

United Fiber System Limited and its Subsidiaries

Independent Auditor's Report

For the financial year ended 31 December 2013

To the Members of United Fiber System Limited

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of United Fiber System Limited (the "Company") and its subsidiaries (collectively, the "Group"), which comprise the balance sheets of the Group and Company as at 31 December 2013, the statements of changes in equity of the Group and the Company, consolidated statement of comprehensive income and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with Singapore Standards on Auditing. Because of the matters described in the Basis for Disclaimer of Opinion paragraphs, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

- a) Deconsolidation of Poh Lian Construction (Pte) Ltd, a material subsidiary of the Group, and its subsidiaries (collectively, "PLC group")

We did not issue an opinion on the financial statements of the Group for the previous financial year ended 31 December 2012 as we were unable to verify the appropriateness of the carrying values of the assets, liabilities, income and expenses of the Group's material subsidiary, Poh Lian Construction (Pte) Ltd ("PLC"), included in those financial statements. As disclosed in Note 3 (b) to these financial statements, PLC was placed under interim judicial management on 7 March 2013 and accordingly the assets and liabilities of PLC and its subsidiaries ("PLC group") have been deconsolidated with effect from that date due to loss of control of PLC by the Group. The deconsolidation was performed using the unaudited financial information of the PLC group as at that date, and we are unable to satisfy ourselves on the computation of the gain on deconsolidation of US\$16,916,000 and net cash outflow of US\$5,493,000 recorded in the consolidated comprehensive income and cashflow statement for the year respectively. In addition, as further disclosed in that note, the Group did not consolidate the operating results of the PLC group from 1 January 2013 to 6 March 2013 on a line by line basis. This is not in compliance with the requirements of FRS 27 *Separate Financial Statements*.

United Fiber System Limited and its Subsidiaries

Independent Auditor's Report

For the financial year ended 31 December 2013

To the Members of United Fiber System and its subsidiaries

b) Default interest not provided for

As disclosed in Note 25(f)(i) to the financial statements, a financial institution is entitled to charge the Group default interest of US\$35,400,000. The Group did not provide for the default interest as the directors are of the view that the financial institution will waive the interest following the completion of the Proposed DSS Acquisition. Based on the information available to us, we are unable to determine if the financial institution will waive the amount of the default interest. Consequently, we are unable to establish whether any provision for default interest of US\$35,400,000 and the related charges of US\$3,900,000 is necessary.

c) Going concern assumption

As disclosed in Note 1.2, the Group incurred a net loss of US\$10,723,000 for the financial year ended 31 December 2013 and as at that date, the Group and the Company are in a net current liability position of US\$114,605,000 and US\$112,667,000 respectively. Furthermore the Group and the Company are in a net liability position of US\$71,349,000 and US\$51,447,000 respectively. These factors indicate the existence of a material uncertainty which may cast significant doubt about the Group and the Company's ability to continue as a going concern.

As disclosed in Note 1.2, the directors have prepared these financial statements on the going concern basis premised on, *inter alia*, the success of the Proposed DSS Acquisition as stated in that note. Based on the information available to us, we are unable to perform procedures to obtain support for the assumptions disclosed in that note and consequently, we are unable to conclude as to the appropriateness of the use of going concern assumption in the preparation of these financial statements.

Disclaimer of Opinion

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

Report on Other Legal and Regulatory Requirements

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

Ernst & Young LLP
Public Accountants and
Chartered Accountants
Singapore

28 March 2014

1.2 Going concern

The Group incurred net loss of US\$10,723,000 (2012: US\$153,575,000) for the financial year ended 31 December 2013. As at 31 December 2013, the Group and the Company are in a net current liability position of US\$114,605,000 (2012: US\$132,931,000) and US\$112,667,000 (2012: US\$101,963,000) respectively. Furthermore, the Group and the Company are in a net liability position of US\$71,349,000 (2012: US\$60,773,000) and US\$51,447,000 (2012: US\$11,110,000) respectively.

As at the balance sheet date, the Group and the Company has loans and borrowings totalling US\$49,000,000 (2012: US\$52,233,000) and US\$49,000,000 (2012: US\$44,772,000) respectively that are due within the next twelve months. The presence of these factors cast doubt on the Group's ability to continue as a going concern.

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

Proposed DSS Acquisition

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

The successful completion of the Proposed DSS Acquisition is subjected to various conditions precedent as detailed in Note 36.

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

The net proceeds from the compliance placement shares will be used to settle the Group's loans and borrowings owing to certain financial institutions as disclosed in Note 25(e), (f) and (g); for expansion plans and general working capital purposes.

1.2 Going concern (cont'd)

Proposed DSS Acquisition (cont'd)

Pursuant to the conditions precedent in the Proposed DSS Acquisition, on 30 August 2013, the Company entered into a settlement agreement with various banks and financial institutions (collectively known as “Unsecured Creditors”) in relation to the existing corporate guarantees entered into in favour of Poh Lian Construction (Pte) Ltd, a material subsidiary of the Company, which was put under interim judicial management on 7 March 2013.

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

The Directors have evaluated that the Proposed DSS Acquisition will be successfully completed and that the compliance placement shares will be executed. The success of the Proposed DSS Acquisition and the compliance share placement will result in the settlement of the corporate guarantee claims through the issuance of shares of the Company and that the loans and borrowings will be repaid using the proceeds received from the compliance share placement. Accordingly the directors are of the opinion that the Group and the Company is able to continue as going concern, and that the financial statements have been prepared on the basis that the Group and the Company 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.

