

Company Registration. No. 199508589E

United Fiber System Limited
and its Subsidiaries

Consolidated Financial Statements
For the year ended 31 December 2014

United Fiber System Limited and its Subsidiaries

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United Fiber System Limited and its Subsidiaries

Statement by Directors

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

- (i) the accompanying consolidated balance sheet, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement together with notes thereto are drawn up so as to give a true and fair view of the state of affairs of the Group as at 31 December 2014 and the results of the business, changes in equity and cash flows of the Group for the year ended on that date, in accordance with International Financial Reporting Standards 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,



Chan Kin
Director



Pauline Lee
Director

Singapore

17 APR 2015

United Fiber System Limited and its Subsidiaries

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

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

United Fiber System Limited and its Subsidiaries

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

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

Basis for Qualified Opinion

As disclosed in Note 21(b) to the financial statements, the Group breached the debt covenant on the loan from a financial institution for which it is entitled to charge the Group default interest of US\$58,615,000 up to 31 December 2014. On 26 September 2014, the financial institution agreed to waive the default interest upon the completion of the Proposed DSS Acquisition. Notwithstanding that the condition has not been met, the Group did not provide for the default interest of US\$58,615,000 and the related charges of US\$6,500,000. This is not in accordance with requirements of IAS 39 *Financial Instruments: Recognition and Measurement*.

Qualified Opinion

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

Emphasis of Matter

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

United Fiber System Limited and its Subsidiaries

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

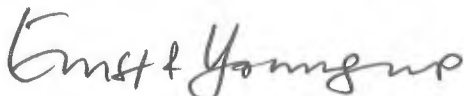
Independent auditor's report to the members of United Fiber System Limited and its subsidiaries

Purpose and restriction on distribution and use

The financial statements for the year ended 31 December 2014 prepared in accordance with International Financial Reporting Standards have been prepared for inclusion in the Offer Information Statement to Shareholders in connection with the Proposed DSS Acquisition of PT. Golden Energy Mines TBK. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the shareholders of the Group and should not be used by any other parties.

Separate audit report issued

We also issued a separate audit report dated 26 February 2015 on the financial statements of the Group for the same period prepared in accordance with Singapore Financial Reporting Standards. We issued a qualified opinion on the financial statements for the non-provision of default interest and related charges, and an emphasis of matter paragraph on the appropriateness of the use of the going concern assumption in preparing the financial statements



Ernst & Young LLP

Public Accountants and
Chartered Accountants
Singapore

17 April 2015

United Fiber System Limited and its Subsidiaries

**Consolidated statement of comprehensive income
For the financial year ended 31 December 2014**

(In United States Dollars)

	Note	2014 US\$'000	2013 US\$'000
Revenue	4	9,614	4,945
Cost of sales		(10,608)	(4,007)
Gross (loss)/profit		(994)	938
Other income	5	1,156	4,597
Selling and distribution expenses		(842)	(840)
Administrative expenses		(2,335)	(3,068)
Other operating expenses		(13,605)	(8,847)
Fair value loss on forestry assets	10	(5,044)	(16,107)
Finance costs	6	(7,114)	(7,831)
Net effect on deconsolidation of subsidiaries	3(b)	—	16,720
Loss before tax	7	(28,778)	(14,438)
Income tax benefit	8	1,263	3,715
Loss for the year		(27,515)	(10,723)
Other comprehensive income:			
Foreign currency translation		3,783	344
Release of foreign currency translation reserves on deconsolidation of subsidiaries		—	(1,540)
Other comprehensive income for the year		3,783	(1,196)
Total comprehensive income for the year		(23,732)	(11,919)
Loss attributable to:			
Owners of the Company		(27,514)	(10,723)
Non-controlling interests		(1)	—
		(27,515)	(10,723)
Total comprehensive income attributable to:			
Owners of the Company		(23,731)	(11,919)
Non-controlling interests		(1)	—
		(23,732)	(11,919)
Loss per share attributable to owners of the Company (cents per share)			
Basic and diluted	9	(0.71)	(0.28)

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

United Fiber System Limited and its Subsidiaries

**Consolidated balance sheet
As at 31 December 2014**

(In United States Dollars)

	Note	2014 US\$'000	2013 US\$'000
Non-Current Assets			
Forestry concession	10	16,154	27,093
Property, plant and equipment	11	16,479	18,317
Club membership	12	—	—
Deferred tax assets	13	179	178
		<u>32,812</u>	<u>45,588</u>
Current Assets			
Investment properties held for sale	15	—	—
Inventories	16	845	4,264
Trade and other receivables	17	1,608	1,190
Cash and bank balances	18	1,552	1,432
		<u>4,005</u>	<u>6,886</u>
Current Liabilities			
Trade and other payables	19	81,538	72,491
Provisions	20	—	—
Loans and borrowings	21	49,000	49,000
		<u>130,538</u>	<u>121,491</u>
Net Current Liabilities		<u>(126,533)</u>	<u>(114,605)</u>
Non-Current Liabilities			
Deferred tax liabilities	13	1,360	2,332
		<u>1,360</u>	<u>2,332</u>
Net Liabilities		<u>(95,081)</u>	<u>(71,349)</u>
Equity Attributable to Equity Holders of the Company			
Share capital	22	257,956	257,956
Reserves		(353,031)	(329,300)
		<u>(95,075)</u>	<u>(71,344)</u>
Non-controlling interests		(6)	(5)
Total Equity		<u>(95,081)</u>	<u>(71,349)</u>

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

United Fiber System Limited and its Subsidiaries

Consolidated statement of changes in equity
For the financial year ended 31 December 2014

	Attributable to owners of the Company					Non- controlling Interests US\$'000	Total Equity US\$'000
	Share Capital (Note 22) US\$'000	Foreign Currency Translation US\$'000	Other Reserves ⁽²⁾ US\$'000	Accumulated Losses US\$'000	Total Reserves US\$'000		
2014							
At 1 January 2014	257,956	10,148	(62,479)	(276,969)	(329,300)	(5)	(71,349)
Loss for the year	-	-	-	(27,514)	(27,514)	(1)	(27,515)
Other comprehensive income	-	3,783	-	-	3,783	-	3,783
Foreign currency translation	-	3,783	-	(27,514)	(23,731)	(1)	(23,732)
Total comprehensive income for the year							
At 31 December 2014	257,956	13,931	(62,479)	(304,483)	(353,031)	(6)	(95,801)

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

(2) Other reserves pertains to the merger reserve that arose for acquisition of Anrof Singapore Limited ("ASL") Group of companies in year 2002.

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

United Fiber System Limited and its Subsidiaries

Consolidated statement of changes in equity (cont'd)
For the financial year ended 31 December 2014

(In United States Dollars)

	Attributable to owners of the Company				
	Share Capital (Note 22) US\$'000	Foreign Currency Translation ⁽¹⁾ US\$'000	Other Reserves ⁽²⁾ US\$'000	Accumulated Losses US\$'000	Total Reserves US\$'000
					Non- controlling Interests US\$'000
					Total Equity US\$'000
2013					
At 1 January 2013	256,613	11,344	(62,479)	(266,246)	(317,381)
Loss for the year	-	-	-	(10,723)	(10,723)
Other comprehensive income					
Foreign currency translation	-	344	-	-	344
Release of foreign currency translation reserves on deconsolidation of subsidiaries	-	(1,540)	-	-	(1,540)
Other comprehensive income for the year					
	-	(1,196)	-	-	(1,196)
Total comprehensive income for the year					
	-	(1,196)	-	(10,723)	(11,919)
Contribution by owners					
Issuance of ordinary shares	1,367	-	-	-	-
Share issuance expense	(24)	-	-	-	-
Total transaction with owners in their capacity as owners	1,343	-	-	-	-
At 31 December 2013	257,956	10,148	(62,479)	(276,969)	(329,300)
					(5)
					(71,349)

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

(2) Other reserves pertain to the merger reserve that arose for acquisition of Anrof Singapore Limited ("ASL") Group of companies in year 2002.

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

United Fiber System Limited and its Subsidiaries

**Consolidated cash flow statement
For the financial year ended 31 December 2014**

(In United States Dollars)

	2014 US\$'000	2013 US\$'000
Cash flows from operating activities		
Loss before tax	(28,778)	(14,438)
Adjustments for:		
Consultancy service income	—	(165)
Depreciation of property, plant and equipment	2,138	1,890
Gain on disposal of property, plant and equipment	(16)	(56)
Gain on deconsolidation of subsidiaries (Note 3(b))	—	(16,916)
Impairment loss on other receivables	—	3,633
Fair value gain on derivative	—	(1,123)
Fair value loss on forestry assets	5,044	16,107
Impairment loss on compensation income receivable	4,657	—
Inventories written down to net realisable value	1,703	—
Expenses for proposed acquisition ⁽¹⁾	1,669	2,336
Interest expenses	7,107	7,865
Interest income	(84)	(37)
Write back of accrual on legal fees and other expenses	(608)	(804)
Net exchange differences	955	279
Operating cash outflows before changes in working capital	(6,213)	(1,429)
Increase in gross amount due from customers for contract work-in-progress	—	(218)
Decrease in gross amount due to customers for contract work-in-progress	—	(10,197)
Decrease in inventories	4,243	168
Decrease in trade and other receivables	1,915	10,293
Increase in trade and other payables	4,849	5,320
Cash flows from operations	4,794	3,937
Income taxes paid	—	(20)
Income taxes refunded	—	48
Interest paid	—	(41)
Net cash flows from operating activities	4,794	3,924

⁽¹⁾ Expenses for proposed acquisition are incurred for the proposed acquisition as disclosed under Note 29.

