5% (2011: 5%) change in the valuation inputs would result in approximately 1% variance in the Group's loss for the year ended 31 December 2012 (2011: 22%).

(c) Impairment of loans and receivables

The Group assesses at each balance sheet date whether there is any objective evidence that loans and receivables are impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics.

The carrying amount of the Group's loans and receivables at the balance sheet date is disclosed in Note 19 to the financial statements. The loans that are impaired have been fully provided for.

(d) Construction contracts

The Group recognises contract revenue to the extent of contract costs incurred where it is probable those costs will be recoverable or based on the stage of completion method. The stage of completion is measured by reference to professional surveys of work performed.

Significant assumptions are required in determining the stage of completion, the extent of the contract costs incurred, the estimated total contract revenue and contract costs and liquidated damage claims, as well as the recoverability of the contract costs incurred. Total contract revenue also includes an estimation of the recoverable variation works that are recoverable from the customers.

In making the estimation, the Group evaluates by relying on past experience and knowledge of the project engineers and/or the work of specialists. The carrying amounts of assets and liabilities arising from construction contracts at the balance sheet date are disclosed in Note 16 to the financial statements.

United Fiber System Limited and its Subsidiaries

Notes to the Consolidated Financial Statements – for the year ended 31 December 2012

2. Summary of significant accounting policies (cont'd)

2.4 Significant accounting judgements and estimates (cont'd)

2.4.2 Key sources of estimation uncertainty (cont'd)

(d) Construction contracts (cont'd)

Under the construction contracts entered into between the developers and the Group, an event of default have occurred when PLC is placed under judicial management as disclosed under Note 35; and the developers have a right to terminate the contracts. At the date of this report, developers of all construction contracts have terminated their respective construction contract agreements. As at 31 December 2012, included in balance sheet of the Group is a provision for potential losses arising from termination of construction contracts amounting US\$48,453,000. In making the estimate, management has relied on the information available as of the date of this report and to management's best knowledge. The final amount may differ from the current estimated amount as the judicial managers are currently in the process of restructuring PLC.

(e) Income taxes

The Group has exposure to income taxes in numerous jurisdictions. Significant judgement is involved in determining the Group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The carrying amount of the Group's tax payables, deferred tax assets and deferred tax liabilities at 31 December 2012 was US\$7,104,000 (2011: US\$8,751,000), US\$176,000 (2011: US\$276,000) and US\$5,941,000 (2011: US\$19,077,000) respectively.

2.5 Functional currency, foreign currency and presentation currency

(a) Functional currency

Management has determined Singapore Dollars ("SGD" or "S\$") as the functional currency of the Company, which reflects the economic substance of the underlying events and circumstances of the Company. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

United Fiber System Limited and its Subsidiaries

Notes to the Consolidated Financial Statements – for the year ended 31 December 2012

2. Summary of significant accounting policies (cont'd)

2.5 Functional currency, foreign currency and presentation currency (cont'd)

(b) Foreign currency

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the balance sheet date are recognised in profit or loss except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operation, which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity. The foreign currency translation reserve is reclassified from equity to profit or loss of the Group on disposal of the foreign operation.

(c) Group companies

For consolidation purpose, the assets and liabilities of foreign operations are translated into SGD at the rate of exchange ruling at the reporting date and their profit or loss are translated at the average exchange rate for the year. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

In the case of a partial disposal without loss of control of a subsidiary that includes a foreign operation, the proportionate share of the cumulative amount of the exchange differences are re-attributed to non-controlling interest and are not recognised in profit or loss. For partial disposals of associates or jointly controlled entities that are foreign operations, the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

United Fiber System Limited and its Subsidiaries

Notes to the Consolidated Financial Statements – for the year ended 31 December 2012

2. Summary of significant accounting policies (cont'd)

2.5 Functional currency, foreign currency and presentation currency (cont'd)

(d) Presentation currency

The financial statements are presented in United States Dollars ("USD" or "US\$"), which is to better reflect the business environment where the Group is operating.

The financial statements are translated from SGD to USD using the following procedures:

- Assets and liabilities for each reporting period presented are translated at the closing rate ruling at that reporting date; and
- Income and expenses are translated at average exchange rates for the year, which approximates the exchange rates at the dates of the transactions.

All resulting exchange differences are recognised in a separate component of equity as foreign currency translation reserves.

2.6 Subsidiaries and basis of consolidation

(a) Subsidiaries

A subsidiary is an entity over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities.

(b) Basis of consolidation and business combinations

Basis of consolidation from 1 January 2010

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the balance sheet date. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

2. Summary of significant accounting policies (cont'd)

2.6 Subsidiaries and basis of consolidation (cont'd)

(b) Basis of consolidation and business combinations (cont'd)

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- De-recognises the assets (including goodwill) and liabilities of the subsidiary at their carrying amounts at the date when controls is lost;
- De-recognises the carrying amount of any non-controlling interest;
- De-recognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;
- Re-classifies the Group's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Business combinations from 1 January 2010

Business combinations are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is not be remeasured until it is finally settled within equity.

In business combinations achieved in stages, previously held equity interests in the acquiree are remeasured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

2. Summary of significant accounting policies (cont'd)

2.6 Subsidiaries and basis of consolidation (cont'd)

(b) Basis of consolidation and business combinations (cont'd)

The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any) is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill. The accounting policy for goodwill is set out in Note 2.12. In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in profit or loss on the acquisition date.

(c) Transactions with non-controlling interests

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company, and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated balance sheet, separately from equity attributable to owners of the Company.

Changes in the Company owner's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributable to owners of the Company.

2.7 Joint ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, where the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control. The Group recognises its interest in the joint venture using proportionate consolidation. The Group combines its proportionate share of each of the assets, liabilities, income and expenses of the joint venture with the similar items, line by line, in its consolidated financial statements. The joint venture is proportionately consolidated from the date the Group obtains joint control until the date on which the Group ceases to have joint control over the joint venture.

2. Summary of significant accounting policies (cont'd)

2.7 Joint ventures (cont'd)

Adjustments are made in the Group's consolidated financial statements to eliminate the Group's share of intragroup balances, income and expenses and unrealised gains and losses on such transactions between the Group and its jointly controlled entity. Losses on transactions are recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss.

The financial statements of the joint venture are prepared as of the same reporting date as the Group. Where necessary, adjustments are made to bring the accounting policies into line with those of the Group.

Upon loss of joint control, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the former jointly controlled entity upon loss of joint control and the aggregate of the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

2.8 Forest concession

Forest concession is stated at fair value less estimated point-of-sale costs, with any resultant gain or loss recognised in the income statement.

The forest concession is valued by an independent professional valuer, using discounted cash flow ("DCF") projections in arriving at the fair value of the forest concession.

Deferred tax liability arising from the temporary difference between the tax base of forest asset and its carrying amount is accounted for in accordance with the accounting policy stated in Note 2.27(b).

2.9 Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying property, plant and equipment. The accounting policy for borrowing costs is set out in Note 2.19. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, 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.

Subsequent to recognition, property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

United Fiber System Limited and its Subsidiaries

Notes to the Consolidated Financial Statements – for the year ended 31 December 2012

2. Summary of significant accounting policies (cont'd)

2.9 Property, plant and equipment (cont'd)

Depreciation is computed on a straight-line basis over the estimated useful lives as follows:

Leasehold land and buildings	15 to 50 years
Plant and machinery	5 to 15 years
Motor vehicles	5 years
Computers and office equipment	3 years
Furniture and fittings	5 years

Leasehold land and buildings includes buildings, forestry and fire protection infrastructures. Plant and machinery includes field equipment.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual value, useful life and depreciation method are reviewed at each financial year-end and adjusted prospectively if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the assets is included in profit or loss in the year the asset is derecognised.

2.10 Investment properties

Investment properties are properties that are either owned by the Group or leased under a finance lease in order to earn rentals or for capital appreciation, or both, rather than for use in the production or supply of goods or services, or for administrative purposes, or in the ordinary course of business. Investment properties comprise completed investment properties and properties that are being constructed or developed for future use as investment properties. Properties held under operating leases are classified as investment properties when the definition of investment properties is met and they are accounted for as finance leases.

Investment properties are initially recorded at cost including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met. Subsequent to initial recognition, investment properties are measured at fair value, which reflects market conditions at the balance sheet date. Professional valuation is performed once every year. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss in the year in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of retirement or disposal.

2. Summary of significant accounting policies (cont'd)

2.11 Intangible assets

Intangible assets acquired separately are measured initially at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial acquisition, intangible assets are measured at cost less any accumulated amortisation and accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite useful lives are amortised on a straight-line basis over the estimated useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives or not yet available for use are not subject to amortisation and they are tested for impairment annually or more frequently if the events and circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. Such intangible assets are not amortised.

The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the useful life assessment continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit or loss when the asset is derecognised.

2.12 Goodwill

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

The cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in profit or loss. Impairment losses recognised for goodwill are not reversed in subsequent periods.

2. Summary of significant accounting policies (cont'd)

2.12 Goodwill (cont'd)

Where goodwill forms part of a cash-generating unit and part of the operation within that cash-generating unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operations disposed of and the portion of the cash-generating unit retained.

Goodwill and fair value adjustments arising on the acquisition of foreign operations on or after 1 January 2005 are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated in accordance with the accounting policy set out in Note 2.5.

Goodwill and fair value adjustments which arose on acquisition of foreign operations before 1 January 2005 are deemed to be assets and liabilities of the Company and are recorded in SGD at the rates prevailing at the date of acquisition.

2.13 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment assessment for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows expected to be generated by the asset 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. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses are recognised in statement of comprehensive income.

2. Summary of significant accounting policies (cont'd)

2.13 Impairment of non-financial assets (cont'd)

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss.

2.14 Financial assets

Initial recognition and measurement

Financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial assets at initial recognition.

When financial assets are recognised initially, they are measured at fair value plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

Derecognition

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On de-recognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

All regular way purchases and sales of financial assets are recognised or derecognised on the trade date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned.

2. Summary of significant accounting policies (cont'd)

2.15 Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset is impaired.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in profit or loss.

When the asset becomes uncollectible, the carrying amount of impaired financial assets is reduced directly or if an amount was charged to the allowance account the amounts charged to the allowance account are written off against the carrying value of the financial asset.

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

2.16 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and at banks and fixed deposits readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts repayable on demand that form an integral part of the Group's cash management.

2. Summary of significant accounting policies (cont'd)

2.17 Construction contracts

Construction contracts comprise uncompleted building contracts. It is valued at cost plus a proportion of estimated profits earned to date less progress billings received or receivable, using the percentage of completion method. The stage of completion is determined by reference to architect certification. When reference to architect certification is not available in a timely manner, the stage of completion is determined by reference to the past experience and knowledge of the internal quantity surveyors. Full provision is made for estimated losses to completion where applicable.

Cost comprises materials, labour, other overhead and incidental costs including interest expense.

2.18 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs incurred in bringing the inventories to their present locations and conditions are accounted for as follows:

- (a) Raw materials refer to purchase cost on a first-in-first-out basis.
- (b) Finished goods and work-in-progress refers to costs of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity. These costs are assigned on a first-in-first-out basis.
- (c) Agricultural produce comprises logs. Agricultural produce at the point of harvest is measured on initial recognition at its fair value less estimated point-of-sale costs. Thereafter, the inventory is carried at the lower of costs and net realisable value. Cost is determined using weighted average method.

Where necessary, allowance is provided for damaged, obsolete and slow moving items to adjust the carrying value of inventories to the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

2.19 Borrowing costs

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale. All other borrowing costs are expensed in the period they incur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2. Summary of significant accounting policies (cont'd)

2.20 Financial liabilities

Initial recognition and measurement

Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

(a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value. Any gains or losses from changes in fair value of the financial liabilities are recognised in profit or loss.

