bracell

Bracell Limited

Stock Code: 1768

Interim Report
2016

ABOUT bracell

Listed on the Hong Kong Stock Exchange, Bracell Limited ("Bracell"; stock code: 1768) is one of the largest specialty cellulose producers in the world. Bracell's operations in Brazil consist of a secure renewable plantation that grows eucalyptus trees on its 150,000 hectares of freehold land, and a state-of-the-art mill to produce both specialty-grade and rayon-grade dissolving wood pulp. They are natural raw materials and key ingredients to a diverse range of everyday items from textiles, baby wipes and eyeglass frames, to soft ice-cream, sausage casings and pharmaceuticals, as well as industrial products such as high-performance tire cords.

Bracell attaches high priority to its social and sustainability responsibilities and is committed to preserving and protecting the environment in every aspect of its operations.

CONTENTS

CORPORATE INFORMATION

Board of Directors

Independent Non-executive Directors
John Jeffrey YING (Chairman)
Jeffrey LAM Kin Fung
David YU Hon To
LIM Ah Doo
LOW Weng Keong
Armin MEYER

Executive Director
TEY Wei Lin (Chief Executive Officer)

Executive Committee
John Jeffrey YING (Chairman)
TEY Wei Lin

Audit Committee
David YU Hon To (Chairman)
LIM Ah Doo
LOW Weng Keong

Remuneration Committee
Jeffrey LAM Kin Fung (Chairman)
John Jeffrey YING
TEY Wei Lin
LOW Weng Keong
Armin MEYER

Nomination Committee
LIM Ah Doo (Chairman)
David YU Hon To
TEY Wei Lin

Independent Board Committee
John Jeffrey YING (Chairman)
Jeffrey LAM Kin Fung
David YU Hon To
LIM Ah Doo
LOW Weng Keong
Armin MEYER

Company Secretary
Winnie LUI Mei Yan

Authorized Representatives
TEY Wei Lin
Winnie LUI Mei Yan

Stock Code
1768

Registered Office
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Bermuda Principal Share Registrar and Transfer Office
Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Place of Business in Hong Kong as a Registered Non-Hong Kong Company
21/F, China Building
29 Queen's Road Central
Central
Hong Kong

Hong Kong Share Registrar
Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Principal Bankers

Hong Kong
China Development Bank Corporation Hong Kong Branch
Taishin International Bank

Singapore
ABN AMRO Bank N.V.

Brazil
Mizuho Bank, Ltd.
Banco Santander, S.A.
Itaú Unibanco S.A.
Banco Bradesco, S.A.
Banco do Brasil S.A.

Auditor
PricewaterhouseCoopers

Websites
www.brazilcellulose.com
www.irasia.com/listco/hk/bracell

FINANCIAL HIGHLIGHTS

Six months ended 30 June US$ million	2016	2015	Change
Revenue	**213**	221	(3)%
Cost of sales	**103**	146	(29)%
Gross profit	**111**	75	48%
Gross profit margin	**52%**	34%	
EBITDA (1)	**132**	92	43%
EBITDA margin	**62%**	42%	
Profit before income tax	**82**	36	127%
Profit attributable to shareholders	**83**	32	159%
Earnings per share (US cents)	**2.4**	0.9	167%
Interim dividend per share (HK cents)	**1.5**	1.0	50%

US$ million	At 30 June 2016	At 31 December 2015	Change
Total assets	**1,434**	1,382	4%
Total liabilities	**252**	305	(17)%
Net assets	**1,182**	1,077	10%
Total debt	**174**	233	(25)%
Bank balances and cash	**95**	96	(1)%
Net debt	**79**	137	(42)%
Current ratio	**1.9x**	1.8x	
Net debt / EBITDA ratio	**0.6x**	0.7x	
Net gearing (2)	**7%**	13%	

Notes:

(1) EBITDA is calculated as profit before income tax, finance costs, depreciation, amortization of intangible assets, and changes in the value of forestation and reforestation assets.

(2) Net gearing is calculated by dividing (i) net debt by (ii) total equity (including non-controlling interests).

MANAGEMENT DISCUSSION AND ANALYSIS

Bracell is a leading global pure-play dissolving wood pulp producer. The continuing operations of the Group comprise the production and sale of both specialty-grade and rayon-grade dissolving wood pulp manufactured at its Bahia Specialty Cellulose plant in Brazil using wood resources grown from its own eucalyptus plantations.

Business Review

The Group is a leading global pure-play DWP producer. The business of the Group comprises the production and sale of both specialty-grade and rayon-grade DWP manufactured at its Bahia Specialty Cellulose ("BSC") plant in Brazil using wood resources grown from its own eucalyptus plantations.

The Group's total sales volume declined by 5% despite recording higher production volumes over the corresponding period in 2015. Specialty-grade DWP sales volumes declined by 9% as certain customer shipments were delayed into the second half of 2016. Rayon-grade DWP sales volume declined by 3% due to rayon-grade DWP inventory level changes.

The Group's average selling price ("ASP") increased by 1% to US$945 per metric ton in the first half of 2016 over the corresponding period in 2015. The Group's ASP for its specialty-grade DWP declined 4% over the corresponding period in 2015 due to continued industry excess capacity, weaker end-market demand and aggressive pricing strategies from competitors. In line with market prices, the Group's ASP for rayon-grade DWP recorded a 5% increase in the first half of 2016. As a result of the above factors, the Group's revenue declined slightly by 3% to US$213 million.

The Group's cost of sales decreased by 29% to US$103 million mainly as a result of the depreciation of the BRL exchange rate against the US Dollar as compared to the corresponding period in 2015 and more efficient operations of the BSC plant, which in turn contributed to a decrease in the Group's operating costs. Gross profit accordingly increased by 48% to US$111 million and EBITDA increased by 43% to US$132 million. Gross profit margin and EBITDA margin also increased to 52% and 62% respectively over the corresponding period in 2015.

The Group's selling, general and administrative expenses decreased by 11% mainly due to lower freight rates and lower costs benefiting from the depreciation of the BRL exchange rate. The Group's finance costs decreased by 20% during the period because of the Group's lower overall bank debt.

For the first six months of 2016, profit before taxation increased by 127% to US$82 million. There was an income tax credit in the first six months of 2016 of US$1 million mainly because of the BRL exchange rate which lowered Brazilian taxable profits and increased the deferred income tax asset. Hence profit attributable to shareholders increased 159% to US$83 million.

DWP Business

Six months ended 30 June	2016	2015	Change
Production volume[1] (metric tons)	**226,543**	214,298	6%
Sales volume (metric tons)	**225,573**	236,566	(5)%
ASP (US$/metric ton)	**945**	932	1%
Revenue (US$'000)	**213,454**	220,529	(3)%
Gross profit (US$'000)	**110,686**	74,922	48%
Gross profit margin (%)	**52%**	34%	
EBITDA (US$'000)	**131,535**	92,229	43%
EBITDA margin (%)	**62%**	42%	

Note:

(1) Production volume represents total production volume of the DWP business.