3. Group of companies

(b) Judicial management order (“JMO”)

On 7 March 2013, Poh Lian Construction (Pte) Ltd (“PLC”) made a Judicial Management Application (“JM Application”) in the High Court of the Republic of Singapore to place itself under interim judicial management. The JM Application was subsequently approved by the High Court on 5 April 2013. Updates on the status of the JM are disclosed in Note 37.

PLC has been experiencing significant financial and operational difficulties due to challenging conditions in the local construction industry. In addition, PLC suffered significant losses during the financial year ended 31 December 2012.

Mr Tam Chee Chong and Mr Andrew Grimmatt, both from Deloitte & Touche LLP were appointed as interim judicial managers and subsequently judicial managers to, inter alia, manage the affairs of PLC as well as preserve the assets of PLC. Upon the appointment of the interim judicial managers, the functions and powers of PLC’s directors were transferred to the interim judicial managers. Accordingly, the assets and liabilities of PLC and its subsidiaries (“PLC group”) have been deconsolidated due to loss of control of PLC by the Group as follows:-

United Fiber System Limited and its Subsidiaries

Notes to the Financial Statements – for the year ended 31 December 2013

3. Group of companies (cont'd)

(b) Judicial management order ("JMO") (cont'd)

(i) Deconsolidation of PLC and its subsidiaries:-

The unaudited assets and liabilities of PLC group as at 7 March 2013 are as follows:

	US\$'000
Assets:	
Property, plant and equipment (Note 11)	4,863
Club membership	81
Properties held for sale	972
Trade and other receivables	51,902
Gross amount due from customers for contract work-in-progress	1,048
Investment properties held for sale (Note 18)	1,456
Fixed deposits	7,124
Cash and cash equivalents	5,493
Total assets	72,939
Liabilities:	
Gross amount due to customers for contract work-in-progress	(3,717)
Trade and other payables	(69,380)
Provision for potential losses arising from termination of construction contracts (Note 23)	(48,453)
Hire purchase creditors	(626)
Provision for taxation	(552)
Loans and borrowings	(2,983)
Deferred tax liabilities	(162)
Total liabilities	(125,873)
Total net liabilities	(52,934)
Adjustment:	
Liability relating to provision for corporate guarantees retained at the Group **	36,018
Gain on deconsolidation of subsidiaries arising from loss control	(16,916)
Net cash outflow on deconsolidation of subsidiaries	5,493

** The Company provided corporate guarantees for facilities granted by banks and financial institutions (collectively known as "Unsecured Creditors") to PLC. The Company has received letters from these Unsecured Creditors enforcing their rights under the corporate guarantees. As disclosed in Note 39, the Company entered into Mandatory Convertible Bonds agreement with these Unsecured Creditors to settle the obligation due.

United Fiber System Limited and its Subsidiaries

Notes to the Financial Statements – for the year ended 31 December 2013

3. Group of companies (cont'd)

(b) Judicial management order (“JMO”) (cont'd)

- (ii) The unaudited profit or loss contribution from PLC group from 1 January 2013 to 6 March 2013 are as follows:-

	US\$'000
Revenue	25,612
Cost of sales	(25,069)
Gross profit	543
Other income	228
Selling and distribution expenses	(15)
Administrative expenses	(801)
Other operating expenses	(113)
Finance costs	(38)
Loss for the period	(196)
Add: Gain on deconsolidation of subsidiaries arising from loss of control	16,916
Net effect on deconsolidation of subsidiaries	16,720

The Directors did not consolidate the operating results of PLC group from 1 January to 6 March 2013 on a line by line basis in accordance with FRS 27 as the directors are of the view that the consolidation is not meaningful given that the Group already lost control of PLC on 7 March 2013. In addition, the Group is planning to discontinue and dispose of its entire investment in PLC once the Proposed DSS Acquisition is completed. As a result, Directors believe that the non-consolidation of the current operating results of PLC group will provide a better picture of the continuing operation of the Group going forward. Consequently, management has offset the operating loss before tax of PLC group for the period from 1 January 2013 to 6 March 2013 amounting to US\$196,000 against the gain on deconsolidation of US\$16,916,000 and presented a net amount of US\$16,720,000 on the consolidated statement of comprehensive income.

United Fiber System Limited and its Subsidiaries

Notes to the Financial Statements – for the year ended 31 December 2013

7. Loss before tax

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

	Group	
	2013	2012
	US\$'000	(Restated) US\$'000
<u>Included as part of administrative expenses:</u>		
Directors' fees	118	163
Legal and professional fees	317	1,197
Audit fees:		
- Auditors of the Company	108	154
- Other auditors	64	76
Non-audit fees:		
- Auditors of the Company	28	47
- Other auditors	56	8
<u>Staff costs:</u>		
Salaries, wages, bonuses and other costs		
- charged to profit or loss	866	4,267
- charged to construction projects (Note 17)	–	7,058
Contribution to defined contribution plans		
- charged to profit or loss	67	309
- charged to construction projects (Note 17)	–	570
	933	12,204
<u>Included as part of other operating expenses:</u>		
Impairment loss on other receivables (Note 20)	3,633	39
Impairment loss on trade receivables (Note 20)	–	1,959
Impairment loss of goodwill on consolidation (Note 16)	–	23,651
Write down of compensation income receivable (Note 10)	–	22,912
Write down of inventories (Note 19)	–	247
Depreciation of property, plant and equipment (Note 11(c))	1,869	1,250
Foreign exchange loss, net	22	1,501
Expenses for proposed acquisition (Note 36)		
- Auditors of the Company	335	327
- Other professional parties	2,001	2,321
Potential losses arising from termination of construction contracts (Note 23)	–	48,453