(b) Other financial liabilities

After initial recognition, other financial liabilities are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

2. Summary of significant accounting policies (cont'd)

2.21 Convertible financial instruments

The conversion option of convertible financial instruments exhibits characteristics of an embedded derivative. The derivative is separated from the liability component. On initial recognition, the derivative component of the convertible financial instruments is measured at fair value and presented as part of the derivative financial instruments. The derivative is subsequently carried at its fair value with fair value changes recognised in profit or loss. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. The liability component is measured at amortised cost using the effective interest method. Transaction costs relating to the liability component are recognised initially as part of the liability.

2.22 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.23 Financial guarantee

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantees are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee.

Subsequent to initial recognition, financial guarantees are recognised as income in profit or loss over the period of the guarantee. If it is probable that the liability will be higher than the amount initially recognised less amortisation, the liability is recorded at the higher amount with the difference charged to profit or loss.

2.24 Employee benefits

(a) Defined contribution plans

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. In particular, the Singapore companies in the Group make contributions to the Central Provident Fund scheme in Singapore, a defined contribution pension scheme. Contributions to defined contribution pension schemes are recognised as an expense in the period in which the related service is performed.

United Fiber System Limited and its Subsidiaries

Notes to the Consolidated Financial Statements – for the year ended 31 December 2012

2. Summary of significant accounting policies (cont'd)

2.24 Employee benefits (cont'd)

(b) Employee leave entitlement

Employee entitlements to annual leave are recognised as a liability when they accrue to employees. The estimated liability for leave is recognised for services rendered by employees up to the balance sheet date.

2.25 Leases – as lessee

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or asset or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

(a) Finance leases

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss. Contingent rents, if any, are charged as expenses in the periods in which they are incurred.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

(b) Operating leases

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

2. Summary of significant accounting policies (cont'd)

2.26 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

(a) Construction contracts

Contract revenue and contract costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the balance sheet date, when the outcome of a construction contract can be estimated reliably. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that are likely to be recoverable and contract costs are recognised as expense in the period in which they are incurred. An expected loss on the construction contract is recognised as an expense immediately when it is probable that total contract costs will exceed total contract revenue.

Contract revenue comprises the initial amount of revenue agreed in the contract and variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and they are capable of being reliably measured.

The stage of completion is determined by reference to the architect certification.

(b) Sale of goods

Revenue from sale of goods is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customer, usually on delivery of goods. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

(c) Interest income

Interest income is recognised using the effective interest method.

(d) Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

2. Summary of significant accounting policies (cont'd)

2.27 Taxes

(a) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting period, in the countries where the Group operates and generates taxable income.

Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(b) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except:

- Where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2. Summary of significant accounting policies (cont'd)

2.27 Taxes (cont'd)

(b) Deferred tax (cont'd)

The carrying amount of deferred 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 profit will be available to allow all or part of the deferred tax asset to be utilised.

Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it incurred during the measurement period or in profit or loss.

(c) Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- Where the sales tax incurred in a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

2. Summary of significant accounting policies (cont'd)

2.28 Segment reporting

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the management of the Company who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 33, including the factors used to identify the reportable segments and the measurement basis of segment information.

2.29 Share capital and share issuance expenses

Proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against share capital.

2.30 Contingencies

A contingent liability is:

- (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or
- (b) a present obligation that arises from past events but is not recognised because:
 - (i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
 - (ii) The amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent liabilities and assets are not recognised on the balance sheet of the Group, except for contingent liabilities assumed in a business combination that are present obligations and which the fair values can be reliably determined.

United Fiber System Limited and its Subsidiaries

Notes to the Consolidated Financial Statements – for the year ended 31 December 2012

2. Summary of significant accounting policies (cont'd)

2.31 Related parties

A related party is defined as follows:

- (a) A person or a close member of that person's family is related to the Group if that person:
 - (i) Has control or joint control over the Group;
 - (ii) Has significant influence over the Group; or
 - (iii) Is a member of the key management personnel of the Group or Company or of a parent of the Group.
- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group;
 - (vi) The entity is controlled or jointly controlled by a person identified in (a);
 - (vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

United Fiber System Limited and its Subsidiaries**Notes to the Consolidated Financial Statements – for the year ended 31 December 2012**

3. Group companies

Details of the subsidiaries are as follows:

Name of company	Country of incorporation	Principal activities	Proportion of ownership interest	
			2012 %	2011 %
<u>Held by the Company</u>				
Poh Lian Construction (Pte) Ltd ⁽⁷⁾	Singapore	Building contractor and property developer	100	100
Poh Lian Development Pte Ltd ⁽¹⁾	Singapore	Dormant	100	100
Anrof Singapore Ltd ⁽²⁾	Mauritius	Investment holding	100	100
Poh Lian (Cambodia) Ltd ⁽⁴⁾	Cambodia	Dormant	100	100
Able Advance Ltd ^{(4), (5)}	British Virgin Islands	Trading	100	100
Unifiber Holding Singapore Pte Ltd ⁽⁵⁾	Singapore	Investment holding	—	100

United Fiber System Limited and its Subsidiaries

Notes to the Consolidated Financial Statements – for the year ended 31 December 2012

3. Group companies (cont'd)

Details of the subsidiaries and associates are as follows:

Details of the subsidiaries and associates are as follows.

Name of company	Country of incorporation	Principal activities	Proportion of ownership interest	
			2012 %	2011 %
<u>Held through subsidiaries</u>				
<i>Subsidiaries</i>				
Poh Lian Realty Pte Ltd ^{(1), (8)}	Singapore	Property development	100	100
PLC Scaffolding Pte Ltd ^{(1), (8)}	Singapore	Construction services	100	100
Sin Poh Lian Sdn Bhd ^{(3a), (8)}	Malaysia	Investment holding	100	100
Dongshan Poh Lian Real Estate Co. Ltd ^{(3b), (8)}	People's Republic of China	Property investment	100	100
PT Hutan Rindang Banua ⁽²⁾	Indonesia	Forestry operation	100	100
PT Marga Buana Bumi Mulia ⁽²⁾	Indonesia	Development of a mill	100	100
PT Mangium Anugerah Lestari ⁽²⁾	Indonesia	Manufacturing	99	99
Pacificwood Investment Ltd ⁽²⁾	Mauritius	Investment holding and trading	100	100
Shinning Spring Resources Ltd ⁽⁴⁾	British Virgin Islands	Investment holding	100	100
<i>Associate</i>				
Poh Lian Training & Management (Bangladesh) Pvt Ltd ^{(6),(8)}	Bangladesh	Dormant	30	30

⁽¹⁾ Audited by Ernst & Young LLP, Singapore

⁽²⁾ Audited by member firms of Ernst & Young Global in the respective countries

⁽³⁾ Audited by other firms

^(a) S.C. Tang & Associates, Malaysia

^(b) Dongshan Yongdixin Certified Public Accountants, People's Republic of China for the year ended 31 December 2011

⁽⁴⁾ Exempted/not required to be audited by the law of its country of incorporation

⁽⁵⁾ Strike off has been completed on 9 May 2012

⁽⁶⁾ The associate is dormant. The company has no paid-up capital and the Group has not made any contribution to the joint venture.

⁽⁷⁾ Placed under interim judicial management on 7 March 2013

⁽⁸⁾ Held under Poh Lian Construction (Pte) Ltd which was placed under interim judicial management on 7 March 2013

United Fiber System Limited and its Subsidiaries

Notes to the Consolidated Financial Statements – for the year ended 31 December 2012

4. Revenue

	2012 US\$'000	2011 US\$'000
Construction contract revenue	234,606	177,973
Sale of logs	251	167
Sale of woodchips	–	1,393
	<u>234,857</u>	<u>179,533</u>

5. Other income

	2012 US\$'000	2011 US\$'000
Interest income	119	10
Bad debts recovered ⁽¹⁾	803	–
Fair value gain on conversion option in convertible loan	12,415	–
Gain from disposal of property, plant and equipment	21	–
Compensation income ⁽²⁾	–	48,047
Others ⁽³⁾	751	671
	<u>14,109</u>	<u>48,728</u>

(1) Bad debts recovered arising from the settlement of a legal suit.

(2) The compensation income relates to expected settlements arising from actions taken against a third party for encroaching the Group's forest concession (Note 10).

(3) Others relate mainly to sale of scrap metal, commission and discount recovered from suppliers.

6. Finance costs

	2012 US\$'000	2011 US\$'000
Interest expense on bank loans and bonds	17,957	5,865
Service fees	83	–
Others	20	30
	<u>18,060</u>	<u>5,895</u>

Included in interest expense on bank loan and bonds is an amount of US\$11,947,000 (2011: Nil) arising from amortisation of interest expense on convertible loan.

United Fiber System Limited and its Subsidiaries

Notes to the Consolidated Financial Statements – for the year ended 31 December 2012

7. Loss before tax

Loss before tax is derived after charging/(crediting) the following:

	2012 US\$'000	2011 US\$'000
<u>Included as part of other operating expenses:</u>		
Impairment loss on other receivables (Note 19)	39	–
Impairment loss on trade receivables (Note 19)	1,959	–
Impairment loss on investment properties held for sale (Note 12)	–	969
Impairment loss of goodwill on consolidation (Note 15)	23,651	–
Write down of compensation income receivable (Note 10)	22,912	–
Write down of inventories (Note 18)	247	241
Depreciation of property, plant and equipment (Note 11(c))	1,250	2,844
Loss on disposal of property, plant and equipment	–	28
Foreign exchange loss	1,501	545
Expenses for proposed acquisition (Note 34)	2,648	–
Potential losses arising from termination of construction contracts (Note 22)	48,453	–
	<u>48,453</u>	<u>–</u>
<u>Included as part of administrative expenses:</u>		
Directors' fees	163	160
Legal and professional fees	1,197	1,248
	<u>1,197</u>	<u>1,248</u>
<u>Staff costs:</u>		
Salaries, wages, bonuses and other costs		
- charged to profit or loss	4,267	4,896
- capitalised in construction projects (Note 16)	7,058	7,278
Contribution to defined contribution plans		
- charged to profit or loss	309	359
- capitalised in construction projects (Note 16)	570	460
	<u>12,204</u>	<u>12,993</u>

United Fiber System Limited and its Subsidiaries

Notes to the Consolidated Financial Statements – for the year ended 31 December 2012

8. Income tax benefit

The major components of income tax benefit for the years ended 31 December 2012 and 2011 are:

	2012 US\$'000	2011 US\$'000
Consolidated Statement of Comprehensive Income		
Current income tax		
- current income taxation	117	730
- over provision in respect of previous years	(556)	(143)
	<u>(439)</u>	<u>587</u>
Deferred income tax		
- origination and reversal of temporary difference	420	73
- changes in fair value on forest concession	(13,768)	(1,736)
- revaluation of investment properties	–	(242)
- under provision in respect of previous years	712	–
	<u>(12,636)</u>	<u>(1,905)</u>
Income tax benefit	<u>(13,075)</u>	<u>(1,318)</u>

The reconciliation between the income tax benefit and the product of accounting loss multiplied by the applicable corporate tax rate for the years ended 31 December 2012 and 2011 are as follows:

	2012 US\$'000	2011 US\$'000
Loss before tax	<u>(166,650)</u>	<u>(10,198)</u>
Tax at the domestic rates applicable to loss in the countries where the Group operates	(32,834)	(4,539)
<i>Adjustments:</i>		
Income not subjected to tax	(2,826)	(12)
Expenses not deductible for tax purposes	20,308	2,481
Tax effect on partial exemption	(11)	(36)
Deferred tax assets not recognised	2,131	1,043
Tax effect on under/(over) provision in respect of previous years	156	(143)
Utilisation of previously unrecognised deferred tax assets	–	(6)
Others	1	(106)
Income tax benefit	<u>(13,075)</u>	<u>(1,318)</u>

The above reconciliation is prepared by aggregating separate reconciliations for each national jurisdiction.