The Group's DWP business comprises the production and sale of specialty-grade pulp and rayon-grade pulp. Production volume of the Group in the six months ended 30 June 2016 increased by 6% to 226,543 metric tons over the corresponding period in 2015, due to higher operating efficiencies and debottlenecking efforts at BSC plant. Sales volume decreased by 5% to 225,573 metric tons. Sales volume was lower in the first six months of 2016 because of the sale of higher levels of rayon-grade DWP inventory brought forward from 2014 sold in the first half of 2015 and the deferment of certain specialty-grade DWP shipments into the second half of 2016.

Specialty-grade pulp

Specialty-grade pulp is the natural key ingredient of a wide array of everyday use consumer products. The Group's products are manufactured to a high degree of purity, and are mostly used for applications such as acetate for cigarette filters and eyeglasses frames, pharmaceutical tablets, and high-performance tire cords.

Total global demand for specialty-grade pulp is approximately 1.4 million metric tons annually, and is estimated to grow at approximately 2% per year from 2015 to 2020, according to Hawkins Wright (an independent consultancy providing market intelligence and business information relating to international forest products).

The demand growth of acetate within the specialty-grade segment was negatively impacted by a slowdown in global cigarette consumption, as well as inventory destocking along the value chain. Despite high barriers to entry into this segment, product prices continued to face downward pressure as competitors adopted aggressive pricing strategies to maintain their market shares.

During the period, the Group's sales volume in specialty-grade DWP declined by 9% to 50,437 metric tons mainly because of customers' deferring certain shipments into the second half of 2016. The Group's ASP also declined due to continuing pricing headwinds. Nevertheless, the Group remains focused on enhancing product quality and cost competitiveness and remains confident to further penetrate this segment going forward.

Rayon-grade pulp

Rayon-grade pulp is the principal raw material ingredient used for the production of viscose staple fiber. China is the largest rayon-grade pulp market by demand, according to Hawkins Wright and China Chemical Fibers and Textiles Consultancy (an independent consultancy providing information on the chemical fiber industry in China).

Current global demand for rayon-grade pulp is estimated at approximately 5.5 million metric tons annually with growth mainly recorded in China. Such demand is expected to grow at approximately 4% per annum from 2015 to 2020, according to Hawkins Wright.

With effect from 1 January 2015, under the three-year pulp supply agreement (the "Pulp Supply Agreement"), the Group supplies rayon-grade DWP produced by BSC only to a company controlled by the ultimate controlling shareholder of the Company at prevailing open market spot prices. This enables the Group to focus its efforts on the production and sale of specialty-grade DWP, with a view that all rayon-grade DWP produced by BSC will be contractually purchased in its entirety under the Pulp Supply Agreement at prevailing open market prices. This arrangement also provides BSC with certainty on the capacity utilisation of its mill in Brazil by ensuring it is operating at the optimal level, thereby allowing economies of scale and better cost control.

The Group sold 175,136 metric tons of rayon-grade DWP in the first six months of 2016, a decline of 3% because of the sale of elevated levels of rayon-grade DWP inventory in the first half of 2015.

In the first six months of 2016, rayon-grade DWP spot market prices dropped from approximately US$900 per metric ton at the beginning of 2016 to approximately US$850 per metric ton at the end of June 2016. The drop in prices was mainly driven by a correction in viscose staple fiber prices in late 2015 and early 2016, as well as an increase in DWP supply from new capacity start-ups. However, when compared with the first half of 2015, the Group's ASP for rayon-grade DWP recorded a 5% increase in the first half of 2016.

Future Development Plan

The Group is a leading global pure-play specialty cellulose producer. The Group's main facility of BSC in Brazil is the third largest DWP producer in the world with an annual design production capacity of 485,000 metric tons. In addition to its state-of-the-art production facilities, the Group also owns over 150,000 hectares of freehold timberland in Brazil, which fully meets all the wood requirements of the BSC facility.

The Group's entry into the Pulp Supply Agreement to sell its rayon-grade DWP only to a single customer for the three years ending in 2017 enables the Group's BSC mill to operate at the optimal level and achieve greater operational efficiency. This arrangement also allows the Group to focus its efforts on shifting its product mix further towards specialty-grade DWP, particularly in the acetates, in view of its lower level of pricing volatility and superior positioning within the value chain, as well as to diversify into other areas within the specialty-grade market.

As the world's second largest specialty-grade DWP producer in terms of potential production capacity and backed by its own eucalyptus plantations, the Group will continue to further penetrate into the specialty-grade DWP segment by improving its product quality according to stringent customer specifications.

The Group will also continue to explore the feasibility of further greenfield or brownfield expansions and/or acquisition opportunities if they meet the Group's stringent strategic and financial return targets.

Outlook

On specialty-grade DWP, the demand for acetate pulp and acetate tow was still suppressed by the slowdown in global cigarette consumption and continuing customer destocking especially in China. The current abundant supply and subdued demand growth will continue to limit price increases in the short to mid-term. Despite the challenging conditions, Bracell remains focused on this segment and is dedicated to continuously enhancing its product quality and customer technical service. The Group is confident of its superior positioning within this value chain because of its integrated forestry and mill operations and its strong focus on product research and development.

Rayon-grade DWP prices declined from approximately US$900 per metric ton to approximately US$830 per metric ton in the first quarter of 2016 mainly because of weaker downstream viscose fiber prices and new supply of rayon-grade DWP. The prices slowly recovered in the second quarter of 2016 to approximately US$850 per metric ton as viscose prices recovered. Since early July, viscose fiber prices started rising significantly. If recent viscose fiber price increases are sustained, rayon-grade DWP prices may have further room to increase in the second half of the year. Regardless of price trends, the Pulp Supply Agreement gives the Group certainty on its sales volume on rayon-grade DWP at prevailing market spot prices.

The Group will continuously strive to improve operational efficiencies and maintain cost competitiveness to enable the Group to mitigate margin erosion even during uncertain market conditions. The above, together with its conservative cash flow management, strong balance sheet, and an experienced management team, allows the Group to be well positioned to grow further into a leading global pure-play DWP producer.

PROPOSED PRIVATISATION

On 15 June 2016, the Company received a request from BHL Limited (the "Offeror"), a company wholly owned by the ultimate controlling shareholder of the Company, to put forward the Offeror's proposal to privatise the Company by way of a scheme of arrangement (the "Scheme") under section 99 of the Companies Act of Bermuda. The Scheme involves the cancellation of all outstanding shares in the Company not already held by the Offeror or Gold Silk Holdings Limited ("Gold Silk") (which holds approximately 83.69% of the issued share capital of the Company as at the date of the interim results announcement dated 15 August 2016) at the cancellation consideration of HK$1.78 per share. The Offeror will also make an offer to the holders of restricted share units ("RSUs") issued by the Company to cancel their outstanding RSUs and such offer will be conditional upon the Scheme becoming effective.

On 3 August 2016, the Company received a revised proposal in relation to the Scheme from the Offeror. Under the terms of the revised proposal, the cancellation consideration was increased from HK$1.78 per share to HK$2.28 per share.

On 22 August 2016, the respective boards of directors of the Offeror and the Company jointly announced that the Offeror had advised the Board on 19 August 2016 that the Offeror does not intend to increase the Cancellation Consideration and the RSU Offer Price and does not reserve its right to do so.