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

United Fiber System Limited and its Subsidiaries

**Consolidated cash flow statement (cont'd)
For the financial year ended 31 December 2014**

(In United States Dollars)

	2014 US\$'000	2013 US\$'000
Cash flows from investing activities		
Addition to forestry assets	(3,541)	(1,076)
Interest received	84	37
Proceeds from disposal of property, plant and equipment	16	56
Purchase of property, plant and equipment	(573)	(620)
Net cash outflow resulting from deconsolidation of subsidiaries	—	(5,493)
	<hr/>	<hr/>
Net cash flows used in investing activities	(4,014)	(7,096)
	<hr/>	<hr/>
Cash flows from financing activities		
Payment of share issuance expenses	—	(24)
Proceeds from loans and borrowings	—	2,620
Repayment of loans and borrowings	—	(4,416)
Repayment of hire purchase creditors	—	(159)
Payment of expenses for proposed acquisition	(615)	(889)
	<hr/>	<hr/>
Net cash flows used in financing activities	(615)	(2,868)
	<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents	165	(6,040)
Effect of exchange rate changes on cash and cash equivalents	(45)	(455)
	<hr/>	<hr/>
Cash and cash equivalents at 1 January	1,432	7,927
	<hr/>	<hr/>
Cash and cash equivalents at 31 December (Note 18)	1,552	1,432

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

United Fiber System Limited and its Subsidiaries

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

1. General information

1.1 Corporate information

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

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

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

1.2 Going concern

The Group incurred net loss of US\$27,514,000 (2013: US\$10,723,000) for the financial year ended 31 December 2014. As at that date, the Group is in a net current liability position of US\$126,533,000 (2013: 114,605,000) and net liability position of US\$95,081,000 (2013: US\$71,349,000).

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

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

Proposed DSS Acquisition

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

The successful completion of the Proposed DSS Acquisition is subjected to various conditions precedent as detailed in Note 29.

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

United Fiber System Limited and its Subsidiaries

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

1. General information (cont'd)

1.2 Going concern (cont'd)

Proposed DSS Acquisition (cont'd)

The net proceeds from the compliance placement shares will be used to settle the Group's loans and borrowings due to certain financial institutions as disclosed in Note 21(a), (b) and (c); for expansion plans and general working capital purposes.

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

On 4 March 2015, the Company convened an extraordinary general meeting in relation to the Proposed DSS Acquisition and had obtained shareholders' approval to complete, *inter alia*, the Proposed DSS Acquisition, the proposed share consolidation, the issuance of Mandatory Convertible Bonds ("MCB") conversion shares, the issuance of the new consolidated shares and compensation shares, if applicable, to DSS and the proposed post completion placement and issuance of up to 226,500,000 placement shares.

On 8 April 2015, DSS convened an extraordinary general meeting in relation to the Proposed DSS Acquisition and had obtained the requisite approval of its shareholders for the Proposed DSS Acquisition.

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

According to the Settlement Agreement, the Company will issue up to US\$33,991,737.29 (equivalent to S\$45,834,458.56) in aggregate principal amount of 5% bonds ("Bonds") upon the receipt of in-principle approval from SGX-ST on the Proposed DSS Acquisition and will allot and issue up to a maximum 2,447,368,421 ordinary shares in the capital of the Company at the agreed conversion price of S\$0.019 per share, which is inter-conditional on the Company's shareholders' approval in respect of the Proposed DSS Acquisition transaction, the proposed consolidation, the proposed white wash resolution, the proposed post completion placement and the issuance of the DSS compensation shares (if applicable) and DSS' shareholders approval of the Proposed DSS Acquisition held on 8 April 2015.

United Fiber System Limited and its Subsidiaries

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

1. General information (cont'd)

1.2 Going concern (cont'd)

Proposed DSS Acquisition (cont'd)

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

On 17 April 2015, pursuant to the proposed share consolidation under which fifty (50) shares in the share capital of the Company then in issue were to consolidated into one (1) share, the Company allotted and issued 77,285,006 new shares to shareholders as at the relevant books closure date.

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

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").

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.

United Fiber System Limited and its Subsidiaries

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

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

2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Group has adopted all the new and revised standards which are effective from annual financial periods beginning on or after 1 January 2014. The adoption of those standards did not have any effect on the financial performance or position of the Group.

2.3 Standards issued but not yet effective

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

<i>Description</i>	<i>Effective for annual periods beginning on or after</i>
Amendments to IAS 19: Defined Benefit Plans: Employee Contributions	1 July 2014
Annual improvements to IFRS 2010-2012 Cycle	1 July 2014
Annual improvements to IFRS 2011-2013 Cycle	1 July 2014
Annual improvements to IFRS 2012-2014 Cycle	1 January 2016
Amendments to IAS 27: Equity Method in Separate Financial Statements	1 January 2016
Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisition of Interests	1 January 2016
Amendments to IAS 16 & IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to IAS 16 & IAS 41: Agriculture Bearer Plants	1 January 2016
IFRS 14: Regulatory Deferral Accounts	1 January 2016
IFRS 15 Revenue from Contracts with Customers	1 January 2017
IFRS 9: Financial Instruments	1 January 2018

Except for IFRS 15, the directors expect that the adoption of the other standards above will have no material impact on the financial statements in the period of initial application. The nature of the impending changes in accounting policy on adoption of IFRS 15 are described below:

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in November 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

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

2.4 Significant accounting judgments and estimates

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

2.4.1 Judgments made in applying accounting policies

Critical judgement made in applying accounting policies

In the process of applying the Group's accounting policies, management is of the opinion that the instances of application of judgement are not expected to have a significant effect on the amounts recognised in the financial statements, apart from those involving estimates.

2.4.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Valuation of forestry assets

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

The valuation of the forestry assets is sensitive to the valuation inputs such as log price and foreign exchange rate. A 10% change in these valuation inputs would result in approximately 5.6% variance in the Group's loss for the year ended 31 December 2014 (2013: 21.1%).

(b) Impairment of loans and receivables

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

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

The carrying amount of the Group's loans and receivables at the balance sheet date is disclosed in Note 17 to the financial statements. The loans and receivables that are impaired have been fully provided for.

United Fiber System Limited and its Subsidiaries

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

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) Impairment of property, plant and equipment

Impairment exists when the carrying value of an asset exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing the asset. The value in use calculation is based on a discounted cash flow model and requires the Group to make an estimate of the expected future cash flows from the cash generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The value in use calculation is used to assess impairment on the Group's wood chip mill asset and is sensitive to inputs such as operational capacity and woodchip price. The carrying amount of the Group's property, plant and equipment at the balance sheet date is disclosed in Note 11 to the financial statements.

(d) Income taxes

The Group has exposure to income taxes in numerous jurisdictions specifically 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.

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 deferred tax assets and deferred tax liabilities at 31 December 2014 was US\$179,000 (2013: US\$178,000) and US\$1,360,000 (2013: US\$2,332,000) respectively.

2.5 Functional and foreign currency

The Group's consolidated financial statements are presented in United State Dollar ("USD"). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

The Company's functional currency is Singapore Dollar ("SGD"), which reflects the economic substance of the underlying events and circumstances of the Company.

United Fiber System Limited and its Subsidiaries

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

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

2.5 Functional and foreign currency (cont'd)

(a) Transactions and balances

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

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

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

(b) Consolidated financial statements

For consolidation purpose, the assets and liabilities of local and foreign operations are translated into USD 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 local and 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.

(c) Translation to the 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

United Fiber System Limited and its Subsidiaries

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

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

2.5 Functional and foreign currency (cont'd)

(c) Translation to the presentation currency (cont'd)

- Income and expenses are translated at average exchange rates for the year, which approximates the exchange rates at the dates of the transactions.
- All resulting exchange differences are recognised in a separate component of equity as foreign currency translation reserves.

2.6 Subsidiaries and basis of consolidation

(a) Subsidiaries

A subsidiary is an investee that is controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Thus, the Group controls an investee if and only if the Group has all of the following:

- Power over the investee,
- Exposure, or rights or variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

(b) Basis of consolidation and business combinations

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

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

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

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

2.6 Subsidiaries and basis of consolidation (cont'd)

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

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

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

Business combinations 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 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 2.10. 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.

United Fiber System Limited and its Subsidiaries

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

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 Company.

