

Co. Reg. No. 199508589E

United Fiber System Limited
and its Subsidiaries

Annual Financial Statements
31 December 2009, 2010 and 2011

United Fiber System Limited and its Subsidiaries

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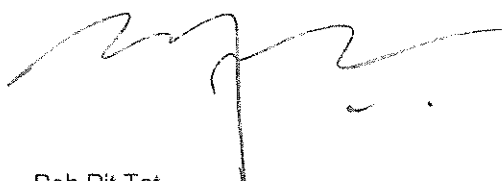
United Fiber System Limited and its Subsidiaries

Statement by Directors

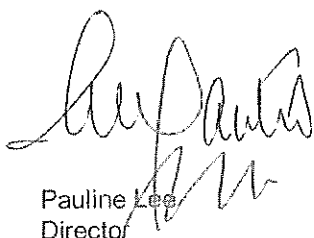
We, Peh Pit Tat and Pauline Lee, being two of the directors of United Fiber System Limited, do hereby state that, in the opinion of the directors,

- (i) the accompanying consolidated balance sheets, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated cash flow statements 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 2009, 2010 and 2011 and the results of the business, changes in equity and cash flows of the Group for the years ended 2009, 2010 and 2011, and
- (ii) 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,



Peh Pit Tat
Director



Pauline Lee
Director

Singapore
12 November 2012

United Fiber System Limited and its Subsidiaries

Independent Auditor's Report

For the financial years ended 31 December 2009, 2010 and 2011

To the Members of United Fiber System Limited

Report on the Financial Statements

We have audited the accompanying financial statements of United Fiber System Limited and its subsidiaries (the "Group"), which comprise the consolidated balance sheets as at 31 December 2009, 2010 and 2011, the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated cash flow statements for the years 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 our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

United Fiber System Limited and its Subsidiaries

Independent Auditor's Report

For the financial years ended 31 December 2009, 2010 and 2011

To the Members of United Fiber System Limited (cont'd)

Opinion

In our opinion, the financial statements are properly drawn up in accordance with the International Financial Reporting Standards so as to present fairly, in all material respects, the financial position of the Group as at 31 December 2009, 2010 and 2011 and its financial performance and its cash flows for the years ended on those dates.

Emphasis of Matter

Without qualifying our opinion:

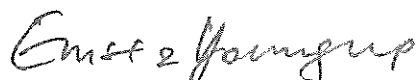
- a) As set out in Note 1.2 of the financial statements, the Group incurred net losses of US\$8,880,000 for the financial year ended 31 December 2011. As at that date, the Group's current liabilities exceeded their current assets by US\$59,306,000 and the Group has loans and borrowings totaling US\$62,604,000 that are due within the next twelve months. These conditions indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

As disclosed in Note 1.2, these financial statements have been prepared on the assumption that the Group will be able to continue as a going concern. The ability of the Group to continue as going concern depends on the continued availability of the undrawn credit facilities amounting to US\$40,500,000 and that the proposed settlement of loans and borrowings by issuance of the Company's shares will be executed. If the Group is unable to continue in operational existence for the foreseeable future, the Group may be unable to discharge their 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 on the balance sheets. 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.

- b) We draw attention to Note 2.4.2(c) to the financial statements which describe the uncertainties surrounding management's assessment of the fair value of the concession land rent-use rights which is recorded in the Group's balance sheet as at 31 December 2011. The carrying value may differ from the actual amount which the Group could be compensated for subsequently.

Other Matters

We also reported separately on the financial statements of United Fiber System Limited and its subsidiaries for the same periods prepared in accordance with Singapore Financial Reporting Standards.



Ernst & Young LLP
Public Accountants and
Certified Public Accountants
Singapore

12 November 2012

United Fiber System Limited and its Subsidiaries

Consolidated Statements of Comprehensive Income for the years ended 31 December 2009, 2010 and 2011

(In United States Dollars)

	Note	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000
Revenue	4	179,533	132,746	139,992	113,785
Cost of sales		(166,382)	(123,649)	(132,387)	(111,321)
Gross profit		13,151	9,097	7,605	2,464
Other income	5	8,681	2,926	478	3,193
Selling and distribution expenses		(1,774)	(2,035)	(1,884)	(3,861)
Administrative expenses		(8,972)	(9,363)	(7,650)	(9,689)
Other operating expenses		(8,449)	(20,519)	(5,807)	(15,392)
Fair value loss on forest concession	10	(6,940)	(25,289)	(55,714)	(63,805)
Finance costs	6	(5,895)	(7,717)	(5,704)	(5,857)
Loss before tax	7	(10,198)	(52,900)	(68,676)	(92,947)
Income tax credit	8	1,318	5,664	13,607	25,994
Loss for the year		(8,880)	(47,236)	(55,069)	(66,953)
Other comprehensive income:					
Foreign currency translation		53	2,427	728	4,575
Total comprehensive income for the year		(8,827)	(44,809)	(54,341)	(62,378)
Loss attributable to:					
Owners of the Company		(8,879)	(47,232)	(55,069)	(66,953)
Non-controlling interests		(1)	(4)	—	—
		(8,880)	(47,236)	(55,069)	(66,953)
Total comprehensive income attributable to:					
Owners of the Company		(8,826)	(44,805)	(54,341)	(62,378)
Non-controlling interests		(1)	(4)	—	—
		(8,827)	(44,809)	(54,341)	(62,378)
Loss per share attributable to owners of the Company (cents per share)					
Basic and diluted	9	(0.26)	(1.43)	(1.99)	(2.89)

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

United Fiber System Limited and its Subsidiaries

Consolidated Balance Sheets at 31 December 2009, 2010 and 2011

(In United States Dollars)

	Note	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000	As at 1 January 2008 US\$'000
Non-Current Assets						
Forest concession	10	102,236	108,537	134,121	189,422	249,507
Property, plant and equipment	11	23,190	26,781	40,737	44,308	46,146
Investment properties	12	—	2,224	1,471	1,471	—
Other investments		—	—	—	—	59
Club membership	13	77	77	69	69	69
Deferred tax assets	14	276	229	224	210	79
Goodwill on consolidation	15	22,696	22,890	20,970	20,479	20,400
Trade and other receivables	19	12,431	14,196	13,169	13,961	10,794
		<u>160,906</u>	<u>174,934</u>	<u>210,761</u>	<u>269,920</u>	<u>327,054</u>
Current Assets						
Gross amount due from customers for contract work-in-progress	16	16,334	4,308	1,685	1,047	326
Investment properties held for sale	17	1,432	—	—	—	1,369
Inventories	18	2,015	3,464	3,489	1,652	9,466
Trade and other receivables	19	41,046	39,948	33,803	24,708	29,809
Fixed deposits	20	3,314	3,853	2,149	1,331	2,492
Cash and bank balances	20	34,394	12,507	14,687	7,516	4,241
		<u>98,535</u>	<u>64,080</u>	<u>55,813</u>	<u>36,254</u>	<u>47,703</u>
Current Liabilities						
Gross amount due to customers for contract work-in-progress	16	42,564	28,664	31,706	21,039	7,198
Trade and other payables	21	43,578	48,444	28,806	21,085	45,448
Hire purchase creditors	22	344	362	317	360	116
Provision for taxation		8,751	6,642	2,042	1,139	1,220
Derivatives	30(a)	—	28	—	—	—
Loans and borrowings	23	62,604	42,080	21,149	22,297	15,174
		<u>157,841</u>	<u>126,220</u>	<u>84,020</u>	<u>65,920</u>	<u>69,156</u>
Net (Current Liabilities) / Current Assets		(59,306)	(62,140)	(28,207)	(29,666)	(21,453)

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

United Fiber System Limited and its Subsidiaries

Consolidated Balance Sheets at 31 December 2009, 2010 and 2011 (cont'd)

(In United States Dollars)

	Note	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000	As at 1 January 2008 US\$'000
Non-Current Liabilities						
Trade payables	21	4,948	4,404	3,014	2,710	–
Deferred tax liabilities	14	19,077	20,913	27,491	41,380	67,143
Non-trade payables	21	–	726	481	385	249
Hire purchase creditors	22	247	596	689	938	121
Derivative liability	30(a)	–	–	1,417	285	405
Loans and borrowings	23	–	–	29,271	40,402	23,951
		<u>24,272</u>	<u>26,639</u>	<u>62,363</u>	<u>86,100</u>	<u>91,869</u>
Net Assets		<u>77,328</u>	<u>86,155</u>	<u>120,191</u>	<u>154,154</u>	<u>213,732</u>
Equity Attributable to Equity Holders of the Company						
Share capital	24	243,511	243,511	232,738	212,360	209,560
Reserves		(166,179)	(157,353)	(112,548)	(58,207)	4,171
		<u>77,332</u>	<u>86,158</u>	<u>120,190</u>	<u>154,153</u>	<u>213,731</u>
Non-controlling interests		(4)	(3)	1	1	1
Total Equity		<u>77,328</u>	<u>86,155</u>	<u>120,191</u>	<u>154,154</u>	<u>213,732</u>

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

United Fiber System Limited and its Subsidiaries

Consolidated Statements of Changes in Equity for the years ended 31 December 2009, 2010 and 2011

(In United States Dollars)

	Share Capital (Note 24) US\$'000	Foreign Currency Translation ⁽¹⁾ US\$'000	Other Reserves ⁽²⁾ US\$'000	Accumulated Losses US\$'000	Total Reserves US\$'000	NCI US\$'000	Total equity US\$'000
At 1 January 2008	209,560	1,189	(62,479)	65,461	4,171	1	213,732
Loss for the year	-	-	-	(66,953)	(66,953)	-	(66,953)
<u>Other comprehensive income</u>	-	-	-	-	4,575	-	4,575
Foreign currency translation	-	4,575	-	-	-	-	-
Total comprehensive income for the year	-	4,575	-	(66,953)	(62,378)	-	(62,378)
<u>Contributions by owners</u>	2,800	-	-	-	-	-	2,800
Issuance of ordinary shares	-	-	-	-	-	-	-
Balance at 31 December 2008 and 1 January 2009	212,360	5,764	(62,479)	(1,492)	(58,207)	1	154,154
Loss for the year	-	-	-	(55,069)	(55,069)	-	(55,069)
<u>Other comprehensive income</u>	-	728	-	-	728	-	728
Foreign currency translation	-	-	-	-	-	-	-
Total comprehensive income for the year	-	728	-	(55,069)	(54,341)	-	(54,341)
<u>Contributions by owners</u>	20,378	-	-	-	-	-	20,378
Issuance of ordinary shares	-	-	-	-	-	-	-
Balance at 31 December 2009 and 1 January 2010	232,738	6,492	(62,479)	(56,561)	(112,548)	1	120,191

United Fiber System Limited and its Subsidiaries

Consolidated Statements of Changes in Equity for the years ended 31 December 2009, 2010 and 2011 (cont'd)

(In United States Dollars)

	Share Capital (Note 24) US\$'000	Foreign Currency Translation ⁽¹⁾ US\$'000	Other Reserves ⁽²⁾ US\$'000	Accumulated Losses US\$'000	Total Reserves US\$'000	NCI US\$'000	Total equity US\$'000
Balance at 31 December 2009 and 1 January 2010	232,738	6,492	(62,479)	(56,561)	(112,548)	1	120,191
Loss for the year	-	-	-	(47,232)	(47,232)	(4)	(47,236)
Other comprehensive income							
Foreign currency translation	-	2,427	-	-	2,427	-	2,427
Total comprehensive income for the year	-	2,427	-	(47,232)	(44,805)	(4)	(44,809)
Contributions by owners							
Issuance of ordinary shares	10,773	-	-	-	-	-	10,773
Balance at 31 December 2010 and 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)
Other comprehensive income							
Foreign currency translation	-	53	-	-	53	-	53
Total comprehensive income for the year	-	53	-	(8,879)	(8,826)	(1)	(8,827)
Balance 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 Company and 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 Statements for the years ended 31 December 2009, 2010 and 2011

(In United States Dollars)

	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000
Cash flows from operating activities				
Loss before tax	(10,198)	(52,900)	(68,676)	(92,947)
Adjustments for:				
Depreciation of property, plant and equipment (Note 11(e))	2,844	3,994	3,087	2,928
Loss/(gain) on disposal of property, plant and equipment	28	12	(48)	(77)
Property, plant and equipment written-off	—	42	3	324
Impairment loss on other receivables	—	—	56	—
Impairment loss on property, plant and equipment	—	10,651	—	—
Fair value gain on investment properties	—	(892)	—	—
Impairment loss of asset held for sale	969	—	—	—
Fair value loss on forest concession	6,940	25,289	55,714	63,805
Write down of inventories	241	972	—	158
Fair value (gain)/loss on financial instruments	—	(1,471)	1,361	(118)
Deferred expenses written off	—	—	—	7,487
Gain on disposal of associate	—	—	—	(1,718)
Interest expenses	5,895	7,717	5,704	5,857
Interest income	(10)	(9)	(5)	(24)
Net exchange differences	(1,764)	2,931	1,173	3,965
Operating loss before changes in working capital	4,945	(3,664)	(1,631)	(10,360)
Increase/(decrease) in gross amount due from/(to) customers for contract work-in-progress	1,874	(5,665)	9,549	13,271
Decrease/(increase) in inventories	1,208	129	(1,798)	7,932
Decrease/(increase) in trade and other receivables	670	(7,486)	(6,672)	(5,159)
(Decrease)/increase in trade and other payables	(1,161)	20,942	9,743	(950)
Cash flows from operations	7,536	4,256	9,191	4,734
Income taxes paid	(259)	(143)	(48)	(786)
Interest paid	(3,148)	(3,307)	(4,446)	(5,857)
Net cash flows from/(used in) operating activities	4,129	806	4,697	(1,909)

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 Statements for the years ended 31 December 2009, 2010 and 2011
(cont'd)**

(In United States Dollars)

	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000
Cash flows from investing activities				
Addition to forest concession	(639)	(781)	(415)	(1,886)
Interest received	10	9	5	24
Proceeds from disposal of property, plant and equipment	4	26	49	264
Proceeds from disposal of other investments	—	—	—	59
Proceeds from disposal of associate	—	—	—	1,718
Purchase of property, plant and equipment	(184)	(1,355)	(316)	(1,727)
Net cash flows used in investing activities	(809)	(2,101)	(677)	(1,548)
Cash flows from financing activities				
Decrease/(increase) of pledged fixed deposits	539	(2,642)	120	52
Proceeds from issuance of ordinary shares	—	—	5,000	—
Proceeds from issuance of loan notes	—	—	15,000	—
Proceeds from issuance of convertible bonds	—	—	10,000	—
Redemption of convertible bond	—	—	(23,000)	(6,600)
Proceeds from loans and borrowings	39,949	15,572	—	12,195
Repayment of loans and borrowings	(21,427)	(14,703)	(2,458)	—
Repayment of hire purchase creditors	(349)	(48)	(323)	(341)
Net cash flows from/(used in) financing activities	18,712	(1,821)	4,339	5,306
Net increase/(decrease) in cash and cash equivalents	22,032	(3,116)	8,359	1,849
Effect of exchange rate changes on cash and cash equivalents	(145)	(2)	(250)	317
Cash and cash equivalents at 1 January	12,507	15,625	7,516	5,350
Cash and cash equivalents at 31 December (Note 20)	34,394	12,507	15,625	7,516

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

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 and principal place of business of the Company is located at 103 Defu Lane 10, #02-01, BTH Building, Singapore 539223.

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\$8,880,000, US\$47,236,000 and US\$55,069,000 for the financial years ended 31 December 2011, 2010 and 2009 respectively (2008: US\$66,953,000). As at 31 December 2011, 2010 and 2009, the Group are in net current liabilities positions of US\$59,306,000, US\$62,140,000 and US\$28,207,000 respectively (2008: US\$29,666,000).

As at 31 December 2011, 2010 and 2009, the Group has loans and borrowings totalling US\$62,604,000, US\$42,080,000 and US\$21,149,000 respectively (2008: US\$22,297,000) that are due within the next twelve months. These factors indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as going concern.