United Fiber System Limited and its Subsidiaries**Notes to the Consolidated Financial Statements – for the year ended 31 December 2012**

8. Income tax benefit (cont'd)

The Group has unabsorbed tax losses of approximately US\$49,602,000 (2011: US\$45,777,000), which predominantly arose in Singapore and Indonesia that are available for offset against future taxable income for which no deferred tax asset is recognised due to uncertainty of its recoverability. The use of these tax losses is subject to the agreement of the respective domestic tax authorities in the countries concerned.

The nature of expenses that are not deductible for income tax purposes are mainly due to impairment loss of goodwill on consolidation and potential losses arising from termination of construction contracts

9. Loss per share

Basic loss per share from operations are calculated by dividing net loss from operations, net of tax, attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted loss per share are calculated by dividing the net loss, net of tax, attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the loss and share data used in the computation of basic and diluted loss per share for the years ended 31 December:

	2012 US\$'000	2011 US\$'000
Loss net of tax for the year attributable to owners of the Company used in the computation of basic loss per share	(153,574)	(8,879)
Weighted average number of ordinary shares on issue applicable to basic loss per share ('000)	3,645,959	3,452,478
Adjusted weighted average number of ordinary shares applicable to diluted loss per share ('000)	3,648,256	3,452,478

As at 31 December 2012, 840,931,440 shares that would be issued on full conversion of the convertible loan have not been included in the calculation of diluted loss per share because they are anti-dilutive for the current financial year. Details of the convertible loan are disclosed in Note 24(g)(ii).

As at 31 December 2011, 72,000,000 shares that would be issued on full conversion of the convertible bond have not been included in the calculation of diluted loss per share because they are anti-dilutive for the previous financial year presented. On 30 May 2012, the Shareholders approved the change of conversion price from S\$0.20 per share to S\$0.05 per share and on 5 June 2012, the Company issued 326,948,647 ordinary shares to the bondholders to settle the outstanding obligations under the convertible bonds as disclosed under Note 24(f).

United Fiber System Limited and its Subsidiaries

Notes to the Consolidated Financial Statements – for the year ended 31 December 2012

10. Forest concession

	2012 US\$'000	2011 US\$'000
Forest concession comprises:		
Biological asset – forest asset (i)	30,720	62,189
Concession land rent-use rights (ii)	17,135	40,047
At 31 December	<u>47,855</u>	<u>102,236</u>

Further details of the total carrying value are as follows:

	2012		2011	
	Hectares	US\$'000	Hectares	US\$'000
Existing Plantation Forest (i)	18,837	28,941	30,554	59,697
Utilisable Natural Forest (i)	7,934	1,779	14,555	2,492
	<u>26,771</u>	<u>30,720</u>	<u>45,109</u>	<u>62,189</u>
Concession land rent-use rights (ii)	14,074	17,135	16,285	40,047
Total	<u>40,845</u>	<u>47,855</u>	<u>61,394</u>	<u>102,236</u>

(i) Biological asset- forest asset

	2012 US\$'000	2011 US\$'000
Movement in forest asset:		
At 1 January	62,189	108,537
Harvest during the year	(255)	(223)
Costs incurred during the year	947	862
Loss arising from changes in fair value	(32,161)	(46,987)
At 31 December	<u>30,720</u>	<u>62,189</u>

Forest asset relates to forest plantation trees for pulp logs.

The valuation of the forest asset is based on the report issued by an independent professional valuer, Ata Marie Group Ltd (Ata Marie). The independent valuer deployed the use of discounted cash flow ("DCF") over 6-year period (target rotation age) projections in arriving at the fair value of the forest asset as at 31 December 2012 of US\$30,720,000 (2011: US\$62,189,000).

Critical assumptions adopted in the Ata Marie's DCF analysis include:

- (a) Weakening of Indonesia Rupiah to US dollar with exchange rate of 9,401 (2011: 8,805);
- (b) Adoption of a discount factor of 10% (2011: 10%);

United Fiber System Limited and its Subsidiaries

Notes to the Consolidated Financial Statements – for the year ended 31 December 2012

10. Forest concession (cont'd)

(i) Biological asset – forest asset (cont'd)

- (c) 38.35% (30,554 hectares to 18,837 hectares) decrease in plantation forest area and reduction of 45.49% in utilisable natural forest (14,555 hectares to 7,934 hectares) based on the results of remote sensing analysis and visual inspection carried by Ata Marie using satellite imagery data;
- (d) Weighted average log price for plantation decreased by 36.96% (US\$45.55 per m³ to US\$28.71 per m³) and natural forest decreased by 6.46% (US\$42.90 per m³ to US\$40.12 per m³) as compared with 2011; and
- (e) Harvest volume predictions from the plantation forest and natural forest areas decreased by 35.59% (3,560,926m³ to 2,293,586m³) and 45.49% (160,105m³ to 87,274m³) respectively as compared with 2011.

(ii) Concession land rent-use rights

	2012	2011
	US\$'000	US\$'000
Compensation income receivable	17,135	40,047

Concession land rent-use rights represent the projected cashflows of compensation expected to be received from mining licensees who have encroached onto the Group's forest concession land to carry out mining activities as determined by the professional valuers, Ata Marie.

United Fiber System Limited and its Subsidiaries

Notes to the Consolidated Financial Statements – for the year ended 31 December 2012

10. Forest concession (cont'd)

(ii) Concession land rent-use rights (cont'd)

The estimation of the compensation cashflows, determined based on the report issued by the independent professional valuer, Ata Marie, is based on direct compensation approach in accordance with the two regulations issued by Indonesia's Ministry of Forestry in 2011 as follows:

- (a) Permenhut No. P.18/Menhut-II/2011, Minister of Forestry Decree regarding temporary release of Forest Land (Pedoman Pinjam Pakai Kawasan Hutan); and
- (b) Peraturan DirJen BUK No. 4/VI-BRPUK/2011, Directorate General Regulation regarding calculation of Compensation of Investment Costs for forestry companies.

The direct compensation is determined in terms of compensation for loss of existing plantations, infrastructure, increase in operational costs and loss of income from plantations over the remaining concession license period (opportunity costs) due to overlapping mining permits on the same forest concession plantable area.

The Group received US\$8,000,000 from licensed mining company in respect of encroachment of the forest concession for the year ended 31 December 2011.

As at 31 December 2012, the Group received advances of US\$52,000 from mining licensee. Subsequent to the year-end, the Group received US\$1,033,000 from licensed mining company in respect of encroachment of the forest concession.

As at 31 December 2012, the compensation income receivable is determined based on compensation agreement with mining licensees. Accordingly, the Group has written down US\$22.9 million during the year (31 December 2011: US\$Nil).

United Fiber System Limited and its Subsidiaries

Notes to the Consolidated Financial Statements – for the year ended 31 December 2012

11. Property, plant and equipment

	Leasehold land and buildings US\$'000	Plant and machinery US\$'000	Motor vehicles US\$'000	Computers, office equipment, furniture and fittings US\$'000	Total US\$'000
Cost					
At 1 January 2011	7,726	46,015	1,471	1,220	56,432
Additions	–	56	–	128	184
Disposals	–	(189)	(9)	(15)	(213)
Net exchange differences	(15)	(12)	(5)	(8)	(40)
At 31 December 2011 and 1 January 2012	7,711	45,870	1,457	1,325	56,363
Additions	7	3,754	156	179	4,096
Disposals	–	(15)	(106)	(233)	(354)
Net exchange differences	102	239	44	63	448
At 31 December 2012	7,820	49,848	1,551	1,334	60,553
Accumulated depreciation and impairment loss					
At 1 January 2011	4,516	22,981	1,090	1,064	29,651
Charge for the year	335	2,930	238	177	3,680
Disposals	–	(116)	(6)	(14)	(136)
Net exchange differences	2	(7)	(7)	(10)	(22)
At 31 December 2011 and 1 January 2012	4,853	25,788	1,315	1,217	33,173
Charge for the year	386	2,117	146	134	2,783
Disposals	–	(14)	(111)	(233)	(358)
Net exchange differences	11	102	30	54	197
At 31 December 2012	5,250	27,993	1,380	1,172	35,795
Net carrying amount					
At 31 December 2011	2,858	20,082	142	108	23,190
At 31 December 2012	2,570	21,855	171	162	24,758

United Fiber System Limited and its Subsidiaries

Notes to the Consolidated Financial Statements – for the year ended 31 December 2012

11. Property, plant and equipment (cont'd)

(a) Assets pledged as security

As at 31 December 2012, plant and machinery of the wood chip mill with a net book value of US\$17,146,000 (2011: US\$18,013,000) has been charged for borrowings by the Group (Note 24(e)).

(b) Assets held under finance lease

During the year ended 31 December 2012, the Group acquired property, plant and equipment with an aggregate cost of US\$555,000 (2011: US\$NIL) by means of finance leases. The cash outflow on acquisition of property, plant and equipment amounted to US\$404,000 (2011: US\$184,000).

During the year ended, an amount of US\$3,138,000 relating to construction equipment was transferred from construction projects. The corresponding depreciation relating to this equipment was amounted to US\$647,000.

The carrying value of plant and machinery held under finance leases as at 31 December 2012 was US\$1,957,000 (2011: US\$1,439,000).

Leased assets are pledged as security for the related finance lease liabilities (Note 23).

(c) Depreciation charge

Details of the depreciation charge for the year are as follows:

	2012 US\$'000	2011 US\$'000
Charged to profit or loss		
- other operating expenses (Note 7)	1,250	2,844
- cost of goods sold	—	43
Capitalised in construction projects (Note 16)	1,311	375
Capitalised in forest concession	222	418
Depreciation for the financial year	2,783	3,680

United Fiber System Limited and its Subsidiaries

Notes to the Consolidated Financial Statements – for the year ended 31 December 2012

12. Investment properties

	2012 US\$'000	2011 US\$'000
At 1 January	–	2,224
Impairment loss (Note 7)	–	(969)
Reclassified to investment properties held for sale (Note 17)	–	(1,432)
Exchange differences	–	177
At 31 December	–	–

Details of explanation on the investment properties held for sale is as disclosed in Note 17.

13. Club membership

	2012 US\$'000	2011 US\$'000
Cost		
At beginning of the year	131	131
Net exchange differences	8	–
At end of the year	139	131
Impairment		
At beginning of the year	(54)	(54)
Net exchange differences	(3)	–
At end of the year	(57)	(54)
Net carrying amount	82	77
Market value	90	77

Club membership has indefinite useful life and is carried at cost less impairment loss.

United Fiber System Limited and its Subsidiaries

Notes to the Consolidated Financial Statements – for the year ended 31 December 2012

14. Deferred tax

	2012 US\$'000	2011 US\$'000
Deferred tax liabilities		
Excess of net book value of plant and machinery over tax written down value	(166)	(707)
Revaluation of forest concession	(5,690)	(18,434)
Remittance of foreign source income	(23)	(22)
Others	(62)	86
Gross deferred tax liabilities	(5,941)	(19,077)
 Deferred tax assets		
Temporary differences arising from plant and equipment	176	276
 Net deferred tax liabilities	 (5,765)	 (18,801)

At the end of each reporting period, no deferred tax liability has been recognised for taxes that would be payable on the undistributed earnings of certain of the Group's subsidiaries as there were no undistributed earnings available for distributions by the subsidiaries.