2.7 Biological asset - forestry assets

Forestry assets are stated at fair value less estimated point-of-sale costs, with any resultant gain or loss recognised in the income statement. The Forestry assets are valued by an independent professional valuer, using discounted cash flow ("DCF") projections in arriving at the fair value of the forestry concession.

Deferred tax liability arising from the temporary difference between the tax base of forestry assets and its carrying amount is accounted for in accordance with the accounting policy stated in Note 2.23(b).

2.8 Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying property, plant and equipment. The accounting policy for borrowing costs is set out in Note 2.16. 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 any accumulated impairment losses.

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

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

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

2.8 Property, plant and equipment (cont'd)

Leasehold land and buildings includes buildings, forestry and fire protection infrastructures. Plant and machinery includes field equipment. The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual value, useful life and depreciation method are reviewed at each financial year-end and adjusted prospectively if appropriate. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the assets is included in profit or loss in the year the asset is derecognised.

2.9 Investment properties

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

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

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

2.10 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.

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

2.10 Goodwill (cont'd)

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.

2.11 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. 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.

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

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

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 statement of comprehensive income.

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

2.12 Financial assets

Initial recognition and measurement

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

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

Subsequent measurement

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

Loans and receivables

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

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

2.12 Financial assets (cont'd)

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.

2.13 Impairment of financial assets

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

Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest 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.

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

2.13 Impairment of financial assets (cont'd)

Financial assets carried at amortised cost (cont'd)

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.

2.14 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 bank overdrafts repayable on demand that form an integral part of the Group's cash management.

2.15 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) 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.

2.16 Borrowing costs

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

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

2.17 Financial liabilities

Initial recognition and measurement

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

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

Subsequent measurement

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

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

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

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

(b) Other financial liabilities

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

Derecognition

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

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

2.18 Convertible financial instruments

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

2.19 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.

2.20 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.

2.21 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 the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

United Fiber System Limited and its Subsidiaries

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

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

2.21 Leases - as lessee (cont'd)

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.

2.22 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) 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.

(b) Interest income

Interest income is recognised using the effective interest method.

(c) Dividend income

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

2.23 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.

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

2.23 Taxes (cont'd)

(b) Deferred tax

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

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

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

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

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

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.

United Fiber System Limited and its Subsidiaries

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

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

2.23 Taxes (cont'd)

(b) Deferred tax (cont'd)

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

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

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

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

(c) Sales tax

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

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

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

2.24 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 28, including the factors used to identify the reportable segments and the measurement basis of segment information.

United Fiber System Limited and its Subsidiaries

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

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

2.25 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.

2.26 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.

3. Group of companies

- (a) Details of the subsidiaries are as follows:

Name of company	Country of Incorporation	Principal activities	Proportion of ownership interest	
			2014 %	2013 %
<u>Held by the Company</u>				
Poh Lian Development Private Limited ⁽¹⁾	Singapore	Dormant	100.00	100.00
Anrof Singapore Limited ⁽²⁾	Mauritius	Investment holding	100.00	100.00
Poh Lian (Cambodia), Ltd ⁽³⁾	Cambodia	Dormant	100.00	100.00
Able Advance Limited ⁽³⁾	British Virgin Islands	Dormant	100.00	100.00

United Fiber System Limited and its Subsidiaries

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

3. Group of companies (cont'd)

(a) Details of the subsidiaries are as follows: (cont'd)

Name of company	Country of Incorporation	Principal activities	Proportion of ownership interest	
			2014 %	2013 %
<u>Held through subsidiaries</u>				
PT Hutan Rindang Banua ⁽²⁾	Indonesia	Forestry operation	100.00	100.00
PT Marga Buana Bumi Mulia ⁽²⁾	Indonesia	Dormant	100.00	100.00
PT Mangium Anugerah Lestari ⁽²⁾	Indonesia	Dormant	99.98	99.98
Pacificwood Investment Ltd ⁽²⁾	Mauritius	Investment holding and trading	100.00	100.00
Shinning Spring Resources Limited ⁽³⁾	British Virgin Islands	Investment holding	100.00	100.00
<u>Subsidiary (In Liquidation) (Note 3(b)):</u>				
Poh Lian Construction (Pte.) Ltd.	Singapore	Building contractor and property developer	100.00	100.00
<u>Subsidiaries held under Poh Lian Construction (Pte.) Ltd. (In Liquidation):</u>				
Poh Lian Realty Pte Ltd	Singapore	Property development	100.00	100.00
Sin Poh Lian Sdn. Bhd.	Malaysia	Investment holding	—	100.00
Dongshan Poh Lian Real Estate Co., Ltd	People's Republic of China	Property investment	100.00	100.00
<u>Associate held under Poh Lian Construction (Pte.) Ltd. (In Liquidation):</u>				
Poh Lian Training & Management (Bangladesh) Pvt Ltd	Bangladesh	Dormant	30.00	30.00

As disclosed in Note 3(b), Poh Lian Construction (Pte.) Ltd. ('PLC') made a judicial management application to place itself under interim judicial management. Upon the appointment of the judicial managers, the Group has deconsolidated PLC and its subsidiaries due to loss of control. On 10 October 2014, the High Court discharged the judicial management order and a winding up order has been made against PLC.

(1) Audited by Ernst & Young LLP, Singapore

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

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

(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. On 10 October 2014, the JMO was discharged and a winding up order has been made against PLC as disclosed in Note 30.

United Fiber System Limited and its Subsidiaries

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

3. Group of companies (cont'd)

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

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 Grimmett, 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. On 10 October 2014, the JMO was discharged and a winding up order has been made against PLC, and Tam Chee Chong and Andrew Grimmett were appointed as joint and several liquidators of PLC.

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:-

(i) Deconsolidation of PLC and its subsidiaries:-

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

	US\$'000
Assets:	
Property, plant and equipment (Note 11)	4,863
Club membership (Note 12)	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 15)	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 contacts (Note 20)	(48,453)
Hire purchase creditors	(626)
Provision for taxation	(552)
Loans and borrowings	(2,983)
Deferred tax liabilities	(162)
Total liabilities	(125,873)

United Fiber System Limited and its Subsidiaries

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

3. Group of companies (cont'd)

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

(i) Deconsolidation of PLC and its subsidiaries:- (cont'd)

	US\$'000
Total net liabilities	(52,934)
Adjustment:	
Liability relating to provision for corporate guarantees retained in the Group **	36,018
Gain on deconsolidation of subsidiaries arising from loss control	(16,916)
Net cash outflows 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 32, the Company entered into Mandatory Convertible Bonds agreement with these Unsecured Creditors to settle the obligation due.

(ii) With PLC being placed into JMO, the operating loss for the period from 1 January 2013 to 6 March 2013 of US\$196,000 has been presented as part of the gain on deconsolidation in order to provide a better picture of the Group going forward.

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

United Fiber System Limited and its Subsidiaries

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

3. Group of companies (cont'd)

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

(ii) (cont'd)

The Group 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 IFRS 10 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. As required under the Proposed DSS Acquisition, the Group shall dispose all of its shareholdings in PLC, representing the entire issued and paid up share capital of PLC and all of its indirect interests in other PLC companies. As a result, Directors believe 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.

On 18 December 2014, the Company and Dragonext Limited entered into a conditional share purchase agreement for the disposal of the entire issued and paid-up share capital of 15,000,000 ordinary shares in issued and paid-up share capital of PLC for a nominal sum of S\$1.00 subject to certain conditions precedent being fulfilled or waived by 31 March 2015 ("Long-Stop Date"). On 23 January 2015, the Company and Dragonext Limited entered into a supplemental conditional share purchase agreement to extend the Long-Stop Date to 3 June 2015.

As winding up of PLC has commenced on 10 October 2014, any transfer of shares of PLC shall unless the Court otherwise orders, be void. Accordingly, having regard to the condition precedent set out in the SPA under the Proposed DSS Acquisition, the Company had obtained the application for the leave of Court for the disposal of PLC shares to Dragonext on 31 March 2015.

4. Revenue

	2014 US\$'000	2013 US\$'000
Sale of logs	9,601	4,945
Sale of others	13	—
	<u>9,614</u>	<u>4,945</u>

United Fiber System Limited and its Subsidiaries

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

5. Other income

	2014 US\$'000	2013 US\$'000
Interest income	84	31
Insurance claim received	–	145
Fair value gain on derivative instrument	–	1,123
Gain from disposal of property, plant and equipment	16	56
Compensation income ⁽¹⁾	424	2,374
Write back on accrual of legal fees and other expenses	608	804
Others	24	64
	1,156	4,597

⁽¹⁾ The compensation income relates to expected settlement arising from actions taken against a third parties for encroaching the Group's forestry concession (Note 10).

6. Finance costs

	2014 US\$'000	2013 US\$'000
Interest expense on bank loans and bonds	7,107	7,677
Service fees	–	148
Others	7	6
	7,114	7,831

Included in interest expense on bank loan and bonds is US\$NIL (2013: US\$1,587,000 arising from amortisation of interest expense on convertible loan).