(a) Equity line of credit available to the Group

At the 31 December 2011, the Group has a balance equity line of credit of US\$40,500,000 from a financial institution that has not been drawn as at 31 December 2011. The credit line is available to the Group till 20 July 2014.

1. General information (cont'd)

1.2 Going concern (cont'd)

(b) Proposed plan to discharge loans and borrowings by issuance of shares

(i) ASF Loan of US\$35,000,000

On 12 January 2011, the Group entered into an agreement with Asia Star Fund ("ASF") whereby ASF will subscribe for 3,593,395,298 ordinary shares at S\$0.05 ("Proposed Subscription") each in the share capital of the Group as well as provide a loan of US\$35,000,000 to the Group for the retirement of certain loans and borrowings and to finance the Group's short term working capital requirements before the completion of the Proposed Subscription.

As at 31 December 2011, the Group had utilised the US\$35,000,000. As disclosed on Note 35(ii), on 20 March 2012, the Group and ASF entered into an agreement to further extend the long-stop date of the ASF Loan and allowing ASF to have the option to convert all outstanding obligations under the ASF loan agreements to the Group shares at S\$0.05 per share which will be adjusted accordingly following the proposed share consolidation of every twenty (20) existing ordinary shares into one (1) new ordinary share in the capital of the Company. In addition, ASF shall not make any demands on the outstanding obligations under the ASF loan agreements to be settled before the expiry of three weeks after the date of termination of the Proposed Acquisition (refer to Note 35 (ii) for more details on the Proposed Acquisition).

In respect of an event of default, where ASF terminates the ASF Loan Agreement, the Group shall, after the completion of the Proposed Acquisition has been agreed to be on or before 31 December 2012 ("Extended Repayment Date"), repay the ASF Loan solely (and in no other manner) by the conversion of the ASF indebtedness into shares of the Company pursuant to the shareholders' approval at a general meeting.

(ii) RBI Loan of US\$10,000,000

As disclosed in Note 35(iii), on 8 March 2012, the Group and Raiffeisen Bank International ("RBI") had 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. At the option of RBI, the Group 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 of every twenty (20) existing ordinary shares into one (1) new ordinary share 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 and 31 March 2013, whichever is earlier. The issuance of the convertible bonds is subjected to various conditions precedent as detailed in Note 35(iii).

1. General information (cont'd)

1.2 Going concern (cont'd)

(b) Proposed plan to discharge loans and borrowings by issuance of shares (cont'd)

(ii) RBI Loan of US\$10,000,000 (cont'd)

As disclosed in Note 35(iv), as at 30 September 2012, the Company has breached the financial covenant for not maintaining a maximum leverage ratio of 4 times the EBITDA of one of its subsidiaries. The Company has pledged the equity shares of the subsidiary against the loan. As at the date of this report, RBI has not requested for immediate termination of the loan and the enforcement of the equity shares in the subsidiary. The Company has submitted a waiver request letter to waive the breach.

In addition, one of the subsidiaries has also breached the financial covenant of US\$2,000,000 short-term advance ("SFA") and S\$20,200,000 banker's guarantee facilities granted by RBI for not maintaining a maximum leverage ratio of 2 times the EBITDA. As at 30 June 2012, the subsidiary has fully utilised the banker's guarantee for certain construction projects and approximately US\$550,000 of the SFA. The subsidiary will be submitting a waiver request letter to RBI to waive the breach.

As at the date of this report, the Group has not received the letter of demand from RBI on the breach mentioned above.

(c) Proposed Acquisition

As disclosed in Note 35(ii), on 26 January 2012, the Group had entered into a legal binding agreement, Head of Agreements ("HoA") with PT Dian Swastatika Sentosa Tbk ("DSS") in respect of the potential acquisition by the Group for 3,941,166,500 shares representing 66.9998% of the total issued share capital of PT. Golden Energy Mines Tbk ("GEMS") from DSS, by way of exchange of new ordinary shares representing approximately 92.7663% of the enlarged share capital of the Group. Subject to the agreed adjustments, the Group will pay DSS the purchase consideration of S\$1,549,643,677 by way of issuance and allotment of 44,275,533,621 new ordinary shares of the Company at an issue price of S\$0.035 per share ("Proposed Acquisition"). Under the HoA, GMR Coal Resources Pte Ltd ("GMR") which currently holds 30.0% of GEMS will be given the opportunity to sell some or all of its interest to UFS, subject to the execution of definitive documentation between GMR and the Group.

On 6 March 2012, the Group received a letter from GMR indicating their non-binding intention to sell some or all of its 30% interest in GEMS to the Group, subject to the satisfactory due diligence on the Group. As disclosed in Note 35(ii), the execution of the sale and purchase agreement has been extended to 30 June 2012 and the completion of the Proposed Acquisition has been agreed to be on or before 31 December 2012 or otherwise agreed date ("Acquisition Long-Stop Date").

1. General information (cont'd)

1.2 Going concern (cont'd)

(c) Proposed Acquisition (cont'd)

The said agreed adjustments, include changes to the share capital of the Group, whether by way of share consolidation, share splits, rights issue, bonus issue or otherwise ("dilutive events"), whereby appropriate adjustments shall be made to the consideration shares and/or the issue price as the DSS and/or GMR and the Group may agree, so as to ensure that DSS and GMR interest are not affected as a result of the changes in the share capital of the Group, but would exclude the successful settlement of the outstanding obligation under the US\$10,000,000 five percent convertible bonds due 31 May 2012.

The successful completion of the Proposed Acquisition is subjected to various conditions precedent as detailed in Note 35(ii).

For the purpose of evaluating the Group's going concern, the directors having regard to the continued availability of the undrawn credit facilities, the proposed settlement of loans and borrowings by issuance of Company's shares will be executed and the waiver of the financial covenants accepted by RBI, the directors are of the opinion that the Group are 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.

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") as issued by the International Accounting Standards Board (IASB).

For all periods up to and including the year ended 31 December 2008, the Group prepared its financial statements in accordance with Singapore Financial Reporting Standards ("FRS"). These financial statements for the year ended 31 December 2009 are the first the Group has prepared in accordance with IFRS. Refer to Note 2.32 for information on how the Group adopted IFRS.

The financial statements have been prepared on a 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 consistently applied by the Group during the financial years ended 31 December 2009, 2010 and 2011.

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 12 Deferred taxes – Recovery of Underlying Assets	1 January 2012
IAS 19 Employee Benefits (Amendment)	1 January 2013
IAS 27 Separate Financial Statements	1 January 2013
IAS 28 Investments in Associates and Joint Ventures	1 January 2013
IFRS 7 Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements	1 July 2011
IFRS 9 Financial Instruments: Classification and Measurement	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
IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities	1 January 2014
Annual improvements to IFRS 2009 – 2011 cycle	1 January 2013

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

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

Except for the amendments to IFRS 13, 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.

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. The standard becomes effective for annual periods beginning on or after 1 January 2013.

2.4 Significant accounting judgments and estimates

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

2.4.1 Judgments made in applying accounting policies

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

(a) Income taxes

The Group has exposure to income taxes in numerous jurisdictions. Significant judgment 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 was US\$8,751,000, US\$6,642,000 and US\$2,042,000 for financial years ended 31 December 2011, 2010 and 2009 respectively (2008: US\$1,139,000). The carrying amount of the Group's deferred tax liabilities was US\$19,077,000, US\$20,913,000 and US\$27,491,000 for financial years ended 31 December 2011, 2010 and 2009 respectively (2008: US\$41,380,000).

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

2.4 Significant accounting judgments and estimates (cont'd)

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) Impairment of goodwill

The Group assesses whether there are any indicators of impairment for goodwill at the end of each reporting period. Goodwill is tested for impairment annually and at other times when such indicators exist.

The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

The carrying amount of the Group's goodwill as at 31 December 2011, 2010 and 2009 was US\$22,696,000, US\$22,890,000 and US\$20,970,000 respectively (2008: US\$20,479,000). More details are given in Note 15.

(b) Valuation of forest assets

Forest asset is measured on initial recognition and at each reporting date at its fair value at cost using discounted cash flow ("DCF"). Annual valuation by independent professional valuer is carried out to ascertain the fair value of forest asset. The carrying amount of the Group's forest asset at the end of the reporting period is disclosed in Note 10 to the financial statements.

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

2.4 Significant accounting judgments and estimates (cont'd)

2.4.2 Key sources of estimation uncertainty (cont'd)

(c) Concession land rent-use rights

Included in the forest concession in the balance sheets of the Group as at 31 December 2011 are concession land rent-use rights amounting to US\$40,047,000. The fair value of the rights in respect of the forest concession land rent-use is estimated and determined annually by an independent professional valuation. The estimated fair value 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. As a result, actual results of operations and realisation of the compensation could differ from the estimate set forth in these financial statements. A 5% change in the valuation input would result in approximately 22% variance in the Group's loss for the year ended 31 December 2011. No concession land rent-use rights received as at 31 December 2010 and 2009.

(d) 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 sheets date is disclosed in Note 19 to the financial statements. The loans that are impaired have been fully provided for; accordingly the change of present value of estimated cash flows on receivables will not have an impact on the impairment allowance in the income statement.

(e) 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 stage of completion method. The stage of completion is measured by reference to professional surveys of work performed.

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

2.4 Significant accounting judgments and estimates (cont'd)

2.4.2 Key sources of estimation uncertainty (cont'd)

(e) Construction contracts (cont'd)

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. An estimation of recoverable variation works in 2009 amounting to US\$6,507,000 (2008: US\$2,313,000) was taken into consideration in arriving at the estimated total contract revenue. No estimation of recoverable variation works recognised in 2011 and 2010. Any shortfall in recovery of this estimation will impact the results of the Group by the same quantum. 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.

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.

(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 subsidiaries, 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.

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

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

(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 and 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.

Any goodwill arising on the acquisition of a foreign operation prior and subsequent to 1 January 2010 and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(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 for each income statement 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. Summary of significant accounting policies (cont'd)

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 Group. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gain 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.

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.

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)

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.

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.

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

2.6 Subsidiaries and basis of consolidation (cont'd)

(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 parent.

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.

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. Summary of significant accounting policies (cont'd)

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 fair value is estimated 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 cost 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, plant and equipment and furniture and fixtures are measured at cost less accumulated depreciation and accumulated impairment losses.

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

Assets under construction included in plant and equipment are not depreciated as these assets are not yet available for use.

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 and loss in the year the asset is derecognised.

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

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.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. For a transfer from owner occupied property to investment property, the property is accounted for in accordance with the accounting policy for property, plant and equipment set out in Note 2.9 up to the date of change in use.

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. Summary of significant accounting policies (cont'd)

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.

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 Group and are recorded in SGD at the rates prevailing at the date of acquisition.

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

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, quoted share prices for publicly traded subsidiaries 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 profit or loss except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

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 unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

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

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.

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

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as financial assets held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designed as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designed as effective hedging instruments.

The Group has not designated any financial assets upon initial recognition at fair value through profit or loss.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial assets are recognised in the income statement. Net gains or net losses on financial assets at fair value through profit or loss include exchange differences, interest and dividend income.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

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

2.14 Financial assets (cont'd)

Subsequent measurement (cont'd)

(b) 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.

2.15 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.

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

2.15 Impairment of financial assets (cont'd)

Financial assets carried at amortised cost (cont'd)

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 rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. 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 unsecured fixed deposits readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value, and unsecured bank overdrafts repayable on demand that form an integral part of the Group's cash management.

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. Summary of significant accounting policies (cont'd)

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 substantially completed ready 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.

2.20 Government grant

Government grant shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. Grants related to income may be presented as a credit in profit or loss, either separately or under a general heading such as "Other income".

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

2.21 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.

The Group has not designated any financial liabilities upon initial recognition at fair value through profit or loss.

(b) Other financial liabilities

After initial recognition, other financial liabilities are subsequently measured at amortised cost using the effective interest rate 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)

2.22 Interest bearing loans and borrowings

(a) Borrowings

Borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest rate method.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

(b) Convertible bonds

The conversion option of convertible bonds exhibits characteristics of an embedded derivative. The derivative is separated from the liability component. On initial recognition, the derivative component of the convertible bond is measured at fair value and presented as part of the derivative financial instruments. 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 rate method. Transaction costs relating to the liability component are recognised initially as part of the liability.

(c) Derivatives

Any gains or losses arising from changes in fair value on derivative financial instruments are taken to the income statement for the period in which it arises.

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

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.

(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.

For arrangements entered into prior to 1 January 2010, the date of inception is deemed to be 1 January 2010 in accordance with IFRS 1.

(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 income statement. 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)

2.26 Revenue (cont'd)

(e) Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight line basis over the lease terms. The aggregate costs of incentives provided to lessees are recognised as a reduction of rental income over the lease term on a straight-line basis.

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.

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

2.27 Taxes (cont'd)

(b) Deferred tax (cont'd)

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.

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.

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

2.27 Taxes (cont'd)

(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.

2.28 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 Group 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. Summary of significant accounting policies (cont'd)

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.

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.

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

2.31 Related parties (cont'd)

- (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).

2.32 First-time adoption of IFRS

The financial statements for the year ended 31 December 2009 is the first the Group has prepared in accordance with IFRS. For periods up to and including the year ended 31 December 2008, the Group prepared its financial statements in accordance with Singapore Financial Reporting Standards ("FRS").

Accordingly, the Group has prepared financial statements which comply with IFRS applicable for period ended on or after 31 December 2009, together with the comparative period data as at and for the year ended 31 December 2008, as described in the accounting policies. In preparing these financial statements, the Group's opening balance sheet was prepared as at 1 January 2008, the Group's date of transition to IFRS. This note explains the principal adjustments made by the Group in restating FRS balance sheet as at 1 January 2008 and its previously published FRS financial statements as at and for the year ended 31 December 2008.

Estimates

The estimates at 1 January 2008 and at 31 December 2008 are consistent with those made for the same dates in accordance with FRS. The estimates used by the Group to present these amounts in accordance with IFRS reflect conditions at 1 January 2008, the date of transition to IFRS and as of 31 December 2008

United Fiber System Limited and its Subsidiaries

Notes to the Financial Statements – for the years ended 31 December 2009, 2010 and 2011

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

2.32 First-time adoption of IFRS (cont'd)

There are no adjustments arising from the adoption of IFRS to the Group equity as at 1 January 2008 (date of transition to IFRS) and 31 December 2008. The reported equity as at 1 January 2008 and 31 December 2008 are US\$213,732,000 and US\$154,154,000 respectively.

United Fiber System Limited and its Subsidiaries

Notes to the Financial Statements – for the years ended 31 December 2009, 2010 and 2011

3. Group companies

Details of the subsidiaries are as follows:

Name of company	Country of incorporation	Principal activities	Percentage of equity held by the Group				
			2011 %	2010 %	2009 %	2008 %	As at 1 January 2008 %
<u>Held by the Company</u>							
Poh Lian Construction (Pte) Ltd ⁽¹⁾	Singapore	Building contractor and property developer	100	100	100	100	100
Poh Lian Development Pte Ltd ^{(1), (4)}	Singapore	Dormant	100	100	100	100	100
Poh Lian International Pte Ltd ⁽⁷⁾	Singapore	Dormant	–	–	–	–	100
Poh Lian Trading Pte Ltd ⁽⁶⁾	Singapore	Dormant	–	–	100	100	100
Yew Hock Trading Pte Ltd ⁽⁸⁾	Singapore	Dormant	–	–	100	100	100
Anrof Singapore Ltd ⁽²⁾	Mauritius	Investment holding	100	100	100	100	100
Poh Lian (Cambodia) Ltd ^{(4), (5)}	Cambodia	Dormant	100	100	100	100	100
Able Advance Ltd ^{(4), (5)}	British Virgin Islands	Trading	100	100	100	100	100
Unifiber Holding Singapore Pte Ltd ⁽⁶⁾	Singapore	Investment Holding	100	100	100	100	100

United Fiber System Limited and its Subsidiaries

Notes to the Financial Statements – for the years ended 31 December 2009, 2010 and 2011

3. Group companies (cont'd)

Details of the subsidiaries and associates are as follows.