United Fiber System Limited and its Subsidiaries

Notes to the Financial Statements – for the year ended 31 December 2013

10. Forest concession

	Group	
	2013	2012
	US\$'000	(Restated) US\$'000
Forest concession comprises:		
Biological asset – forest asset (i)	13,276	30,720
Land rent-use rights (ii)	13,817	17,135
At 31 December	<u>27,093</u>	<u>47,855</u>

Analysis of forest concession is as follows:-

	Group			
	2013		2012	
	Hectares	US\$'000	Hectares	US\$'000
Existing Plantation Forest (i)	13,779	12,767	18,837	28,941
Utilisable Natural Forest (i)	1,673	509	7,934	1,779
	<u>15,452</u>	<u>13,276</u>	<u>26,771</u>	<u>30,720</u>
Land rent-use rights (ii)	14,074	13,817	14,074	17,135
Total	<u>29,526</u>	<u>27,093</u>	<u>40,845</u>	<u>47,855</u>

(i) Biological asset- forest asset

	Group	
	2013	2012
	US\$'000	US\$'000
Movement in forest asset:		
At 1 January	30,720	62,189
Harvest during the year	(5,046)	(255)
Costs incurred during the year	949	947
	<u>26,623</u>	<u>62,881</u>
Net change in fair value less estimated costs to sell	(13,347)	(32,161)
At 31 December	<u>13,276</u>	<u>30,720</u>

10. Forest concession (cont'd)**(i) Biological asset- forest asset (cont'd)**

Forest asset relates to forest and rubber plantation. For forest plantation, the plantation related to plantation of acacia mangium tree which can be harvested into pulpwood and saw logs. These logs can be processed into market pulp for the production of tissues, printing and writing grade papers. Acacia tree has an average lifespan of up to 15 years. The tree may take up to 6 to 7 years to reach the maturity for harvesting. During the financial year, the Group harvested approximately 270,914 m³/ha (2012: 37,339 m³/ha) of logs.

While for rubber plantation, primarily natural rubber produces cup lumps for latex. The Group started rubber plantation on a trial basis on the concession area during the year. The rubber plantation area is currently less than 1% of the total concession area.

The fair value of forest asset has been determined based on valuations by an independent professional valuer using discounted cash flows of the underlying asset. The expected cash flows from the forest plantations are determined using the market price and the estimated yields of the trees, net of maintenance and harvesting costs and any costs required to bring the plantations to maturity. The estimated yield of the trees is dependent on the age of the trees, the location of the plantations and infrastructure. The market price of the produce is largely dependent on the prevailing market price. Point-of-sale costs include all costs that would be necessary to sell the assets.

The following table shows the key unobservable inputs used in the valuation models:-

Key unobservable inputs	Range of unobservable inputs (weighted average)	Inter-relationship between key unobservable inputs and fair value measurement
Discount rate per annum	10%	The higher the discount rate, the lower the fair value
Average plantations yield, in metric tonne (m ³ /ha) and kilogram per hectare (kg/ha):-		
- Acacia mangium	78 m ³ /ha to 175 m ³ /ha (110 m ³ /ha)	The higher the plantation yields, the higher the fair value
- Rubber plantation	450 kg/ha to 2,300 kg/ha (1,375 kg/ha)	
Selling price of:		
- Sawlogs	US\$36.44 m ³ /ha to US\$42.44 m ³ /ha (US\$39.44 m ³ /ha)	The higher the selling price, the higher the fair value
- Pulpwood	US\$37.85 m ³ /ha to US\$41.16 m ³ /ha (US\$39.51 m ³ /ha)	
- Rubber	US\$1.89 per kg	

10. Forest concession (cont'd)

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

Financial risk management strategies related to agricultural activities

The Group is exposed to financial risk in respect of agricultural activity. The agricultural activity of the Group consists of the management of biological assets to produce marketable output. The primary financial risk associated with this activity occurs due to length of time between expanding cash on the planting and maintenance of biological assets and on harvesting and ultimately receiving cash from the sale of the marketable output.

The Group plans for cash flow requirements for such activities and manage its debts actively.

- (ii) Land rent-use rights

	Group	
	2013	2012
		(Restated)
	US\$'000	US\$'000
Compensation income receivables	13,817	17,135

Land rent-use rights represent the expected cashflows of compensation expected to be received from mining licensees who have encroached onto the Group's forest concession land to carry out mining activities.

The estimation of the compensation cashflows, determined based on the report issued by the independent professional valuer, Ata Marie Group Ltd, 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 based on the loss of existing plantations, infrastructure, increase in operational costs and loss of income from plantations over the remaining concession license period (opportunity costs) due to overlapping mining permits on the same forest concession plantable area.