The implementation of the Scheme is conditional upon the satisfaction or valid waiver (as applicable) of the conditions as described in the joint announcement made by the Company and the Offeror on 17 June 2016. If the Scheme becomes effective, all the shares in the Company will be owned by the Offeror and Gold Silk and an application will be made by the Company to The Stock Exchange of Hong

Kong Limited (the "Stock Exchange") for the withdrawal of the listing of the shares in the Company. Please refer to the joint announcements made by the Company and the Offeror on 17 June 2016, 3 August 2016 and 22 August 2016 for further details of the Scheme.

The Company will send to all shareholders and holders of RSUs a scheme document containing, among other things, further details about the Scheme, the recommendation of the Independent Board Committee of the Company (the "IBC"), a letter of advice from the independent financial adviser to the IBC, and notice of the court meeting and the special general meeting of the Company to consider and approve the Scheme and its implementation by no later than 30 August 2016.

FINANCIAL REVIEW

Consolidated Income Statement

For the six months ended 30 June 2016, the Group's sales volume declined by 5% to 225,573 metric tons while ASP increased by 1%. The Group's revenue for the first six months of 2016 declined by 3% to US$213 million. Cost of sales declined by 29%, and as a result, gross profit increased by 48% to US$111 million and the Group's EBITDA increased by 43% to US$132 million. The Group's gross profit margin and EBITDA margin also increased to 52% and 62% for the period respectively.

Profit before income tax was US$82 million, an increase of 127% from the same period in 2015. Profit attributable to shareholders increased by 159% to US$83 million for the first six months ended 30 June 2016. Earnings per share increased by 167% to US2.4 cents from US0.9 cents in the last corresponding period.

Cost of Sales

Cost of sales primarily consists of the cost of planting and harvesting wood, chemicals and conversion costs including energy, labor costs and depreciation.

The Group's cost of sales declined by 29% to US$103 million mainly as a result of the depreciation of the BRL exchange rate against the US Dollar and the more efficient operations of the Group's DWP mill.

Selling and Distribution and Administrative Expenses

Selling and distribution expenses decreased by 6% to US$18 million for the six months ended 30 June 2016, from US$20 million in the corresponding period in 2015 mainly because of more favourable freight rates and lower shipments. Administrative expenses also declined by 16% to US$15 million mainly as a result of the depreciation of BRL during the period as well as the Group's overall cost savings measures.

Changes in Fair Value of Forestation and Reforestation Assets

Revaluation of the Group's forestation and reforestation assets in Brazil is conducted semi-annually at each reporting date. Fair value of forestation and reforestation assets in Brazil is estimated using a discounted cash flow model with reference to estimates in growth, harvest, sales prices and costs. The volume of forest harvested and recoverable as estimated by the Group is based on statistical information and data obtained from physical measurements and other information gathering techniques.

The Group assumes a six-year harvest cycle of trees within this model. Such information gathered and data used requires, to a certain extent, estimates and judgments in determining the amount of forest to be harvested and recoverable in the future. If future expectations at any given period differ from original estimates, the difference will impact the carrying amount of forestation and reforestation assets in the consolidated statement of financial position, and be taken up in the consolidated income statement in the period.

With effect from 1 January 2015, the functional currency of two subsidiaries of the Group which own the bulk of its forestation and reforestation assets in Brazil was changed from USD to BRL. From this date onwards, the non-cash impact on the fair value of the forestation and reforestation assets of the above-mentioned subsidiaries arising from a change in the exchange rate between the BRL and USD will be recorded under the line item "currency translation differences" as part of the other comprehensive income of the Group. Hence, going forward, fluctuation in the exchange rate between the BRL and USD will result in less non-cash impact on the consolidated income statement of the Group.

Taking into account the change in functional currency mentioned above, the Group recognised an increase in fair value of forestation assets of US$10 million for the six months ended 30 June 2016. This compared with an increase of US$3 million in fair value of forestation and reforestation assets for the same period in 2015.

Finance Costs

The Group's finance costs decreased from US$10 million to US$8 million because of the Group's lower overall bank debt as a result of repayments made to its five-year term syndicated loan.

Consolidated Statement of Comprehensive Income

Currency Translation Differences

The Group's presentation currency is USD. The Group has currency translation differences mainly because two of its subsidiaries in Brazil have their functional currencies in BRL which is different from the presentation currency of the Group.

The exchange rate between the BRL and USD appreciated from US$1 = BRL3.90 as at 31 December 2015 to US$1 = BRL3.21 as at 30 June 2016. As a result, the Group recorded currency translation gains of US$29 million arising from its two subsidiaries in Brazil which have their functional currency in BRL. Out of this US$29 million, US$19 million related to the forestation and reforestation assets of the two subsidiaries.

Unrealized (Loss)/Gain on Cash Flow Hedge

The Group manages its interest rate risk through the use of interest rate swaps ("IRS") and it mitigates the currency fluctuations affecting its operations mainly through a hedging program using plain vanilla non-deliverable forward contracts.

For the six months ended 30 June 2016, there was an unrealized gain on cash flow hedge of US$6 million.

Capital Expenditure

The Group continued to exercise careful control over capital expenditure as appropriate during the first six months in 2016.

The Group incurred US$38 million in capital expenditure for the six months ended 30 June 2016, compared to US$24 million in the corresponding period in 2015. The capital expenditure includes US$15 million spent on forestation and reforestation assets in Brazil and US$23 million on the mill including the cost of the mill debottlenecking carried out in the first half of 2016.

Charge on Assets

As at 30 June 2016, certain assets of the Group with an aggregate carrying value of US$786 million (31 December 2015: US$815 million) were pledged with banks for banking facilities used by our subsidiaries.

Cash Flow, Liquidity and Financial Position

The Group is adequately capitalised, with ample liquidity, and is capable of funding its foreseeable capital expenditure requirements with cash flows from operating activities and banking facilities.

The Group's bank balances and cash amounted to US$95 million as at 30 June 2016, compared with US$96 million as at 31 December 2015. Net debt as at 30 June 2016 amounted to US$79 million, compared with US$137 million as at 31 December 2015. The Group's net gearing ratio (which is calculated by dividing (i) long-term and short-term borrowings minus bank balances and cash by (ii) total equity (including non-controlling interests)) was 7%, compared to 13% as at 31 December 2015.

The Group had total banking facilities available for draw-down of US$65 million as at 30 June 2016.

Net cash from operating activities was US$116 million for the six months ended 30 June 2016 which was consistent with the US$111 million for the same period in 2015.

Treasury Policies and Risk Management

The Group has a prudent approach towards treasury management and risk management. Most of the Group's receipts are in USD. Its main costs are denominated in BRL where it has its production facilities. The Group's approach to currency risk is to mitigate the currency fluctuations affecting its operations mainly through non-deliverable forward contracts. The Group does not issue any put options.

The Group's cash is generally placed in short-term deposits denominated in USD. All of its borrowings are in USD and most of them carry floating interest rates and the Group has entered into interest rate swap agreements to swap part of its floating interest rate borrowing for fixed interest rate to mitigate potential increases in future interest rates.

The Company is committed to achieving and maintaining high standards of corporate governance, as the Board believes that good and effective corporate governance practices are key to obtaining and maintaining the trust of its shareholders and other stakeholders, and are essential for encouraging accountability and transparency so as to sustain the success of the Group and to create long-term value for the shareholders of the Company (the "Shareholders").