Name of company	Country of incorporation	Principal activities	Percentage of equity held by the Group				
			2011 %	2010 %	2009 %	2008 %	As at 1 January 2008 %
<u>Held through subsidiaries</u>							
<i>Subsidiaries</i>							
Poh Lian Realty Pte Ltd ⁽¹⁾	Singapore	Property development	100	100	100	100	100
PLC Scaffolding Pte Ltd ⁽¹⁾	Singapore	Construction services	100	100	100	100	100
Fortune Nest Sdn Bhd ⁽⁶⁾	Malaysia	Property Investment	–	–	100	100	100
Sin Poh Lian Sdn Bhd ^{(3) (e)}	Malaysia	Investment holding	100	100	100	100	100
Dongshan Poh Lian Real Estate Co Ltd ^{(3) (b)}	People's Republic of China	Property investment	100	100	100	100	100
PT Hutan Rindang Banua ⁽²⁾	Indonesia	Forestry operation	100	100	100	100	100
PT Marga Buana Bumi Mulia ⁽²⁾	Indonesia	Development of a mill	100	100	100	100	100
PT Mangium Anugerah Lestari ⁽²⁾	Indonesia	Manufacturing	99	99	99	99	99
Pacificwood Investment Ltd ⁽²⁾	Mauritius	Investment holding and trading	100	100	100	100	100
Shinning Spring Resources Ltd ⁽⁵⁾	British Virgin Islands	Investment holding	100	100	100	100	100
<i>Associates</i>							
Mangnate Property Sdn Bhd ⁽⁷⁾	Malaysia	Property Investment	–	–	–	–	48
Poh Lian Training & Management (Bangladesh) Pvt Ltd ⁽⁵⁾	Bangladesh	Dormant	30	30	30	30	30

United Fiber System Limited and its Subsidiaries

Notes to the Financial Statements – for the years ended 31 December 2009, 2010 and 2011

3. Group companies (cont'd)

- | | |
|-----|---|
| (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 Yongdexin Certified Public Accountants, People's Republic of China |
| (4) | Cost of investment does not exceed US\$1,000 |
| (5) | Exempted/not required to be audited by the law of its country of incorporation |
| (6) | Strike off has been completed on 9 May 2012. |
| (7) | Voluntary liquidation completed in 2008. |
| (8) | Voluntary liquidation completed in 2010. |

United Fiber System Limited and its Subsidiaries

Notes to the Financial Statements – for the years ended 31 December 2009, 2010 and 2011

4. Revenue

	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000
Construction contract revenue	177,973	128,730	136,066	103,611
Sale of logs	167	676	526	2,230
Sale of woodchips	1,393	3,340	3,400	7,944
	<u>179,533</u>	<u>132,746</u>	<u>139,992</u>	<u>113,785</u>

5. Other income

	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000
Interest income	10	9	5	24
Foreign exchange gain - net	—	439	21	—
Fair value gain on derivatives	—	1,471	—	118
Fair value gain on investment properties (Note 12)	—	892	—	—
Gain from disposal of investment in associate	—	—	—	1,718
Grant income under jobs credit scheme ⁽¹⁾	—	7	45	—
Gain from disposal of property, plant and equipment	—	—	48	77
Compensation rights ⁽²⁾	8,000	—	—	903
Others ⁽³⁾	671	108	359	353
	<u>8,681</u>	<u>2,926</u>	<u>478</u>	<u>3,193</u>

(1) During the financial year ended 31 December 2009, the Singapore Finance Minister announced the introduction of a Jobs Credit Scheme ("Scheme"). Under this Scheme, the Singapore companies of the Group received a 12% cash grant on the first \$2,500 of each month's wages for each employee on their Central Provident Fund payroll. The Government extended the Scheme with another two payments at stepped-down rates of 6% and 3% in March and June 2010 respectively. During the financial years ended 31 December 2010 and 31 December 2009, the Group received grant income of US\$7,000 and US\$45,000 under the Scheme respectively. No grant income received in respect of financial years ended 31 December 2011 and 31 December 2008.

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

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

United Fiber System Limited and its Subsidiaries

Notes to the Financial Statements – for the years ended 31 December 2009, 2010 and 2011

6. Finance costs

	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000
Interest expense on bank loans and bonds	5,865	7,571	4,824	5,223
Interest expense on bank overdrafts	–	1	7	141
Service fees	–	90	789	–
Loss on redemption on convertible bonds	–	–	–	458
Others	30	55	84	35
	<u>5,895</u>	<u>7,717</u>	<u>5,704</u>	<u>5,857</u>

7. Loss before tax

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

	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000
Impairment loss on other receivables (Note 19)	–	–	56	–
Impairment loss on asset held for sale (Note 12)	969	–	–	–
Write down of inventories (Note 18)	241	972	–	158
Depreciation of property, plant and equipment (Note 11(e))	2,844	3,994	3,087	2,928
Property, plant and equipment written-off	–	42	3	324
Loss on disposal of property, plant and equipment	28	12	–	–
Impairment loss on property, plant and equipment (Note 11(f))	–	10,651	–	–
Fair value loss on financial instruments	–	–	1,361	–
Fair value loss on forest concession (Note 10)	6,940	25,289	55,714	63,805
Foreign exchange loss - net	545	–	–	4,471

United Fiber System Limited and its Subsidiaries

Notes to the Financial Statements – for the years ended 31 December 2009, 2010 and 2011

7. Loss before tax (cont'd)

	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000
Directors' fees	160	149	94	155
Staff costs				
- contribution to defined contribution plans	359	347	247	297
- salaries, wages, bonuses and other costs	4,896	5,440	3,147	4,264
Legal and professional fees	1,248	1,975	912	1,867
Transaction costs written-off on termination of a business combination	—	—	—	7,487

8. Income tax credit

The major components of tax credit for the years ended 31 December 2011, 2010, 2009 and 2008 are:

	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000
Consolidated income statement				
Current income tax				
- current income taxation	730	393	508	311
- (over)/under provision in respect of previous years	(143)	(21)	(171)	6
	587	372	337	317
Deferred income tax				
- origination and reversal of temporary difference	73	63	152	(889)
- changes in fair value on forest concession	(1,736)	(6,322)	(14,075)	(15,951)
- revaluation of investment properties	(242)	223	—	—
- effect of reduction in tax rate	—	—	(21)	(9,471)
	(1,905)	(6,036)	(13,944)	(26,311)
Income tax credit	(1,318)	(5,664)	(13,607)	(25,994)

United Fiber System Limited and its Subsidiaries

Notes to the Financial Statements – for the years ended 31 December 2009, 2010 and 2011

8. Income tax credit (cont'd)

The reconciliations between the tax credit and the product of accounting loss multiplied by the applicable corporate tax rate for the years ended 31 December 2011, 2010, 2009 and 2008 are as follows:

	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000
Loss before tax	(10,198)	(52,900)	(68,676)	(92,947)
Tax at the domestic rates applicable to profits/(losses) in the countries where the Group operates	(4,539)	(15,594)	(19,483)	(30,783)
<i>Adjustments:</i>				
Income not subjected to tax	(12)	(384)	(9)	–
Expenses not deductible for tax purposes	2,481	7,678	3,495	1,266
Tax effect on partial exemption	(36)	(19)	(30)	(19)
Deferred tax assets not recognised	1,043	2,697	2,800	3,569
Tax effect on (over)/under provision in respect of previous years	(143)	(21)	(171)	6
Utilisation of previously unrecognised deferred tax assets	(6)	(42)	(208)	–
Others	(106)	21	(1)	(33)
Income tax credit	(1,318)	(5,664)	(13,607)	(25,994)

The Group has unabsorbed tax losses as follows which predominantly arose in 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.

	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000
Unabsorbed tax losses	45,777	43,942	33,747	23,560

The corporate income tax rate applicable to Singapore companies of the Group was reduced to 17% for the year of assessment 2010 onwards from 18% for year of assessment 2009.

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

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9. Loss per share

Basic loss per share from continuing operations are calculated by dividing net loss from continuing 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 from continuing operations are calculated by dividing the net loss from continuing operations, 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 profit and share data used in the computation of basic and diluted earnings per share for the years ended 31 December:

	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000
Loss net of tax for the year attributable to owners of the Company used in the computation of basic earnings per share from continuing operations	<u>(8,879)</u>	<u>(47,232)</u>	<u>(55,069)</u>	<u>(66,953)</u>
Weighted average number of ordinary shares on issue applicable to basic earnings per share ('000)	<u>3,452,478</u>	<u>3,298,896</u>	<u>2,771,991</u>	<u>2,316,358</u>
Adjusted weighted average number of ordinary shares applicable to diluted earnings per share ('000)	<u>3,452,478</u>	<u>3,298,896</u>	<u>2,771,991</u>	<u>2,316,358</u>

The following are the shares that would be issued on full conversion of the convertible bond that have not been included in the calculation of diluted earnings per share because they are anti-dilutive.

	2011 '000	2010 '000	2009 '000	2008 '000
Ordinary shares	<u>72,000</u>	<u>72,000</u>	<u>72,000</u>	<u>81,320</u>

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10. Forest concession

	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000	As at 1 January 2008
Forest concession comprise of:					
Biological assets – forest asset (i)	62,189	108,537	134,121	189,422	249,507
Concession land rent-use rights (ii)	40,047	–	–	–	–
At 31 December	102,236	108,537	134,121	189,422	249,507
At 1 January	108,537	134,121	189,422	249,507	226,188
Costs incurred during the year	639	781	415	2,527	3,633
Reclassification to inventory	–	(1,076)	–	–	–
(Loss)/gain arising from changes in fair value (Note 7)	(6,940)	(25,289)	(55,714)	(63,805)	18,898
Net exchange differences	–	–	(2)	1,193	788
At 31 December	102,236	108,537	134,121	189,422	249,507

Further details of the total carrying value are as follows:

	2011	2010	2009	2008	As at 1 January 2008
Hectares					
Forest Entity					
Existing Plantation Forest (i)	30,554	39,819	36,012	36,102	52,754
Utilisable Natural Forest (i)	14,555	17,885	37,833	39,841	31,000
Concession land rent-use rights (ii)	16,285	–	–	–	–
Total	61,394	57,704	73,845	75,943	83,754
Carrying value	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Forest Entity					
Existing Plantation Forest (i)	59,697	88,890	90,683	126,185	172,897
Utilisable Natural Forest (i)	2,492	19,647	43,438	63,237	76,610
Concession land rent-use rights (ii)	40,047	–	–	–	–
Total	102,236	108,537	134,121	189,422	249,507

10. Forest concession (cont'd)

For the financial year ended 31 December 2009:

- (i) The valuation of the forest asset is based on the report issued by an independent professional valuer, Pöyry Forest Industry Pte Ltd ("Pöyry"). The independent valuer deployed the use of discounted cashflow ("DCF") in arriving at the fair value of the forest asset as at 31 December 2009 of US\$134,121,000 (2008: US\$189,422,000).

Critical assumptions adopted in the Pöyry's DCF analysis include:

- (a) the adoption of a discount factor of 11% (2008: 11%);
- (b) a constant volume of logs harvested throughout the 10-year projections;
- (c) an average annual increase in sawlog selling prices of 2.5% throughout the 10-year projections;
- (d) pulpwood selling prices decreased by 8.7% to 11.4% as compared to 2008, coupled with no price increase throughout the 10-year projections;
- (e) harvesting costs increased by 12.2% to 84.7% as compared to 2008; and
- (f) harvest volume predictions from the plantation areas decreased by 5% as compared to 2008.

The directors of the Group, with the assistance of Pöyry have performed an assessment of the fair value of the forest asset using the same DCF model but with certain assumptions differing from those applied by Pöyry. The directors believe that the following variations to the assumptions applied by Pöyry are more reflective of their own assessment of the market outlook as applied to the specific circumstances of the Group's forestry operations:

- (a) selling prices of 5.2% to 6.8% higher than the selling prices applied by Pöyry for pulpwood for the year, 2010, thereafter, an average annual increase of 2.5%, for the years, 2011 and 2012 and constant selling prices for the next 7 years. The selling prices projected for 2010 are based on current prices being negotiated with customers;
- (b) harvesting costs of 10.1% to 20.2% lower than the cost applied by Pöyry; and
- (c) transport costs of 6.7% lower than the cost applied by Pöyry.

The harvesting and transport costs are based on the Group's experience and current market quotations.

The directors estimate that had the above assumptions being applied together with all the other assumptions applied by Pöyry remaining the same, the valuation of the forest asset would be approximately US\$181,600,000. This estimated valuation has not been subjected to independent audit or review.

10. Forest concession (cont'd)

For the financial year ended 31 December 2010:-

- (i) The valuation of the forest asset is based on the report issued by an independent professional valuer, Pöyry. The independent valuer deployed the use of DCF over 10-year period (target rotation age) projections in arriving at the fair value of the forest asset as at 31 December 2010 of US\$108,537,000.

Critical assumptions adopted in the Pöyry's DCF analysis include:

- (a) the adoption of a discount factor of 11%;
- (b) slower ramp up in the first three years of logs harvested in the 10 year projections compared with a constant volume in 2009;
- (c) 10.6% increase in plantation forest area and reduction of 31.4% in selective harvesting area (HPT) based on more reliable survey by a third party;
- (d) Weighted average log price for plantation increased by 6% and natural forest by 8% as compared with 2009;
- (e) Sawlog selling prices increased by approximately of 18.4% to 48.45% for plantation forest and 4.07% for natural forest as compared to 2009 valuation;
- (f) Harvest volume prediction from the plantation forest areas decreased by 8% compared with 2009; and
- (g) No value applied to conversion areas of a natural forest area (HP) of approximately 12,004 hectares due to (i) the market for pulpwood from this area has become limited and (ii) low net realisable value.

For the financial year ended 31 December 2011:-

- (i) 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 2011 of US\$62,189,000.

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

- (a) Weakening of US dollar to Indonesia Rupiah and the adoption of a discount factor of 10%;
- (b) 23.3% decrease in plantation forest area and reduction of 18.6% in selective harvesting area based on the results of remote sensing analysis and visual inspection carried by Ata Marie using 2011 RapidEye satellite imagery data;
- (c) Weighted average log price for plantation decreased by 2.2% and natural forest decreased by 83.5% as compared with 2010;
- (d) Harvest volume predictions from the plantation forest and natural forest areas decreased by 19.6% and 68.6% respectively as compared with 2010

10. Forest concession (cont'd)

For the financial year ended 31 December 2011 (cont'd)

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

The valuation of the compensation cashflows, determined based on the report issued by 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, compensation for loss of infrastructure, compensation for increase in operational costs and loss of income from future plantations over the remaining concession license period (opportunity costs) due to overlapping mining permits on the same forest concession plantable area.

Based on the assumptions stated above, fair value gain of US\$40,047,000 was recognised in the Consolidated Statement of Comprehensive Income for the year ended 31 December 2011. For the uncertainties surrounding management's assessment, please refer Note 2.4.2 (c).

Based on the respective assumptions as stated above, the fair value loss of the forest assets have been recognised in the Consolidated Statement of Comprehensive Income as follows:

	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000
Fair value loss	6,940	25,289	55,714	63,805

The fair value of logs harvested during the respective years is as follows:-

	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000
Fair value of logs harvested	167	365	524	1,378

During the financial years ended 31 December 2011 and 31 December 2008, the Group received US\$8,000,000 and US\$903,000 respectively from licensed mining company in respect of encroachment of the forest concession.