In 2012, the Group has written down US\$22,912,000 compensation income receivables as the receivables were not probable due to uncertainty of its collection. In 2013, there are no allowances for impairment made to the receivables.

Receivables that are past due but not impaired amounting to US\$8,208,000 (2012: US\$10,678,000).

United Fiber System Limited and its Subsidiaries

Notes to the Financial Statements – for the year ended 31 December 2013

11. Property, plant and equipment

Group	Leasehold land and buildings US\$'000	Plant and machinery US\$'000	Motor vehicles US\$'000	Computers, office equipment, furniture and fittings US\$'000	Total US\$'000
Cost					
At 1 January 2012	7,711	45,870	1,457	1,325	56,363
Additions	7	3,754	156	179	4,096
Disposals	–	(15)	(106)	(233)	(354)
Net exchange differences	102	239	44	63	448
At 31 December 2012 and 1 January 2013	7,820	49,848	1,551	1,334	60,553
Additions	496	7	2	115	620
Disposals	–	–	(222)	(4)	(226)
Deconsolidation of subsidiaries (Note 3(b))	(17)	(7,755)	(923)	(789)	(9,484)
Net exchange differences	(43)	(127)	(15)	(64)	(249)
At 31 December 2013	8,256	41,973	393	592	51,214
Accumulated depreciation and impairment loss					
At 1 January 2012	4,853	25,788	1,315	1,217	33,173
Charge for the year	386	2,117	146	134	2,783
Disposals	–	(14)	(111)	(233)	(358)
Net exchange differences	11	102	30	54	197
At 31 December 2012 and 1 January 2013	5,250	27,993	1,380	1,172	35,795
Adjustments/charge for the year	253	1,896	(152)	(65)	1,932
Disposals	–	–	(222)	(3)	(225)
Deconsolidation of subsidiaries (Note 3(b))	–	(3,470)	(596)	(555)	(4,621)
Net exchange differences	(10)	53	(17)	(10)	16
At 31 December 2013	5,493	26,472	393	539	32,897
Net carrying amount					
At 31 December 2012	2,570	21,855	171	162	24,758
At 31 December 2013	2,763	15,501	–	53	18,317

United Fiber System Limited and its Subsidiaries

Notes to the Financial Statements – for the year ended 31 December 2013

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

Company	Computers, office equipment, furniture and fittings US\$'000	Total US\$'000
Cost		
At 1 January 2012	356	356
Additions	1	1
Disposals	(124)	(124)
Net exchange differences	22	22
At 31 December 2012 and 1 January 2013	255	255
Additions	6	6
Net exchange differences	(9)	(9)
At 31 December 2013	252	252
Accumulated depreciation		
At 1 January 2012	356	356
Disposals	(124)	(124)
Net exchange differences	22	22
At 31 December 2012 and 1 January 2013	254	254
Charge for the year	1	1
Net exchange differences	(9)	(9)
At 31 December 2013	246	246
Net carrying amount		
At 31 December 2012	1	1
At 31 December 2013	6	6

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

(a) Assets pledged as security

The Group's wood chip mill asset classified under plant and machinery with a carrying amount of US\$15,501,000 (2012: US\$17,146,000) is mortgaged to secure the Group's bank loans (Note 25(e)).

(b) Assets held under finance lease

During the year ended 31 December 2012, the Group acquired plant and machinery with an aggregate cost of US\$555,000 by means of finance leases. The cash outflow on acquisition of plant and machinery amounted to US\$404,000.

In 2012, an amount of US\$3,137,000 relating to construction equipment was transferred from construction projects. The corresponding depreciation relating to this equipment amounted to US\$647,000. The carrying value of plant and machinery held under finance leases as at 31 December 2012 was US\$1,957,000 and the assets were pledged as security for the related finance lease liabilities (Note 24).

In 2013, the Group did not acquire any plant and machinery by means of finance leases.

(c) Depreciation charge

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

	Group	
	2013	2012
	US\$'000	US\$'000
Charged to profit or loss		
- other operating expenses (Note 7)	1,869	1,250
Deconsolidation/capitalised in construction projects	190	1,311
(Adjustments)/capitalised in forest asset	(127)	222
Depreciation for the financial year	<u>1,932</u>	<u>2,783</u>

United Fiber System Limited and its Subsidiaries

Notes to the Financial Statements – for the year ended 31 December 2013

16. Goodwill on consolidation

	Group US\$'000
Cost	
At 1 January 2012	22,696
Net exchange differences	1,393
At 31 December 2012 and 1 January 2013	24,089
Net exchange differences	(819)
Deconsolidation of subsidiaries	(23,270)
At 31 December 2013	–
Impairment	
At 1 January 2012	–
Charge for the year (Note 7)	(23,651)
Net exchange differences	(438)
At 31 December 2012 and 1 January 2013	(24,089)
Net exchange differences	819
Deconsolidation of subsidiaries	23,270
	–
Net carrying amount	
At 31 December 2012	–
At 31 December 2013	–

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

In 2012, PLC which was allocated to the CGU had suffered significant financial and operational difficulties due to challenging conditions in the local construction industry. In view the state of affairs of PLC, PLC was placed under judicial management on 7 March 2013. Management had determined that no future benefits would be derived from operating the division, thus, full impairment was made in 2012.