The Board

The Board currently comprises the following Directors:

Independent Non-executive Directors:
John Jeffrey YING (Chairman)
Jeffrey LAM Kin Fung
David YU Hon To
LIM Ah Doo
LOW Weng Keong
Armin MEYER

Executive Director:
TEY Wei Lin (Chief Executive Officer)

The roles of the Chairman and the Chief Executive Officer are segregated. The Chairman, who is an Independent Non-executive Director, is responsible for leadership of the Board and for ensuring that the Board functions effectively and independently. The Chief Executive Officer is responsible for leading the operations of the Group's businesses to achieve their business and financial targets, proposing strategies to the Board and ensuring the effective implementation of the strategies and policies adopted by the Board. The senior management team is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer.

The Board is responsible for setting up the overall strategy as well as reviewing the operation and financial performance of the Group. The Board meets regularly and at least four times a year with at least 14 days' notice. Additional meetings with reasonable notice will be held as and when the Board considers appropriate. Regular Board meetings each year are scheduled in advance to facilitate maximum attendance of Directors. For the six months ended 30 June 2016, the Board held three Board meetings and also approved matters by way of written resolutions.

Changes in Directors' Information

Each Director has informed the Company in a timely manner of any change in the number and nature of offices held in public companies or organizations and other significant commitments. The Company will disclose the changes, if any, in accordance with regulatory and statutory requirements.

Changes in information of Directors which are required to be disclosed pursuant to Rule 13.51B(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), since the publication of the Company's annual report for the year ended 31 December 2015, are set out below:

(a) Mr. Jeffrey LAM Kin Fung, an Independent Non-executive Director, was appointed as a director of The Hong Kong Mortgage Corporation Limited with effect from 25 April 2016;

(b) Mr. LOW Weng Keong, an Independent Non-executive Director, was appointed as a member of NTUC Education and Training Fund (member of Board of Trustees) with effect from 3 May 2016;

(c) Mr. LIM Ah Doo, an Independent Non-executive Director, informed the Board that Linc Energy Ltd ("Linc Energy"), a company in which he had been an independent director from 22 November 2013 to 23 June 2015, was put into voluntary administration on 15 April 2016 and entered into liquidation on 23 May 2016 in Australia. Mr. Lim advised the Company that he had no knowledge of the financial position and affairs of Linc Energy at the time when Linc Energy was put into voluntary administration and entered into liquidation as he ceased to be a director of Linc Energy on 23 June 2015. Further details are set out in the Company's announcement dated 8 July 2016; and

(d) Mr. David YU Hon To, an Independent Non-executive Director, resigned as an independent non-executive director of Great China Holdings Limited with effect from 13 July 2016.

Board Committees

The Board has established the Audit Committee, the Remuneration Committee, the Nomination Committee and the Executive Committee with written terms of reference approved by the Board. Terms of reference of the above Board committees are made available on the websites of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Company as appropriate. In addition, the Company has established an Independent Board Committee to review all connected transactions entered into by the Group. Each of the above Board committees is chaired by an Independent Non-executive Director. The procedures and arrangements for a Board meeting have been adopted for the committee meetings so far as practicable. The Board committee chairmen shall report formally to the Board on the Board committees' decisions and recommendations where appropriate.

Audit Committee

The Audit Committee is chaired by an Independent Non-executive Director and comprises only Independent Non-executive Directors, at least one of whom possesses appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules. The current composition of the Audit Committee is as follows:

Independent Non-executive Directors:

David YU Hon To (Chairman of the Audit Committee)
LIM Ah Doo
LOW Weng Keong

The Audit Committee shall meet at least four times a year to review, with senior management as well as the Company's internal and external auditors, the Group's significant internal controls, risk management and financial matters as set out in the Audit Committee's written terms of reference. For the six months ended 30 June 2016, the Audit Committee held two meetings and met with the external auditor once at a pre-meeting session in the absence of the management of the Group. The Audit Committee's review mainly covers audit plans and findings of the internal and external auditors, the external auditor's independence, re-appointment of the external auditor and the audit fee, the Group's accounting principles and practices, the Listing Rules and statutory compliance, internal controls, risk management, financial reporting matters and the adequacy of resources, qualification and experience of staff of the Group's accounting and financial reporting function, and their training programs and budget. The Audit Committee is satisfied that the Company's internal control system is effective and adequate.

Remuneration Committee

The Remuneration Committee is chaired by an Independent Non-executive Director and comprises a majority of Independent Non-executive Directors. The current composition of the Remuneration Committee is as follows:

Independent Non-executive Directors:

Jeffrey LAM Kin Fung
(Chairman of the Remuneration Committee)
John Jeffrey YING
LOW Weng Keong
Armin MEYER

Executive Director:

TEY Wei Lin

The Remuneration Committee shall meet at least once a year. For the six months ended 30 June 2016, the Remuneration Committee held two meetings. The Remuneration Committee's duties performed mainly covered the review of the policy and structure for the remuneration of the Directors and the senior management of the Group, and the review and determination of, with delegated responsibility, the remuneration packages of the senior management of the Group for the year 2016.

Nomination Committee
The Nomination Committee is chaired by an Independent Non-executive Director and comprises a majority of Independent Non-executive Directors. The current composition of the Nomination Committee is as follows:

Independent Non-executive Directors:
LIM Ah Doo (Chairman of the Nomination Committee)
David YU Hon To

Executive Director:
TEY Wei Lin

The Nomination Committee shall meet at least once a year. For the six months ended 30 June 2016, the Nomination Committee held one meeting. The Nomination Committee's duties performed included the review of the structure, size and composition of the Board, the independence of Independent Non-executive Directors, and the nomination of Directors retiring by rotation and their re-election.

Executive Committee
The Executive Committee is chaired by an Independent Non-executive Director who is also the Board Chairman and comprises two Directors. The current composition of the Executive Committee is as follows:

Independent Non-executive Director:
John Jeffrey YING (Chairman of the Executive Committee)

Executive Director:
TEY Wei Lin

For the six months ended 30 June 2016, the Executive Committee held two meetings to perform its duties and responsibilities under its terms of reference, including reviewing the operating performance and financial position of the Group and evaluating the business strategies of the Group.

Independent Board Committee
The Independent Board Committee is chaired by an Independent Non-executive Director who is also the Board Chairman and comprises six Directors. The current composition of the Independent Board Committee is as follows:

Independent Non-executive Directors:
John Jeffrey YING
(Chairman of the Independent Board Committee)
Jeffrey LAM Kin Fung
David YU Hon To
LIM Ah Doo
LOW Weng Keong
Armin MEYER

For the six months ended 30 June 2016, the Independent Board Committee held two meetings to perform its duties and responsibilities, mainly to review the connected transactions of the Group and to select and approve the appointment of an independent financial adviser to advise the Independent Board Committee in respect of the proposed privatisation of the Company by way of a scheme of arrangement under Section 99 of the Companies Act of Bermuda.

Risk Management and Internal Controls
The Board has overall responsibility for the Group's system of internal control and assessment and management of risks. In meeting its responsibility, the Board has put in place policies and procedures which provide a framework for the identification and management of risks.