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	Capital work in progress US\$'000	Total US\$'000
Cost						
At 1 January 2008	6,792	42,387	1,521	856	2,233	53,789
Additions	78	1,769	11	250	1,020	3,128
Transfer to/(from)	154	3,085	–	14	(3,253)	–
Disposals	(151)	(174)	(217)	(23)	–	(565)
Written off	–	(465)	–	(8)	–	(473)
Net exchange differences	(840)	(218)	25	28	–	(1,005)
At 31 December 2008 and 1 January 2009	6,033	46,384	1,340	1,117	–	54,874
Additions	20	247	3	46	–	316
Disposals	–	(33)	(224)	(31)	–	(288)
Written off	–	–	–	(3)	–	(3)
Net exchange differences	103	69	13	23	–	208
At 31 December 2009 and 1 January 2010	6,156	46,667	1,132	1,152	–	55,107
Additions	–	783	391	181	–	1,355
Disposals	–	–	(82)	(79)	–	(161)
Written off	–	–	–	(108)	–	(108)
Net exchange differences	1,570	(1,435)	30	74	–	239
At 31 December 2010 and 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	7,711	45,870	1,457	1,325	–	56,363

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

	Leasehold land and buildings US\$'000	Plant and machinery US\$'000	Motor vehicles US\$'000	Computers, office equipment, furniture and fittings US\$'000	Capital work in progress US\$'000	Total US\$'000
Accumulated depreciation and impairment loss						
At 1 January 2008	3,012	3,448	762	421	–	7,643
Charge for the year	591	3,007	173	231	–	4,002
Disposals	(27)	(175)	(166)	(10)	–	(378)
Written off	–	(141)	–	(8)	–	(149)
Net exchange differences	(557)	(94)	71	28	–	(552)
At 31 December 2008 and 1 January 2009	3,019	6,045	840	662	–	10,566
Charge for the year	493	3,114	163	247	–	4,017
Disposals	–	(33)	(223)	(31)	–	(287)
Net exchange differences	–	39	12	23	–	74
At 31 December 2009 and 1 January 2010	3,512	9,165	792	901	–	14,370
Charge for the year	995	3,275	325	229	–	4,824
Impairment loss	–	10,651	–	–	–	10,651
Disposals	–	–	(63)	(59)	–	(122)
Written off	–	–	–	(66)	–	(66)
Net exchange differences	9	(110)	36	59	–	(6)
At 31 December 2010 and 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	4,853	25,788	1,315	1,217	–	33,173
Net carrying amounts						
At 1 January 2008	3,780	38,939	759	435	2,233	46,146
At 31 December 2008	3,014	40,339	500	455	–	44,308
At 31 December 2009	2,644	37,502	340	251	–	40,737
At 31 December 2010	3,210	23,034	381	156	–	26,781
At 31 December 2011	2,858	20,082	142	108	–	23,190

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

(a) Leasehold land and buildings

The net book value on the land on which the woodchip mill is located at South Kalimantan, Indonesia is as follows:-

	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000	As at 1 January 2008 US\$'000
Net book value	838	894	1,007	1,039	919

The net book value on the land on which a pulp mill plant will be constructed is located at Kalimantan Selatan, Indonesia is as follows:-

	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000	As at 1 January 2008 US\$'000
Net book value	682	682	682	682	682

The net book value on the building and infrastructure which related to the forest operation is as follows:-

	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000	As at 1 January 2008 US\$'000
Net book value	–	214	623	825	1,312

(b) Asset pledged as security

Asset of the wood chip mill with a net book value as follows have been charged for borrowings by the Group (Note 23 (e)(i)):-

	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000	As at 1 January 2008 US\$'000
Net book value	18,013	20,922	34,331	37,103	37,069

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

(c) Assets held under finance lease

The carrying value of plant and equipment that were held under finance leases are as follows:-

	2011	2010	2009	2008	As at 1 January 2008
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Net book value	1,439	1,802	1,598	1,801	375

The Group did not acquire any plant and equipment by means of finance leases for the years ended 31 December 2011 and 31 December 2009 except for financial year ended 31 December 2010, the Group acquired plant and equipment with an aggregate cost of US\$391,343 (2008: US\$1,401,000).

Leased assets are pledged as security for the related finance lease liabilities (Note 22).

(d) Assets pledge as fiduciary security

The Group had on 6 August 2010 entered into a definitive agreement in relation to a US\$5,000,000 loan whereby a fiduciary security is given by a subsidiary which secures its moveable assets to the lender. (Note 23 (e)(ii)).

(e) Depreciation charge

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

	2011	2010	2009	2008
	US\$'000	US\$'000	US\$'000	US\$'000
Charged to income statement				
- other operating expenses (Note 7)	2,844	3,994	3,087	2,928
- cost of goods sold	43	47	256	241
Capitalised in construction projects (Note 16)	375	323	259	180
Capitalised in forest concession	418	460	415	653
Depreciation for the financial years	3,680	4,824	4,017	4,002

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

(f) Impairment of assets

A subsidiary of the Group within the Forest and Pulp segment, PT Mangium Anugerah Lestari carried out a review of the recoverable amount of its property, plant and equipment which result in the following impairment loss, representing the write down of the equipment to the recoverable amount. The impairment loss was recognised in "Other Operating Expense" (Note 7) line item of profit or loss. The recoverable amount of this equipment was based on its value in use and the pre-tax discount rate of 10%.

	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000	As at 1 January 2008 US\$'000
Impairment loss	–	10,651	–	–	–

12. Investment properties

	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000
At 1 January	2,224	1,471	1,471	–
Disposal	–	(206)	–	–
Transfer from completed properties held for sale (Note 17)	–	–	–	1,369
Fair value gain recognised in profit and loss	–	892	–	–
Impairment loss (Note 7)	(969)	–	–	–
Reclassified to asset held for sale (Note 17)	(1,432)	–	–	–
Exchange differences	177	67	–	102
At 31 December	–	2,224	1,471	1,471

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 asset held for sale (Note 17). The fair value of the investment properties was written down to the net realisable value of the properties. The expected completion date of the title transfer is in year 2013.

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13. Club membership

	2011	2010	2009	2008	As at 1 January 2008
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Cost					
At 1 January	131	120	118	118	111
Net exchange differences	–	11	2	–	7
At 31 December	131	131	120	118	118
Impairment					
At 1 January	(54)	(51)	(49)	(49)	(46)
Net exchange differences	–	(3)	(2)	–	(3)
At 31 December	(54)	(54)	(51)	(49)	(49)
Net carrying amount	77	77	69	69	69
Market value	77	85	78	77	76

14. Deferred tax

	2011	2010	2009	2008	As at 1 January 2008
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Deferred tax liabilities					
Excess of net book value of plant and machinery over tax written down value	(707)	(520)	(999)	(813)	(388)
Revaluation of forest asset	(18,434)	(20,170)	(26,492)	(40,567)	(66,755)
Revaluation of investment properties	–	(223)	–	–	–
Remittance of foreign source income	(22)	–	–	–	–
Others	86	–	–	–	–
Gross deferred tax liabilities	(19,077)	(20,913)	(27,491)	(41,380)	(67,143)
Deferred tax assets					
Temporary differences arising from plant and equipment	276	229	224	210	79
Net deferred tax liabilities	(18,801)	(20,684)	(27,267)	(41,170)	(67,064)

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.

15. Goodwill on consolidation

	US\$'000
Cost	
At 1 January 2008	20,400
Net exchange differences	79
	<u>20,479</u>
At 31 December 2008 and 1 January 2009	20,479
Net exchange differences	491
	<u>20,970</u>
At 31 December 2009 and 1 January 2010	20,970
Net exchange differences	1,920
	<u>22,890</u>
At 31 December 2010 and 1 January 2011	22,890
Net exchange differences	(194)
	<u>22,696</u>
At 31 December 2011	<u>22,696</u>
Net carrying amount	
At 1 January 2008	20,400
	<u>20,479</u>
At 31 December 2008	<u>20,479</u>
	<u>20,970</u>
At 31 December 2009	<u>20,970</u>
	<u>22,890</u>
At 31 December 2010	<u>22,890</u>
	<u>22,696</u>
At 31 December 2011	<u>22,696</u>

Goodwill acquired through business combinations has been allocated to Construction and Property segment, 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 10-years period. Management believes that the Construction and Property Division will continue to operate over the 5-years period based on the current assessment of the construction industry in Singapore.

The pre-tax discount rate applied is assumed at 10% for value-in-use calculation for financial years ended 31 December 2011, 2010 and 2009, which is the Group's estimated weighted average cost of capital.

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15. Goodwill on consolidation (cont'd)

Management has considered and determined the factors applied in this financial budget include budgeted gross margin and average growth rate. The budgeted gross margin is based on expectation of future market development. The forecasted growth rates are based on published industry research and do not exceed the long-term average growth rate for the industries relevant to the CGU. The forecasted growth rate used to extrapolate cash flow projections is as follows:

	2011	2010	2009	2008	As at 1 January 2008
Growth rates	3%	3%	5%	5%	5%

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

	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000	As at 1 January 2008 US\$'000
Aggregate amount of costs incurred and recognised profits (less recognised losses) to date	641,524	478,843	458,851	512,685	529,755
Less: Progress billings	(667,754)	(503,199)	(488,872)	(532,677)	(536,627)
	(26,230)	(24,356)	(30,021)	(19,992)	(6,872)
<i>Presented as:</i>					
Gross amount due from customers for contract work	16,334	4,308	1,685	1,047	326
Gross amount due to customers for contract work	(42,564)	(28,664)	(31,706)	(21,039)	(7,198)
	(26,230)	(24,356)	(30,021)	(19,992)	(6,872)

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

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

Included in costs incurred during the financial years are the following:

	2011	2010	2009	2008	As at 1 January 2008
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Depreciation of property, plant and equipment (Note 11(e))	375	323	259	180	180
Operating lease charges	623	510	81	157	63
Staff costs:					
- Salaries, wages, bonuses and other costs	7,278	4,586	3,800	4,387	2,496
- Contribution to defined contribution plans	460	357	278	330	218

17. Investment properties held for sale

	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000
At 1 January	–	–	–	1,369
Reclassified from / (to) investment properties (Note 12)	1,432	–	–	(1,369)
At 31 December	1,432	–	–	–

Details of explanation on the completed properties held for sale are stated in Note 12

18. Inventories

	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000	As at 1 January 2008 US\$'000
Balance sheet:					
Raw materials, at cost	63	900	1,061	189	1,185
Logs	1,952	1,992	1,891	1,135	6,506
Finished goods, at cost	–	572	537	328	1,775
Total inventories at lower of cost and net realisable value	2,015	3,464	3,489	1,652	9,466

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18. Inventories (cont'd)

Inventories recognised as an expense in cost of sales for the financial years ended 31 December are as follows:-

	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000
Income statement:				
Inventories recognised as an expense in cost of sales	1,191	1,647	1,604	5,911
Inclusive of the following:				
- Inventories written-down (Note 7)	241	972	–	158

19. Trade and other receivables

	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000	As at 1 January 2008 US\$'000
Current					
Trade receivables	39,404	38,861	32,052	23,557	19,262
Deposits	1,097	995	673	439	929
Other receivables	3,437	2,953	3,125	2,194	14,340
	43,938	42,809	35,850	26,190	34,531
Less: Allowance for doubtful debt	(3,088)	(3,115)	(2,853)	(2,729)	(13,533)
	40,850	39,694	32,997	23,461	20,998
Prepayments	196	254	806	1,247	8,811
	41,046	39,948	33,803	24,708	29,809

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Notes to the Financial Statements – for the years ended 31 December 2009, 2010 and 2011

19. Trade and other receivables (cont'd)

	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000	As at 1 January 2008 US\$'000
Non-current					
Trade receivables	8,798	10,563	9,155	10,124	7,161
Advances to PT KK	28,165	28,165	28,165	28,165	28,165
Deposits	–	–	381	204	–
	36,963	38,728	37,701	38,493	35,326
Less: Allowance for doubtful debt	(24,532)	(24,532)	(24,532)	(24,532)	(24,532)
	12,431	14,196	13,169	13,961	10,794
Total trade and other receivables (current and non-current)	53,477	54,144	46,972	38,669	40,603
Add: Fixed deposits (Note 20)	3,314	3,853	2,149	1,331	2,492
Add: Cash and bank balances (Note 20)	34,394	12,507	14,687	7,516	4,241
Less: Prepayments	(196)	(254)	(806)	(1,247)	(8,811)
Total loans and receivables	90,989	70,250	63,002	46,269	38,525

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.

Included in the trade receivables are retention sums which relate to gross amount due from customers for contract work :-

	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000	As at 1 January 2008 US\$'000
Non-current	8,798	10,442	9,034	10,003	7,040
Current	15,391	9,438	8,944	4,124	2,158
Total retention sum (Note 16)	24,189	19,880	17,978	14,127	9,198

United Fiber System Limited and its Subsidiaries

Notes to the Financial Statements – for the years ended 31 December 2009, 2010 and 2011

19. Trade and other receivables (cont'd)

Trade receivables that are past due but not impaired

The Group has trade receivables amounting to US\$767,000, US\$488,000 and US\$330,000 (2008: US\$196,000) that are past due at the respective balance sheet dates but not impaired as follows:

	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000	As at 1 January 2008 US\$'000
<i>Trade receivables past due:</i>					
61 to 120 days	393	–	2	35	123
121 to 180 days	–	–	19	3	–
More than 180 days	374	488	309	158	2,355
	<u>767</u>	<u>488</u>	<u>330</u>	<u>196</u>	<u>2,478</u>

Trade receivables that are impaired

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

	Individually impaired				As at 1 January 2008 US\$'000
	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000	US\$'000
Trade receivables – nominal amount	1,221	1,232	1,128	1,101	1,098
Less: Allowance for impairment	(1,221)	(1,232)	(1,128)	(1,101)	(1,098)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Movement in allowance account:					
At 1 January	1,232	1,128	1,101	1,098	1,031
Exchange differences	(11)	104	27	3	67
At 31 December	<u>1,221</u>	<u>1,232</u>	<u>1,128</u>	<u>1,101</u>	<u>1,098</u>

United Fiber System Limited and its Subsidiaries

Notes to the Financial Statements – for the years ended 31 December 2009, 2010 and 2011

19. Trade and other receivables (cont'd)

Other receivables that are past due but not impaired

The Group has other receivables amounting to US\$6,492,000, US\$29,678,000 and US\$30,058,000 (2008: US\$28,845,000) that are past due at the respective balance sheet dates but not impaired. These other receivables are unsecured and the analysis of their aging at the balance sheet dates is as follows:

	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000	As at 1 January 2008 US\$'000
<i>Other receivables past due:</i>					
61 to 120 days	42	7	–	7	381
121 to 180 days	56	194	–	116	769
More than 180 days	6,394	4,945	5,526	3,190	4,498
	<u>6,492</u>	<u>5,146</u>	<u>5,526</u>	<u>3,313</u>	<u>5,648</u>

Other receivables that are impaired

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

	Individually impaired				As at 1 January 2008 US\$'000
	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000	US\$'000
Other receivables – nominal amount	30,833	30,301	30,063	29,914	40,721
Less: Allowance for impairment	(26,399)	(26,415)	(26,257)	(26,160)	(36,967)
	<u>4,434</u>	<u>3,886</u>	<u>3,806</u>	<u>3,754</u>	<u>3,754</u>
Movement in allowance account:					
At 1 January	26,415	26,257	26,160	36,967	12,148
Written off	–	–	–	(10,855)	(358)
Charge for the years (Note 7)	–	–	56	–	24,572
Exchange differences	(16)	158	41	48	605
At 31 December	<u>26,399</u>	<u>26,415</u>	<u>26,257</u>	<u>26,160</u>	<u>36,967</u>

Trade and other receivables that are individually determined to be impaired at the balance sheet dates 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.

United Fiber System Limited and its Subsidiaries

Notes to the Financial Statements – for the years ended 31 December 2009, 2010 and 2011

19. Trade and other receivables (cont'd)

Other receivables that are impaired (cont'd)

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 financial years ended 31 December 2008, 2009, 2010 and 2011.

