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## THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in doubt as to any aspect of this document or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Bracell Limited, you should at once hand this document and the accompanying forms of proxy to the purchaser or the transferee or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This document does not constitute an offer or invitation to, nor is it intended to invite offers by, the public to subscribe for or to purchase shares or other securities of Bracell Limited and it must not be used for the purpose of offering or inviting offers for any securities.

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### BHL Limited

*(incorporated in Bermuda with limited liability)*



Bracell Limited

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 1768)**

**(1) PROPOSED PRIVATISATION OF  
BRACELL LIMITED  
BY BHL LIMITED BY WAY OF  
A SCHEME OF ARRANGEMENT  
UNDER SECTION 99 OF THE COMPANIES ACT OF BERMUDA  
AND  
(2) PROPOSED WITHDRAWAL OF LISTING OF  
BRACELL LIMITED**

**Joint Financial Advisers to BHL Limited**



**Financial Adviser to the Company      Independent Financial Adviser to the  
Independent Board Committee of the Company**

**Morgan Stanley**



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A letter from the Board, a letter from the Independent Board Committee containing its recommendations to the Scheme Shareholders and the RSU Holders in respect of the Proposal and the RSU Offer, a letter from Rothschild, being the Independent Financial Adviser, containing its advice to the Independent Board Committee in respect of the Proposal and the RSU Offer, and an Explanatory Statement are set out on pages 1 to 5, 6 and 7, 8 to 37 and 38 to 60 of this document, respectively. The actions to be taken by the Shareholders and the RSU Holders are set out on pages x to xiii of this document.

Notices convening the Court Meeting and the SGM to be held on Friday, 30 September 2016 at 11:00 a.m. and 11:30 a.m. (or as soon thereafter as the Court Meeting shall have been concluded or adjourned), respectively, at Regus Business Centre, 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong are set out on pages N-1 to N-4 of this document.

Whether or not you are able to attend the Court Meeting and/or the SGM, you are strongly encouraged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the enclosed white form of proxy in respect of the SGM in accordance with the respective instructions printed on them, and to lodge them with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible, but in any event not later than the times and dates specified in them respectively. The form of proxy in respect of the Court Meeting may alternatively be handed to the Chairman of the Court Meeting at the Court Meeting if it is not so lodged.

Completion and return of a form of proxy in respect of the Court Meeting or the SGM will not preclude you from attending and voting in person at the Court Meeting or the SGM (as the case may be), or any adjournment of it, should you so wish.

Overseas Shareholders, including but not limited to those in the United States, are advised to read "Overseas Shareholders and RSU Holders" in the Explanatory Statement on pages 52 and 53 of this document for further information.

This document is jointly issued by BHL Limited and the Company to the Shareholders and the RSU Holders.

30 August 2016

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## QUESTIONS AND ANSWERS

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The following are some of the questions you, as a Shareholder or a RSU Holder, may have and the answers to those questions.

However, you are encouraged to read this entire document, including the Appendices, carefully.

**1. What is the purpose of this document?**

- The purpose of this document is to provide you with information regarding the Proposal, the Scheme and the RSU Offer and to give notices of the Court Meeting and the SGM.

**2. What are the Court Meeting and the SGM? What is the Court Hearing?**

- The Court Meeting is convened to be held for the Scheme Shareholders to consider and, if thought fit, approve the Scheme.
- When the Court Meeting has concluded or adjourned, the SGM will be held for the purpose of considering and, if thought fit, passing a special resolution to approve the implementation of the Scheme.
- If the requisite approvals for the Scheme are obtained at the Court Meeting and the special resolution is passed at the SGM, the Court Hearing will be held for the Court to hear the petition for the sanction of the Scheme.
- The Court Meeting is convened at the direction of the Court and the despatch of this document (including the notice of the Court Meeting) has been ordered by the Court. Therefore, any material change to the terms of the Scheme as contained in this document can only be made after a further order by the Court is obtained, in which case the current expected timetable for completion of the Proposal will likely be postponed.

**3. What is the location, date and time of the Court Meeting and the SGM?**

- The Court Meeting and the SGM are convened to be held at Regus Business Centre, 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Friday, 30 September 2016 at 11:00 a.m. and 11:30 a.m. (or as soon thereafter as the Court Meeting shall have been concluded or adjourned), respectively.