The Group regards internal audit as an important part of the Board's oversight function. The Group's internal audit department (the "IA department") is authorised by the Board to have access to all records, people and physical properties relevant to the performance of internal audit. The IA department has unrestricted access to the chairman of the Audit Committee and reports directly to the Audit Committee for direction and accountability. This reporting relationship enables the IA department to provide an objective assurance to the effectiveness of the risk management and internal control systems of the Group.

The IA department prepares and submits an internal audit plan to the Audit Committee for approval on an annual basis, according to a risk-based audit priority weighting policy. Reports to the management are prepared after completion of the audit work, and are summarised for review at each Audit Committee meeting. Continual follow-up work is undertaken by the IA department to establish the extent of completion of remedial actions taken by the management, with follow-up results and available resources reviewed by the Audit Committee at each committee meeting.

The Board will continue to identify, evaluate and manage the significant risks faced by the Group, and to enhance the risk management and internal control systems of the Group with the assistance of the IA department on an ongoing basis.

Whistleblowing Policy

The Company has established a whistleblowing policy and system for employees and other stakeholders to raise concerns, in confidence, about possible improprieties in any matter related to the Group.

Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted its own Guidelines on Securities Transactions (the "Guidelines") regarding securities transactions by Directors, directors of subsidiaries, and relevant employees who are likely to be in possession of unpublished price-sensitive information of the Company or its securities ("Inside Information"), on terms no less exacting than the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as contained in Appendix 10 to the Listing Rules. Reminders are sent during each year to Directors, directors of subsidiaries, and relevant employees that they should not deal in the securities of the Company during the "black-out periods" specified in the Model Code.

The Company made specific enquiries with the Directors, and all Directors confirmed that they had complied with the required standards set out in the Guidelines and the Model Code regarding Directors' securities transactions for the six months ended 30 June 2016.

Inside Information Reporting Procedure

The Company has adopted a procedure on reporting of Inside Information (the "Reporting Procedure") in accordance with the Guidelines on Disclosure of Inside Information issued by the Securities and Futures Commission. The Reporting Procedure sets out the proper standards and procedures for the handling and dissemination of Inside Information and is circulated across all relevant departments and subject to annual review by the Board.

Compliance with the Corporate Governance Code

During the six months ended 30 June 2016, the Company has applied the principles of, and complied with, its Corporate Governance Manual and the applicable code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") as contained in Appendix 14 to the Listing Rules, save for the deviation as disclosed below:

Code provision A.4.1 of the CG Code stipulates that non-executive directors should be appointed for a specific term, subject to re-election. The Non-executive Directors of the Company (including Independent Non-executive Directors) are not appointed for a specific term but are subject to retirement by rotation and re-election by the Shareholders at the Company's annual general meetings at least once every three years in accordance with the Bye-laws of the Company. The Company in practice has complied with the relevant code provision of the CG Code.

Review of Unaudited Financial Information

This unaudited consolidated financial information of the Group for the six months ended 30 June 2016 has been reviewed by the Audit Committee of the Company and its external auditor.

Restricted Share Unit Schemes and Share Option Scheme

The Company adopted the Pre-IPO Restricted Share Unit Scheme (the "Pre-IPO RSU Scheme") and the Post-IPO Restricted Share Unit Scheme (the "Post-IPO RSU Scheme", and together with the Pre-IPO RSU Scheme, the "RSU Schemes") on 8 November 2010. The purpose of the RSU Schemes is to attract skilled and experienced personnel, to incentivise participants to remain with the Group and to motivate them to strive for the future development and expansion of the Group by providing them with the opportunity to acquire equity interests in the Company.

All restricted share unit(s) ("RSU(s)") granted under the Pre-IPO RSU Scheme were either vested or cancelled as at 31 December 2015. Since the adoption of the Pre-IPO RSU Scheme and up to 31 December 2015, RSUs in respect of 8,165,026 underlying shares were granted to 18 grantees (one of which is a Director and two of which are former Directors) pursuant to the scheme, of which 5,638,668 underlying shares were canceled and 2,526,358 underlying shares were vested.

As at 30 June 2016, (i) RSUs in respect of 8,727,276 underlying shares were granted to 23 grantees (one of which is a former Director) pursuant to the Post-IPO RSU Scheme; (ii) RSUs in respect of 2,302,867 underlying shares granted to 15 grantees were canceled since the adoption of the Post-IPO RSU Scheme, of which no underlying shares were canceled during the six months ended 30 June 2016; (iii) RSUs in respect of 5,899,409 underlying shares were vested under the Post-IPO RSU Scheme, of which a total of 1,200,000 RSUs were vested during the six months ended 30 June 2016; and (iv) RSUs in respect of 525,000 underlying shares granted pursuant to the Post-IPO RSU Scheme were outstanding and not yet vested.

The Company also adopted a share option scheme on 8 November 2010 (the "Share Option Scheme"). As at 30 June 2016, no options have been granted or agreed to be granted by the Company pursuant to the Share Option Scheme.

For more information on the RSU Schemes and the Share Option Scheme, please refer to pages 48 to 51 and 107 and 108 of the Company's annual report for the year ended 31 December 2015.

Investor Relations and Communications

The Group maintains continuous communications with Shareholders, analysts and the media to ensure fair disclosure through regular meetings, conference calls and investor events. The Group also maintains investor relations websites (www.brazilcellulose.com and www.irasia.com/listco/hk/bracell) to disseminate information to investors and Shareholders on a timely basis. The Company has adopted a Shareholders' Communication Policy and will review the same on a regular basis to ensure its effectiveness. The procedures for Shareholders to propose a person for election as a Director are also available at the Company's website as set out in the section headed "Company – Corporate Governance".

Employees

Total staff costs of the Group for the six months ended 30 June 2016 amounted to approximately US$17.1 million (for the six months ended 30 June 2015: approximately US$19.8 million). As at 30 June 2016, the Group had 1,478 employees in total (for the six months ended 30 June 2015: 1,388). Remuneration for employees is based upon their qualification, experience, job nature, performance and market conditions.

The Group may also pay discretionary year end bonuses to employees based on individual performance. Other benefits to employees include medical insurance, retirement schemes and training programs. Directors and qualified employees of the Company may be granted share options to subscribe for shares in the Company as well as RSUs in accordance with the terms and conditions of the Share Option Scheme and the RSU Schemes approved by the Company on 8 November 2010.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2016, the interests of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Model Code") were as follows:

Long positions in the shares and the underlying shares of the Company

Name of Director	Capacity	Number of shares held	Approximate % of the issued share capital of the Company
Mr. John Jeffrey YING ("Mr. Ying") [1]	Beneficial owner	960,591	0.03%

Note:

(1) As at 30 June 2016, Mr. Ying held a total of 960,591 shares representing the total number of shares vested to Mr. Ying under the Pre-IPO RSU Scheme.