The currencies profiles of trade and other receivables as at the financial years end is as follows:

	2011	2010	2009	2008	As at 1 January 2008
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
USD	3,723	4,548	4,292	5,320	10,169
SGD	46,182	47,889	41,966	32,862	28,719
IDR	680	726	302	251	1,673
Others	2,892	981	31	32	42
	<u>53,477</u>	<u>54,144</u>	<u>46,591</u>	<u>38,465</u>	<u>40,603</u>

20. Cash and cash equivalents

	2011	2010	2009	2008	As at 1 January 2008
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Fixed deposits, unsecured	–	–	938	–	1,109
Fixed deposits, secured	3,314	3,853	1,211	1,331	1,383
Fixed deposits	<u>3,314</u>	<u>3,853</u>	<u>2,149</u>	<u>1,331</u>	<u>2,492</u>
Cash on hand	12	12	16	20	55
Cash at banks	34,382	12,495	14,671	7,496	4,186
Cash and bank balances	<u>34,394</u>	<u>12,507</u>	<u>14,687</u>	<u>7,516</u>	<u>4,241</u>

The secured fixed deposits are pledged to secure the Group's banking facilities issued by the financial institutions which are secured against bank overdrafts as stated in Note 23(a).

United Fiber System Limited and its Subsidiaries

Notes to the Financial Statements – for the years ended 31 December 2009, 2010 and 2011

20. Cash and cash equivalents (cont'd)

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

	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000	As at 1 January 2008 US\$'000
Cash on hand	12	12	16	20	55
Cash at banks	34,382	12,495	14,671	7,496	4,186
Fixed deposits, unsecured	–	–	938	–	1,109
Cash and cash equivalents	34,394	12,507	15,625	7,516	5,350

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 per annum as at the financial years end for the Group is as follows:

	2011 %	2010 %	2009 %	2008 %
Effective interest rate	0.1936	0.1638	0.1995	0.0991

The currencies profile of cash and bank balances as at the financial years end is as follows:

	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000	As at 1 January 2008 US\$'000
USD	5,825	171	90	826	1,503
SGD	31,266	16,034	16,457	7,926	4,378
IDR	207	83	71	24	730
Others	410	72	218	71	122
	37,708	16,360	16,836	8,847	6,733

United Fiber System Limited and its Subsidiaries

Notes to the Financial Statements – for the years ended 31 December 2009, 2010 and 2011

21. Trade and other payables

	2011	2010	2009	2008	As at 1 January 2008
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Current					
Trade payables ⁽¹⁾	33,326	30,884	22,912	15,359	20,327
Accrued expenses ⁽²⁾	4,004	5,749	3,225	2,846	2,364
Accrual for directors' fee and variable bonus	170	164	452	335	340
Non-trade payables ⁽³⁾	2,796	8,204	1,331	1,163	–
Payable for purchase of assets ⁽⁴⁾	–	–	–	–	21,500
Advances received ⁽⁵⁾	1,633	1,293	–	–	–
Others	1,649	2,150	886	1,382	917
	<u>43,578</u>	<u>48,444</u>	<u>28,806</u>	<u>21,085</u>	<u>45,448</u>
Non-current					
Trade payables ⁽¹⁾	4,948	4,404	3,014	2,710	–
Non-trade payables	–	726	481	385	249
	<u>4,948</u>	<u>5,130</u>	<u>3,495</u>	<u>3,095</u>	<u>249</u>
Total trade and other payables (current and non-current)	48,526	53,574	32,301	24,180	45,697
Less: Advances received	(1,633)	(1,293)	–	–	–
Add: Loans and borrowings (Note 23)	62,604	42,080	50,420	62,699	39,125
Total financial liabilities carried at amortised costs	<u>109,497</u>	<u>94,361</u>	<u>82,721</u>	<u>86,879</u>	<u>84,822</u>

(1) These amounts are non-interest bearing. Trade payables are normally settled on 30 to 120 days' terms.

Non current trade payables are relate to retention sums on gross amount due to customers for contract works.

(2) Included in 2010 accrued expenses was interest payable to CMEC of US\$3,100,000 which was fully settled on 15 February 2011. (Note 23 (e)(iii))

(3) In accordance with the conditional subscription agreement dated 31 August 2010 between the Group and Falcon Capital Global Holding Limited ("Falcon"), the Group is required to repay Falcon an amount of S\$10,000,000 (US\$7,710,000) being the drawn down payment paid by Falcon to the Group as part payment of the consideration for the Falcon subscription. On 16 February 2011, the Group received from Falcon a demand dated 14 February 2011 for payment of the said sum. On 8 March 2011, payment of S\$10,000,000 has been made by the Group in full and final settlement in respect of Falcon's demand.

Other balances in the non-trade payables are unsecured, non-interest bearing and repayable on demand.

United Fiber System Limited and its Subsidiaries

Notes to the Financial Statements – for the years ended 31 December 2009, 2010 and 2011

21. Trade and other payables (cont'd)

⁽⁴⁾ Payables for purchase of assets relate to supplier credit from a vendor for the construction of woodchip mill. This amount had been reclassified to long term loans and borrowings in 2008 (Note 23 (e)(iii)).

⁽⁵⁾ Advances received from third parties related to logs sales and disposal of investment properties which are non-interest bearing.

The currencies profile of trade and other payables as at the financial years end is as follows:

	2011	2010	2009	2008	As at 1 January 2008
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
USD	6,468	5,000	2,264	1,894	23,003
SGD	40,281	45,713	27,361	19,318	20,118
IDR	687	2,841	2,374	2,804	2,387
Others	1,090	20	302	164	189
	<u>48,526</u>	<u>53,574</u>	<u>32,301</u>	<u>24,180</u>	<u>45,697</u>

22. Hire purchase creditors

	2011	2010	2009	2008	As at 1 January 2008
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Minimum payments					
Within one year	387	407	353	396	177
After one year but not more than five years	277	668	777	1,067	115
Total minimum payments	664	1,075	1,130	1,463	292
Less: Amounts representing interest	(73)	(117)	(124)	(165)	(55)
Present value of minimum payments	<u>591</u>	<u>958</u>	<u>1,006</u>	<u>1,298</u>	<u>237</u>
Present value of payments					
Within one year	344	362	317	360	116
After one year but not more than five years	247	596	689	938	121
Present value of minimum payments	<u>591</u>	<u>958</u>	<u>1,006</u>	<u>1,298</u>	<u>237</u>

United Fiber System Limited and its Subsidiaries

Notes to the Financial Statements – for the years ended 31 December 2009, 2010 and 2011

22. Hire purchase creditors (cont'd)

The finance lease obligations which were denominated in SGD were secured over the leased assets (Note 11 (c)). The average discount rate implicit in the leases is as follows:-

	2011 %	2010 %	2009 %	2008 %
Average discount rate	4.7	5.24	5.09	5.09

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

23. Loans and borrowings

	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000	As at 1 January 2008 US\$'000
Current:					
Bank overdrafts, secured (a)	550	541	–	1,288	2,023
Short-term loan, secured (b)	4,626	–	–	–	–
Short-term loan, secured (c)	314	–	–	–	–
Short-term loan, secured (d)	35,000	–	–	–	–
Short-term loan, secured (e) (i)	10,000	10,000	–	–	–
Short-term loan, secured (e) (ii)	–	5,000	–	–	–
Short-term loan, secured (e) (iii)	–	16,427	–	–	–
5% coupon convertible bond (f)	12,114	10,112	–	–	–
Short-term loan, secured (g)	–	–	9,969	8,000	1,382
Short-term loan, unsecured (h)	–	–	10,800	8,697	–
Short-term loan, secured (i)	–	–	380	4,312	11,769
	<u>62,604</u>	<u>42,080</u>	<u>21,149</u>	<u>22,297</u>	<u>15,174</u>
Non-current:					
Long term loan (e) (iii)	–	–	20,750	20,750	–
Zero coupon convertible bond (f)	–	–	–	19,652	23,951
5% coupon convertible bond (f)	–	–	8,521	–	–
	<u>–</u>	<u>–</u>	<u>29,271</u>	<u>40,402</u>	<u>23,951</u>

23. Loans and borrowings (cont'd)

- (a) On 1 January 2008, the bank overdraft was secured by fixed deposit of a subsidiary, a corporate guarantee given by the Group and proceeds from certain construction projects of a subsidiary. It bears effective interest from 5.5% to 6.5% per annum.

In 2008, the bank overdraft was secured by a fixed deposit of a subsidiary, a corporate guarantee given by the Group and proceeds from certain construction projects of a subsidiary. It bears effective interest from 5.5% to 6.5% per annum.

During 2008, a subsidiary of the Group had breached certain covenants relating to its' bank loans. The subsidiary did not fulfill the requirement that intercompany receivables were not to exceed US\$15,000,000. The subsidiary had requested and was granted a waiver of the breach as of 31 December 2008 by the bank. The amount drawn down on this credit facility as at 31 December 2008 was US\$1,300,000 which had since been fully repaid in 2009. Subsequent to 2008, the covenant was modified to require the subsidiary to keep the loan receivable from the holding company at less than US\$14,000,000. The facility had also been modified to be available only for the use of issuance banker's guarantees and bridging loan facility. The subsidiary was in breach of the modified covenant but continues to maintain the facility undrawn. The banker's guarantees under this facility were issued for an amount of up to approximately US\$3,400,000. In 2008, the Board regards the amount of exposure to the subsidiary under these bankers' guarantees to be approximately US\$500,000 which was the amount relating to work not completed under the projects. Such exposure was secured by a pledge of a fixed deposit of US\$400,000 maintained by the subsidiary with the bank.

In 2011 and 2010, the bank overdrafts of US\$550,000 and US\$541,000 respectively was secured by a corporate guarantee given by the Group and proceeds from certain construction projects of a subsidiary. It bears effective interest from 3.50% to 5.03% per annum.

- (b) The loan of US\$4,626,000 was secured by a corporate guarantee given by the Group and proceeds from certain construction projects of a subsidiary. The loan bears effective interest from 2.32% to 2.55% per annum.
- (c) The loan of US\$314,000 was secured by a corporate guarantee given by the Group and proceeds from certain construction projects of a subsidiary. The loan bears effective interest of 7.75% per annum.
- (d) The loan of US\$35,000,000 was secured by a share pledge and a share charge over the entire issued and paid up share capital in certain subsidiaries.

The loan bears effective interest of 10% to 10.77%. The maturity date of the loan has been extended to 31 December 2012.

- (e)(i) The loan of US\$10,000,000 was 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 bears effective interest from 6.14% to 6.46% and 3.86% to 4.60% per annum for financial years ended 31 December 2011 and 2010 respectively. On 8 March 2012, the Group has entered into a binding term sheet to refinance the loan by issuing a zero coupon convertible bond with due date no later than 31 March 2013.

23. Loans and borrowings (cont'd)

(e)(i) (cont'd)

On 16 May 2012, the Group and the financial institution have agreed to enter the zero coupon convertible bond subscription agreement. At the same time, the maturity date for repayment or refinancing of the existing indebtedness extended from 31 March 2012 to 30 June 2012. On 1 August 2012, the maturity date extended from 30 June 2012 to 30 September 2012. On 25 September 2012, further extension is agreed on the Final Maturity Date to 31 January 2013.

(e)(ii) The loan of US\$5,000,000 was secured by the pledge of 100% shares in a subsidiary by its immediate holding companies, as well as a fiduciary security of moveable assets of the subsidiary. The loan bears effective interest of 10% per annum and was fully repaid in March 2011.

(e)(iii) Relates to supplier credit from a vendor, China National Machinery & Equipment Import & Export Corporation ("CMEC"), for the construction of the woodchip mill. It was secured by a Performance Bond issued by the Group and is repayable over a period of 24 monthly instalments commenced on 5 September 2010.

On 20 August 2010, the vendor issued a statutory letter of demand to the Group, requesting the repayment of the loan and accrued interest outstanding. The legal suit was brought up to the Supreme Court of Singapore and the loan and accrued interest were fully repaid on 15 February 2011. Pursuant to the full settlement, the vendor has agreed to a discontinuance of proceedings between the Group and the vendor. As such, the Group has reclassified the supplier credit from non-current to current liabilities as at 31 December 2010.

The loan bears interest at effective rate of 6% per annum.

(f) On 6 August 2007, the Group issued a 5-year unsecured zero coupon convertible bond of an aggregate principal amount of US\$25,000,000 (collectively, the "Bond") at an issue price of 100% of the principal amounts of the Bond. The Bond matures on 6 August 2012 but the bondholder has the right to require the Group to redeem some or all of the outstanding amounts between the inception date and 13 August 2008 and between 13 August 2009 and 13 August 2010 (both days inclusive) for an amount equal to the relevant principal portion plus the yield to redemption. The bond is convertible into new ordinary shares in the capital of the Company (collectively, the "Conversion Shares") at the conversion price of S\$0.355 per Conversion Shares, subject to anti-dilution adjustments in accordance with the terms and conditions in the agreement. The Bond shall be redeemed upon maturity at a rate of 10% per annum.

On 12 August 2008, there was a partial redemption of the convertible bond amounting to US\$6,000,000 plus yield to maturity of 10% amounting to US\$600,000.

On 23 September 2009, the Group had fully redeemed the remaining US\$22,990,000 of the Convertible Bonds due 2012 by the payment of US\$8,000,000 cash, the issue of US\$10,000,000 Convertible Bonds due 2011 (see below), and the issue of 111,455,108 new Subscription Shares equivalent to US\$5,000,000 to the investors.

23. Loans and borrowings (cont'd)

(f) (cont'd)

The Bonds recognised in the balance sheet as at 31 December 2008 is calculated as follows:

	US\$'000
Face value of convertible bond on 6 August 2007	25,000
Derivatives component at fair value on inception date	(2,168)
Liability component at initial recognition on 6 August 2007	22,832
Interest expense using effective interest rate method	1,119
Carrying value of convertible bond at 31 December 2007 and 1 January 2008	23,951
Partial redemption of bonds	(6,149)
Interest expense using effective interest rate method	2,653
Transaction costs	(803)
Carrying value of convertible bond at 31 December 2008	19,652

The fair value of the derivative liability as at 31 December 2008 is US\$285,000 (1 January 2008: US\$405,000). See Note 30(a).

On 28 August 2009, the Group executed a Subscription Agreement with Abax Nai Xin A Ltd and Abax Jade Ltd (the "Investors") to issue 5% Convertible Bonds due 2011 at an aggregate principal amount of US\$10,000,000 ("the Bonds") at an issue price of 100 per cent of the principal amount of the Bonds which is repayable in cash or in shares. The Bondholders have the right to apply the amount due on the Bonds to convert into 72,000,000 new shares to be issued in the capital of the Group at a conversion price of S\$0.20. The Bonds shall be redeemed upon maturity at a rate of 7% per annum.

On 31 December 2010, the Bonds had been reclassified as current liabilities as the Bonds mature in August 2011.

On 18 January 2011, the Investors have transferred their rights on the Bonds to ASM Asia Recovery (Master) Fund, ASM Co-Investment Term Trust 1 and ASM Hudson River Fund (the "Bondholders"). Under the Bonds agreement, the lenders are contractually entitled to redeem all of the bonds in cash in an amount equal to 100% of the principal amount plus the interest to redemption in the event of default.

The Bondholders have not requested for immediate redemption of the Bonds in 2011.

On 22 January 2012, the Group signed a settlement agreement with the Bondholders. The Bonds maturity has been extended to 31 May 2012. All obligations under the Bonds will be settled by issuing new shares at S\$0.05 per share in the Group share capital, subject to the shareholders approval at the forthcoming extraordinary general meeting.

23. Loans and borrowings (cont'd)

(f) (cont'd)

On 5 June 2012, the Group issued a total of 326,948,647 ordinary shares at S\$0.05 to convertible bondholders which were approved by the Group's Shareholders at the Extraordinary General Meeting held on 30 May 2012 to settle all the outstanding obligations under the US\$10,000,000 five percent convertible bonds.

The conversion option of the convertible bond exhibits characteristics of an embedded derivative. The derivative components are measured separately at fair value on initial recognition. A one-factor model, where stock prices are assumed to be stochastic (lognormal) while interest rates are assumed to be deterministic (defined by a fixed discount factor curve) is used. The methodology utilises a trinomial tree to model changes in the stock price which is determined by parameters such as the number of time steps and the (constant) volatility of the stock price.