United Fiber System Limited and its Subsidiaries

Notes to the Consolidated Financial Statements – for the year ended 31 December 2012

15. Goodwill on consolidation

	US\$'000
Cost	
At 1 January 2011	22,890
Net exchange differences	(194)
At 31 December 2011 and 1 January 2012	22,696
Net exchange differences	1,393
At 31 December 2012	24,089
Impairment	
At 1 January 2012	–
Charge for the year (Note 7)	(23,651)
Net exchange differences	(438)
	(24,089)
Net carrying amount	
At 31 December 2011	22,696
At 31 December 2012	–

Goodwill acquired through business combinations has been allocated to Construction and Property Division, the identified cash-generating unit ("CGU"), for impairment testing.

The recoverable amount of the CGU is determined based on a value-in-use calculation using cash flow projections based on financial budget approved by management covering a 5-years period.

The management has considered and determined factors applied in the financial budget including net cash flows from existing projects, projects in the pipeline, budgeted gross margin, average industry growth rate and the industry discount factor. As at 31 December 2012, the recoverable amount of Construction and Property Division under the value-in-use method is lower than its carrying amount, which resulted in the full impairment of the goodwill.

In addition, as disclosed under Note 35, PLC which is involved in the Construction and Property Division has been placed under judicial management and management has determined that no future benefit would be derived from the continued operations of the division.

United Fiber System Limited and its Subsidiaries

Notes to the Consolidated Financial Statements – for the year ended 31 December 2012

16. Gross amount due from/(to) customers for contract work-in-progress

	2012 US\$'000	2011 US\$'000
Aggregate amount of costs incurred and recognised profits (less recognised losses) to date	354,748	641,524
Less: Progress billings	(368,022)	(667,754)
	<u>(13,274)</u>	<u>(26,230)</u>
<i>Presented as:</i>		
Gross amount due from customers for contract work	830	16,334
Gross amount due to customers for contract work	(14,104)	(42,564)
	<u>(13,274)</u>	<u>(26,230)</u>

No advances received from customer before the related construction work is performed. Retention sums on construction contract included in trade receivables is as disclosed in Note 19.

Included in costs incurred during the financial year are as follows:

	2012 US\$'000	2011 US\$'000
Depreciation of property, plant and equipment (Note 11(c))	1,311	375
Operating lease charges	647	623
Staff costs:		
- Salaries, wages, bonuses and other costs (Note 7)	7,058	7,278
- Contribution to defined contribution plans (Note 7)	570	460

As at 31 December 2012, management was unable to determine reliably the total losses and liquidated damages arising from the construction contracts incurred by PLC which was placed under judicial management. The appointed judicial managers were still discussing with its stakeholders on the proposed restructuring. Updates on the status of the judicial management are disclosed in Note 35.

United Fiber System Limited and its Subsidiaries

Notes to the Consolidated Financial Statements – for the year ended 31 December 2012

17. Investment properties held for sale

	2012 US\$'000	2011 US\$'000
At 1 January	1,432	–
Reclassified from investment properties (Note 12)	–	1,432
Exchange differences	21	–
	<u>1,453</u>	<u>1,432</u>
At 31 December	<u>1,453</u>	<u>1,432</u>

Investment properties are commercial units with a site area of approximately 4,347 square meters, situated in Dongshan, People's Republic of China ("PRC"). Investment properties were previously stated at fair value, which have been determined based on valuations performed as at the balance sheet dates. Valuations were performed by independent professional valuers with recent experience in the location and category of the properties being valued.

In December 2011, the Group's subsidiary in PRC signed a sale and purchase agreement to sell the remaining commercial and residential units. Hence, the investment properties have been reclassified to investment properties held for sale. The fair value of the investment properties was written down to the fair value less costs to sell of the properties. The transaction is awaiting administrative approval from the relevant authority and is expected to be completed in year 2013.

On 7 March 2013, the Group has deconsolidated the investment properties as the Group has loss control of PLC following the judicial management order as disclosed in Note 35.

18. Inventories

	2012 US\$'000	2011 US\$'000
Consolidated Balance sheet:		
Raw materials	64	63
Logs	2,081	1,952
	<u>2,145</u>	<u>2,015</u>
Total inventories at lower of cost and net realisable value	<u>2,145</u>	<u>2,015</u>

Inventories recognised as an expense in cost of sales for the year ended is as follows:

	2012 US\$'000	2011 US\$'000
Consolidated Statement of Comprehensive Income:		
Inventories recognised as an expense in cost of sales	64	1,191
Inventories written-down (Note 7)	247	241
	<u>247</u>	<u>241</u>

United Fiber System Limited and its Subsidiaries

Notes to the Consolidated Financial Statements – for the year ended 31 December 2012

19. Trade and other receivables

	2012 US\$'000	2011 US\$'000
Current		
Trade receivables	49,796	39,404
Deposits	643	1,097
Other receivables	2,788	3,437
	<u>53,227</u>	<u>43,938</u>
Less: Allowance for doubtful debts	(2,206)	(3,088)
	<u>51,021</u>	<u>40,850</u>
Prepayments	134	196
	<u>51,155</u>	<u>41,046</u>
Non-current		
Trade receivables	9,702	8,798
Advances to PT KK	28,165	28,165
	<u>37,867</u>	<u>36,963</u>
Less: Allowance for doubtful debts	(24,532)	(24,532)
	<u>13,335</u>	<u>12,431</u>
Total trade and other receivables (current and non-current)	64,490	53,477
Add: Fixed deposits (Note 20)	7,207	3,314
Add: Cash and bank balances (Note 20)	7,927	34,394
Add: Compensation income receivable (Note 10)	17,135	40,047
Less: Prepayments	(134)	(196)
Total loans and receivables	<u>96,625</u>	<u>131,036</u>

Trade receivables are non-interest bearing and are generally on 30 to 60 days' terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

Trade receivables amounting to US\$31,109,000 (2011: US\$16,726,000) are secured for the related loans and borrowings as disclosed in Note 24.

United Fiber System Limited and its Subsidiaries

Notes to the Consolidated Financial Statements – for the year ended 31 December 2012

19. Trade and other receivables (cont'd)

As at 31 December 2012, US\$12,862,000 and US\$9,702,000 (2011: US\$15,391,000 and US\$8,798,000) of retention sums relating to gross amount due from customers for contract works are included in current and non-current trade receivables, respectively.

Trade receivables that are past due but not impaired

The Group has trade receivables amounting to US\$54,000 (2011: US\$767,000) that are past due at the balance sheet date but not impaired as follows:

	2012 US\$'000	2011 US\$'000
<i>Trade receivables past due:</i>		
61 to 180 days	–	393
More than 180 days	54	374
	<u>54</u>	<u>767</u>

Trade receivables that are impaired

The Group's trade receivables that are impaired at the balance sheet date and the movement of the allowance accounts used to record the impairment are as follows:

	Individually impaired 2012 US\$'000	2011 US\$'000
Trade receivables – nominal amount	1,970	1,221
Less: Allowance for impairment	(1,970)	(1,221)
	<u>–</u>	<u>–</u>
 Movement in allowance account:		
At 1 January	1,221	1,232
Charge for the year (Note 7)	1,959	–
Written off	(1,296)	–
Exchange differences	86	(11)
	<u>1,970</u>	<u>1,221</u>
At 31 December		

United Fiber System Limited and its Subsidiaries

Notes to the Consolidated Financial Statements – for the year ended 31 December 2012

19. Trade and other receivables (cont'd)

Other receivables that are past due but not impaired

The Group has other receivables amounting to US\$5,311,000 (2011: US\$6,492,000) that are past due at the balance sheet date but not impaired. These other receivables are unsecured and the analysis of their aging at the balance sheet date is as follows:

	2012 US\$'000	2011 US\$'000
<i>Other receivables past due:</i>		
61 to 120 days	318	42
121 to 180 days	–	56
More than 180 days	4,993	6,394
	<u>5,311</u>	<u>6,492</u>

Other receivables that are impaired

The Group's other receivables that are impaired at the balance sheet date and the movement of the allowance accounts used to record the impairment are as follows:

	Individually Impaired 2012 US\$'000	2011 US\$'000
Other receivables – nominal amount	28,853	30,833
Less: Allowance for impairment	(24,768)	(26,399)
	<u>4,085</u>	<u>4,434</u>
 Movement in allowance account:		
At 1 January	26,399	26,415
Charge for the year (Note 7)	39	–
Written off	(1,786)	–
Exchange differences	116	(16)
At 31 December	<u>24,768</u>	<u>26,399</u>

Trade and other receivables that are individually determined to be impaired at the balance sheet date relate to debtors that are in significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

On 1 January 2008, the Group has provided an allowance of US\$24,532,000 for impairment on the advances to PT Kiani Kertas ("PT KK") now known as PT Kertas Nusantara due to the uncertainty on the recoverability. There has been no movement in this allowance account for the year ended 31 December 2012 and 2011.

United Fiber System Limited and its Subsidiaries

Notes to the Consolidated Financial Statements – for the year ended 31 December 2012

19. Trade and other receivables (cont'd)

Trade and other receivables denominated in foreign currencies as at year end are as follows:

	2012 US\$'000	2011 US\$'000
SGD	818	–
IDR	755	680
	<u> </u>	<u> </u>

20. Fixed deposits, cash and bank balances

	2012 US\$'000	2011 US\$'000
Fixed deposits, secured	<u>7,207</u>	<u>3,314</u>
Cash on hand	12	12
Cash at banks	<u>7,915</u>	<u>34,382</u>
Cash and bank balances	<u>7,927</u>	<u>34,394</u>

The secured fixed deposits are pledged to secure the Group's banking facilities issued by the financial institutions. As disclosed under Note 35, due to PLC being placed under judicial management, the secured fixed deposits will be set off against liabilities owing to the banks.

Fixed deposits are made for varying period of between one month and twelve months and earn interests at the respective deposit rates. The weighted average effective interest rate as at the financial year end for the Group is 0.4614% (2011: 0.1936%) per annum.

United Fiber System Limited and its Subsidiaries

Notes to the Consolidated Financial Statements – for the year ended 31 December 2012

20. Fixed deposits, cash and bank balances (cont'd)

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise the following:

	2012 US\$'000	2011 US\$'000
Cash on hand	12	12
Cash at banks	7,915	34,382
Cash and cash equivalents	7,927	34,394

Cash and cash equivalents denominated in foreign currencies as at year ended are as follows:

	2012 US\$'000	2011 US\$'000
USD	570	85
IDR	1,257	207
Others	24	1

21. Trade and other payables

	2012 US\$'000	2011 US\$'000
Current		
Trade payables ⁽¹⁾	61,227	33,326
Interest payable ⁽⁵⁾	8,341	3,605
Accrued expenses	2,035	3,145
Accrual for directors' fee and variable bonus	180	170
Non-trade payables ⁽²⁾	4,253	50
Advances received ⁽³⁾	1,352	1,633
Others	2,905	1,649
	80,293	43,578

United Fiber System Limited and its Subsidiaries

Notes to the Consolidated Financial Statements – for the year ended 31 December 2012

21. Trade and other payables (cont'd)

	2012 US\$'000	2011 US\$'000
Non-current		
Trade payables ⁽⁴⁾	7,632	4,948
Total trade and other payables (current and non-current)	87,925	48,526
Add: Loans and borrowings (Note 24)	52,233	62,604
Add: Hire purchase creditors (Note 23)	785	591
Less: Advances received	(1,352)	(1,633)
Total financial liabilities carried at amortised costs	139,591	110,088

- (1) These amounts are non-interest bearing. Trade payables are normally settled on 30 to 120 days' terms.
- (2) Non-trade payables are unsecured, non-interest bearing and repayable on demand. As disclosed in Note 36(iii), an amount of US\$279,000 (2011: US\$Nil) included in non-trade payables relate to amount due to Stamford Law Corporation which have been settled through the issuance of equity shares of the Company.
- (3) Advances received from third parties relate to logs sales, disposal of investment properties and compensation for land rent-use rights which are non-interest bearing.
- (4) Non-current trade payables relate to retention sums on gross amount due to customers for contract works.
- (5) Interest payable consists of interest billed and accrued on loans and borrowings due to the financial institutions.