7. Loss before tax

Loss before tax is derived after charging the following:

	2014 US\$'000	2013 US\$'000
<u>Included as part of administrative expenses:</u>		
Directors' fees	122	118
Legal and professional fees	142	317
Audit fees:		
- Auditors of the Company	96	108
- Other auditors	31	64
Non-audit fees:		
- Auditors of the Company	11	28
- Other auditors	31	56

United Fiber System Limited and its Subsidiaries

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

7. Loss before tax (cont'd)

	2014 US\$'000	2013 US\$'000
<u>Staff costs:</u>		
Salaries, wages, bonuses and other costs	773	866
Contribution to defined contribution plans	51	67
	<u>824</u>	<u>933</u>
 <u>Included as part of cost of sales</u>		
Inventories written down to net realisable value (Note 16)	1,703	–
	<u>1,703</u>	<u>–</u>
 <u>Included as part of other operating expenses:</u>		
Impairment loss on other receivables (Note 17)	–	3,633
Impairment loss on compensation income receivable (Note 10)	4,657	–
Depreciation of property, plant and equipment (Note 11(b))	2,138	1,869
Foreign exchange loss, net	2,711	22
Expenses for proposed acquisition (Note 29)		
- Auditors of the Company	362	335
- Other professional parties	1,307	2,001
Withholding tax expenses	2,429	1,107
	<u>2,429</u>	<u>1,107</u>

8. Income tax benefit

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

	2014 US\$'000	2013 US\$'000
Consolidated Statement of Comprehensive Income		
Current income tax		
- over provision in respect of previous years	–	(32)
	<u>–</u>	<u>(32)</u>
Deferred income tax (Note 13)		
- origination and reversal of temporary difference	–	(3)
- changes in fair value on forestry concession	(1,261)	(3,677)
- over provision in respect of previous years	(2)	(3)
	<u>(1,263)</u>	<u>(3,683)</u>
	<u>(1,263)</u>	<u>(3,683)</u>
Income tax benefit	<u>(1,263)</u>	<u>(3,715)</u>

United Fiber System Limited and its Subsidiaries

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

8. Income tax benefit (cont'd)

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

	2014 US\$'000	2013 US\$'000
Loss before tax	(28,778)	(14,438)
Tax at the domestic rates applicable to loss in the countries where the Group operates	(3,636)	(3,348)
<i>Adjustments:</i>		
Income not subjected to tax	(270)	(3,311)
Expenses not deductible for tax purposes	2,595	3,706
Tax effect on partial exemption	—	(6)
Deferred tax assets not recognised	953	617
Over provision in respect of previous years	(2)	(35)
Utilisation of previously unrecognised deferred tax assets	(903)	(1,386)
Others	—	48
Income tax benefit	(1,263)	(3,715)

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

The Group has unabsorbed tax losses of approximately US\$46,986,000 (2013: US\$43,274,000), which predominantly arose in Singapore and Indonesia, that are available for offset against future taxable income for which no deferred tax asset is recognised due to uncertainty of its recoverability. The use of these tax losses is subject to the agreement of the respective domestic tax authorities in the countries concerned.

Expenses not deductible for tax purposes mainly related to tax effect on disallowed interest expenses.

Income not subjected to tax in 2013 mainly related to tax effect on gain on deconsolidation of PLC and its subsidiaries due to loss of control of PLC on 7 March 2013.

9. Loss per share

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

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

United Fiber System Limited and its Subsidiaries

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

9. Loss per share (cont'd)

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

	2014 US\$'000	2013 US\$'000
Loss net of tax for the year attributable to owners of the Company used in the computation of basic loss per share	(27,514)	(10,723)
Weighted average number of ordinary shares on issue applicable to basic loss per share ('000)	3,864,251	3,820,126
Adjusted weighted average number of ordinary shares applicable to diluted loss per share ('000)	3,864,251	3,820,126

There have been no other transactions involving ordinary shares or share option since the reporting date and before the completion of these financial statements.

10. Forestry concession

	2014 US\$'000	2013 US\$'000
Forestry concession comprises:		
Biological asset - forestry assets (i)	9,317	13,276
Land rent-use rights (ii)	6,837	13,817
At 31 December	16,154	27,093

Analysis of forestry concession is as follows:

	2014		2013	
	Hectares	US\$'000	Hectares	US\$'000
Existing Plantation Forest (i)	9,636	7,838	13,779	12,767
Utilisable Natural Forest (i)	2,483	1,479	1,673	509
	12,119	9,317	15,452	13,276
Land rent-use rights (ii)	13,151	6,837	13,151	13,817
Total	25,270	16,154	28,603	27,093

(i) Biological asset - forestry assets

	2014 US\$'000	2013 US\$'000
Movement in forestry assets:		
At 1 January	13,276	30,720
Harvest during the year	(2,456)	(2,286)
Cost incurred during the year	3,541	949
	14,361	29,383
Net change in fair value less estimated costs to sell	(5,044)	(16,107)
At 31 December	9,317	13,276

United Fiber System Limited and its Subsidiaries

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

10. Forestry concession (cont'd)

(i) Biological asset - forestry assets (cont'd)

Forestry assets relates to forest and rubber plantations. For forest plantation, the plantation related to plantation of acacia mangium tree which can be harvested and processed into saw logs and pulpwood. The wood from these logs can be further 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 277,511 m³ (2013: 270,914 m³) of logs.

For the rubber plantation, the Group started planting rubber trees on a trial basis on the concession area during the year. When mature, the rubber trees will be tapped to produce cups lumps for latex production. The rubber plantation area is currently less than 1% of the total concession area.

The fair value of forestry assets 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):-		The higher the plantation yields, the higher the fair value
- Acacia mangium	34.4 m ³ /ha to 199.2 m ³ /ha (116.8 m ³ /ha)	
- Rubber plantation	475 kg/ha to 2,233 kg/ha (1,354 kg/ha)	
Selling price of:		The higher the selling price, the higher the fair value
- Sawlogs	US\$12.27/m ³ to US\$65.9/m ³ (US\$39.1/m ³)	
- Pulpwood	US\$20.54/m ³ to US\$41.27/m ³ (US\$30.9/m ³)	
- Rubber	US\$1.31 per kg	

United Fiber System Limited and its Subsidiaries

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

10. Forestry concession (cont'd)

(i) Biological asset - forestry assets (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 expending 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

	2014 US\$'000	2013 US\$'000
Compensation income receivables	6,837	13,817

Land rent-use rights represent the expected cashflows of compensation expected to be received from mining licensees who have encroached onto the Group's forestry 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, and based on management's expectations of cash flows, 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). In 2014, Permenhut No.P.18/Menhut-II/2011 was replaced by Permenhut No.P.16/Menhut-II/2014, 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 forestry concession plantable area.

In 2014, the Group has provided an impairment loss of US\$4,657,000 (2013: US\$NIL) on compensation income receivables resultant from reduction in expected receipts. In 2013, there are no allowances for impairment made to the receivables.

Receivables that are past due but not impaired amounting to US\$3,887,000 (2013: US\$8,208,000).

United Fiber System Limited and its Subsidiaries

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

11. Property, plant and equipment

	Leasehold land and buildings US\$'000	Plant and machinery US\$'000	Motor vehicles US\$'000	Computers, office equipment, furniture and fittings US\$'000	Total US\$'000
Cost					
At 1 January 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 and 1 January 2014	8,256	41,973	393	592	51,214
Additions	415	—	98	59	572
Disposals	—	—	(30)	—	(30)
Reclassification	69	—	—	(69)	—
Net exchange differences	(84)	—	—	(11)	(95)
At 31 December 2014	8,656	41,973	461	571	51,661
Accumulated depreciation and impairment loss					
At 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 and 1 January 2014	5,493	26,472	393	539	32,897
Adjustments/charge for the year	(139)	2,335	6	7	2,209
Disposals	—	—	(30)	—	(30)
Reclassification	132	(132)	—	—	—
Net exchange differences	(43)	160	—	(11)	106
At 31 December 2014	5,443	28,835	369	535	35,182
Net carrying amount					
At 31 December 2013	2,763	15,501	—	53	18,317
At 31 December 2014	3,213	13,138	92	36	16,479

United Fiber System Limited and its Subsidiaries

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

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\$13,138,000 (2013: US\$15,501,000) is mortgaged to secure the Group's bank loans (Note 21(a)).

(b) Depreciation charge

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

	2014 US\$'000	2013 US\$'000
Charged to profit or loss		
- other operating expenses (Note 7)	2,138	1,869
Deconsolidation/capitalised in construction projects	—	190
Capitalised/(adjustments) in forestry assets	71	(127)
Depreciation for the year ended	2,209	1,932

12. Club membership

	2014 US\$'000	2013 US\$'000
Cost		
At beginning of the year	—	139
Net exchange differences	—	(2)
Deconsolidation of subsidiaries	—	(137)
At end of the year	—	—
Impairment		
At beginning of the year	—	(57)
Net exchange differences	—	1
Deconsolidation of subsidiaries	—	56
At end of the year	—	—
Net carrying amount	—	—
Market value	—	—

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

As disclosed in Note 3(b), club membership has been derecognised as a result of the deconsolidation due to loss of control of PLC on 7 March 2013.