Save as disclosed above, as at 30 June 2016, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2016, the following persons, other than the Director whose interests are set out in the section "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had the following interests in the shares or the underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Long positions in the shares and the underlying shares of the Company

Name	Capacity	Number of shares held	Approximate % of the issued share capital of the Company
Gold Silk Holdings Limited ("Gold Silk") (1)	Beneficial owner	2,863,496,750	83.69%
Fiduco Trust Management AG ("Fiduco") (1) (2)	Interest in a controlled corporation	2,863,496,750	83.69%
Mr. Sukanto TANOTO ("Mr. Tanoto")	Person who set up a discretionary trust	2,863,496,750	83.69%

Notes:

(1) The entire issued share capital of Gold Silk is held by Fiduco, as the trustee of a discretionary trust established by Mr. Tanoto as settlor. The beneficiaries of such discretionary trust include Mr. Tanoto and certain members of his family. Mr. Tanoto is deemed to be interested in the 2,863,496,750 shares held by Gold Silk pursuant to Part XV of the SFO.

(2) Fiduco is the trustee of a discretionary trust established by Mr. Tanoto as settlor and whose beneficiaries include Mr. Tanoto and certain members of his family.

Save as disclosed above, as at 30 June 2016, no other person, other than the Director whose interests are set out in the section "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had any interests or short positions in the shares or the underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

Purchase, Sale or Redemption of Securities

During the six months ended 30 June 2016, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

Interim Dividend

The Board has resolved to declare an interim dividend of HK1.5 cents (2015: HK1.0 cent) per share for the six months ended 30 June 2016, payable to the shareholders of the Company whose names appear on the register of members of the Company on 1 September 2016. Dividend warrants will be dispatched on or around 12 September 2016.

Closure of Register of Members

The register of members of the Company will be closed on 1 September 2016, on which no transfer of shares of the Company will be effected. In order to qualify for the interim dividend, all transfer forms accompanied by the relevant share certificates of the Company must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 31 August 2016.

羅兵咸永道

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION
TO THE BOARD OF DIRECTORS OF BRACELL LIMITED
(incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 17 to 29, which comprises the condensed consolidated statement of financial position of Bracell Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2016 and the related condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 15 August 2016

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Notes	Unaudited Six months ended 30 June 2016 US$'000	2015 US$'000
Revenue	6	**213,454**	220,529
Cost of sales		**(102,768)**	(145,607)
Gross profit		**110,686**	74,922
Selling and distribution expenses		**(18,320)**	(19,558)
General and administrative expenses		**(15,136)**	(17,955)
		77,230	37,409
Other income and gains/(losses), net			
Increase in fair value of forestation and reforestation assets	12	**9,675**	3,107
Others		**3,386**	5,925
		13,061	9,032
Operating profit	7	**90,291**	46,441
Finance costs	8	**(8,099)**	(10,182)
Profit before income tax		**82,192**	36,259
Income tax credit/(expense)	9	**1,171**	(4,513)
Profit for the period		**83,363**	31,746
Profit/(loss) attributable to:			
Owners of the Company		**83,177**	32,063
Non-controlling interests		**186**	(317)
		83,363	31,746
Basic and diluted earnings per share (US cents)	10	**2.4**	0.9

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Unaudited Six months ended 30 June	
	2016	2015
	US$'000	US$'000
Profit for the period	**83,363**	31,746
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss		
Currency translation differences	**29,407**	(26,531)
Unrealized gain/(loss) on cash flow hedge	**6,294**	(5,848)
Other comprehensive income for the period	**35,701**	(32,379)
Total comprehensive income for the period	**119,064**	(633)
Total comprehensive income for the period attributable to:		
Owners of the Company	**118,878**	(316)
Non-controlling interests	**186**	(317)
	119,064	(633)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2016

	Notes	Unaudited 30 June 2016 US$'000	Audited 31 December 2015 US$'000
Non-current assets			
Forestation and reforestation assets	12	126,642	99,260
Property, plant and equipment	12	903,715	909,461
Intangible assets		225	275
Deferred income tax assets		12,928	11,555
Other non-current assets	13	31,145	25,301
		1,074,655	1,045,852
Current assets			
Inventories		78,026	54,101
Trade and other receivables	14	182,319	186,155
Derivative financial instruments		3,564	—
Bank balances and cash		95,178	95,992
		359,087	336,248
Current liabilities			
Trade and other payables	15	61,109	53,663
Current income tax payable		15,054	16,001
Derivative financial instruments		—	1,937
Bank borrowings	16	116,568	117,875
		192,731	189,476
Net current assets		166,356	146,772
Total assets less current liabilities		1,241,011	1,192,624
Non-current liabilities			
Bank borrowings	16	57,622	115,218
Derivative financial instruments		897	793
		58,519	116,011
		1,182,492	1,076,613
Capital and reserves			
Share capital	17	171,071	171,071
Share premium and reserves		1,010,559	904,866
Equity attributable to owners of the Company		1,181,630	1,075,937
Non-controlling interests		862	676
		1,182,492	1,076,613

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

For the six months ended 30 June 2016

	Unaudited								
	Attributable to owners of the Company								
	Share capital US$'000	Share premium US$'000	Translation reserve US$'000	Cash flow hedging reserve US$'000	Awarded shares compensation reserve US$'000	Retained profits US$'000	Total US$'000	Non-controlling interests US$'000	Total US$'000
At 1 January 2016	171,071	426,196	(54,766)	(2,730)	30	536,136	1,075,937	676	1,076,613
Profit for the period	—	—	—	—	—	83,177	83,177	186	83,363
Currency translation differences	—	—	29,407	—	—	—	29,407	—	29,407
Unrealized gain on cash flow hedge	—	—	—	6,294	—	—	6,294	—	6,294
Total comprehensive income for the period	—	—	29,407	6,294	—	83,177	118,878	186	119,064
Transactions with owners									
Dividend (Note 11)	—	—	—	—	—	(13,215)	(13,215)	—	(13,215)
Awarded shares compensation expense	—	—	—	—	45	(15)	30	—	30
Total transactions with owners	—	—	—	—	45	(13,230)	(13,185)	—	(13,185)
At 30 June 2016	171,071	426,196	(25,359)	3,564	75	606,083	1,181,630	862	1,182,492

For the six months ended 30 June 2015

	Unaudited								
	Attributable to owners of the Company								
	Share capital US$'000	Share premium US$'000	Translation reserve US$'000	Cashflow hedging reserve US$'000	Awarded shares compensation reserve US$'000	Retained profits US$'000	Total US$'000	Non-controlling interests US$'000	Total US$'000
At 1 January 2015	171,021	426,151	(80)	(6,290)	(166)	493,297	1,083,933	1,689	1,085,622
Profit for the period	—	—	—	—	—	32,063	32,063	(317)	31,746
Currency translation differences	—	—	(26,531)	—	—	—	(26,531)	—	(26,531)
Unrealized loss on cash flow hedge	—	—	—	(5,848)	—	—	(5,848)	—	(5,848)
Total comprehensive income for the period	—	—	(26,531)	(5,848)	—	32,063	(316)	(317)	(633)
Transactions with owners									
Dividend (Note 11)	—	—	—	—	—	(10,716)	(10,716)	—	(10,716)
Awarded shares compensation expense	—	—	—	—	192	(95)	97	—	97
Total transactions with owners	—	—	—	—	192	(10,811)	(10,619)	—	(10,619)
At 30 June 2015	171,021	426,151	(26,611)	(12,138)	26	514,549	1,072,998	1,372	1,074,370