Trade and other payables denominated in foreign currencies as at year ended are as follows:

	2012 US\$'000	2011 US\$'000
USD	18,322	3,509
IDR	2,520	687

United Fiber System Limited and its Subsidiaries

Notes to the Consolidated Financial Statements – for the year ended 31 December 2012

22. Provision

This relates to provision for potential losses arising from termination of construction contracts. Included in the provision is the amount of US\$37,233,366 (equivalent to S\$45,499,173) that relates to the corporate guarantee claims from the banks and financial institutions (collectively known as Unsecured Creditors) in favour of Poh Lian Construction (Pte) Ltd which was put under judicial management. On 30 August 2013, the Group entered into a subscription agreement with these Unsecured Creditors to settle the corporate guarantee claims as disclosed in Note 36(iv).

23. Hire purchase creditors

	Minimum lease payments 2012 US\$'000	Present value of payments 2012 US\$'000	Minimum lease payments 2011 US\$'000	Present value of payments 2011 US\$'000
Within one year	344	310	387	344
After one year but not more than five years	516	475	277	247
Total minimum payments	860	785	664	591
Less: Amounts representing interest	(75)	–	(73)	–
Present value of minimum payments (Note 21)	785	785	591	591

The finance lease obligations which were denominated in SGD are secured over the leased assets (Note 11(b)). The average discount rate implicit in the lease is 2.76% (2011: 4.7%).

The hire purchase plans do not contain any renewal option or escalation clauses and do not provide for contingent rents. There are no restrictions placed upon the Group by entering into these leases.

United Fiber System Limited and its Subsidiaries

Notes to the Consolidated Financial Statements – for the year ended 31 December 2012

24. Loans and borrowings

	Note	2012 US\$'000	2011 US\$'000
Current:			
Short-term loan, secured	(a)	550	550
Short-term loan, secured	(b)	4,910	4,626
Short-term loan, secured	(c)	978	314
Short-term loan, secured	(d)	1,023	–
Short-term loan, secured	(e)	10,004	10,000
5% coupon convertible bond	(f)	–	12,114
Short term loan, secured	(g)	33,387	35,000
Short-term loan, unsecured	(h)	1,381	–
		<u>52,233</u>	<u>62,604</u>

- (a) The loan is secured by corporate guarantee given by the Company and proceeds from certain construction projects of a subsidiary. The loan interest rates are from 4.01% to 5.03% (2011: 3.50% to 5.03%) per annum.

As at 31 December 2012 the subsidiary has breached certain covenants for the credit facilities as disclosed under Note 24(i). On 7 March 2013, the Group has deconsolidated the loan as the Group has loss control on PLC following the judicial management order as disclosed in Note 35.

- (b) The loan of US\$4,910,000 (2011: US\$4,626,000) is secured by corporate guarantee given by the Company and proceeds from certain construction projects of a subsidiary. The loan interest rates are from 2.50% to 3.05% (2011: 2.32% to 2.55 %) per annum. On 24 January 2013, the bank revised the existing limit of revolving credit facility ("RCF") from S\$6,000,000 to S\$3,000,000 and extended the availability of the RCF from 31 March 2013 to 30 April 2013. In January 2013, S\$3,000,000 has been repaid.

As at 31 December 2012 the subsidiary has breached certain covenants for the credit facilities as disclosed under Note 24(ii). On 7 March 2013, the Group has deconsolidated the loan as the Group has loss control on PLC following the judicial management order as disclosed in Note 35.

- (c) The loan is secured by corporate guarantee given by the Company and proceeds from certain construction project of a subsidiary. The loan interest rate is at 7.75% per annum.

As at 31 December 2012, the subsidiary has breached covenants for the credit facilities as disclosed under Note 24(iii). In February 2013, the loan has been fully repaid.

United Fiber System Limited and its Subsidiaries

Notes to the Consolidated Financial Statements – for the year ended 31 December 2012

24. Loans and borrowings (cont'd)

- (d) The loan of US\$1,023,000 is secured by corporate guarantee given by the Company, proceeds from certain construction projects and pledged fixed deposit of a subsidiary. The loan interest rates are from 3.63% to 3.64% per annum.

As at 31 December 2012, the subsidiary has breached certain covenants for the credit facilities as disclosed under Note 24(iv).

- (e) The loan of US\$10,004,000 (2011: US\$10,000,000) 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 all assets of the woodchip mill. The loan interest rates are from 6.50% to 6.88% (2011: 6.14% to 6.46%) per annum.

On 8 March 2012, the Company and RBI entered into a definitive agreement to refinance the Company's outstanding obligations to RBI by issuing a zero coupon convertible bond of up to S\$15,800,000 to RBI ("RBI Bonds") with a bond yield of 6% per annum. The issuance of the RBI bonds is subjected to various conditions precedent. At the option of RBI, the Company will issue up to a maximum of 225,714,286 new shares in the capital of the Company at the agreed price of S\$0.07 per share which will be adjusted accordingly following the proposed share consolidation in the capital of the Company. The RBI Bonds will be issued at 100 per cent of their principal amount and will be due for repayment, 12 months from the date of issue or 31 March 2013, whichever is earlier. The definitive agreement has lapsed on 31 March 2013.

On 30 September 2013, the Company and the financial institution agreed to extend the loan maturity to 31 January 2014 subject to the condition that the Company shall provide RBI with fortnightly updates on the progress of the on-going Proposed DSS Acquisition. As at 31 December 2012 the Company has breached certain covenants for the credit facilities as disclosed under Note 24(v). The loan is expected to be repaid through the proceeds received from the compliance placement shares following the completion of the Proposed DSS Acquisition.

- (f) The US\$10,000,000 five percent convertible bonds ("CB Bonds") are unsecured and bond yield to maturity or redemption of 7% per annum.

On 22 January 2012, the Company signed a settlement agreement with the Bondholders to (a) extend the maturity date to 31 May 2012, and (b) all outstanding obligations under the CB Bonds will be settled by issuing new shares at S\$0.05 per share in the capital of the Company. On the same day, the Company entered into a US\$400,000 loan agreement with an affiliated company to the Bondholders to finance the cost of convening the EGM and the Company's working capital. On 30 May 2012, the Shareholders approved the proposed settlement of the loan at the extraordinary general meeting.

On 5 June 2012, the Company issued a total of 326,948,647 ordinary shares at S\$0.05 per share in the capital of the Company to the Bondholders for settlement of the outstanding CB Bonds obligations. On the same day, the Company issued 10,260,813 ordinary shares at S\$0.05 per share for the settlement of the US\$400,000 loan and the related interest.

United Fiber System Limited and its Subsidiaries

Notes to the Consolidated Financial Statements – for the year ended 31 December 2012

24. Loans and borrowings (cont'd)

(f) (cont'd)

The CB Bonds recognised in the balance sheet is calculated as follows:

	US\$'000
Liability component at 1 January 2011	10,112
Interest expense using effective interest rate method	2,002
Carrying value of CB Bonds at 31 December 2011 and 1 January 2012	12,114
Interest expense using effective interest rate method	740
Settlement through shares issued	(12,854)
Carrying value of CB Bonds at 31 December 2012	–

- (g)(i) The loan of US\$33,387,000 (2011: US\$35,000,000) 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% per annum. On 20 March 2012, the Company entered into a revised supplemental agreement ("3rd Supplemental Agreement") with the financial institution to (i) further extend the long-stop date of loan, and (ii) allowing the financial institution to have an option to convert all outstanding obligations under the loan agreements to the Company's shares at S\$0.05 per share. The financial institution shall not make any demands on the outstanding obligations under the loan agreements to be settled before the expiry of three weeks after the date of termination or completion of the Proposed Acquisition which was subsequently terminated on 31 May 2013 as detailed in Note 34(a).

As a result of the termination, the outstanding obligations including interest accrued under the US\$35,000,000 loan has become due and payable on 21 June 2013. As the Company did not manage to service the accrued interest on a 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 principal sum calculated on a daily basis from 11 May 2011 to 30 June 2013.

The default interest is amounted to US\$26,000,000 with the relevant charges estimated to be approximately US\$3,000,000.

At the date of this report, the financial institution has not written to the Company to demand for the repayment of the loan and interests.

On 11 July 2013, the Company and the financial institution has amended and restated the terms of the loan agreement of 12 January 2011 (as supplemented, extended and modified) which are disclosed under Note 36(ii).

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

United Fiber System Limited and its Subsidiaries

Notes to the Consolidated Financial Statements – for the year ended 31 December 2012

24. Loans and borrowings (cont'd)

- (g)(ii) The loan described above in Note 24(g)(i) contains a convertible option feature which required to be separated into two components, being loan and embedded derivative. The embedded derivative is to be measured at fair value as follows:-

	US\$'000
Face value of convertible loan (included interest payable of US\$3,874,000) on 20 March 2012	38,874
Embedded equity conversion option	(13,796)
Liability component at initial recognition	25,078
Amortisation of interest expense	11,947
Exchange differences	236
Liability component at end of financial year	37,261
Less: Interest payable	(3,874)
Liability component less interest payable	<u>33,387</u>

- g(ii) The fair value of the derivative liability as at 31 December 2012 is US\$1,151,000. See Note 30(a).

- (h) On 6 November 2012, the Company and a financial institution entered into a US\$4,000,000 unsecured loan agreement to finance the expenses relating to the Proposed Acquisition. The loan bears interest at 12.5% per annum, matured on 31 March 2013 and is repayable by proceeds to be received from the proposed compliance placement following the completion of the Proposed DSS Acquisition (Note 34(b)).

At 31 December 2012, the Company has utilised US\$1,381,000 for payment of professional and expenses relating to the Proposed Acquisition. The financial institution has agreed to extend the maturity of the loan to 28 February 2014.

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

Mr Chan Kin, the Non-Executive Chairman of UFS, holds an indirect interest of more than 30% of the votes attached to the voting rights in the financial institution.

Undrawn equity line of credit

The Company has an equity line of credit of S\$165,000,000 granted by a financial institution. Under the Equity Line of Credit Agreement signed between the Company and the financial institution dated 7 December 2004 and subsequently amendments on 23 December 2004, 2 August 2005 and 21 July 2009, the Company is entitled to issue loan notes to the financial institution and request advances from the financial institution at any time before 20 July 2014. The Company will repay the loan note amount by issuing shares to the financial institution according to the schedule agreed between the two parties.

24. Loans and borrowings (cont'd)

Undrawn equity line of credit (cont'd)

The requests for drawdown on the equity line by the Company are by way of delivery of Advance Notice to the financial institution and its acceptance, *inter alia*, are subject to the following conditions:

- The Advance Notice must not specify an amount which when aggregated with amount of all preceding Advance exceeds the Maximum Investment Amount, that is, S\$165,000,000; or exceeds the Minimum Advance Amount, that is, in any 3 Market Day period an aggregate amount equal to the lesser of S\$2,500,000 and any unused portion up to a limit of aggregate amount of S\$5,000,000;
- No Event of Default, as specified in the Equity Line of Credit Agreement;
- All the necessary authorisations for the issue of shares and Admission of the shares to the SGX-ST have been obtained; and
- The trading of the Company's shares is not suspended by the SGX-ST.

The Company has breached a covenant for the equity credit line as disclosed under Note 24(vi). As at 31 December 2012, the Company has undrawn amount from the equity line of S\$52,500,000 (equivalent to US\$43,000,000) (2011: S\$52,500,000 (equivalent to US\$40,500,000)).