United Fiber System Limited and its Subsidiaries

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

13. Deferred tax

	Consolidated balance sheet		Consolidated statement of comprehensive income	
	2014	2013	2014	2013
	US\$'000	US\$'000	US\$'000	US\$'000
Deferred tax liabilities				
Revaluation of forestry concession	(1,360)	(2,010)	(1,261)	(3,680)
Remittance of foreign source income	—	(22)	—	—
Other items	—	(300)	—	—
Deferred tax liabilities	(1,360)	(2,332)		
Deferred tax assets				
Differences in depreciation for tax purposes	179	178	(2)	(3)
Deferred tax assets	179	178		
Deferred income tax benefits (Note 8)			(1,263)	(3,683)

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.

14. Goodwill on consolidation

	US\$'000
Cost	
At 1 January 2013	24,089
Net exchange differences	(819)
Deconsolidation of subsidiaries	(23,270)
At 31 December 2013, 1 January 2014 and 31 December 2014	—
Impairment	
At 1 January 2013	(24,089)
Net exchange differences	819
Deconsolidation of subsidiaries	23,270
At 31 December 2013, 1 January 2014 and 31 December 2014	—
Net carrying amount	
At 31 December 2013 and 31 December 2014	—

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

United Fiber System Limited and its Subsidiaries

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

14. Goodwill on consolidation (cont'd)

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 interim judicial management on 7 March 2013. A full impairment was made in 2012 after management had determined that no future benefits would be derived from operating the division.

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

15. Investment properties held for sale

	2014 US\$'000	2013 US\$'000
At 1 January	—	1,453
Exchange differences	—	3
Deconsolidation of subsidiaries (Note 3(b))	—	(1,456)
At 31 December	—	—

Investment properties were 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.

As disclosed in Note 3(b), the Group has deconsolidated the investment properties as the Group lost control of PLC on 7 March 2013.

16. Inventories

	2014 US\$'000	2013 US\$'000
Balance sheet:		
Raw materials	67	67
Logs	778	4,197
Total inventories at lower of cost and net realisable value	845	4,264

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

Consolidated Statement of Comprehensive Income:

Inventories recognised as an expense in cost of sales	2,495	1,468
Inventories written-down (Note 7)	1,703	—

United Fiber System Limited and its Subsidiaries

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

17. Trade and other receivables

	2014 US\$'000	2013 US\$'000
Current		
Trade receivables	1,527	836
Deposits	7	7
Other receivables	3,474	4,060
	5,008	4,903
Less: Allowance for doubtful debts	(3,732)	(3,856)
	1,276	1,047
Prepayments	332	143
	1,608	1,190
Non-current		
Advances to PT KK	28,165	28,165
Less: Allowance for doubtful debts	(28,165)	(28,165)
	–	–
Total trade and other receivables (current and non-current)	1,608	1,190
Add: Cash and bank balances (Note 18)	1,552	1,432
Add: Compensation income receivable (Note 10)	6,837	13,817
Less: Prepayments	(332)	(143)
Total loans and receivables	9,665	16,296

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.

Included in other receivables is an amount of US\$3,480,000 (2013: US\$3,331,000) due from a subsidiary held by PLC which was placed in liquidation.

Trade receivables that are past due but not impaired

The Group has trade receivables amounting to US\$7,000 (2013: US\$494,000) that are past due at the balance sheet date but not impaired as follows:

	2014 US\$'000	2013 US\$'000
<i>Trade receivables past due:</i>		
61 to 180 days	–	466
More than 180 days	7	28
	7	494

United Fiber System Limited and its Subsidiaries

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

17. Trade and other receivables (cont'd)

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:

	2014 US\$'000	2013 US\$'000
Trade receivables - nominal amount	401	373
Less: Allowance for impairment	(401)	(373)
	<u>–</u>	<u>–</u>
Movement in allowance account:		
At 1 January	373	1,970
Deconsolidation of subsidiaries	–	(1,544)
Exchange differences	28	(53)
At 31 December	<u>401</u>	<u>373</u>

Other receivables that are past due but not impaired

The Group has other receivables amounting to US\$33,000 (2013: US\$267,000) that are past due more than 180 days at the balance sheet date but not impaired. These other receivables are unsecured.

Other receivables that are impaired

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

	Individually impaired 2014 US\$'000	2013 US\$'000
Other receivables - nominal amount	31,496	31,803
Less: Allowance for impairment	(31,496)	(31,648)
	<u>–</u>	<u>155</u>
Movement in allowance account:		
At 1 January	31,648	28,370
Charge for the year (Note 7)	–	3,633
Written off	(3)	(35)
Deconsolidation of subsidiaries	–	(193)
Exchange differences	(149)	(127)
At 31 December	<u>31,496</u>	<u>31,648</u>

United Fiber System Limited and its Subsidiaries

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

17. Trade and other receivables (cont'd)

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.

Trade and other receivables denominated in Indonesian Rupiah as at year end are amounting to US\$1,288,000 (2013: US\$877,000).

18. Cash and bank balances

	2014 US\$'000	2013 US\$'000
Cash on hand	4	—
Cash at banks	1,548	1,432
Cash and bank balances	1,552	1,432

Cash and cash equivalents denominated in Indonesian Rupiah as at year ended amounted to US\$1,154,000 (2013: US\$843,000)

19. Trade and other payables

	2014 US\$'000	2013 US\$'000
Trade payables ⁽¹⁾	343	189
Interest payable ⁽⁵⁾	20,015	13,843
Accrued expenses	1,570	435
Accrual for directors' fee and bonus	381	360
Non-trade payables ⁽²⁾	22,126	18,673
Corporate guarantee claims ⁽⁴⁾	35,190	35,818
Advances received ⁽³⁾	775	1,061
Others	1,138	2,112
Total trade and other payables	81,538	72,491
Add: Loans and borrowings (Note 21)	49,000	49,000
Less: Advances received	(775)	(1,061)
Total financial liabilities carried at amortised costs	129,763	120,430

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

⁽²⁾ Non-trade payables are unsecured, non-interest bearing and repayable on demand. Included in non-trade payables is an amount of US\$6,958,000 (2013: US\$7,314,000) due to Poh Lian Construction (Pte.) Ltd. which was placed in liquidation.

⁽³⁾ Advances received from third parties in relate to logs sales.

United Fiber System Limited and its Subsidiaries

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

19. Trade and other payables (cont'd)

- (4) This is related to corporate guarantees by the banks and financial institutions on credit facilities granted to Poh Lian Construction (Pte.) Ltd. which was placed in liquidation. Please refer to Note 32 for more details on the settlement of the corporate guarantee claims.
- (5) Interest payable consists of interest billed and accrued on loans and borrowings from financial institution.

Trade and other payables denominated in Indonesian Rupiah and United States Dollars as at year ended amounted to US\$10,438,000 (2013: US\$9,215,000) and US\$19,130,000 (2013: US\$14,040,000), respectively.

20. Provisions

Provisions for potential losses arising from termination of construction contracts

	2014 US\$'000	2013 US\$'000
At 1 January	–	48,453
Deconsolidation of subsidiaries (Note3(b))	–	(48,453)
At 31 December	–	–

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

21. Loans and borrowings

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

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

United Fiber System Limited and its Subsidiaries

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

21. Loans and borrowings (cont'd)

(a) (cont'd)

The Company has breached a covenant for the credit facilities as disclosed below. 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.

On 25 July 2014, the Company and the financial institution agreed to extend the loan maturity to 31 March 2015 subject to the condition that the Company shall provide the financial institution with fortnightly updates on the progress of the on-going Proposed DSS Acquisition.

On 17 April 2015, the financial institution agreed to extend the loan maturity to the earlier of 30 September 2015 and three business days after the date of completion of the Compliance Placement (the "Extended Maturity Date").

On the same day, the Company and the financial institution entered into the following Deeds to discharge and release the share pledge over the entire issued and paid up capital of a subsidiary upon disposal of the subsidiary and to terminate a security sharing agreement over the entire equity interest of a subsidiary.

Breach of covenants

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

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

The loan bears interest of 10% (2013: 10%) per annum. The Company and the financial institution has on 14 August 2014, amended and restated the terms of the loan agreement of 12 January 2011 (as supplemented, extended and modified), extending the date of completion of the Proposed Acquisition to 31 March 2015, which are disclosed under Note 29.

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

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



United Fiber System Limited and its Subsidiaries

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

21. Loans and borrowings (cont'd)

(b) (cont'd)

On 14 August 2014, the financial institution and the Company entered into an amended loan agreement to waive the breach of the Company's obligation, which are disclosed under Note 31.

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

On 27 March 2015, the Company and the financial institution entered into an amended loan agreement to extend the repayment date to 3 June 2015.

On 17 April 2015, the financial institution agreed to extend the loan maturity to the earlier of 30 September 2015 and three business days after the date of completion of the Compliance Placement (the "Extended Maturity Date").