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	Unaudited Six months ended 30 June	
	2016 US$'000	2015 US$'000
Net cash from operating activities	**116,072**	111,398
Cash flows from investing activities		
Purchases of property, plant and equipment	**(22,963)**	(11,327)
Additions of forestation and reforestation assets	**(15,260)**	(13,781)
Interest received	**145**	124
Proceeds from disposal of property, plant and equipment	**384**	927
Net cash used in investing activities	**(37,694)**	(24,057)
Cash flows from financing activities		
Repayment of bank borrowings	**(60,667)**	(58,667)
Interest paid	**(5,439)**	(8,607)
Payment of dividend	**(13,215)**	(10,716)
Net cash used in financing activities	**(79,321)**	(77,990)
Net (decrease)/increase in cash and cash equivalents	**(943)**	9,351
Foreign exchange differences	**129**	(286)
Cash and cash equivalents at 1 January	**95,992**	100,955
Cash and cash equivalents at 30 June		
Represented by bank balances and cash	**95,178**	110,020

NOTES TO THE INTERIM FINANCIAL INFORMATION

1 General information

Bracell Limited (the "Company") was incorporated on 8 June 2010 and registered as an exempted company with limited liability in Bermuda under the Companies Act 1981 of Bermuda (as amended). The Company is controlled by Gold Silk Holdings Limited, a limited liability company incorporated in Cayman Islands and 100% owned and controlled by Mr. Sukanto TANOTO and certain members of his family (the "Major Shareholder"). The address of the principal place of business of the Company is 21/F, China Building, 29 Queen's Road Central, Central, Hong Kong.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

This interim financial information is presented in United States dollars ("US$" or "USD"), unless otherwise stated. This interim financial information was approved for issue by the Board of Directors on 15 August 2016.

2 Basis of preparation

This interim financial information has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board. It should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

3 Significant accounting policies

The interim financial information has been prepared under the historical cost convention, as modified by the forestation and reforestation assets which are carried at fair value less estimated costs to sell and derivative financial instruments which are carried at fair value.

The accounting policies and methods of computation used in the interim financial information for the six months ended 30 June 2016 are consistent with those used in the Group's annual financial statements for the year ended 31 December 2015.

In 2016, the Group adopted the amendments of IFRS below, which are relevant to its operations.

IFRSs (Amendments)	Annual Improvements 2012-2014 Cycle
IAS 1 (Amendments)	Disclosure Initiative

The adoption of these amendments has no significant impact on the Group's results and financial position nor any substantial changes in the Group's accounting policies, presentation and disclosures of the financial information.

New standards and amendments that have been issued but are not yet effective:

New standards and amendments		Effective for accounting periods beginning on or after
IAS 7 (Amendments)	Statement of cash flows	1 January 2017
IAS 12 (Amendments)	Income taxes	1 January 2017
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019
IFRS 10 and IAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Group has not early adopted the above standards and amendments and is not yet in a position to state whether substantial changes to the Group's accounting policies and presentation of financial information will result.

4 Critical accounting estimates and judgements

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty are the same as those applied to the consolidated financial statements for the year ended 31 December 2015.

5 Financial risk management and financial instruments

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risks (including foreign exchange risk and cash flow interest rate risk), credit risk and liquidity risk.

The interim financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2015.

(b) Fair value estimation

Different levels of fair value measurements of financial instruments subsequent to initial recognition are defined as follows based on the degree to which the fair value is observable.

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

Management of the Company uses their judgement in selecting an appropriate valuation technique for derivative financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied.

The Group's derivative financial instruments were all measured at fair value under level 2 at 30 June 2016 and 31 December 2015, and no transfers between any levels occurred during the period.

The fair values of the forward foreign exchange contracts have been arrived at using the forward rates of similar instruments as at the end of the reporting period. The fair values of the interest rate swaps have been determined using valuations provided by the counterparty banks as at the end of each reporting period with reference to market data such as settlement prices and interest rates.

The fair values of other financial assets and financial liabilities (excluding derivative financial instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

6 Revenue and segment information

(a) Revenue

	Six months ended 30 June	
	2016	2015
	US$'000	US$'000
Dissolving wood pulp business ("DWP Business")	**213,454**	220,529

DWP Business derives its revenue from selling specialty-grade pulp and rayon-grade pulp, which are manufactured by the Group. During the six months period ended 30 June 2016, DWP is sold to third parties as well as to a related party, namely DP Marketing International Macao Commercial Offshore Limited according to a three-year pulp supply agreement which became effective on 1 January 2015.

(b) Segment information

Operating segments are identified on the basis of internal reports on components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. The Company's Board of Directors is the chief operating decision maker for the purposes of IFRS 8 as it collectively makes strategic decisions in allocating the Group's resources and assessing performance.

DWP Business is the only reportable operating business segment of the Group and therefore, no business segment information is provided. Further, as the Group's major operations are located in Brazil, the allocation of total assets and liabilities for the operating and reporting segment is not presented.

Geographical information

The customers of the Group's operations are mainly located in the PRC, the Americas, Europe and other Asian countries.

An analysis of the revenue of the Group's operations by geographical market based on where the goods are delivered to is as below:

	Six months ended 30 June	
	2016	2015
	US$'000	US$'000
The PRC	**159,568**	154,409
The Americas	**46,227**	51,541
Europe	**6,776**	14,231
Asia (excluding the PRC)	**883**	348
	213,454	220,529

Information about major external customer of the Group's operations

One external customer (six months ended 30 June 2015: one) contributed over 10% of the sales of the Group's operations and the Group's sales to this customer was US$24,805,000 (six months ended 30 June 2015: US$36,713,000).

7 Operating profit

	Six months ended 30 June	
	2016	2015
	US$'000	US$'000
Operating profit has been arrived at after charging/(crediting):		
Total staff costs	**17,149**	19,761
Cost of inventories sold	**102,566**	140,459
Depreciation of property, plant and equipment	**34,458**	33,840
Decrease due to harvest	**16,411**	15,005
Loss on disposal of property, plant and equipment	**2,424**	240
Foreign exchange (gain)/loss	**(5,413)**	5,209
Sales of electricity	**(2,080)**	(4,018)
Operating lease expense on land and building and others	**77**	65

8 Finance costs

	Six months ended 30 June	
	2016	2015
	US$'000	US$'000
Interest expenses on bank borrowings	**4,510**	7,236
Other finance costs	**3,589**	2,946
Total borrowing costs	**8,099**	10,182

9 Income tax credit/(expense)

Income tax expense has been provided on the estimated assessable profit for the period at the appropriate tax rates prevailing in the countries/locations in which the Group operates.

	Six months ended 30 June	
	2016	2015
	US$'000	US$'000
Current income tax		
– Provision for the period	**(202)**	(5,037)
Deferred income tax	**1,373**	524
	1,171	(4,513)

10 Earnings per share

Basic earnings per share is calculated by dividing the Group's profit attributable to the owners of the Company by the weighted average number of ordinary shares issued during the period. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential shares.