Breach of covenants

- (i) As at 30 September 2012, the subsidiary has breached a covenant for the US\$2,000,000 short-term advance ("SFA") and S\$20,200,000 banker's guarantee facilities granted by a bank. The subsidiary did not maintain a maximum leverage ratio of 2 times the earnings before interest, tax, depreciation and amortisation ("EBITDA"). On 9 November 2012, the subsidiary requested to the bank and on 19 November 2012, the bank extended the waiver to 31 May 2013.

As at 31 December 2012, the subsidiary breached another covenant for not maintaining minimum tangible net worth of S\$15,000,000 and the subsidiary has fully utilised the banker's guarantee for certain construction project and approximately US\$550,000 of the SFA.

On 11 March 2013, the subsidiary received a letter from the bank informing that the bank has on 11 March 2013 set off the outstanding obligations under the SFA from its credit balance in partial satisfaction of the liabilities of the subsidiary to the bank.

24. Loans and borrowings (cont'd)

Breach of covenants (cont'd)

- (ii) As at 31 December 2012, the subsidiary has breached covenants of the credit facilities granted by a bank. The subsidiary did not fulfill the requirement to maintain leverage ratio not exceeding at 3:1, current ratio not less than 1:1 and tangible worth of minimum S\$15,000,000. As at 31 December 2012, the credit facilities comprised revolving credit facility of approximately US\$4,910,000 (equivalent to S\$6,000,000). The subsidiary has fully utilised the revolving credit facility for certain construction projects.

The bank is contractually entitled to request for the immediate termination of the credit facilities in the event of breach of covenant. As at the date of this report, the subsidiary has not received a letter for the termination of the loan.

- (iii) Since 2010, the Company has breached covenants of the credit facilities granted by a bank to a subsidiary. The Company did not fulfill the requirement to maintain a consolidated gearing ratio at 1.3:1 and consolidated tangible worth of minimum US\$100,000,000 for credit facilities of approximately US\$16,425,000 (equivalent to S\$20,000,000). The credit facilities comprised performance bonds facility of approximately US\$9,878,000 (equivalent to S\$12,000,000) and overdraft facility of US\$6,547,000 (equivalent to S\$8,000,000).

The bank has granted a temporary waiver of the breach of the covenants to 15 June 2011 and further extended to 15 December 2011. On 18 June 2012, the bank granted further waiver and deleted the requirement to maintain consolidated gearing ratio at 1.3:1 and consolidated tangible worth of minimum US\$100,000,000 as financial covenants from the credit facility.

As at 31 December 2012, the subsidiary did not fulfill the requirement to maintain leverage ratio not exceeding at 3:1, current ratio not less than 1:1 and tangible worth of minimum S\$15,000,000.

As at 31 December 2012, the subsidiary has utilised the performance bond facility for certain construction projects and overdraft facility of approximately US\$978,000.

On 11 March 2013, the bank informed the Company that a material adverse event has occurred when the subsidiary has applied for a judicial management order without informing or obtaining consent from the bank. The bank has terminated and cancelled the S\$20,000,000 credit facilities granted to the subsidiary on 8 March 2013 and will set-off any of the amounts standing to the credit of any of the accounts maintained by the subsidiary with the bank against the liabilities to the bank.

24. Loans and borrowings (cont'd)

Breach of covenants (cont'd)

- (iv) As at 31 December 2012, the subsidiary has breached covenants of the credit facilities granted by a bank. The subsidiary did not fulfill the requirement to maintain total debt divided by tangible net worth must be lesser or equivalent to 1.5 times and tangible worth of minimum S\$15,000,000. The credit facilities comprised performance bond facility of approximately US\$6,826,000 (equivalent to S\$8,342,000) and term loan facility of approximately US\$1,227,000 (equivalent to S\$1,500,000). As at 31 December 2012, the subsidiary has utilised the performance bond facility for certain construction projects and term loan of approximately US\$1,023,000.

On 12 March 2013, the bank informed the Company that it has, on 8 March 2013, terminated and cancelled the S\$9,842,000 credit facilities granted by them; and will set-off all outstanding obligations due to them against the fixed deposits pledged and balances in the current account maintained by the subsidiary with the bank. The termination was a result of the subsidiary applying for a judicial management order without informing or obtaining consent from the bank.

- (v) As at 30 September 2012, the Company has breached a covenant of the credit facilities granted by certain bank for not maintaining a maximum leverage ratio of 4 times EBITDA of one of its subsidiary. The Company has pledged the entire equity shares of the subsidiary to the bank. On 9 November 2012, the Company has submitted a waiver request letter and on 19 November 2012, the bank waived the breach.

As at 31 December 2012, the Company breached a covenant for not maintaining minimum tangible net worth of S\$15,000,000 of the subsidiary which is currently under judicial management. The facility is secured by corporate guarantee provided by the subsidiary to the bank.

The bank is contractually entitled to request for immediate termination of the credit facilities in the event of breach of covenant. As at the date of this report, the bank has not requested for immediate termination of the loan and the enforcement of the securities.

- (vi) In 2010, the Company has breached the covenant of the Equity Line of Credit granted by a financial institution in that a default event has occurred when the Company was unable to repay a loan to certain bank. The Company has notified the financial institution of the default event. On 7 March 2012 and 9 May 2012, the bank, whom the Company has defaulted repayment of the loan, granted the Company an extension to repay the outstanding by 31 March 2012 and 30 June 2012 respectively. On 29 June 2012 and 25 September 2012, the bank further extended the loan maturity to 30 September 2012 and 31 January 2013 respectively. The financial institution has confirmed that notwithstanding the occurrence of default event, the undrawn credit facility is still available to the Company up to the original tenure ending 20 July 2014. As at 31 December 2012, the Company has not utilised the remaining undrawn credit facility and does not have any outstanding balances owing to the financial institution.

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Notes to the Consolidated Financial Statements – for the year ended 31 December 2012

25. Share capital

	2012		2011	
	No. of shares '000	US\$'000	No. of shares '000	US\$'000
Issued and fully paid ordinary shares ⁽¹⁾				
At 1 January	3,452,478	243,511	3,452,478	243,511
Issued during the year ⁽²⁾	337,209	13,257	–	–
Share issuance expense	–	(155)	–	–
At 31 December	<u>3,789,687</u>	<u>256,613</u>	<u>3,452,478</u>	<u>243,511</u>

(1) The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction. The ordinary shares have no par value.

(2) Equity shares were issued as settlement of the US\$10,000,000 5% Convertible Bonds and US\$400,000 loan at S\$0.05 per share during the year.

26. Operating lease commitments – as lessee

The Group leases certain properties under lease agreements that are non-cancellable with no renewal option or escalation clauses included in the contracts. Lease terms do not contain restrictions concerning dividend, additional debts or further leasing. Operating lease payments recognised in the consolidated statement of comprehensive income during the year amounted to US\$25,000 (2011: US\$21,000). Operating lease payments capitalised in construction contract work-in-progress is disclosed in Note 16.

Future minimum lease payments for all leases with initial or remaining terms of one year or more are as follow:

	2012 US\$'000	2011 US\$'000
Within one year	1,149	759
After one year but not more than five years	398	234
	<u>1,547</u>	<u>993</u>

27. Contingent liabilities

- (a) Certain subsidiaries are operating in countries where the practical application of tax legislation is subject to varying interpretations. There is a risk that these subsidiaries could be exposed to further tax liabilities on their income for current and prior years, if the tax authorities adopt a different interpretation of the tax legislation at the time of finalisation of these tax returns.

United Fiber System Limited and its Subsidiaries

Notes to the Consolidated Financial Statements – for the year ended 31 December 2012

27. Contingent liabilities (cont'd)

- (b) The subsidiary of the Group was unable to fulfil the operation and export requirements under the bonded zone license of its woodchip mill operation. As a result, there is a risk that the bonded zone license may be revoked by the local authorities. Consequently, the payout of the exempt import duty is estimated to be approximately US\$4.6 million. The Group has filed for voluntarily disclosure and waiver of import duty to the local authorities. In addition, the Group has been advised by its consultant that the exempt import duty will be waived and accordingly no provision for any liability has been made in these financial statements.

28. Interests in joint ventures

The Group has a 40% interest in Shimizu-Poh Lian Joint Venture, a jointly controlled entity, which is involved in the construction of a condominium development. The joint venture has no paid-up capital and the Group has not made any contribution to the joint venture. The joint venture is currently dormant.

29. Related party disclosures

(a) Sales and purchases of goods and services

In addition to those related party information disclosed elsewhere in the financial statements, the following significant transactions between the Group and related parties who are not members of the Group took place during the year at terms agreed between the parties.

	2012 US\$'000	2011 US\$'000
Paid to a firm in which a director of the Company has an interest:		
- professional fee	–	4
Paid to a director of the Company:		
- advisory fee	–	83
	<u>–</u>	<u>87</u>

United Fiber System Limited and its Subsidiaries

Notes to the Consolidated Financial Statements – for the year ended 31 December 2012

29. Related party disclosures (cont'd)

(b) Interest expenses payable to Convertible Bondholders and on loan

	Interest expense US\$'000	Facility fee US\$'000	Total US\$'000
2012			
Interest expenses payable to the Convertible Bondholders in which Mr. Chan Kin has an interest in the following entities:			
- ASM Hudson River Fund	131	—	131
- ASM Asia Recovery (Master) Fund	452	—	452
- ASM Co-Investment Term Trust I	146	—	146
Interest expenses payable to the loan in which Mr. Chan Kin has an interest in the following entities:			
- ASM Co-Investment Opportunity Trust I LP	3	—	3
- ASM Asia Recovery (Master) Fund	26	80	106
	<u>758</u>	<u>80</u>	<u>838</u>
	Interest expense US\$'000	Amortisation cost US\$'000	Total US\$'000
2011			
Interest expenses payable to the Convertible Bondholders in which Mr. Chan Kin has an interest in the following entities:			
- ASM Hudson River Fund	206	137	343
- ASM Asia Recovery (Master) Fund	711	470	1,181
- ASM Co-Investment Term Trust I	229	152	381
	<u>1,146</u>	<u>759</u>	<u>1,905</u>

(c) Compensation of key management personnel

	2012 US\$'000	2011 US\$'000
Short-term employee benefits paid to:		
- directors of the Company	485	452
- other key management personnel	960	1,476
Total compensation paid to key management personnel	<u>1,445</u>	<u>1,928</u>

Included in the compensation paid to key management personnel are contributions to statutory pension funds amounted to US\$26,723 (2011: US\$36,162).

United Fiber System Limited and its Subsidiaries

Notes to the Consolidated Financial Statements – for the year ended 31 December 2012

30. Fair value of financial instruments

(a) Fair value of financial instruments that are carried at fair value

The following table shows an analysis of the financial instruments carried at fair value by level of fair value hierarchy:

	Significant other observable inputs (Level 2)	
	2012 US\$'000	2011 US\$'000
Financial liability:		
- Derivative (Note 24(g))	1,151	—

Hierarchy

The Group classify fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy have the following levels:

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

There have been no transfers between Level 1 and Level 2 during the financial year ended 2012.

Determination of fair value of convertible loan

Derivatives liability (Note 24(g)): The derivative liability arises from the conversion option on the convertible loan issued to a financial institution. The derivative component is measured separately at fair value on initial recognition and at each balance sheet date subsequently. The conversion option is valued using a valuation technique with market observable inputs when available. The most common applied valuation technique is a lattice method. The model incorporates various inputs including the share price of the Company, credit risk, volatility and foreign exchange rate.

(b) Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

Trade and other receivables (Note 19), trade and other payables (Note 21) and loans and borrowings (Note 24)

The carrying amounts of these financial assets and liabilities are reasonable approximation of fair values, either due to their short-term nature or that they are floating rate instruments that are re-priced to market interest rates on or near the balance sheet date.