On the same day, the Company and the financial institution entered into the following Deeds to discharge and release the share pledge over the entire issued and paid up capital of a subsidiary upon disposal of the subsidiary and to terminate a security sharing agreement over the entire equity interest of a subsidiary.

- (c) On 6 November 2012, the Company and a financial institution entered into a US\$4,000,000 loan agreement to finance the expenses relating to the Proposed Acquisition. The loan is unsecured and bears interest at 12.5% per annum, and is repayable by proceeds to be received from the proposed compliance placement following the completion of the Proposed DSS Acquisition no later than 31 March 2015, as disclosed under Note 29.

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

On 16 February 2015, the Company received a deed of undertaking from the financial institution to waive all default interest payable in connection with the loan agreement and will not declare that an event of default has occurred under the loan agreement provided that the Proposed DSS Acquisition is completed on or before 3 June 2015.

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% votes attached to the voting rights in the financial institution.

United Fiber System Limited and its Subsidiaries

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

22. Share capital

	2014		2013	
	No. of shares '000	US\$'000	No. of shares '000	US\$'000
Issued and fully paid ordinary shares ⁽¹⁾				
At 1 January	3,864,251	257,956	3,789,687	256,613
Issued during the year	—	—	74,564 ⁽²⁾	1,367
Share issuance expense	—	—	—	(24)
At 31 December	3,864,251	257,956	3,864,251	257,956

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

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

The principle terms of placement are settled by way of allotment and issuance of 74,563,714 shares (the "Placement Shares") to BDL at an issue price of S\$0.02322 per Placement Share.

23. Operating lease commitments - as lessee

The Group leases certain motor vehicle, office equipment and property under lease agreements that are non-cancellable with no renewal option or escalation clauses included in the contracts. Lease terms do not contain restrictions concerning dividend, additional debts or further leasing. Operating lease payments recognised in the consolidated statement of comprehensive income during the year amounted to US\$214,000 (2013: US\$155,000).

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

	2014 US\$'000	2013 US\$'000
Within one year	130	32
After one year but not more than five years	20	—
	150	32

United Fiber System Limited and its Subsidiaries

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

24. Related party disclosures

(a) Interest expenses payable to Convertible Bondholders, loans and borrowings

	Interest expense US\$'000	Service fees US\$'000	Total US\$'000
2014			
Interest expenses payable to the loan in which Mr. Chan Kin, a director of the Company has an interest in:			
ASM Asia Recovery (Master) Fund	507	–	507
2013			
Interest expenses payable to the loan in which Mr. Chan Kin, a director of the Company has an interest in:			
- ASM Asia Recovery (Master) Fund	366	148	514

As at 31 December 2014, the outstanding amounts on interest and loan payable in which the director has an interest amounted to US\$899,000 (2013: US\$392,000) and US\$4,000,000 (2013: US\$4,000,000) respectively.

As at 31 December 2014 and 2013, there are no outstanding amounts on interest and loan payable to the convertible bondholders in which the director has an interest.

(b) Compensation of key management personnel

	2014 US\$'000	2013 US\$'000
Short-term employee benefits paid and payable to:		
- directors of the Company	267	270
- other key management personnel	140	148
Total compensation paid and payable to key management personnel	407	418

Included in the compensation paid or payable to key management personnel are contributions to defined contribution plan amounted to US\$9,795 (2013: US\$13,772).

United Fiber System Limited and its Subsidiaries

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

25. Fair value of assets and liabilities

(a) Fair value 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)

Fair value measurement that use inputs of different hierarchy levels are categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

(b) Assets and liabilities measured at fair value

The following table shows an analysis of each class of assets and liabilities carried at fair value at the end of the reporting period:

	Fair value measurements at the end of the reporting period using			
	Quoted prices in active markets for identical instruments (Level 1) US\$'000	Significant observable inputs other than quoted prices (level 2) US\$'000	Significant unobservable inputs (Level 3) US\$'000	Total US\$'000
Recurring fair value measurements:				
Assets				
<i>Non-financial assets – Forestry assets</i>				
31 December 2014	–	–	9,317	9,317
31 December 2013	–	–	13,276	13,276

There has been no transfer from Level 1 and Level 2 and Level 3 for the financial years ended 31 December 2014 and 31 December 2013 respectively.

Methods and assumption used to determine fair value

Fair value of forestry assets has been determined based on valuations by an independent professional valuer using discounted cash flows of the underlying forestry assets. Please refer to Note 10 for more details.

United Fiber System Limited and its Subsidiaries

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

25. Fair value of assets and liabilities (cont'd)

(b) Assets and liabilities measured at fair value (cont'd)

Valuation policies and procedures

The Group's Chief Financial Officer (CFO) oversees the Group's financial reporting valuation process and is responsible for setting and documenting the Group's valuation policies and procedures. In this regard, the CFO reports to the Group's Audit and Compliance Committee. For all significant financial reporting valuations using valuation models and significant unobservable inputs, it is the Group's policy to engage external valuation experts who possess the relevant credentials and knowledge on the subject of valuation, valuation methodologies, and IFRS 13 fair value measurement guidance to perform the valuation.

For valuations performed by external valuation experts, the appropriateness of the valuation methodologies and assumptions adopted are reviewed along with the appropriateness and reliability of the inputs (including those developed internally by the Group) used in the valuations. These are reviewed by the Audit and Compliance Committee for submission to the Board of Directors for approval. Significant changes in fair value measurements from period to period are evaluated for reasonableness. Key drivers of the changes are identified and assessed for reasonableness against relevant information from independent sources, or internal sources if necessary and appropriate.

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

Trade and other receivables (Note 17), cash and bank balances (Note 18), trade and other payables (Note 19) and loans and borrowings (Note 21)

The carrying amounts of these financial assets and liabilities are reasonable approximation of fair values, either due to their short-term nature.

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

The fair value of financial assets and liabilities by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value are as follows. These financial assets and liabilities are categorised within Level 3 of the fair value hierarchy.

	2014		2013	
	Carrying amount	Fair value	Carrying amount	Fair Value
	US\$'000	US\$'000	US\$'000	US\$'000
Financial assets:				
Compensation income receivable	6,837	6,911	13,817	14,002

United Fiber System Limited and its Subsidiaries

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

25. Fair value of assets and liabilities (cont'd)

- (d) 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 (cont'd)

Determination of fair value

The financial assets and liabilities are estimated by discounting expected future cash flows at market incremental lending rate for similar types of lending or leasing arrangements at the date of statements of financial position.

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

26. 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.

There has been no change to the Group's exposure to these financial risks or the manner in which it manages and measures the risks except as described below.

(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 its floating interest rate loans and borrowings.

Currently the Group does not have an interest rate policy. At the balance sheet date, the Group has short-term loans and borrowings of which majority of the loans carried fixed interest rate except for one loan that is subject to floating interest rate. The floating interest rate does not vary significantly with the movements in the market interest rates.

Sensitivity analysis for interest rate risk

At the end of the reporting period interest rates had been 75 (2013: 75) basis points lower/higher with all other variables held constant, the Group's loss net of tax would have been approximately US\$75,000 (2013: US\$75,000) lower/higher, arising mainly as a result of lower/higher interest expense on floating rate loans and borrowings. The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment, showing a significantly higher volatility in prior years.

United Fiber System Limited and its Subsidiaries

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

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

(a) Interest rate risk (cont'd)

Sensitivity analysis for interest rate risk (cont'd)

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

(b) Liquidity risk

Liquidity risk, also referred to as funding risk, is the risk that the Group will encounter difficulty in raising funds to meet its commitments. The Group is exposed to liquidity risk in respect of its cash flow management to fund its ongoing operations as well as settlement of its short-term loans and borrowings and all of its current liabilities. The Group's objective is to maintain an appropriate level of liquid assets to meet its liquidity requirements in the short term.

The Group manages its liquidity needs by monitoring its forecasted cash inflows and outflows from its day to day operations. Liquidity needs are then monitored in various time bands such as daily, weekly as well as on a rolling of 30 days rolling projection. Net cash requirements are then compared to available cash and cash equivalents in order to determine the cash shortfalls.

At the end of the reporting period, the Group is in net liabilities of approximately US\$95,081,000. The liquidity of the Group is primarily dependent on its ability to maintain adequate cash flow from operations and to raise funds in the capital market.

At the date of this report, financial institutions have agreed to extend the repayment date of the loans and borrowings, including all related interest charges. The repayment is planned to coincide with the completion of the post completion placement, whereby the loans and borrowings will be repaid from the proceeds received from the proposed compliance placement shares following the completion of the Proposed DSS Acquisition. Likewise for the obligations arising from the corporate guarantees claims, the Company has entered into the 5 per. cent. mandatory convertible bond agreement with various Unsecured Creditors to settle the obligations due. Please refer to Note 32 for more details.

On 4 March 2015, the Company convened an extraordinary general meeting in relation to the Proposed DSS Acquisition and has obtained shareholders' approval to complete, *inter-alia*, the Proposed DSS Acquisition, the proposed share consolidation, the issuance of MCB conversion shares, the issuance of the new consolidated shares and compensation shares, if applicable, to DSS and the proposed post completion placement and issuance of up to 226,500,000 placement shares.