The Bonds recognised in the balance sheets as at 31 December 2009, 2010 and 2011 are calculated as follows:

	US\$'000
Face value of convertible bond on 28 August 2009	10,000
Derivatives component at fair value on inception date	(1,888)
Liability component at initial recognition on 28 August 2009	8,112
Interest expense using effective interest rate method	409
Carrying value of convertible bond at 31 December 2009 and 1 January 2010	8,521
Repayment of interests	(503)
Interest expense using effective interest rate method	2,094
Carrying value of convertible bond at 31 December 2010 and 1 January 2011	10,112
Interest expense using effective interest rate method	2,002
Carrying value of convertible bond at 31 December 2011	12,114

The fair value of the derivative liability as at 31 December 2011, 2010 and 2009 are US\$NIL, US\$28,000 and US\$1,417,000 respectively. See Note 30(a).

23. Loans and borrowings (cont'd)

- (g) The loan was secured by proceeds from certain construction projects of a subsidiary. The effective interest rate as of 1 January 2008, 31 December 2008 and 31 December 2009 were ranging from 5.3% to 6.6% per annum, 4.8% to 8.85% per annum and 3.15% to 5.1% per annum respectively. The loan was fully repaid in 2010.
- (h) On 29 July 2008, the Group entered into a new subscription agreement and a note deed poll for Series A Equity Loan Note of US\$12,000,000. This loan was not secured and the proceeds of this loan would be used for general working capital and bears effective interest of 12.66% per annum. The loan note had been paid down progressively by way of cash and issue of new shares and as at 31 December 2008 the loan outstanding was US\$87,000,000, which was fully repaid by way of cash and issue of new shares in 2009.

On 4 September 2009, the Group entered into a new subscription agreement and a note deed poll for Series B Equity Loan Note of US\$15,000,000. This loan was not secured and the proceeds of this loan would be used for general working capital and bears effective interest of 12% per annum. During the year 2009, the loan note had been paid down progressively by way of cash and issue of new shares and as at 31 December 2009, the amount outstanding was US\$10,800,000.

The loan note of US\$10,800,000 outstanding as at 31 December 2009 was fully settled by way of issue of new shares in 2010.

- (i) The loan relates to the construction of the woodchip mill and was secured by all assets of the woodchip mill, a corporate guarantee of the Group and legal mortgage over the shares of a subsidiary. The loan bears effective interest from 4.9% to 10.75% and is repayable on 5 May 2009.

In 2008, a subsidiary of the Group did not fulfil the requirement to sell certain agreed upon quantity of woodchips per year and to meet a current ratio agreed upon. The subsidiary has received a waiver from the bank for the above breaches for the year ended 31 December 2008.

In 2009, the effective interest of the loan was from 4.55% to 7.25% and is repayable on 30 June 2010. The Group was negotiating with the banker for re-financing. In addition, a subsidiary of the Group did not fulfil the requirement to sell certain agreed upon quantity of woodchips per year and meet a debt service coverage ratio agreed upon. The subsidiary has received a waiver from the bank for the above breaches for the year ended 31 December 2009.

The loan of US\$380,000 was outstanding as at 31 December 2009 as it was fully repaid in 2010.

23. Loans and borrowings (cont'd)

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

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

- (i) 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;
- (ii) No Event of Default, as specified in the Equity Line of Credit Agreement;
- (iii) All the necessary authorisations for the issue of shares and Admission of the shares to the SGX-ST have been obtained; and
- (iv) The trading of the Company's shares is not suspended by the SGX-ST.

As at 31 December 2010, the Company has undrawn amount from the equity line of S\$52,500,000 (equivalent to US\$40,800,000).

As at 31 December 2011, the Company has undrawn amount from the equity line of S\$52,500,000 (equivalent to US\$40,500,000).

Breach of covenants

- (i) In 2010, the Group has breached the financial covenant of the Equity Line of Credit granted by a Financial Institution in that a default event has occurred when the Group was unable to repay a loan to Raiffeisen Bank International ("RBI"). The Group has notified the Financial Institution of the default event. 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 2010 and 31 December 2011, the Group has not utilised the remaining undrawn credit facility and does not have any outstanding balances owing to the Financial Institution. On 7 March 2012 and 9 May 2012, RBI, whom the Group has defaulted repayment of the loan, granted the Group an extension to repay the outstanding by 31 March 2012 and 30 June 2012 respectively. On 29 June 2012 and 25 September 2012, RBI further extended the loan maturity to 30 September 2012 and 31 January 2013 respectively.

23. Loans and borrowings (cont'd)

Breach of covenants (cont'd)

- (ii) Since 2010, the Group has breached the financial covenant of the credit facilities granted by a bank to a subsidiary of the Group. The Group did not fulfill the requirement to maintain a gearing ratio at 1.3:1 and tangible worth of minimum US\$100,000,000 for credit facilities of approximately US\$15,500,000 (equivalent to S\$20,000,000). The credit facilities comprised performance bonds facility of approximately US\$9,300,000 (equivalent to S\$12,000,000) and overdraft facility of US\$6,200,000 (equivalent to S\$8,000,000). As at 30 June 2012, the Group has utilised the performance bonds facility for certain construction projects and overdraft facility of approximately US\$686,000. The bank is contractually entitled to request for immediate termination of the credit facilities in the event of breach of covenant, but not in respect of the performance bonds that have been issued on irrevocable basis.

The bank has granted a temporary waiver of the financial 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 gearing ratio at 1.3:1 and tangible worth of minimum US\$100,000,000 as financial covenants from the credit facility.

As at 31 December 2010, the Group has classified the loans and borrowings as current liability as a result of the breach of the financial covenants mentioned above.

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Notes to the Financial Statements – for the years ended 31 December 2009, 2010 and 2011

24. Share capital

	2011		2010		2009		2008	
	No. of shares '000	US\$'000	No. of shares '000	US\$'000	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	3,116,077	232,738	2,420,736	212,360	2,310,814	209,560
Issued during the year	–	–	336,401 ⁽²⁾	10,773	695,341 ⁽³⁾	20,378	109,922 ⁽⁴⁾	2,800
At 31 December	3,452,478	243,511	3,452,478	243,511	3,116,077	232,738	2,420,736	212,360

(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.

24. Share capital (Cont'd)

⁽²⁾ Equity shares were issued as a partial repayment of the US\$15,000,000 Series B Equity Line Backed Loan Note at market price per share:

Number of shares issued '000	Price per share (S\$)
9,259	0.0486
8,604	0.0523
8,427	0.0534
8,841	0.0509
9,719	0.0463
10,000	0.0450
10,393	0.0433
10,638	0.0423
10,638	0.0423
11,222	0.0401
3,173	0.0505
8,826	0.0510
8,491	0.0530
8,755	0.0514
9,574	0.0470
9,868	0.0456
10,638	0.0423
10,158	0.0443
10,000	0.0450
18,000	0.0500
9,000	0.0500
9,454	0.0476
20,000	0.0450
9,595	0.0469
9,202	0.0489
19,149	0.0470
18,219	0.0494
7,601	0.0592
7,550	0.0596
7,614	0.0591
7,732	0.0582
7,909	0.0569
8,152	0.0552
336,401	

United Fiber System Limited and its Subsidiaries

Notes to the Financial Statements – for the years ended 31 December 2009, 2010 and 2011

24. Share capital (Cont'd)

- (3) Equity shares were issued as a partial repayment of the US\$12,000,000 Series A and US\$15,000,000 Series B Equity Line Backed Loan Note and partial repayment of the Convertible Bonds due 2012 equivalent to US\$5,000,000 at market price per share:

Number of shares issued '000	Price per share (S\$)
11,968	0.0376
11,421	0.0394
12,968	0.0347
13,678	0.0329
30,000	0.0300
15,958	0.0282
16,854	0.0267
67,500	0.0200
23,936	0.0188
18,072	0.0249
18,519	0.0243
14,803	0.0304
11,450	0.0393
13,554	0.0332
12,228	0.0368
10,417	0.0432
10,465	0.0430
7,923	0.0568
4,823	0.0933
5,178	0.0869
5,269	0.0854
6,860	0.0656
7,270	0.0619
7,979	0.0564
26,364	0.0550
19,359	0.0749
6,383	0.0705
41,528	0.0602
111,455	0.0646
7,500	0.0600
7,589	0.0593
8,704	0.0517
9,000	0.0500
9,109	0.0494
9,054	0.0497
10,022	0.0449
60,000	0.0450
10,181	0.0442
695,341	

United Fiber System Limited and its Subsidiaries

Notes to the Financial Statements – for the years ended 31 December 2009, 2010 and 2011

24. Share capital (Cont'd)

⁽⁴⁾ Equity shares were issued as a partial repayment of the US\$12,000,000 Series A Equity Line Backed Loan Note at market price per share:

Number of shares issued '000	Price per share (S\$)
5,952	0.0504
6,000	0.0500
10,393	0.0433
11,029	0.0408
15,957	0.0376
19,868	0.0302
19,947	0.0376
20,776	0.0361
<u>109,922</u>	

25. 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.

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

	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000	As at 1 January 2008 US\$'000
Within one year	759	670	252	570	646
After one year but not more than five years	234	454	–	503	958
	<u>993</u>	<u>1,124</u>	<u>252</u>	<u>1,073</u>	<u>1,604</u>

Operating lease payments recognised in the consolidated statement of comprehensive income is as follows:-

	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000	As at 1 January 2008 US\$'000
Operating lease payments	<u>21</u>	<u>20</u>	<u>23</u>	<u>18</u>	<u>16</u>

Operating lease payments capitalised in the construction contract work-in-progress is disclosed in Note 16

26. Capital commitment

Pulp mill project

On 22 February 2008, PT MBBM entered into a Turnkey Agreement (the "Agreement") with China MCC20 Construction Co. Ltd ("MCC20"), a subsidiary of China Metallurgical Group Corporation ("MCC") for the construction of a bleached hardwood kraft pulp mill in South Kalimantan with a capacity of 600,000 air dry tonnes per annum (the "Project").

In addition to the Turnkey Agreement, pursuant to the Supplier's Credit Agreement entered into by PT MBBM and MCC20 on the same date, the Company had also secured 75% of funds required to construct the mill in the form of supplier's credit from MCC20. The balance 25% was planned to be raised from a strategic partner and term sheets had previously been executed with them.

The Turnkey Agreement has expired on 12 November 2008, however, the Company has not extend the agreement subsequent to that. Due to the adverse market situation post the execution of the term sheets, the discussions with the strategic partner have been pending and further discussions with them are expected to resume only when the overall market situation has improved. In 2009, the Company is reviewing the situation, including the more realistic timing of the launch of the project and the availability of relevant alternative funding sources.

In 2010 and 2011, given the current global situation especially on the pulp and paper industry outlook and the possibility of a new Investor coming into the Group, the Group had placed this initiative on hold.

27. Contingent liabilities

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.

28. Interests in joint ventures

The Group has the following interests in joint ventures:

- (a) In the financial years ended 2010 and 2009, the Group has 52.5% (2008: 52.5%) interest in a property development project with China Construction Realty Co. Pte Ltd. The joint venture agreement has been dissolved on 14 September 2011;
- (b) In the financial years ended 2011, 2010 and 2009, the Group has 40% (2008: 40%) interest in a building contract with Shimizu Corporation; and
- (c) In financial years ended 2010 and 2009, the Group has 40% interest in the construction of a social housing project in Libya with TSG Asia Pte Ltd which has been liquidated in 2011.

The Group is entitled to a proportionate share of the proceeds received and bears a proportionate share of the net results for the above joint ventures.

The following amounts are included in the Group's financial statements as a result of the proportionate consolidation of these joint ventures:

	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000	As at 1 January 2008 US\$'000
Current assets	–	334	306	303	352
Total assets	–	334	306	303	352
Current liabilities	–	(298)	(273)	(270)	(78)
Net assets	–	36	33	33	274
Expenses	–	4	4	–	287

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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 were not members of the Group took place during the year at terms agreed between the parties.

	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000
Paid to companies in which a substantial shareholder or directors of the Company has an interest:				
- professional fee	4	42	–	–
- business advisory fee	–	–	–	648
Paid to a director of the Company:				
- advisory fee	83	132	–	–
	<u>87</u>	<u>174</u>	<u>–</u>	<u>648</u>

(b) Interest expenses payable to Convertible Bondholders

	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:			
- ASM Hudson River Fund	206	137	343
- ASM Asia Recovery (Master) Fund Ltd	711	470	1,181
- ASM Co-Investment Term Trust I	229	152	381
	<u>1,146</u>	<u>759</u>	<u>1,905</u>

The interest payable to Convertible Bondholders in the financial years 2010, 2009 and 2008 were to a third party.

29. Related party disclosures (cont'd)

(c) Compensation of key management personnel

	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000
Short-term employee benefits paid to:				
- directors of the Company	452	620	937	1,177
- other key management personnel	1,476	1,678	1,630	2,182
Total compensation paid to key management personnel	1,928	2,298	2,567	3,359

Included in the compensation paid to key management personnel was Central Provident Fund contributions amounted to US\$36,162, US\$51,465 and US\$53,844 (2008: US\$95,000) for the years ended 2011, 2010 and 2009 respectively.

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)				As at 1 January 2008 US\$'000
	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000	
Financial liability:					
- Derivatives (Note 23 (f))	–	28	1,417	285	405

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 years ended 2011, 2010 and 2009.

Determination of fair value

Derivatives liability (Note 23(f)):

The derivative liability arises from the conversion option of the 5% coupon convertible bond. The derivative components are measured separately at fair value on initial recognition and at each balance sheet date subsequently. A one-factor model where stock prices are assumed to be stochastic (lognormal) while interest rates are assumed to be deterministic (defined by a fixed discount factor curve) is used. The methodology utilises a trinomial tree to model changes in the stock price which is determined by parameters such as the number of time steps and the (constant) volatility of the stock price.

In 2011, management has assessed the fair value of the embedded derivative as at 31 December 2011 and found it to be of no value due to the reasons that the share price of the Company as at 31 December 2011 was much lower compared to the conversion price of S\$0.20 and the bonds being close to its maturity date of 31 May 2012.

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

- (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, trade and other payables (Notes 19 and 21) and loans and borrowings (Note 23)

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.

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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 liabilities that are not carried at fair value and whose carrying amount is not reasonable approximation of fair value are as follows:

		2011		2010		2009		2008		As at 1 January 2008	
	Note	Carrying amount US\$'000	Fair value US\$'000	Carrying amount US\$'000	Fair value US\$'000	Carrying amount US\$'000	Fair value US\$'000	Carrying amount US\$'000	Fair value US\$'000	Carrying amount US\$'000	Fair value US\$'000
Financial liabilities:											
- Hire purchase creditors	22	247	260	596	621	689	706	938	893	121	137
- 5% coupon convertible bond	23(f)	12,114	-	10,112	6,374	8,521	9,039	-	-	-	-
- zero coupon convertible bond	23(f)	-	-	-	-	-	-	19,652	23,584	23,951	25,585
- Long term loans and borrowings	23(e)(iii)	-	-	-	-	20,750	17,056	20,750	18,188	-	-

Hire purchase creditors (Note 22), fixed rate loans, zero coupon convertible bond and 5% coupon convertible bond (Note 23(f))

The fair values as disclosed in the table above are estimated by discounting expected future cash flows at market incremental lending rate for similar types of lending, borrowing or leasing arrangements at the balance sheet dates

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 exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

(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

If SGD and USD interest rates had been 75 basis points lower/higher with all other variables held constant, the Group's loss net of tax would have been approximately US\$116,000 US\$79,000 and US\$78,000 (2008: US\$7,000) lower/higher for years ended 31 December 2011, 2010 and 2009 respectively, 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 Note 22 and 23.

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

(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.

The Group has a balance of equity line of credit of US\$40,500,000 from a financial institution that has not been drawn as at 30 June 2012 to meet its exposure to liquidity risks. The equity credit line is available to the Group till 20 July 2014.