United Fiber System Limited and its Subsidiaries

Notes to the Consolidated Financial Statements – for the year ended 31 December 2012

30. Fair value of financial instruments (cont'd)

(c) Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value

The fair value of financial assets and liabilities by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value are as follows:

	2012		2011	
	Carrying amount US\$'000	Fair value US\$'000	Carrying amount US\$'000	Fair value US\$'000
Financial assets:				
Trade and other receivables	13,335	10,532	12,431	9,582
Compensation income receivable*	17,735	17,735	40,047	40,047
	<u>17,735</u>	<u>17,735</u>	<u>40,047</u>	<u>40,047</u>
Financial liabilities				
Trade payables	7,632	6,468	4,948	4,193
Hire purchase creditors	860	714	664	586
	<u>860</u>	<u>714</u>	<u>664</u>	<u>586</u>

Determination of fair value

Trade and other receivables, trade payables and hire purchase creditors above are estimated by discounting expected future cash flows at market incremental lending rate for similar types of lending or leasing arrangements at the date of statements of financial position.

* The carrying value of the compensation income receivable approximates its fair value at the reporting date.

31. Financial risk management objectives and policies

The Group is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include interest rate risk, liquidity risk, credit risk, foreign currency risk and commodity price risk. The Board of Directors reviews and agrees policies and procedures for the management of these risks. The Audit Committee provides independent oversight to the effectiveness of the risk management process. The Group does not apply hedge accounting.

The following sections provide details regarding the Group's and the Company's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

Except for Poh Lian Construction (Pte) Ltd (in Judicial Management) and its subsidiaries, there has been no change to the Group's exposure to these financial risks or the manner in which it manages and measures the risks, except as disclosed in Note 31(b) liquidity risk section.

31. Financial risk management objectives and policies (cont'd)

(a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risk arises primarily from their loans and borrowings and the issuance of a financial instrument to a strategic investor.

The Group's policy is to manage interest expense by sourcing for competitive quotations for these loans and borrowings. Surplus funds are placed with reputable banks.

Sensitivity analysis for interest rate risk

At the balance sheet date, if SGD and USD interest rates had been 75 (2011: 75) basis points lower/higher with all other variables held constant, the Group's loss net of tax would have been approximately US\$131,000 (2011: US\$116,000) lower/higher, arising mainly as a result of lower/higher interest expense on floating rate loans and borrowings. The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment, showing a significantly higher volatility in prior years.

Information relating to the Group's interest rate exposure is also disclosed in various notes to the financial statements.

(b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatch of the maturities of financial assets and liabilities.

The Group's objective is to maintain sufficient credit facilities for its operations.

To manage liquidity risk, the Group monitors its net operating cash flows and maintains an adequate level of cash and cash equivalents and secured committed funding facilities from financial institutions. In assessing the adequacy of the facilities, management reviews its working capital requirements regularly.

Previously, the Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. Assess to sources of funding is sufficiently available and debt maturing within 12 months can be rolled over with existing lenders.

In 2012, the Group managed its liquidity risk by renewing its equity line with a financial institution and has further considered the Group's liquidity requirements as discussed in Note 1.2.

The Group has a balance of equity line of credit of US\$43,000,000 (equivalent to S\$52,500,000) from a financial institution that has not been drawn as at 31 December 2012 to meet its exposure to liquidity risks. The equity credit line is available to the Group till 20 July 2014.

United Fiber System Limited and its Subsidiaries

Notes to the Consolidated Financial Statements – for the year ended 31 December 2012

31. Financial risk management objectives and policies (cont'd)

(b) Liquidity risk (cont'd)

Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial assets and financial liabilities at the balance sheet date based on contractual undiscounted repayment obligations:

	1 year or less US\$'000	1 to 5 years US\$'000	Total US\$'000
2012			
Financial assets:			
Trade and other receivables	51,021	13,335	64,356
Compensation income receivable	–	17,135	17,135
Fixed deposits	7,207	–	7,207
Cash and bank balances	7,927	–	7,927
Total undiscounted financial assets	66,155	30,470	96,625
Financial liabilities:			
Trade and other payables	78,941	7,632	86,573
Hire purchase creditors	344	516	860
Loans and borrowings	61,660	–	61,660
Total undiscounted financial liabilities	140,945	8,148	149,093
2011			
Financial assets:			
Trade and other receivables	40,850	12,431	53,281
Compensation income receivable	–	40,047	40,047
Fixed deposits	3,314	–	3,314
Cash and bank balances	34,394	–	34,394
Total undiscounted financial assets	78,558	52,478	131,036
Financial liabilities:			
Trade and other payables	41,945	4,948	46,893
Hire purchase creditors	387	277	664
Loans and borrowings	64,909	–	64,909
Total undiscounted financial liabilities	107,241	5,225	112,466

United Fiber System Limited and its Subsidiaries

Notes to the Consolidated Financial Statements – for the year ended 31 December 2012

31. Financial risk management objectives and policies (cont'd)

(b) Liquidity risk (cont'd)

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments. The maximum amount of the financial guarantee contracts are allocated to the earliest period in which the guarantee could be called.

	1 year or less US\$'000	1 to 5 years US\$'000	Total US\$'000
Financial guarantees			
2012	91,130	–	91,130
2011	31,566	72,489	104,055

(c) Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's exposure to credit risk arises primarily from trade and other receivables.

Credit risk is limited to the risk arising from the inability of a debtor to make payments when due. It is the Group's policy to provide credit terms to creditworthy customers. These debts are continually monitored and therefore, the Group does not expect to incur material credit losses.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. For international trade transaction of significant value, the Group accepts letter of credit issued by a reputable international bank. The Construction Division bids for projects from developers with good financial standing.

Exposure to credit risk

The carrying amount of trade and other receivables and cash and bank balances represent the Group's maximum exposure to credit risk. No other financial asset carry a significant exposure to credit risk.

United Fiber System Limited and its Subsidiaries

Notes to the Consolidated Financial Statements – for the year ended 31 December 2012

31. Financial risk management objectives and policies (cont'd)

(c) Credit risk (cont'd)

Credit risk concentration profile

The Group determines concentrations of credit risk by monitoring the country and industry sector profile of its trade and other receivables on an on-going basis. The credit risk concentration profile of the Group's trade and other receivables at the balance sheet date is as follows:

	2012		2011	
	US\$'000	% of total	US\$'000	% of total
By country				
Singapore	57,060	88%	46,179	86%
Indonesia	4,331	7%	4,312	8%
Others	2,965	5%	2,986	6%
Total	64,356		53,477	
By industry sector				
Construction and property	59,428	92%	49,029	92%
Forest and pulp	4,331	7%	4,402	8%
Others	597	1%	46	0%
Total	64,356		53,477	

At the balance sheet date, approximately 89% (2011: 87%) of the Group's trade and other receivables were from external parties who are property developers.

Financial assets that are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired are due from credit worthy debtors. Cash and cash equivalents that are neither past due nor impaired are placed with reputable local or international banks with high credit ratings.

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired are disclosed in Note 19.

31. Financial risk management objectives and policies (cont'd)

(d) Foreign currency risk

The Group has transactional currency exposures arising from borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily USD and IDR.

The Group hold cash and cash equivalents denominated in foreign currencies for working capital purposes (Note 20).

The Group relies on operational cash flow to hedge against its foreign currency exposure.

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of the Group's loss net of tax to a reasonably possible change in the USD and IDR against SGD, with all other variables held constant.

			Loss net of tax	
			2012	2011
			US\$'000	US\$'000
USD	- strengthened 3% (2011: 3%)		(1,546)	(1,843)
	- weakened 3% (2011: 3%)		1,546	1,843
IDR	- strengthened 3% (2011: 3%)		(38)	(8)
	- weakened 3% (2011: 3%)		38	8

The Group is also exposed to currency translation risk arising from its net investments in foreign operations in countries such as Indonesia, Malaysia, People's Republic of China, Mauritius and British Virgin Islands.

The Group's net investments in these countries are long term in nature.

(e) Commodity price risk

Commodity price risk is the risk that the fair value of future cash flows of the Group's financial instruments will fluctuate because of changes in commodity prices.

The Group is exposed to commodity price risk arising from changes in market value of the mature forest asset.

The Group's objective is to monitor the trend of these commodity prices and would reduce level of harvesting activities in period of price decline.

United Fiber System Limited and its Subsidiaries

Notes to the Consolidated Financial Statements – for the year ended 31 December 2012

31. Financial risk management objectives and policies (cont'd)

(e) Commodity price risk (cont'd)

Sensitivity analysis for commodity price risk

At the balance sheet date, if the price of logs had been 5% (2011: 5%) higher/lower with all other variables held constant, the Group's loss net of tax would have been US\$3,768,000 (2011: US\$8,166,000) lower/higher, arising as a result of higher/lower fair value gains on the forest concession.

32. Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. No changes were made in the objectives, policies or processes between the years ended 31 December 2011 and 2012 respectively.

The Group monitors capital using gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio between 20% and 45%. The Group is required to comply with bank covenants imposed by financial institutions. The Group has breached the bank covenants for the year ended 31 December 2012 as disclosed in Note 24.

The Group includes within net debt, loans and borrowings, trade and other payables, hire purchases less cash and cash equivalents. Capital includes equity attributable to the equity holders of the parent, capital reserves and other reserves.

	2012 US\$'000	2011 US\$'000
Loans and borrowings	52,233	62,604
Derivative	1,151	—
Trade and other payables	87,925	48,526
Hire purchases creditors	785	591
Less: Cash and bank balances	(7,927)	(34,394)
Less: Fixed deposits	(7,207)	(3,314)
Net debts	126,960	74,013
Equity attributable to equity holders of the Company	(60,768)	77,332
Capital and net debts	66,192	151,345
Gearing ratio	192%	49%

As at 31 December 2012 and 2011, the Group recorded a gearing ratio of 192% and 49% respectively which exceeded the Group's capital management policy. To improve its capital structure, the Group has taken various steps to restructure its existing loans as disclosed in Note 36.

33. Segment information

For management purposes, the Group is organised into business units based on their products and services, and has three reportable operating segments as follows:

- The Construction and property segment is involved in the construction of residential properties and industrial projects and in property development.
- The Forestry and pulp segment is engaged in forestry operations and manufacture of wood chips.
- The Others segment is investment holding and trading company.

Except as indicated above, no operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements. Group financing (including finance costs) and income taxes are managed on a group basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

United Fiber System Limited and its Subsidiaries

Notes to the Financial Statements – for the year ended 31 December 2012

33. Segment information (cont'd)	Construction and property		Forestry and pulp		Others		Elimination		Note	Consolidated	
	2012	2011	2012	2011	2012	2011	2012	2011		2012	2011
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000		US\$'000	US\$'000
Revenue:											
Revenue from external customers	234,606	177,973	251	1,560	–	–	–	–		234,857	179,533
Inter segment revenue	–	–	–	–	771	766	(771)	(766)	A	–	–
Total revenue	234,606	177,973	251	1,560	771	766	(771)	(766)		234,857	179,533
Results:											
Segment results	(23,536)	4,755	(62,532)	(14,471)	(62,522)	5,413	–	–	B	(148,590)	(4,303)
Finance costs										(18,060)	(5,895)
Loss before tax										(166,650)	(10,198)
Income tax benefit										13,075	1,318
Loss for the year										(153,575)	(8,880)

United Fiber System Limited and its Subsidiaries

Notes to the Financial Statements – for the year ended 31 December 2012

33. Segment information (cont'd)

	Construction and property 2012 US\$'000	2011 US\$'000	Forestry and pulp 2012 US\$'000	2011 US\$'000	Others 2012 US\$'000	2011 US\$'000	Elimination 2012 US\$'000	2011 US\$'000	Note	Consolidated 2012 US\$'000	2011 US\$'000
Assets and Liabilities:											
Segment assets	92,047	112,703	76,836	148,832	3,345	34,616	(15,305)	(36,710)		156,923	259,441
Total assets	92,047	112,703	76,836	148,832	3,345	34,616	(15,305)	(36,710)		156,923	259,441
Segment liabilities	99,856	95,556	180,481	179,445	115,545	24,865	(245,494)	(206,300)	C	150,388	93,566
Unallocated liabilities										67,308	88,547
Total liabilities										217,696	182,113
Capital expenditure	-	184	-	-	-	-	-	-		-	184
Compensation income	-	-	-	(48,047)	-	-	-	-		-	(48,047)
Depreciation of property, plant and equipment (Note 11(c))	126	120	1,124	2,689	-	35	-	-		1,250	2,844
Fair value loss on forest asset	-	-	32,161	46,987	-	-	-	-		32,161	46,987
Impairment loss	1,558	969	401	-	39	-	-	-		1,998	969
Write down of compensation income receivable	-	-	22,912	-	-	-	-	-		22,912	-

United Fiber System Limited and its Subsidiaries

Notes to the Financial Statements – for the year ended 31 December 2012

33. Segment information (cont'd)

A Inter-segment revenues are eliminated on consolidation.