As disclosed in Note 3(b), goodwill has been deconsolidated due to loss of control of PLC on 7 March 2013.

United Fiber System Limited and its Subsidiaries

Notes to the Financial Statements – for the year ended 31 December 2013

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

	Group	
	2013	2012
	US\$'000	US\$'000
Aggregate amount of costs incurred and recognised profits (less recognised losses) to date	–	354,748
Less: Progress billings	–	(368,022)
	<u>–</u>	<u>(13,274)</u>
<i>Presented as:</i>		
Gross amount due from customers for contract work	–	830
Gross amount due to customers for contract work	–	(14,104)
	<u>–</u>	<u>(13,274)</u>

In 2012, no advances were received from customer before the related construction works commenced. Retention sums on construction contract included in trade receivables were disclosed in Note 20.

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

	Group	
	2013	2012
	US\$'000	US\$'000
Depreciation of property, plant and equipment	–	1,311
Operating lease charges	–	647
Staff costs:		
- Salaries, wages, bonuses and other costs	–	7,058
- Contribution to defined contribution plans	–	570

As disclosed in Note 3(b), gross amount due from/(to) customers for contract work-in-progress has been deconsolidated due to loss of control of PLC on 7 March 2013.

United Fiber System Limited and its Subsidiaries

Notes to the Financial Statements – for the year ended 31 December 2013

18. Investment properties held for sale

	Group	
	2013	2012
	US\$'000	US\$'000
At 1 January	1,453	1,432
Exchange differences	3	21
Deconsolidation of subsidiaries (Note 3(b))	(1,456)	–
At 31 December	–	1,453

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 were determined based on valuations performed as at the balance sheet dates. Valuations were performed by independent professional valuers with recent experience in the location and category of the properties being valued.

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

On 7 March 2013, the Group has deconsolidated the investment properties as the Group lost control of PLC following the judicial management order as disclosed in Note 3(b).

19. Inventories

	Group	
	2013	2012
	US\$'000	US\$'000
Balance sheet:		
Raw materials	67	64
Logs	4,197	2,081
Total inventories at lower of cost and net realisable value	4,264	2,145

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

	2013	2012
	US\$'000	US\$'000
Consolidated Statement of Comprehensive Income:		
Inventories recognised as an expense in cost of sales	4,227	64
Inventories written-down (Note 7)	–	247

United Fiber System Limited and its Subsidiaries

Notes to the Financial Statements – for the year ended 31 December 2013

20. Trade and other receivables

	Group		Company	
	2013	2012	2013	2012
	US\$'000	(Restated) US\$'000	US\$'000	US\$'000
Current				
Trade receivables	836	49,796	–	–
Deposits	7	643	7	11
Receivables from subsidiaries:				
- Non-trade	–	–	207	675
Other receivables	580	2,788	43	143
	1,423	53,227	257	829
Less: Allowance for doubtful debts	(376)	(2,206)	–	–
	1,047	51,021	257	829
Prepayments	143	134	32	3
	1,190	51,155	289	832
Non-current				
Trade receivables	–	9,702	–	–
Advances to PT KK	28,165	28,165	–	–
	28,165	37,867	–	–
Less: Allowance for doubtful debts	(28,165)	(24,532)	–	–
	–	13,335	–	–
Total trade and other receivables (current and non-current)	1,190	64,490	289	832
Add: Fixed deposits (Note 21)	–	7,207	–	–
Add: Cash and bank balances (Note 21)	1,432	7,927	559	1,021
Add: Compensation income receivable (Note 10)	13,817	17,135	–	–
Less: Prepayments	(143)	(134)	(32)	(3)
Total loans and receivables	16,296	96,625	816	1,850

20. Trade and other receivables (cont'd)

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.

Receivables due from subsidiaries are non-trade related, unsecured, non-interest bearing, repayable upon demand and are to be settled in cash.

Trade receivables amounting to US\$Nil (2012: US\$31,109,000) are secured for the related loans and borrowings as disclosed in Note 25.

Included in the current and non-current trade receivables in 2012, were amounts of US\$12,862,000 and US\$9,702,000 of retention sums retained for construction contract in progress respectively.

Trade receivables that are past due but not impaired

The Group has trade receivables amounting to US\$494,000 (2012: US\$54,000) that are past due at the balance sheet date but not impaired as follows:

	2013 US\$'000	2012 US\$'000
<i>Trade receivables past due:</i>		
61 to 180 days	466	–
More than 180 days	28	54
	<u>494</u>	<u>54</u>

Trade receivables that are impaired

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

	Individually impaired 2013 US\$'000	2012 US\$'000
Trade receivables – nominal amount	373	1,970
Less: Allowance for impairment	(373)	(1,970)
	<u>–</u>	<u>–</u>
 Movement in allowance account:		
At 1 January	1,970	1,221
Charge for the year (Note 7)	–	1,959
Written off	–	(1,296)
Deconsolidation of subsidiaries	(1,544)	–
Exchange differences	(53)	86
At 31 December	<u>373</u>	<u>1,970</u>

United Fiber System Limited and its Subsidiaries

Notes to the Financial Statements – for the year ended 31 December 2013

20. Trade and other receivables (cont'd)

Other receivables that are past due but not impaired

The Group has other receivables amounting to US\$267,000 (2012: US\$5,311,000) that are past due at the balance sheet date but not impaired. These other receivables are unsecured and the analysis of their aging at the balance sheet date is as follows:

	Group	
	2013	2012
	US\$'000	US\$'000
<i>Other receivables past due:</i>		
61 to 120 days	–	318
121 to 180 days	–	–
More than 180 days	267	4,993
	<u>267</u>	<u>5,311</u>

Other receivables that are impaired

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

	Group	
	Individually impaired	
	2013	2012
	US\$'000	US\$'000
Other receivables – nominal amount	28,323	28,853
Less: Allowance for impairment	(28,168)	(24,768)
	<u>155</u>	<u>4,085</u>
 Movement in allowance account:		
At 1 January	24,768	26,399
Charge for the year (Note 7)	3,633	39
Written off	(35)	(1,786)
Deconsolidation of subsidiaries	(193)	–
Exchange differences	(5)	116
At 31 December	<u>28,168</u>	<u>24,768</u>

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

United Fiber System Limited and its Subsidiaries

Notes to the Financial Statements – for the year ended 31 December 2013

20. Trade and other receivables (cont'd)

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

	Group		Company	
	2013	2012	2013	2012
	US\$'000	US\$'000	US\$'000	US\$'000
USD	–	–	–	83
SGD	–	818	–	–
IDR	877	755	–	–

21. Fixed deposits, cash and bank balances

	Group		Company	
	2013	2012	2013	2012
	US\$'000	US\$'000	US\$'000	US\$'000
Fixed deposits, secured	–	7,207	–	–
Cash on hand	–	12	–	1
Cash at banks	1,432	7,915	559	1,020
Cash and bank balances	1,432	7,927	559	1,021

The secured fixed deposits were pledged to secure the Group's banking facilities issued by the financial institutions. As disclosed in Note 3(b), since PLC was placed under judicial management, the secured fixed deposits had been used to set off against the liabilities owing to the banks.

Fixed deposits were 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 in 2012 was 0.4614% per annum.

United Fiber System Limited and its Subsidiaries

Notes to the Financial Statements – for the year ended 31 December 2013

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

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

	Group	
	2013 US\$'000	2012 US\$'000
Cash on hand	–	12
Cash at banks	1,432	7,915
Cash and cash equivalents	1,432	7,927

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

	Group		Company	
	2013 US\$'000	2012 US\$'000	2013 US\$'000	2012 US\$'000
USD	11	570	11	16
IDR	843	1,257	–	–
Others	–	24	–	–

United Fiber System Limited and its Subsidiaries

Notes to the Financial Statements – for the year ended 31 December 2013

23. Provision

Group
US\$'000

Provisions for potential losses arising from termination of construction contracts

At 1 January 2013	48,453
Deconsolidation of subsidiaries (Note 3(b))	(48,453)

As at 31 December 2013	–
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As disclosed in Note 3(b), the provision for potential losses arising from termination of construction contracts has been deconsolidated due to loss of control of PLC on 7 March 2013.

24. Hire purchase creditors

The Group has finance leases for certain items of plant and equipment. These leases do not contain any renewal option or escalation clauses and do not provide for contingent rents. There are no restrictions placed upon the Group by entering into these leases.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	Group			
	Minimum lease payments 2013 US\$'000	Present value of payments 2013 US\$'000	Minimum lease payments 2012 US\$'000	Present value of payments 2012 US\$'000
Within one year	–	–	344	310
After one year but not more than five years	–	–	516	475
Total minimum payments	–	–	860	785
Less: Amounts representing interest	–	–	(75)	–
Present value of minimum payments	–	–	785	785

United Fiber System Limited and its Subsidiaries

Notes to the Financial Statements – for the year ended 31 December 2013

24. Hire purchase creditors (cont'd)

The finance lease obligations which were denominated in SGD are secured over the leased assets (Note 11(b)). The average discount rate implicit in the lease is Nil% (2012: 2.76%).

As disclosed in Note 3(b), hire purchase creditors have been deconsolidated due to loss of control of PLC 7 March 2013.

25. Loans and borrowings

		Group		Company	
	Note	2013 US\$'000	2012 US\$'000	2013 US\$'000	2012 US\$'000
Current:					
Short-term loan, secured	(a)	—	550	—	—
Short-term loan, secured	(b)	—	4,910	—	—
Short-term loan, secured	(c)	—	978	—	—
Short-term loan, secured	(d)	—	1,023	—	—
Short-term loan, secured	(e)	10,000	10,004	10,000	10,004
Short term loan, secured	(f)	35,000	33,387	35,000	33,387
Short-term loan, unsecured	(g)	4,000	1,381	4,000	1,381
		<u>49,000</u>	<u>52,233</u>	<u>49,000</u>	<u>44,772</u>

- (a) The loan was secured by corporate guarantee given by the Company and proceeds from certain construction projects of a subsidiary. The loan interest rate was ranging from 4.01% to 5.03% per annum as at 31 December 2012.

The loan has been deconsolidated from the Group due to loss of control of PLC as disclosed under Note 3(b).

- (b) The loan was secured by corporate guarantee given by the Company and proceeds from certain construction projects of a subsidiary. The loan interest rate was ranging from 2.50% to 3.05% per annum as at 31 December 2012.