On 8 April 2015, DSS convened an extraordinary general meeting in relation to the Proposed DSS Acquisition and had obtained the requisite approval of its shareholders for the Proposed DSS Acquisition.

United Fiber System Limited and its Subsidiaries

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

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

(b) Liquidity risk (cont'd)

Analysis of financial instruments by remaining contractual maturities

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

	1 year or less US\$'000	1 to 5 years US\$'000	Total US\$'000
2014			
Financial assets:			
Trade and other receivables	1,276	–	1,276
Compensation income receivables	–	9,248	9,248
Cash and bank balances	1,552	–	1,552
Total undiscounted financial assets	2,828	9,248	12,076
Financial liabilities:			
Trade and other payables	72,466	–	72,466
Loans and borrowings	51,896	–	51,896
Total undiscounted financial liabilities	124,362	–	124,362
Total net undiscounted financial (liabilities)/assets	(121,534)	9,248	(112,286)
2013			
Financial assets:			
Trade and other receivables	1,047	–	1,047
Compensation income receivables	–	16,468	16,468
Cash and bank balances	1,432	–	1,432
Total undiscounted financial assets	2,479	16,468	18,497
Financial liabilities:			
Trade and other payables	64,351	–	64,351
Loans and borrowings	53,001	–	53,001
Total undiscounted financial liabilities	117,352	–	117,352
Total net undiscounted financial (liabilities)/assets	(114,873)	16,468	(98,405)

(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 and compensation income expected to be receivable from mining licensees.

United Fiber System Limited and its Subsidiaries

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

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

(c) Credit risk (cont'd)

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 credit risk profile of the Group has changed when Poh Lian Construction (Pte.) Ltd. ("PLC"), its material subsidiary has placed itself under interim judicial management. Previously, the exposure to credit risk mainly concentrated in Singapore and receivables from property developers. Following the interim judicial management, the Group has lost control in PLC and accordingly, the credit risk is now concentrated in Indonesia, the continuing operation of the Group.

Exposure to credit risk

The carrying amount of trade and other receivables, compensation 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.

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 and compensation receivables on an on-going basis. The credit risk concentration profile of the Group's trade and other receivables and compensation receivables at the balance sheet date is as follows:

	2014		2013	
	US\$'000	% of total	US\$'000	% of total
By country				
Singapore	55	1%	225	2%
Indonesia	8,051	99%	14,639	98%
Total	8,106		14,864	
By industry sector				
Forest and pulp	8,051	99%	14,639	98%
Others	55	1%	225	2%
Total	8,106		14,864	

As at 31 December 2014 and 31 December 2013, there were no significant concentrate of credit risk with any single customer.

United Fiber System Limited and its Subsidiaries

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

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

(c) Credit risk (cont'd)

Financial assets that are neither past due nor impaired

Trade and other receivables and compensation receivable 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 10(ii) and Note 17.

(d) Foreign currency risk

The Group has transactional currency exposures primarily in USD and IDR arising mainly from sales and purchases. The Group holds cash and cash equivalents primarily denominated in foreign currencies for working capital purposes (Note 18). The Group's trade receivable and payable balances at the reporting date have similar exposure. The foreign currency in which these transactions are denominated is mainly in USD and IDR. Approximately 31% (2013: 26%) of these balances denominated are in these foreign currencies. Currently, there is no policy to reduce currency exposure through forward currency contracts, derivatives transactions or other arrangements. However, the Group relies on its operational cash flow to hedge against the foreign currency exposure.

Sensitivity analysis for foreign currency risk

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

		Loss net of tax	
		2014	2013
		US\$'000	US\$'000
USD	- strengthened 3% (2013: 3%)	(2,044)	(1,891)
	- weakened 3% (2013: 3%)	2,044	1,891
IDR	- strengthened 3% (2013: 3%)	8	(12)
	- weakened 3% (2013: 3%)	(8)	12

The Group is also exposed to currency translation risk arising from its net investments in foreign operations in countries such as Indonesia, Mauritius and British Virgin Islands. The Group does not hedge this currency exposure.

(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 forestry assets.

United Fiber System Limited and its Subsidiaries

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

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

(e) Commodity price risk (cont'd)

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

At the balance sheet date, if the price of logs had been 5% (2013: 5%) higher/lower with all other variables held constant, the Group's loss net of tax would have been US\$1,578,000 (2013: US\$1,731,000) lower/higher, arising as a result of higher/lower fair value gains on the forestry concession.

27. Capital management

The Group manages its capital structure and make adjustments to it, in light of changes in economic condition. The Group is required to comply with financial covenants imposed by financial institutions. The Group has breached the financial covenants for the year ended 31 December 2014 as disclosed in Note 21. No changes were made in the objectives, policies or processes between the years ended 31 December 2014 and 2013 respectively.

At the date of this report, the Group recorded a capital deficiency of approximately US\$95,081,000 (2013: US\$71,349,000). The completion of the Proposed DSS Acquisition, the allotment and issuance of shares to the bondholders, and the success of the proposed post completion placement will enable the Group to return to a capital surplus position. Further, the proceeds from the completion placement will be used to repay the Group's loans and borrowings and other liabilities. In the meantime, the Group will continue to seek out various opportunities to ensure the Group's ability to continue as a going concern.

28. Segment information

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

- The Forestry and pulp segment is engaged in forestry operations and manufacture of wood chips.
- The Others segment is investment holding and trading company.

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

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

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

United Fiber System Limited and its Subsidiaries

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

28. Segment information (cont'd)

	Forestry and pulp 2014 US\$'000	2013 US\$'000	Others 2014 US\$'000	2013 US\$'000	Elimination 2014 US\$'000	2013 US\$'000	Note	Consolidated 2014 US\$'000	2013 US\$'000
Revenue:									
Revenue from external customers	9,614	4,945	-	-	-	-		9,614	4,945
Inter segment revenue	-	-	-	128	-	(128)	A	-	-
Total revenue	9,614	4,945	-	128	-	(128)		9,614	4,945
Results:									
Segment results	(16,592)	(18,361)	(5,072)	(4,966)	-	-	B	(21,664)	(23,327)
Gain on deconsolidation of subsidiaries								-	16,720
Finance costs								(7,114)	(7,831)
Loss before tax								(28,778)	(14,438)
Income tax benefit								1,263	3,715
Loss for the year								(27,515)	(10,723)
Compensation income	(424)	(2,374)	-	-	-	-		(424)	(2,374)
Depreciation of property, plant and equipment (Note 11(b))	2,136	1,868	2	1	-	-		2,138	1,869
Fair value loss on forestry assets	5,044	16,107	-	-	-	-		5,044	16,107
Impairment loss on trade and other receivables	-	3,633	-	-	-	-		-	3,633
Impairment loss on compensation income receivable	4,657	-	-	-	-	-		4,657	-
Inventories written down to net realisable value	1,703	-	-	-	-	-		1,703	-

United Fiber System Limited and its Subsidiaries

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

28. Segment information (cont'd)

	Forestry and pulp		Others		Elimination		Note	Consolidated	
	2014	2013	2014	2013	2014	2013		2014	2013
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000		US\$'000	US\$'000
Assets and Liabilities:									
Segment assets	37,782	52,910	1,911	2,076	(2,876)	(2,512)	C	36,817	52,474
Total assets	37,782	52,910	1,911	2,076	(2,876)	(2,512)		36,817	52,474
Segment liabilities	170,289	174,511	63,957	62,998	(181,019)	(185,940)	C	53,227	51,569
Unallocated liabilities							D	78,671	72,254
Total liabilities								131,898	123,823

United Fiber System Limited and its Subsidiaries

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

28. 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:

	Forestry and pulp US\$'000	Others US\$'000	Total US\$'000
2014			
Other income/(expenses)	(419)	1,575	1,156
Selling and distribution expenses	(826)	(16)	(842)
Administrative expenses	(1,276)	(1,059)	(2,335)
Other operating expenses	(3,376)	(10,229)	(13,605)
Fair value loss on forestry assets	(5,044)	—	(5,044)
2013			
Other income	3,412	1,185	4,597
Selling and distribution expenses	(791)	(49)	(840)
Administrative expenses	(1,747)	(1,321)	(3,068)
Other operating expenses	(4,066)	(4,781)	(8,847)
Fair value loss on forestry assets	(16,107)	—	(16,107)

- C Elimination is relating to intra-group transactions which are eliminated on consolidation.
- D Unallocated liabilities comprise of loans and borrowings, interest payables, other payables and deferred tax liabilities amounting to US\$49,000,000, US\$20,015,000, US\$8,297,000 and US\$1,360,000 (2013: US\$49,000,000, US\$13,843,000, US\$7,079,000 and US\$2,332,00) respectively.

The Group did not include the segment revenue and results of the construction and property segment in the segment information since the Group already lost control of PLC group. The results of the construction and property segment have been disclosed in Note 3(b).