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

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 dates based on contractual undiscounted repayment obligations:

	1 year or less US\$'000	1 to 5 years US\$'000	Total US\$'000
31 December 2011			
Financial assets:			
Trade and other receivables	40,850	12,431	53,281
Cash and cash equivalents	37,708	—	37,708
Total undiscounted financial assets	78,558	12,431	90,989
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

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

(b) Liquidity risk (cont'd)

	1 year or less US\$'000	1 to 5 years US\$'000	Total US\$'000
31 December 2010			
Financial assets:			
Trade and other receivables	39,694	14,196	53,890
Cash and cash equivalents	16,360	–	16,360
Total undiscounted financial assets	56,054	14,196	70,250
Financial liabilities:			
Trade and other payables	47,151	4,404	51,555
Hire purchase creditors	407	668	1,075
Loans and borrowings	47,382	–	47,382
Non-trade payables	–	726	726
Total undiscounted financial liabilities	94,940	5,798	100,738
31 December 2009			
Financial assets:			
Trade and other receivables	32,997	13,169	46,166
Cash and cash equivalents	16,836	–	16,836
Total undiscounted financial assets	49,833	13,169	63,002
Financial liabilities:			
Trade and other payables	28,806	3,014	31,820
Hire purchase creditors	353	777	1,130
Loans and borrowings	22,035	33,533	55,568
Non-trade payables	–	481	481
Total undiscounted financial liabilities	51,194	37,805	88,999

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

(b) Liquidity risk (cont'd)

	1 year or less US\$'000	1 to 5 years US\$'000	Total US\$'000
31 December 2008			
Financial assets:			
Trade and other receivables	23,461	13,961	37,422
Cash and cash equivalents	8,847	–	8,847
Total undiscounted financial assets	32,308	13,961	46,269
Financial liabilities:			
Trade and other payables	21,085	2,710	23,795
Hire purchase creditors	396	1,067	1,463
Loans and borrowings	23,393	52,065	75,458
Non-trade payables	–	385	385
Total undiscounted financial liabilities	44,874	56,227	101,101
1 January 2008			
Financial assets:			
Trade and other receivables	20,998	10,794	31,792
Cash and cash equivalents	6,733	–	6,733
Total undiscounted financial assets	27,731	10,794	38,525
Financial liabilities:			
Trade and other payables	45,448	–	45,448
Hire purchase creditors	177	115	292
Loans and borrowings	15,174	23,951	39,125
Non-trade payables	–	249	249
Total undiscounted financial liabilities	60,799	24,315	85,114

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

(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.

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 assets carry a significant exposure to credit risk.

Exposure to credit risk

At the balance sheet dates, the Group's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the balance sheets.

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 dates is as follows:

	2011		2010		2009		2008		As at 1 January 2008	
	US\$'000	% of total	US\$'000	% of total	US\$'000	% of total	US\$'000	% of total	US\$'000	% of total
By country										
Singapore	46,179	86%	48,522	90%	42,116	90%	32,869	85%	34,444	85%
Indonesia	4,312	8%	4,559	8%	931	2%	4,511	12%	6,119	15%
Others	2,986	6%	1,063	2%	3,925	8%	1,289	3%	40	0%
Total	53,477		54,144		46,972		38,669		40,603	
By industry sector										
Construction and property	49,029	92%	48,878	90%	40,714	87%	32,671	84%	27,983	69%
Forest and pulp	4,402	8%	4,769	9%	4,655	10%	5,777	15%	6,119	15%
Others	46	0%	497	1%	1,603	3%	221	1%	6,501	16%
Total	53,477		54,144		46,972		38,669		40,603	

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

(c) Credit risk (cont'd)

Credit risk concentration profile (cont'd)

At the balance sheet dates, the Group's trade and other receivables were due from external parties who are property developers are approximately:

	2011	2010	2009	2008	As at 1 January 2008
Property developers	87%	60%	56%	50%	38%

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.

(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 also 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.

31. Financial risk management objectives and policies (cont'd)**(d) Foreign currency risk (cont'd)**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			
		2011	2010	2009	2008
		US\$'000	US\$'000	US\$'000	US\$'000
USD	- strengthened 3%	(1,843)	(755)	(893)	(1,117)
	- weakened 3%	1,843	755	893	1,117
IDR	- strengthened 3%	(8)	(4)	(8)	(11)
	- weakened 3%	8	4	8	11

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 is of the view that log and wood chip prices are stable. 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.

Sensitivity analysis for commodity price risk

If the price of logs had been 5% higher/lower with all other variables held constant, the Group's loss net of tax would have been US\$8,166,000, US\$10,070,000 and US\$14,457,000 (2008: US\$10,822,000) lower/higher for years ended 31 December 2011, 2010 and 2009 respectively, 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.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust capital structure, the Group may adjust the dividend payment to shareholders, issue new shares or return capital to shareholders. No changes were made in the objectives, policies or processes between the years ended 31 December 2011, 2010 and 2009 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 2011 and the breaches has been waived off by the financial institutions as disclosed in Note 23.

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.

	2011	2010	2009	2008	As at 1 January 2008
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Loans and borrowings	62,604	42,080	50,420	62,699	39,125
Trade and other payables	48,526	53,574	32,301	24,180	45,697
Hire purchases creditors	591	958	1,006	1,298	237
Less: Cash and bank balances	(37,708)	(16,360)	(16,836)	(8,847)	(6,733)
Net debts	74,013	80,252	66,891	79,330	78,326
Equity attributable to equity holders of the Company	77,332	86,158	120,190	154,153	213,731
Capital and net debts	151,345	166,410	187,081	233,483	292,057
Gearing ratio	49%	48%	35%	34%	27%

As at 31 December 2011 and 2010, the Group recorded a gearing ratio of 49% and 48% respectively which exceeded the Group's capital management policy. Since January 2012, the Company has taken several actions to manage its capital structure:-

32. Capital management (cont'd)

- (a) On 22 January 2012, the Company entered into a settlement agreement with the convertible bondholders to settle the outstanding obligations of the US\$10,000,000 five per cent convertible bonds by issuance of ordinary shares at S\$0.05 per share in the capital of the Company (the "Proposed Settlement"). The Proposed Settlement by shares was approved by the shareholders of the Company at the extraordinary general meeting held on 30 May 2012 and the shares were allotted and issued on 5 June 2012. If the Proposed Settlement was effected on 31 December 2011, the loans and borrowings and net debts would reduced by US\$12,114,000 to US\$50,490,000 and US\$61,899,000 respectively, with an increase of US\$12,114,000 in the equity attributable to equity holders of the Company to US\$89,446,000. As a result of the settlement, the adjusted gearing ratio is approximately 41%.
- (b) On 20 March 2012, the Company entered into a supplemental agreement with Asia Star Fund Ltd ("ASF") to (i) further extend the long-stop date of the US\$35,000,000 loan, and (ii) allowing ASF to have an option to convert all outstanding obligations under the ASF loan agreements to the Company shares at S\$0.05 per share. In addition, ASF shall not make any demands on the outstanding obligations under the ASF loan agreements to be settled before the expiry of three weeks after the date of termination of the Company's proposed acquisition of PT Golden Energy Mines Tbk. In the event of default, where ASF terminates the ASF loan agreements, the Company shall repay the ASF loan solely (and in no other manner) by the conversion of the ASF indebtedness into the shares of the Company. On 30 May 2012, the shareholders of the Company approved the proposed settlement of the outstanding ASF loan obligations by shares in the event of default and termination of ASF loan agreements by ASF. At the date of this report, the ASF loan and accrued interest remain outstanding.
- (c) On 8 March 2012, the Company entered into a definitive agreement with Raiffeisen Bank International, AG Singapore Branch (the "RBI"), to refinance the Company's outstanding obligations under the US\$10,000,000 loan granted by RBI by issuing up to S\$15,800,000 zero coupon convertible bonds to RBI. At the option of RBI, the Company will issue up to 225,714,286 new shares in the capital of the Company at the agreed price of S\$0.07 per share. On 16 May 2012, the Company and RBI entered into the subscription agreement. On 21 September 2012, the Company has agreed to extend the long-stop date of the subscription agreement to 31 January 2013 or as otherwise agreed between the parties.

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 Subsidiaries

Notes to the Financial Statements – for the years ended 31 December 2009, 2010 and 2011

33. Segment information (cont'd)

Year ended 2011	Construction and property US\$'000	Forestry and pulp US\$'000	Others US\$'000	Elimination US\$'000	Note	Consolidated US\$'000
Revenue:						
Revenue from external customers	177,973	1,560	–	–	A	179,533
Inter segment revenue	–	–	766	(766)		–
Total revenue	177,973	1,560	766	(766)		179,533
Results:						
Segment results	4,755	(14,471)	(15,401)	20,814	B	(4,303)
Finance costs						(5,895)
Loss before tax						(10,198)
Taxation						1,318
Loss for the year						(8,880)

United Fiber System Limited and Subsidiaries

Notes to the Financial Statements – for the years ended 31 December 2009, 2010 and 2011

33. Segment information (cont'd)						
Year ended 2011 (cont'd)	Construction and property US\$'000	Forestry and pulp US\$'000	Others US\$'000	Elimination US\$'000	Note	Consolidated US\$'000
Assets and Liabilities: Segment assets	112,703	148,832	34,616	(36,710)		259,441
Total assets	112,703	148,832	34,616	(36,710)		259,441
Segment liabilities	95,556	179,445	85,584	(206,300)		154,285
Unallocated liabilities	–	–	–	–	C	27,828
Total liabilities						182,113
Capital expenditures	184	–	–			184
Depreciation of property, plant and equipment (Note 11(e))	120	2,689	35			2,844
Impairment loss (Note 7)	969	–	–			969

United Fiber System Limited and Subsidiaries

Notes to the Financial Statements -- for the years ended 31 December 2009, 2010 and 2011

33.	Segment information (cont'd)								
	Year ended 2010	Construction and property US\$'000	Forestry and pulp US\$'000	Others US\$'000	Elimination US\$'000	Note	Consolidated US\$'000		
	Revenue:								
	Revenue from external customers	128,730	4,016	—	—		132,746		
	Inter segment revenue	—	—	708	(708)	A	—		
	Total revenue	128,730	4,016	708	(708)		132,746		
	Results:								
	Segment results	3,681	(54,566)	(106,120)	111,822	B	(45,183)		
	Finance costs						(7,717)		
	Loss before tax						(52,900)		
	Taxation						5,664		
	Loss for the year						(47,236)		

United Fiber System Limited and Subsidiaries

Notes to the Financial Statements – for the years ended 31 December 2009, 2010 and 2011

33. Segment information (cont'd)						
Year ended 2010 (cont'd)	Construction and property US\$'000	Forestry and pulp US\$'000	Others US\$'000	Elimination US\$'000	Note	Consolidated US\$'000
Assets and Liabilities: Segment assets	85,967	155,631	26,861	(29,445)		239,014
Total assets	85,967	155,631	26,861	(29,445)		239,014
Segment liabilities	72,729	173,168	58,590	(179,183)		125,304
Unallocated liabilities	–	–	–		C	27,555
Total liabilities						152,859
Capital expenditure	1,278	54	23			1,355
Depreciation of property, plant and equipment (Note 11(e))	80	3,847	67			3,994
Impairment loss	–	10,651	–			10,651

United Fiber System Limited and Subsidiaries

Notes to the Financial Statements – for the years ended 31 December 2009, 2010 and 2011

33.	Segment information (cont'd)						
	Year ended 2009	Construction and property US\$'000	Forestry and pulp US\$'000	Others US\$'000	Elimination US\$'000	Note	Consolidated US\$'000
	Revenue:						
	Revenue from external customers	136,066	3,926	—	—		139,992
	Inter segment revenue	—	—	662	(662)	A	—
	Total revenue	136,066	3,926	662	(662)		139,992
	Results:						
	Segment results	1,714	(65,466)	(14,955)	15,735	B	(62,972)
	Finance costs						(5,704)
	Loss before tax						(68,676)
	Taxation						13,607
	Loss for the year						(55,069)

United Fiber System Limited and Subsidiaries

Notes to the Financial Statements – for the years ended 31 December 2009, 2010 and 2011

33. Segment information (cont'd)						
Year ended 2009 (cont'd)	Construction and property US\$'000	Forestry and pulp US\$'000	Others US\$'000	Elimination US\$'000	Note	Consolidated US\$'000
Assets and Liabilities:						
Segment assets	82,450	209,425	111,490	(136,791)		266,574
Total assets	82,450	209,425	111,490	(136,791)		266,574
Segment liabilities	73,436	159,735	54,406	(170,727)		116,850
Unallocated liabilities	–	–	–	–	C	29,533
Total liabilities						146,383
Capital expenditure	38	116	31			185
Depreciation of property, plant and equipment (Note 11(e))	28	2,958	101			3,087
Impairment loss	56	–	–			56

United Fiber System Limited and Subsidiaries

Notes to the Financial Statements – for the years ended 31 December 2009, 2010 and 2011

33. Segment information (cont'd)						
Year ended 31 December 2008	Construction and property US\$'000	Forestry and pulp US\$'000	Others US\$'000	Elimination US\$'000	Note	Consolidated US\$'000
Revenue:						
Revenue from external customers	103,611	10,173	1	–		113,785
Inter segment revenue	–	–	681	(681)	A	–
Total revenue	103,611	10,173	682	(681)		113,785
Results:						
Segment results	2,800	(76,201)	(10,092)	(3,597)	B	(87,090)
Finance costs						(5,857)
Loss before tax						(92,947)
Taxation						25,994
Loss for the year						(66,953)

United Fiber System Limited and Subsidiaries

Notes to the Financial Statements – for the years ended 31 December 2009, 2010 and 2011

33. Segment information (cont'd)						
Year ended 31 December 2008 (cont'd)	Construction and property US\$'000	Forestry and pulp US\$'000	Others US\$'000	Elimination US\$'000	Note	Consolidated US\$'000
Assets and Liabilities:						
Segment assets	62,896	111,553	242,618	(110,893)		306,174
Total assets	62,896	111,553	242,618	(110,893)		306,174
Segment liabilities	53,502	151,133	59,364	(154,498)		109,501
Unallocated liabilities	–	–	–	–	C	42,519
Total liabilities	–	–	–	–		152,020
Capital expenditure	1,823	1,242	63			3,128
Depreciation of property, plant and equipment (Note 11(e))	26	2,798	104			2,928
Impairment loss	–	–	–			–

United Fiber System Limited and Subsidiaries

Notes to the Financial Statements – for the years ended 31 December 2009, 2010 and 2011

33. Segment information (cont'd)						
As at 1 January 2008	Construction and property US\$'000	Forestry and pulp US\$'000	Others US\$'000	Elimination US\$'000	Note	Consolidated US\$'000
Assets and Liabilities: Segment assets	44,256	124,585	240,941	(35,025)		374,757
Total assets	44,256	124,585	240,941	(35,025)		374,757
Segment liabilities Unallocated liabilities	33,611	153,187	48,216	(142,352)	C	92,662 68,363
Total liabilities						161,025
Capital expenditure	152	6,570	276			6,998
Depreciation of property, plant and equipment	303	1,967	166			2,436
Impairment loss	13	25	–			38

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
31 December 2011				
Other income/ (expense)	357	85	8,239	8,681
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 concession	—	(6,940)	—	(6,940)
31 December 2010				
Other income/ (expense)	926	(6,471)	8,471	2,926
Selling and distribution expenses	(399)	(1,560)	(76)	(2,035)
Administrative expenses	(4,565)	(2,204)	(2,594)	(9,363)
Other operating expenses	(600)	(19,845)	(74)	(20,519)
Fair value loss on forest concession	—	(25,289)	—	(25,289)
31 December 2009				
Other income/ (expense)	156	261	61	478
Selling and distribution expenses	(218)	(1,573)	(93)	(1,884)
Administrative expenses	(3,401)	(1,371)	(2,878)	(7,650)
Other operating expenses	(883)	(7,776)	2,852	(5,807)
Fair value loss on forest concession	—	(55,714)	—	(55,714)

United Fiber System Limited and Subsidiaries

Notes to the Financial Statements – for the years ended 31 December 2009, 2010 and 2011

33. Segment information (cont'd)

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

	Construction and property US\$'000	Forestry and pulp US\$'000	Others US\$'000	Total US\$'000
31 December 2008				
Other income/ (expense)	1,050	1,196	947	3,193
Selling and distribution expenses	(140)	(3,464)	(257)	(3,861)
Administrative expenses	(2,815)	(1,723)	(5,151)	(9,689)
Other operating expenses	(1,484)	(4,094)	(9,814)	(15,392)
Fair value loss on forest concession	–	(63,805)	–	(63,805)

- C The unallocated liabilities relating to current income provision for taxation and deferred tax liabilities as follows:-

	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000	As at 1 January 2008 US\$'000
Provision for taxation	8,751	6,642	2,042	1,139	1,220
Deferred tax liabilities	19,077	20,913	27,491	41,380	67,143
	<u>27,828</u>	<u>27,555</u>	<u>29,533</u>	<u>42,519</u>	<u>68,363</u>

United Fiber System Limited and Subsidiaries

Notes to the Financial Statements – for the years ended 31 December 2009, 2010 and 2011

33. Segment information (cont'd)

Geographical information

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

	Singapore US\$'000	Indonesia US\$'000	Asia Pacific Countries US\$'000	Consolidated US\$'000
31 December 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
31 December 2010				
Total revenue from external customers	131,027	1,532	187	132,746
Non-current assets	13,220	129,042	32,672	174,934
31 December 2009				
Total revenue from external customers	136,059	3,933	–	139,992
Non-current assets	10,911	169,870	29,980	210,761
31 December 2008				
Total revenue from external customers	103,611	3,853	6,321	113,785
Non-current assets	12,161	228,478	29,281	269,920
As at 1 January 2008				
Total revenue from external customers	81,581	109	1,235	82,925
Non-current assets	27,900	295,066	4,088	327,054

Non-current assets information presented above consists of forest asset, 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\$77,000,000, US\$45,900,000 and US\$42,000,000 (2008: US\$18,600,000) for the years ended 2011, 2010 and 2009 respectively, arising from sales by the construction and property segment.