On 24 January 2013, the bank revised the existing limit of revolving credit facility ("RCF") from S\$6,000,000 to S\$3,000,000 and extended the availability of the RCF from 31 March 2013 to 30 April 2013. In January 2013, S\$3,000,000 has been repaid. The remaining outstanding balance has been deconsolidated from the Group due to loss of control of PLC as disclosed under Note 3(b).

25. Loans and borrowings (cont'd)

- (c) The loan was secured by corporate guarantee given by the Company and proceeds from certain construction projects of a subsidiary. The loan interest rate was at 7.75% per annum. In February 2013, the loan has been fully repaid.
- (d) The loan was secured by corporate guarantee given by the Company, proceeds from certain construction project and pledged fixed deposit of a subsidiary. The loan interest rate was ranging from 3.63% to 3.64% per annum. The loan has been deconsolidated from the Group due to loss of control of PLC as disclosed under Note 3(b).
- (e) The loan is secured by a corporate guarantee given by a subsidiary, a share pledge over the entire issued and paid up capital of a subsidiary, and the woodchip mill asset. The loan bears effective interest ranging from 6.91% to 7.32% per annum (2012: 6.5% to 6.88% per annum).

On 30 September 2013, the Company and the financial institution agreed to extend the loan maturity to 31 January 2014 subject to the condition that the Company shall provide the financial institution with fortnightly updates on the progress of the on-going Proposed DSS Acquisition. At the date of this report, the Group and the financial institution are in discussion to extend the maturity of the loan.

The Company has breached a covenant for the credit facilities as disclosed under Note 25(i). The loan is expected to be repaid through the proceeds to be received from the compliance placement shares following the completion of the Proposed DSS Acquisition.

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

The loan bears interest of 10% per annum (2012: 10% per annum). On 20 March 2012, the Company entered into a revised supplemental agreement ("3rd Supplemental Agreement") with the financial institution to (i) further extend the long-stop date of loan, and (ii) allowing the financial institution to have an option to convert all outstanding obligations under the loan agreements to the Company's shares at S\$0.05 per share. The financial institution shall not make any demands on the outstanding obligations under the loan agreements to be settled before the expiry of three weeks after the date of termination or completion of the Proposed Acquisition which was subsequently terminated on 31 May 2013 as detailed in Note 36(a).

As a result of the termination, the outstanding obligations including interest accrued under the US\$35,000,000 loan has become due and payable on 21 June 2013. As the Company did not manage to service the accrued interest on a quarterly basis, the Company has breached an event of default when failing to pay any sum payable under the loan agreement (as supplemented, extended and modified). The default interest is charged at 2% per month above the interest of 10% per annum, on the outstanding obligations calculated on a daily basis from 11 May 2011 to 31 December 2013.

The default interest amounted to approximately US\$35,400,000 with the related charges estimated to be approximately US\$3,900,000.

25. Loans and borrowings (cont'd)

(f)(i) (cont'd)

The Board received verbal confirmation from the financial institution that they will waive the default interest on the completion of the Proposed DSS Acquisition. Accordingly, the Group did not record the default interest and the related charges in the financial statements.

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

On 11 July 2013, the Company and the financial institution has amended and restated the terms of the loan agreement of 12 January 2011 (as supplemented, extended and modified) which are disclosed under Note 38.

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

(f)(ii) The loan described above in Note 25(f)(i) contains a convertible option feature which is required to be separated into two components, being loan and embedded derivative. The embedded derivative is to be measured at fair value as follows:-

	US\$'000
Convertible loan (included interest payable of US\$3,874,000) on 20 March 2012	38,874
Embedded equity conversion option	(13,796)
Liability component at initial recognition	25,078
Amortisation of interest expense	11,948
Exchange differences	235
Liability component at 31 December 2012	37,261
Less: Interest payable	(3,874)
Liability component less interest payable at 31 December 2012	33,387
Amortisation of interest expense	1,596
Exchange differences	17
Liability component at end of 31 December 2013	<u>35,000</u>

As at 31 December 2013, the convertible option feature in the loan has lapsed following the amendment and restatement of terms in the loan agreements.

25. Loans and borrowings (cont'd)

- (g) On 6 November 2012, the Company and a financial institution entered into a US\$4,000,000 loan agreement to finance the expenses relating to the Proposed Acquisition. The loan is unsecured and bears interest at 12.5% per annum, matured on 31 March 2013 and is repayable by proceeds to be received from the proposed compliance placement following the completion of the Proposed DSS Acquisition (Note 36(b)).

At 31 December 2013, the Company has drawn down US\$4,000,000 (2012: US\$1,381,000) for payment of professional and expenses relating to the Proposed Acquisition. The financial institution has agreed to extend the maturity of the loan to 28 February 2014. At the date of this report, the Group and the financial institution are in discussion to extend the maturity of the loan.

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

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

Undrawn equity line of credit

The Company is entitled to issue loan notes to the financial institution and request advances from the financial institution at any time before 20 July 2014. The Company will repay the loan note amount by issuing shares to the financial institution according to the schedule agreed between the two parties. As at 31 December 2013, the Company has undrawn amount from the equity line of US\$41,502,000 (equivalent to S\$52,500,000) (2012: US\$43,000,000) (equivalent to S\$52,500,000).

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

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

The Company has breached a covenant for the equity credit line as disclosed under Note 25(ii).