Geographical information

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

	Singapore US\$'000	Indonesia US\$'000	Consolidated US\$'000
2014			
Total revenue from external customers	—	9,614	9,614
Non-current assets	6	32,806	32,812
2013			
Total revenue from external customers	—	4,945	4,945
Non-current assets	6	45,582	45,588

United Fiber System Limited and its Subsidiaries

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

28. Segment information (cont'd)

Geographical information (cont'd)

Non-current assets information presented above consists of forestry concession, property, plant and equipment and other non-current assets.

Information about a major customer

Revenue from one major customer accounting for more than 95% of the total turnover is from the forestry and pulp segment.

29. 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 94.4745% of the enlarged Company's ordinary share capital.

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

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

- (a) Satisfactory completion of the due diligence by the Group on GEMS and DSS on the Group;
- (b) The completion of the share consolidation exercise by the Group;
- (c) Disposal of all its direct and indirect shareholding in Poh Lian Construction (Pte.) Ltd. ("PLC");

United Fiber System Limited and its Subsidiaries

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

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

(c) (cont'd)

- (d) Entered into subscription agreement with the Group's unsecured creditors in relation to the corporate guarantees provided by the Group for the due performance or payment of monies by PLC which will be settled through the subscription of the Mandatory Convertible Bonds to be issued by the Group;
- (e) DSS received the Group's completion financial statements and completion of statement of liabilities;
- (f) Subject to the approval from the shareholders of DSS and the Group; and
- (g) Subject to approvals received from the respective regulatory in Singapore and Indonesia.

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

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

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

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

On 4 March 2015, the Company convened an extraordinary general meeting in relation to the Proposed DSS Acquisition and had obtained shareholders' approval to complete, *inter-alia*, the Proposed DSS Acquisition, the proposed share consolidation, the issuance of Mandatory Convertible Bonds ("MCB") conversion shares, the issuance of the new consolidated shares and compensation shares, if applicable, to DSS and the proposed post completion placement and issuance of up to 226,500,000 placement shares

On 8 April 2015, DSS convened an extraordinary general meeting in relation to the Proposed DSS Acquisition and had obtained the requisite approval of its shareholders for the Proposed DSS Acquisition.

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

(c) (cont'd)

On 17 April 2015, pursuant to the proposed share consolidation under which fifty (50) shares in the share capital of the Company then in issue were to consolidated into one (1) share, the Company allotted and issued 77,285,006 new shares to shareholders as at the relevant books closure date.

The Proposed acquisition is expected to be completed on 20 April 2015.

30. 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 resolutions 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.

On 29 July 2014, the High Court heard the application for a further extension of the JMO. At the hearing, the High Court extended the JMO till 15 October 2014.

On 15 August 2014, the High Court granted the application to further extend the JMO until 15 October 2014. The High Court, while granting the application, also directed that PLC and its Judicial Managers file, on or before 15 September 2014, an application to discharge the JMO and to place PLC in liquidation.

On 10 October 2014, the JMO was discharged and a winding up order has been made against PLC, and Tam Chee Chong and Andrew Grimmett were appointed as joint and several liquidators of PLC.

On 18 December 2014, the Company and Dragonext Limited entered into a conditional share purchase agreement for the disposal of the entire issued and paid-up share capital of 15,000,000 ordinary shares in issued and paid-up share capital of PLC for a nominal sum of S\$1.00 subject to certain conditions precedent being fulfilled or waived by 31 March 2015 ("Long-Stop Date").

United Fiber System Limited and its Subsidiaries

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

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

On 23 January 2015, the Company and Dragonext Limited entered into a supplemental conditional share purchase agreement to extend the Long-Stop Date to 3 June 2015.

As winding up of PLC has commenced on 10 October 2014, any transfer of shares of PLC shall unless the Court otherwise orders, be void. Accordingly, having regard to the condition precedent set out in the SPA under the Proposed DSS Acquisition, the Company had obtained the application for the leave of Court for the disposal of PLC shares to Dragonext on 31 March 2015.

31. Asia Star Fund Ltd ("ASF") US\$35,000,000 loan

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

- (a) The repayment date for the repayment of all amounts due and owing under the ASF Restated Loan Agreement ("**Indebtedness**") has been amended to the earliest of the following:
 - (i) The third business days after the completion of a placement exercise by the 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 Acquisition;
 - (iii) The next business day after the expiry of 1 year from the date of the Restated Loan Agreement; and
 - (iv) 31 March 2015
- (b) The Indebtedness shall be payable by the 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
- (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.
- (e) ASF shall waive the breach of the Company's obligations, as a result of the Company's failure to repay the indebtedness in full by the repayment date of 14 July 2014.

United Fiber System Limited and its Subsidiaries

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

31. Asia Star Fund Ltd ("ASF") US\$35,000,000 loan (cont'd)

- (f) On 26 September 2014, the Company received a waiver letter from the financial institution to waive all default interest payable in connection with the loan agreement subject to the completion of Proposed DSS Acquisition.
- (g) On 17 April 2015, the financial institution agreed to extend the loan maturity to the earlier of 30 September 2015 and three business days after the date of completion of the Compliance Placement (the "Extended Maturity Date").

On the same day, the Company and the financial institution entered into the following Deeds to discharge and release the share pledge over the entire issued and paid up capital of a subsidiary upon disposal of the subsidiary and to terminate a security sharing agreement over the entire equity interest of a subsidiary.

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

On 30 August 2013, the Company entered into subscription agreement with various bank and financial institutions (collectively known as Unsecured Creditors) in relation to the existing corporate guarantees entered into in favour of Poh Lian Construction (Pte.) Ltd. ("PLC") which was put under interim judicial management on 7 March 2013.

On 31 July 2014, the Company entered into a supplemental agreement ("MCB Supplemental Agreement") with the Unsecured Creditors to amend certain terms and conditions of the Subscription Agreement as required under the SPA Supplemental Agreement.

The Company will issue up to US\$33,991,737.29 (equivalent to S\$45,834,458.56) in aggregate principal amount of 5% 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. The conversion price will be adjusted accordingly following the proposed share consolidation. The conversion will take place upon the completion date of the Proposed Acquisition. The yield is calculated at a rate of 5% per annum on the basis of a 365-day year, and the actual number of days elapsed from the Closing Date of 15 December 2014 to the Conversion Date, which is assumed to be 20 April 2015.

The Subscribers have agreed with the Company as follows:

- (i) Extend the Cut-Off Date for the closing of the Bonds Issue, from 31 January 2014 to 31 March 2015, to correspond with the extension of the Acquisition Long-Stop Date;
- (ii) Increase the material adverse change threshold from US\$20 million to US\$56 million in connection with the assessing the occurrence of an event of default by the Company under the Bonds Issue; and
- (iii) Limit the Company's aggregate liabilities to all the Subscribers up to and including 31 March 2015 under the Subscription Agreement (including any accrued interest payable under the Mandatory Convertible Bonds) to no more than S\$46.5 million ("Maximum Liabilities Limit"), which shall constitute full and final settlement of all claims against the Company by the Subscribers in respect of the Corporate Guarantees.

United Fiber System Limited and its Subsidiaries

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

32. Settlement of corporate guarantees by way of issuance of mandatory convertible bonds ("MCB") (cont'd)

As announced on 13 February 2015, the Company has successfully issued Bonds of an aggregate principal amount of S\$45.8 million to various financial institutions in settlement of the outstanding contingent liabilities arising from the various corporate guarantee claims for amounts due and owing by PLC Companies to these institutions. The Bonds will be mandatory converted to shares at DSS completion. Since FY2012, The Company has accrued these outstanding liabilities in its financial statements.

33. Reclassification

The Group has reclassified the financial statements for the year ended 31 December 2013. This relates to reclassification of withholding tax payable from provision for taxation to trade and other payables and fair value loss on forestry assets classified under cost of sales. This is in line with the Group's accounting policy.

	As previously reported US\$'000	Reclassifications US\$'000	Reclassified amount US\$'000
2013			
Balance sheet:			
Provision for taxation	7,079	(7,079)	–
Trade and other payables	65,412	7,079	72,491
Consolidated statements of comprehensive income:			
Cost of sales	6,767	(2,760)	4,007
Fair value loss on forestry assets	13,347	2,760	16,107

34. Subsequent events

- (i) On 15 April 2015, the Company entered into a non-binding memorandum of understanding ("MOU") with ASM Administration Limited ("ASM"), pursuant to which the Company contemplates making an investment in Asia Resource Minerals Plc ("ARMS"), subject to the execution of definitive agreements ("Proposed investment in Asia Resource Mineral PLC").
- (ii) On 17 April 2015, the Company entered into a loan agreement with DSS, pursuant to which DSS made available to the Company a loan in the aggregate amount of up to US\$850,000 for, inter alia, the crossing fees payable to IDX and related charges in connection with the DSS Acquisition and working capital purposes. The loan bore interest at 6% per annum and shall be repaid by the Company on 30 June 2015.

35. Authorisation of financial statements

The financial statements for the year ended 31 December 2014 were authorised for issue in accordance with a resolution of the Directors dated on 17 April 2015.