34. Legal proceedings

- (i) Poh Lian Development Pte Ltd ("PLD"), the Company's wholly owned subsidiary has initiated court proceedings in the High Court of the Republic of Singapore against the defendants, Leong Hwa Chan Si Temple ("Leong Hwa"), Hok Mee Property Pte Ltd ("Hok Mee"), Hok Chung Construction Co Pte Ltd ("Hok Chung") and Kek Kim Hok ("Kek") (All collectively referred to as "the Parties"). PLD had entered into a partnership with Hok Mee and Leong Hwa to develop and manage a columbarium development at Choa Chu Kang, Singapore in 1999. PLD's role in the partnership was mainly to provide financing for the construction of the columbarium.

In 2008, PLD had initiated legal proceedings to recover accountability of receipts and payments from its partners as well as overpayments to Hok Chung and/or Kek in respect of the construction of the columbarium, as well seek recovery of a loan of US\$9,250,000 made to the partnership. The defendants have submitted their defence and made counterclaims against PLD for an aggregate sum of approximately US\$6,250,000 which have been rejected by PLD. Based on the legal advice received, the Directors believe that PLD has strong defence against the aforesaid claims which are likely to fail in the account of lack of merits of evidence.

On 1 July 2009, the High Court Judge delivered with his grounds of decision ("GD"), but the final judgement has not been rendered as all parties are still in the midst of clarifying the findings in GD with the Judge. Based on the legal advice received, the Directors believe that PLD will potentially receive a sum of approximately S\$1,200,000, based on its interest in the partnership of 36.2% after offsetting its liability to the partnership. No gain was recognised in 2009 in the Group's income statement due to its uncertainty.

On 25 August 2010, the High Court Judge passed the judgment that the defendants, Hok Mee, Hok Chung and Kek are jointly and severally liable to pay to PLD the sum of S\$2,280,000 ("the Debt"), which the defendants appealed on 28 February 2011, but was unsuccessful. On 11 March 2011, PLD has proceeded to serve the Statutory Letters of Demand to Hok Mee, Hok Chung and Kek pursuant to Section 254(2)(a) of the Companies Act Chap. 50. No gain was recorded in 2010 in the Group's income statement due to its uncertainty.

On 11 April 2011, PLD proceeded with the Original Summons against Kek. On receiving the Original Summons, Kek negotiated extensively with the Company. On 12 October 2011, PLD and Kek entered into a legally binding settlement agreement to settle the Debt for S\$1,300,000, over 6 six-monthly instalments commencing 7 December 2011. If in the event of default, the sum of S\$2,280,000 less any payment made plus interest shall be immediately due and payable, and PLD is entitled the same plus costs and disbursements awarded in the judgment and the appeal and costs and disbursements incurred in respect of filing of bankruptcy.

34. Legal proceedings (cont'd)

(i) *(cont'd)*

The Group has received and recorded the first instalment payment of S\$300,000 as other income in the consolidated income statement in 2011. The Group has received second instalment payment of S\$200,000 on 1 June 2012.

(ii) The Company has in October 2009 commenced legal proceedings in the New York Court, United States against Merrill Lynch & Company, Inc and Merrill Lynch (Singapore) Pte Ltd ("Merrill Lynch") for their improper conduct in connection with the Company's efforts to acquire PT Kiani Kertas in Indonesia. The Company is seeking compensations for damages due to, amongst others, Merrill Lynch's breach of contract, breach of implied covenant of good faith and fair dealing, negligent misrepresentation, fraud and fraudulent inducement, breach of fiduciary duty, and tortious interference with contract.

In 2010 the case was still ongoing and the Company's lawyers in the United States were of the opinion, based on the facts made available to them that there were reasonable prospects of succeeding in the above matter.

The lawsuit was dismissed prior to 31 December 2011, based on certain procedural issues. This was not dismissed on the merits of the case and the Company has the right to re-file the lawsuit. The Company may reach a compromise settlement agreement in lieu of re-filing the suit.

35. Events occurring after the balance sheet date

(i) Settlement of US\$10,000,000 five percent convertible bonds

The Company had on 22 September 2009 issued US\$10,000,000 five per cent convertible bonds (the "Bonds") to Abax Nai Xin A Ltd and Abax Jade Ltd, at the agreed exchange rate of 1 USD : 1.44 SGD and the conversion price of S\$0.20. The Bonds were subsequently transferred to the ASM Asia Recovery (Master) Fund, ASM Co-Investment Term Trust I and ASM Hudson River Fund ("the Bondholders") on 18 January 2011. On 28 September 2011, the Company and the Bondholders extended the new maturity date of the Bonds from 21 September 2011 to 30 March 2012. Subsequent on 28 March 2012, the Company and the Bondholders have agreed to extend the due date for redemption of the Bonds from 30 March 2012 to 31 May 2012.

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

(i) Settlement of US\$10,000,000 five percent convertible bonds (cont'd)

On 22 January 2012, the Company and the Bondholders entered into a settlement agreement to settle the outstanding obligations on the Bonds by issuance of shares at the settlement price of S\$0.05 per share. On the same day, the Company and an affiliated company of the bondholders entered into a US\$400,000 loan agreement to finance the cost of convening the EGM and Company's working capital. Under the settlement agreement, subject to shareholders' approval, the Company shall repay the loan and related interest by issuance of shares at S\$0.05 per share.

On 5 June 2012, the Company issued a total of 337,209,459 ordinary shares at S\$0.05 to convertible bondholders and lender which was approved by the Company Shareholders at the Extraordinary General Meeting held on 30 May 2012. A total of 326,948,647 ordinary shares were issued to convertible bondholders to settle all the outstanding obligations under the US\$10,000,000 five per cent convertible bonds and a total of 10,260,812 ordinary shares were issued to settle all the outstanding obligations under the US\$400,000 loan granted by the lender.

(ii) Proposed Acquisition of Golden Energy Mines ("Proposed Acquisition")

As disclosed under Note 1.2, the Company had on 26 January 2012 entered into a HoA with DSS, to acquire DSS entire 66.9998% interest in GEMS. Subject to the agreed adjustments, the Company will pay DSS the purchase consideration by way of issuance and allotment of 44,275,533,621 new ordinary shares of the Company at an issue price of S\$0.035 per share ("Proposed Acquisition"). After the completion of the Proposed Acquisition, DSS would own approximately 92.7663% interest of the enlarged Company ordinary share capital. In addition, under the HoA, GMR Coal Resources Pte Ltd ("GMR") which currently holds 30.0% of GEMS will be given the opportunity to sell some or all of its interest to UFS, subject to the execution of definitive documentation between GMR and the Group.

The agreed adjustments, includes changes to the share capital of UFS, whether by way of share consolidation, share splits, rights issue, bonus issue or otherwise ("dilutive events"), whereby appropriate adjustments shall be made to the consideration shares and/or the issue price as the DSS and/or GMR and the Company may agree, so as to ensure that DSS and GMR interest are not affected as a result of the changes in the share capital of the Company, but would exclude the successful settlement of the outstanding obligation under the US\$10,000,000 five percent convertible bonds due 31 May 2012.

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

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

(ii) Proposed Acquisition of Golden Energy Mines ("Proposed Acquisition") (cont'd)

The completion of the Proposed Acquisition will be conditional upon the following conditions precedents to be agreed and completed:

- (a) satisfactory completion of the due diligence by the Company on GEMS and DSS on the Company,
- (b) the completion of a share consolidation exercise by the Company,
- (c) subject to the approval from the shareholders of DSS and the Company,
- (d) subject to approvals received from the respective regulatory in Singapore and Jakarta,
- (e) the extension of the ASF subscription long-stop date from 30 March 2012 to the earlier of the Acquisition Long-Stop Date or the termination of the Proposed Acquisition. In the event that the Proposed Acquisition proceeds to completion, the termination of the ASF subscription agreement to be effective on completion, and
- (f) the restructuring of the ASF US\$35,000,000 loan to (i) extend of the long-stop date for the payment of monies due and owing under the ASF loan agreements, from 30 March 2012 to the earliest of the completion of a placement exercise by the Company following the completion of the Proposed Acquisition; or the expiry of fifteen weeks after completion of the Proposed Acquisition; or the expiry of three weeks after the date of termination of the Proposed Acquisition, (ii) ASF having the option to convert all monies due and owing under the ASF loan agreements to the Company shares at S\$0.05 per share within two weeks before completion of the Post Completion Placement; or one week after the expiry of the Agreed placement period; or one week after the termination of the Proposed Acquisition. ASF shall not make any demands any monies due and owing by the Company under the ASF loan agreements be settled before the expiry of three weeks after the date of termination of the Proposed Acquisition.

On 20 March 2012, in accordance to the conditions precedents in the HoA, the Company and ASF completed the extension of the ASF subscription long-stop date from 30 March 2012 to the earlier of the Acquisition Long-Stop Date or the termination of the Proposed Acquisition, and the restructuring of the ASF US\$35,000,000 loan. The execution of the sale and purchase agreement has been extended from 30 April 2012 to 30 June 2012.

On 29 June 2012, the Company, DSS and GMR have entered into the Share Purchase Agreement to which the Company will acquire 3,941,166,500 ordinary shares or approximately 66.9998% of the issued share capital of GEMS from DSS ("DSS Sale Shares"), and 1,764,706,000 ordinary shares or approximately 30% of the issued share capital of GEMS from GMR ("GMR Sale Shares"), in each case by way of issuance of new ordinary shares in the Company. The purchase consideration for DSS Sale Shares and the GMR Sale Shares are S\$1,549,643,677 and S\$693,872,105 respectively at S\$0.035 per share

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

(ii) Proposed Acquisition of Golden Energy Mines ("Proposed Acquisition") (cont'd)

As a condition precedent to the proposed transaction, the Company shall consolidate every 20 shares into one consolidated share, which will take effect on or before DSS completion date or GMR completion date, whichever is earlier. As a result of the proposed share consolidation, the consideration payable by the Company for the DSS Sale Shares and the GMR Sale Shares will be satisfied by way of issuance of 2,213,776,681 and 991,245,863 consolidated shares to DSS and GMR respectively at S\$0.70 per consolidated share.

The Share Purchase Agreement will terminate if, inter alia, not all of the DSS conditions precedent and GMR conditions precedent have been fulfilled (or waived) by 31 January 2013, or otherwise agreed between the Company, DSS and GMR.

(iii) Extension of RBI US\$10,000,000 Loan Settlement

On 8 March 2012, the Company and RBI had entered into a definitive term sheet 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 Bond") with a bond yield of 6% per annum. RBI has an option to exercise to convert the bond to shares in the Company at the agreed price of S\$0.07 per share which will be adjusted accordingly following the proposed share consolidation of every twenty (20) existing ordinary shares into one (1) new ordinary share in the capital of the Company. The number of shares to be issued for the conversion is approximately 225,714,286. The RBI Bond is subjected to several conditions precedent as follows:

- (a) The execution of the convertible bond agreement with RBI,
- (b) The in-principle approval is granted by SGX-ST for the listing of conversion shares;
- (c) The successful conversion of the Bonds with the Bondholders mentioned in Note 35(i);
- (d) Satisfactory review by RBI on ASF loan agreement as amended mentioned in Note 35(ii) (f).
- (e) No further amendments allowed to the ASF Supplementary Agreement without consent from RBI.

On 21 September 2012, the Group and RBI have agreed to extend the long stop date for subscription of S\$15,800,000 Zero Coupon Convertible Bonds to 31 January 2013 or as otherwise agreed between the parties.

On 25 September 2012, the Group and RBI have agreed to further extend the Final Maturity Date to 31 January 2013.

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

(iv) Breach of covenants

As at 30 September 2012, the Company has breached the financial covenant of US\$10,000,000 loan credit facilities granted by Raiffeisen Bank International ("RBI") for not maintaining a maximum leverage ratio of 4 times the EBITDA of one of its subsidiaries. The Company has pledged the equity shares of the subsidiary to RBI since September 2011. As at 30 June 2012, the Company has fully utilised the US\$10,000,000 credit facility. As at the date of this report, RBI has not requested for immediate termination of the credit facility and the enforcement of the equity shares in the subsidiary. The Company has submitted a waiver request letter to RBI to waive the breach.

In addition, one of the subsidiaries has also breached the financial covenant of US\$2,000,000 short-term advance ("SFA") and S\$20,200,000 banker's guarantee facilities granted by RBI for not maintaining a maximum leverage ratio of 2 times the EBITDA. As at 30 June 2012, the subsidiary has fully utilised the banker's guarantee for certain construction projects and approximately US\$550,000 of the SFA. The subsidiary will be submitting a waiver request letter to RBI to waive the breach.

As at the date of this report, the Group has not received the letter of demand from RBI on the breach mentioned above. If the Group receives the letter of demand from RBI for the breach, the Group would have cross-defaulted the facilities granted by other financial institutions and banks, except for the US\$4,000,000 loan granted by ASM Asia Master (Recovery) Fund, unless remedied by the specific days provided in the loan documents. The facilities granted by financial institutions and banks comprise performance bonds/guarantees, trade financing, short-term advances, term loan and overdraft facilities. The financial institutions and banks are contractually entitled to request for immediate termination of the credit facilities in the event of default, but not in respect of the performance bonds/guarantees that have been issued on irrevocable basis. In such event, any non-current bank borrowing would have to be reclassified to current liability.

On 6 November 2012, the Group and ASM Asia Master (Recovery) Fund entered into a US\$4,000,000 loan agreement to finance the working capital of the Group. The loan bears an up-front facility of 2% and interest of 12.5% per annum. The facility matures on 31 March 2013 and shall be repaid by proceeds received from the proposed compliance placement following the completion of the Proposed Acquisition. As at the date of this report, the Group has utilised approximately US\$1,300,000 of the loan facility.

36. Authorisation of financial statements

The financial statements for the year ended 31 December 2009, 2010 and 2011 were authorised for issue in accordance with a resolution of the Directors dated on 12 November 2012.