B The following items are added to/(deducted from) segment results net of intra-segment elimination to arrive at "Loss before tax" present in the consolidated statement of comprehensive income:

	Construction and property US\$'000	Forestry and pulp US\$'000	Others US\$'000	Total US\$'000
2012				
Other income	729	120	13,260	14,109
Selling and distribution expenses	(342)	(128)	(68)	(538)
Administrative expenses	(4,309)	(2,028)	(1,099)	(7,436)
Other operating expenses	(2,433)	(28,409)	(75,386)	(106,228)
Fair value loss on forest asset	–	(32,161)	–	(32,161)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
2011				
Other income	357	40,132	8,239	48,728
Selling and distribution expenses	(1,210)	(544)	(20)	(1,774)
Administrative expenses	(4,877)	(1,827)	(2,268)	(8,972)
Other operating expenses	(1,709)	(5,243)	(1,497)	(8,449)
Fair value loss on forest asset	–	(46,987)	–	(46,987)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

C Unallocated liabilities comprise of loans and borrowings, interest payables, provision for taxation and deferred tax liabilities amounting to US\$45,922,000, US\$8,341,000, US\$7,104,000 and US\$5,941,000 (2011: US\$57,114,000, US\$3,605,000, US\$8,751,000 and US\$19,077,000) respectively.

United Fiber System Limited and its Subsidiaries

Notes to the Financial Statements – for the year ended 31 December 2012

33. Segment information (cont'd)

Geographical information

Revenue and non-current assets information based on the geographical location of customers and assets respectively are as follows:

	Singapore US\$'000	Indonesia US\$'000	Asia Pacific Countries US\$'000	Consolidated US\$'000
2012				
Total revenue from external customers	227,898	251	6,708	234,857
Non-current assets	14,889	66,455	4,862	86,206
2011				
Total revenue from external customers	174,550	1,560	3,423	179,533
Non-current assets	11,213	119,697	29,996	160,906

Non-current assets information presented above consists of forest concession, property, plant and equipment, goodwill on consolidation and other non-current assets.

Information about a major customer

Revenue from one major customer amounted to US\$95,121,000 (2011: US\$77,000,000), arising from sales by the construction and property segment.

34. Proposed acquisition of PT Golden Energy Mines Tbk ("GEMS")

- (a) On 31 May 2013, the long-stop date to satisfy the conditions precedent in the share purchase agreement entered into between the Company, PT Dian Swastatika Sentosa Tbk ("DSS") and GMR Coal Resources Pte Ltd ("GMR") on 29 June 2012 (as amended, supplemented or updated) has lapsed (the "Proposed Acquisition"). Since the conditions precedent have not been fulfilled or waived before the long-stop date on 31 May 2013, the agreement was terminated and ceased to have any force and effect. As at 31 December 2012, the Group incurred US\$2,648,000 (2011: NIL) transactions costs in connection with this transaction.
- (b) On 31 May 2013, the Group entered into a non-legal binding heads of agreement (HoA) with DSS to set out the new proposed commercial terms in respect of the potential 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 94.0686% 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".

The completion of the Proposed DSS Acquisition will be conditional upon the following condition precedents 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;
- (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;

35. Judicial management order for Poh Lian Construction (Pte) Ltd (“PLC”)

On 7 March 2013, Poh Lian Construction (Pte) Ltd made a Judicial Management Application (“JM Application”) in the High Court of the Republic of Singapore to place itself under interim judicial management. The JM Application was subsequently approved by the High Court on 5 April 2013.

PLC has been experiencing significant financial and operational difficulties due to challenging conditions in the local construction industry. In addition, PLC suffered significant losses during the financial year ended 31 December 2012. In view of the current state of affairs of PLC, the Board of PLC is of the view that placing PLC under judicial management is in the best interest of all stakeholders, in particular its customers, sub-contractors, creditors and shareholders.

Mr Tam Chee Chong and Mr Andrew Grimmatt, both from Deloitte & Touche LLP were appointed as judicial managers to, *inter alia*, manage the affairs of PLC as well as preserve the assets of PLC. Upon the appointment of the judicial managers, the functions and powers of PLC's directors were transferred to the judicial managers. Accordingly, the Group has deconsolidated the assets and liabilities of PLC and its subsidiary companies from that date due to loss of control.

During the judicial management of PLC, the Judicial Managers had engaged in numerous negotiations with various stakeholders of PLC, including but not limited to developers, subcontractors, suppliers and potential purchasers or investors in PLC. During the judicial management of PLC, four of PLCs' building contracts have also been terminated. The respective developers have called on the performance bonds of the building projects, as granted by financial institutions to the developers on behalf of PLC. In relation to the remaining five building projects, the judicial managers have been negotiating for, *inter alia*, the extinguishment of the performance bonds; the reduction of liquidated damages incurred as a result of the delayed completion of the building projects; and release of the retention sums held by the developers. In addition, the Judicial Managers have been engaging in discussions with various parties who have indicated interest in taking over the two HDB projects. Notwithstanding the above, the interim judicial managers received expressions of interest from several potential investors, who are interested in purchasing PLC for its ratings. The Judicial Managers had not received any formal offers.

Two developers of the three terminated building contracts have expressed interest in taking over some of PLC's foreign workers available. To reduce PLC's labour costs, the Judicial Managers will together with the Ministry of Manpower, work towards the transfer of the foreign workers to the developers of these terminated building contracts (to the extent requested by the developers) or repatriation of the foreign workers.

On 4 July 2013, the Group announced the outcome of its first meeting with the creditors of PLC pursuant to Section 227M of the Companies Act, to update the creditors of PLC on the status of the judicial management and to consider the JM's statement of proposal moving forward. The JM orders remain in force for 180 days following the approval by the High Court.

35. Judicial management order for Poh Lian Construction (Pte) Ltd ("PLC") (cont'd)

The following resolution were put to vote and approved by majority in number and value of creditors present and voting at the meeting as required under Section 227N of the Companies Act:

- (a) JM continues to review PLC's transactions relating to the 3 building projects, namely Goodwood Project, Sophia Project and Bishopsgate Project and any misfeasance on the part of former management or employees with a view of taking legal proceedings;
- (b) Upon realising PLC's remaining assets, the JM are to have PLC placed in liquidation subject to final determination of application initiated by United Overseas Bank in OS 506/2013 and any actions that the JM may take after completing their review of the past transactions of PLC; and
- (c) To liquidate or to sell both the active and dormant subsidiaries in PLC.

On 1 October 2013, the High Court ordered the Judicial Management Order to be extended to 1 February 2014.

36. Events occurring after the balance sheet date

- (i) **Asia Star Fund ("ASF") Subscription Agreement to subscribe for 3,593,395,298 new ordinary shares in the capital of the Company at S\$0.05 per new ordinary share**

On 20 March 2012, the Company entered into a supplemental agreement with ASF to amend the terms of the original subscription agreement dated 12 January 2011 (as supplemented, extended and modified). The long-stop date of fulfilling the conditions precedent in the subscription agreement has been amended to three weeks after the earlier of:-

- (a) 31 December 2012 (or such other date as may be mutually agreed between the parties to the Proposed Acquisition as the long-stop date for the completion of the Proposed Acquisition; or
- (b) The termination of the definitive agreements in relation to the Proposed Acquisition.

On 8 March 2013, ASF terminated the subscription agreement on the basis of the write-down on the value of the Group's forestry concession and losses incurred by the Group's construction and property division. Such material losses constitute a material adverse effect on, inter alia, the consolidated financial condition, results of operations and business of the Group.

36. Events occurring after the balance sheet date (cont'd)

(ii) Asia Star Fund ("ASF") US\$35,000,000 loan

On 11 July 2013, the Group has entered into an amended and restated agreement with ASF to amend and restate the terms of the original loan agreement dated 12 January 2011 (as supplemented, extended and modified). The amended and restated of the repayment date of the US\$35,000,000 loan facility is 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 Group following the completion of the proposed acquisition by the Group 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 DSS Acquisition; and
 - (iii) The next business day after the expiry of 1 year from the date of the Restated Loan Agreement;
- (b) The Indebtedness shall be payable by Group to ASF in cash;
- (c) in the event of insufficiency of funds available to the Group on the repayment date, ASF shall be entitled to enforce its rights against the Group 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; 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 Group 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
 - (ii) No creditors of the Group have taken any enforcement actions or commence legal proceedings against the Group at any time before the repayment date.

36. Events occurring after the balance sheet date (cont'd)

(iii) Issuance of 74,563,714 new ordinary shares in the capital of the Company to settle indebtedness owing to Stamford Law Corporation

On 16 July 2013, the Company entered into a settlement agreement with Bliss Deal Limited ("BDL") in satisfaction of the amounts due and owing to Stamford Law Corporation ("SLC") in the aggregate amount of US\$1,416,833 (S\$1,731,369) (the "Relevant Indebtedness") by the way of a private placement (the "Placement Share"). BDL had acquired from SLC the Relevant Indebtedness of the Group owing to SLC. The indebtedness arising from legal services provided by SLC to the Group from 29 February 2012 up to 20 June 2013 where SLC had assigned to BDL all its rights, interest and remedies under or arising out of the Relevant Indebtedness, together with its entitlement and rights to payments under, in connection with or arising from the Relevant Indebtedness.

The principle terms of placement will be settled by way of allotment and issuance of 74,563,714 shares (the "Placement Shares") to BDL at an issue price of S\$0.02322 per Placement Share. The Placement Shares will be allotted and issued pursuant to the general shareholders' mandate to issue new Shares not exceeding 50% of the issued share capital of the Company as at the date of AGM held on 10 May 2013.

On 29 July 2013, the Company obtained an approval in-principle from the Singapore Exchange Securities Trading Limited for the listing and quotation of the Placement Shares on the Official List of the SGX-ST.

On 5 August 2013, the Company has completed the allotment and issuance of the Placement Shares to BDL.

(iv) Settlement of corporate guarantees by way of issuance of mandatory convertible bonds ("MCB")

On 30 August 2013, pursuant to the condition precedent in the Proposed DSS Acquisition, the Company entered into subscription agreement with various bank 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") which was put under interim judicial management on 7 March 2013.

The Company will issue up to US\$36,024,682 (equivalent to S\$45,499,173) in aggregate principal amount of 5% bonds due 2015 which are mandatorily convertible into ordinary shares in the capital of the Company at the agreed conversion price of S\$0.019 per share. The conversion price will be adjusted accordingly following the proposed share consolidation. The conversion will take place on upon the completion of the Proposed DSS Acquisition.

37. Authorisation of financial statements

The financial statements for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the Directors dated on 29 November 2013.