	Six months ended 30 June	
	2016 **US$'000**	2015 US$'000
Earnings for the purposes of basic and diluted earnings per share		
Profit for the period attributable to owners of the Company	**83,177**	32,063

	Number of shares Six months ended 30 June	
	2016	2015
Weighted average number of ordinary shares for the purpose of basic earnings per share	**3,421,120,604**	3,419,297,573
Effect of dilutive potential ordinary shares:		
Awarded shares compensation scheme	**206,050**	291,457
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**3,421,326,654**	3,419,589,030

11 Dividends

Final dividend of HK3.0 cents per share for the year ended 31 December 2015 was paid during the six months ended 30 June 2016. The Board has resolved to declare an interim dividend of HK1.5 cents per share for the six months ended 30 June 2016 (six months ended 30 June 2015: HK1.0 cent).

12 Forestation and reforestation assets and property, plant and equipment

As at 30 June 2016 and 31 December 2015, management of the Group adopted a discounted cash flow model in determining the fair value of forestation and reforestation assets, assuming a six-year harvest cycle of the trees. The fair value measurement is under level 3 which has significant unobservable inputs. Other than disclosed below, the principal valuation methodology and assumptions adopted by the Group as at 30 June 2016 have no material changes from 31 December 2015:

– reference wood price is BRL46.85 (31 December 2015: BRL44.24) (equivalent to US$14.60 and US$11.34 respectively) per cubic meter, based on the prices agreed in the contracts entered into with local farmers during the six months ended 30 June 2016 and year ended 31 December 2015. The higher the reference wood price used in USD, the higher the fair value of the forestation and reforestation assets will be; and

– exchange rate between USD and BRL is US$1.00 = BRL3.21 as at 30 June 2016 and US$1.00 = BRL3.90 as at 31 December 2015. The stronger the US dollars against BRL, the lower the fair value of the forestation and reforestation assets in USD will be.

During the six months ended 30 June 2016, the Group acquired property, plant and equipment of an aggregate amount of approximately US$22,963,000 (six months ended 30 June 2015: US$11,327,000).

13 Other non-current assets

	30 June 2016 US$'000	31 December 2015 US$'000
VAT recoverable (Note a)	**18,763**	14,492
Unlisted equity investment (Note b)	**6,167**	6,167
Others	**6,215**	4,642
	31,145	25,301

Notes:

(a) This represents mainly value-added tax ("VAT") recoverable in respect of acquisition of property, plant and equipment and raw materials in Brazil that are expected to be recovered beyond the next twelve months from the end of each reporting period, and are accordingly classified as non-current assets. The balances are expected to be utilized by offsetting against VAT payable on future domestic sales, transferring of VAT recoverable to third parties and/or offsetting with other tax payables.

(b) The unlisted investment represents 4.5% equity investment in Cetrel S.A. Empresa de Proteção Ambiental ("Cetrel S.A."), a company which is incorporated in Brazil and is responsible for operating the environmental protection systems in Camaçari industrial complex, within which the Group's Bahia Specialty Cellulose mill is located. The Group invested into Cetrel S.A. for strategic reasons as Cetrel S.A. provides effluent treatment for Bahia Specialty Cellulose.

14 Trade and other receivables

	30 June 2016 US$'000	31 December 2015 US$'000
Trade receivables	**19,986**	33,834
Other receivables:		
Prepayments and deposits paid	**1,871**	4,411
Advance to suppliers	**1,190**	3,359
VAT recoverable	**12,831**	7,985
Others	**1,248**	1,299
	17,140	17,054
Amount due from a related company (Note)		
– Trade	**145,193**	135,267
Trade and other receivables	**182,319**	186,155

Note: Balance with a related company (a company under the common control of the Major Shareholder) is unsecured and non-interest bearing.

14 Trade and other receivables (Continued)

The Group generally allows an average credit period ranging from 30 to 180 days to its customers. The ageing analysis of the Group's trade receivables and amount due from a related company presented based on the invoice date at the end of the reporting period is as follows:

	30 June 2016 US$'000	31 December 2015 US$'000
0 - 60 days	67,714	76,616
61 - 90 days	27,609	25,322
91 - 180 days	69,856	67,163
	165,179	169,101

15 Trade and other payables

	30 June 2016 US$'000	31 December 2015 US$'000
Trade payables	15,214	7,907
Other payables:		
Accruals and other payables	33,657	33,283
Other taxes payables	2,084	1,472
Provisions (Note a)	9,970	10,809
	45,711	45,564
Amounts due to related companies (Note b)	184	192
Trade and other payables	61,109	53,663

The ageing analysis of the Group's trade payables at the end of the reporting period is as follows:

	30 June 2016 US$'000	31 December 2015 US$'000
0 - 90 days	15,214	7,907

Notes:

(a) The provisions represent the Group's liabilities for probable losses on civil, labour and tax lawsuits. Management considers that these provisions are sufficient and appropriate to cover the corresponding contingencies.

Additionally, the Group is a party to certain lawsuits and administrative proceedings in the amount of approximately US$54,474,000 (31 December 2015: US$40,161,000), which are considered as possible but not probable future losses. No provisions have been made for these possible losses.

(b) Balances with related companies are unsecured and non-interest bearing.

16 Bank borrowings

During the six months ended 30 June 2016, the Group did not drawdown any bank borrowings (six months ended 30 June 2015: nil) but repaid bank borrowings of US$60,667,000 (six months ended 30 June 2015: US$58,667,000).

17 Share capital

	Number of shares	Amounts US$'000
Issued and fully paid:		
At 1 January 2015, at US$0.05 each	**3,420,420,250**	171,021
Issue of new shares (note)	**1,000,000**	50
At 31 December 2015 and 30 June 2016	**3,421,420,250**	171,071

Note: On 17 December 2015, the Company issued 1,000,000 shares at HK$0.81 per share for a total cash consideration of HK$810,000 (equivalent to approximately US$104,000).

18 Commitments

	30 June 2016 US$'000	31 December 2015 US$'000
Contracted but not provided for		
– acquisition of property, plant and equipment	**6,838**	10,669

19 Related party disclosures

The Group entered into the following significant transactions with related parties:

		Six months ended 30 June	
Name of related parties	**Nature of transactions**	**2016 US$'000**	2015 US$'000
Companies under the common control of the Major Shareholder			
DP Marketing International Macao Commercial Offshore Limited	Sales of goods	**148,174**	146,492
Averis Sdn. Bhd.	Service fee expense	**537**	782
East Trade Limited	Rental expense	**57**	48

INFORMATION FOR INVESTORS

Listing Information

Listing: Stock Exchange of Hong Kong
Stock code: 1768
Ticker symbol:
1768. HK (Reuters)
1768 HK Equity (Bloomberg)

Key Dates

14 March 2016 (Announcement of 2015 Annual Results)
16 May 2016 (Annual General Meeting)
15 August 2016 (Announcement of 2016 Interim Results)
30 September 2016 (Court Meeting and Special General Meeting)

Registrar & Transfer Offices

Principal:
Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Hong Kong Branch:
Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Share Information

Board lot size: 500 shares

Shares outstanding as at 30 June 2016:
3,421,420,250

Market Capitalization as at 30 June 2016:
HK$5,577 million (approximately US$719 million)

Investor Relations Contact

Doris CHAN Sze Lai
Tel: (852) 2864 6638
Fax: (852) 2865 5499
Email: ir@brazilcellulose.com

Bracell Limited

21/F, China Building
29 Queen's Road Central
Central, Hong Kong

Websites

www.brazilcellulose.com
www.irasia.com/listco/hk/bracell