25. Loans and borrowings (cont'd)

Breach of covenants

- (i) The Company breached the covenants for not maintaining minimum tangible net worth of S\$15,000,000 and total net debt not more than four times of its EBITDA of a subsidiary, who is currently under judicial management.

The financial institution is contractually entitled to request for immediate termination of the credit facility in the event of breach of covenant(s). As at 31 December 2013, the financial institution has not requested for immediate termination of the loan and the enforcement of the securities.

- (ii) The Company has breached the covenant of the Equity Line of Credit granted by a financial institution when the Company is unable to repay outstanding obligations to certain financial institution due to default events. At the balance sheet date, despite the breach, the Equity Line of Credit is still available to the Company until 20 July 2014.

36. Proposed acquisition of PT Golden Energy Mines Tbk (“GEMS”)

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

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

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

On 11 July 2013, the Group and DSS entered into a share purchase agreement following the HoA on 4 June 2013 to acquire 3,941,166,500 ordinary shares or approximately 66.9998% of the total issued and paid-up share capital of GEMS (the “Proposed DSS Acquisition”). The purchase consideration for the acquisition shall be satisfied by way of issuance and allotment of new ordinary shares in the Company which represent approximately 94.0686% of the enlarged Company’s ordinary share capital.

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

The completion of the Proposed DSS Acquisition will be conditional upon the following condition precedents inter-alia to be agreed and completed:-

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

As at 31 December 2013, the Group incurred approximately US\$2.4 million transaction costs in connection with this transaction which has been recognised in the profit and loss for the year.

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

On 4 July 2013, the Group announced the outcome of its first meeting with the creditors of PLC pursuant to Section 227M of the Companies Act, to update the creditors of PLC on the status of the judicial management and to consider the judicial managers (“JM”) statement of proposal moving forward. The judicial management order (“JMO”) remains in force for 180 days following the approval by the High Court.

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

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

On 1 October 2013, the High Court ordered the JMO to be extended to 1 February 2014. On 28 January 2014, the JMO was further extended to 1 August 2014.

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

On 11 July 2013, the Group entered into an amended and restated loan agreement (“ASF Restated Loan Agreement”) with ASF to amend and restate the terms of the original loan agreement dated 12 January 2011 (as supplemented, extended and modified). The amendments are as follows:

- (a) The repayment date for the repayment of all amounts due and owing under the ASF Restated Loan Agreement (“**Indebtedness**”) has been amended to the earliest of the following:
 - (i) The third business days after the completion of a placement exercise by the Group following the completion of the proposed acquisition by the Group of 66.9998% stake in GEMS from DSS;
 - (ii) The next business after the date of termination of the definitive agreement in relation to the Proposed DSS Acquisition; and
 - (iii) The next business day after the expiry of 1 year from the date of the Restated Loan Agreement;
- (b) The Indebtedness shall be payable by Group to ASF in cash;
- (c) In the event of insufficiency of funds available to the Group on the repayment date, ASF shall be entitled to enforce its rights against the Group for the repayment of the Indebtedness or any balance thereof, including but not limited to the enforcement of ASF’s rights under the Anrof Share Pledge and Shinning Spring Share Charge, subsidiaries of the Group; and

38. Asia Star Fund Ltd (“ASF”) US\$35,000,000 loan (cont’d)

- (d) ASF shall not, at any time before the repayment date demand the payment of all or any part of the Indebtedness due and owing or may have become due or owing by the Group to ASF, subject to the satisfaction of the following conditions:
- (i) The execution of the definitive agreement(s) in relation to the Proposed DSS Acquisition; and
 - (ii) No creditors of the Group have taken any enforcement actions or commence legal proceedings against the Group at any time before the repayment date.

39. Settlement of corporate guarantees by way of issuance of mandatory convertible bonds (“MCB”)

The Company has existing corporate guarantees provided to the banks and financial institutions (collectively known as Unsecured Creditors) for credit facilities granted to Poh Lian Construction (Pte) Ltd (“PLC”) for project financing. However, in 2012, PLC experienced significant financial and operational difficulties due to challenging conditions in the local construction industry. As a result, on 7 March 2013, PLC made an interim judicial management application (“IJM application”) to place itself under interim judicial management. In connection with the IJM application, the Company received written notices and claims from the Unsecured Creditors who had provided credit facilities to PLC.

On 30 August 2013, the Company entered into subscription agreements to settle the obligations under the corporate guarantees claim with the Unsecured Creditors. The Company will issue up to US\$36,024,682 (equivalent to S\$45,499,173) in aggregate principal amount of 5% bonds due 2015 (“MCB bonds”) which are mandatorily convertible into ordinary shares in the capital of the Company at the agreed conversion price of S\$0.019 per share.

Under the terms of the MCB agreement, the Unsecured Creditors will convert the outstanding obligations under the corporate guarantees into MCB bonds upon the Company receiving the in-principle-approval from SGX-ST for the Proposed DSS Acquisition as discussed in Note 36. The Unsecured Creditors shall mandatorily exercise to convert the MCB bonds into shares at the agreed conversion price after obtaining shareholders’ approval at the subsequent extraordinary general meeting to be convened for the purposes, amongst others, to approve the Proposed DSS Acquisition and the issuance of shares to the MCB bondholders.