**4. What do I need to do if I want to vote at the Court Meeting and/or the SGM?**

- You are strongly encouraged to exercise your right to vote, in person or by proxy, at the Court Meeting and the SGM.
- The actions you should take are summarised in “*Important Notice and Actions to be Taken*” on pages x to xiii of this document and “*Actions to be Taken*” in the Explanatory Statement on pages 56 to 59 of this document. You should read those sections carefully.

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## QUESTIONS AND ANSWERS

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### 5. What is the Proposal?

- Pursuant to the Proposal, the Offeror is making a proposal to the Scheme Shareholders to privatise the Company by way of a scheme of arrangement under Section 99 of the Companies Act involving the cancellation of all the Scheme Shares and the allotment and issue of new Shares to the Offeror. In consideration for such cancellation, each Scheme Shareholder will receive a Cancellation Consideration of HK\$2.28 for each Scheme Share held as at the Record Time. The Cancellation Consideration will not be increased and the Offeror does not reserve the right to do so.
- On completion of the Proposal, (a) the Offeror and Gold Silk will own 100% of the Shares and (b) the listing of the Shares on the Stock Exchange will be withdrawn.
- The Proposal is conditional upon the satisfaction or valid waiver (as applicable) of certain Conditions as further described in this document.

### 6. What consideration will I receive under the Proposal for my cancelled Scheme Shares?

- The Scheme Shareholders will receive a Cancellation Consideration of HK\$2.28 for each Scheme Share held as at the Record Time, which is expected to be 4:00 p.m. on Tuesday, 18 October 2016.

### 7. What is the RSU Offer?

- Pursuant to the RSU Offer, the Offeror is offering the RSU Holders cash equal to the “see-through” price (which is HK\$2.28, being equal to the Cancellation Consideration, as there is no exercise price for the RSUs) for the cancellation of each RSU that they hold. The RSU Holders will be paid the cash consideration in accordance with the vesting date under, and subject to, the existing terms of each of the RSUs. The RSU Offer Price will not be increased and the Offeror does not reserve the right to do so.
- The RSU Offer is conditional upon the Scheme becoming effective.

### 8. Will I have to pay any fees or commissions?

- If your Shares are registered in your name as at the Record Time and the Scheme becomes effective, you will not have to pay brokerage fees or similar expenses in respect of the cancellation of the Scheme Shares concerned.
- If, as at the Record Time, you own your Shares through a financial intermediary (such as a broker or nominee), you should consult your financial intermediary to determine whether any charges apply.

### 9. I am an Overseas Shareholder. What should I do?

- All Overseas Shareholders are entitled to vote, and you are strongly encouraged to exercise your right to vote, in person or by proxy, at the Court Meeting and the SGM. The actions you should take are summarised in “*Important Notice and Actions to be Taken*” on pages x to xiii of this document and “*Actions to be Taken*” in the Explanatory Statement on pages 56 to 59 of this document.

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## QUESTIONS AND ANSWERS

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- Overseas Shareholders are advised to read this document in its entirety and in particular, “*Overseas Shareholders and RSU Holders*” in the Explanatory Statement on pages 52 and 53 of this document for further information.

**10. What is the position of the Independent Board Committee with regard to the Proposal and the RSU Offer?**

- The Independent Board Committee, having considered, among other things, the reasons for, and benefits of, the Proposal and the RSU Offer and the terms of the Proposal and the RSU Offer and having taken into account the advice of Rothschild, the Independent Financial Adviser, as set out in “*Letter from Rothschild*” on pages 8 to 37 of this document, considers that the terms of the Proposal and the RSU Offer are fair and reasonable so far as the Scheme Shareholders and the RSU Holders are concerned.
- Accordingly, the Independent Board Committee recommends that:
  - (a) the Scheme Shareholders vote in favour of the resolution to approve the Scheme at the Court Meeting;
  - (b) the Shareholders vote in favour of the special resolution to approve the implementation of the Scheme at the SGM; and
  - (c) the RSU Holders accept the RSU Offer.
- The attention of the Scheme Shareholders and the RSU Holders is drawn to “*Letter from Rothschild*”, which sets out the factors and reasons taken into account by Rothschild in arriving at its advice to the Independent Board Committee.

**11. When do you expect the Proposal to be completed?**

- If the conditions precedent to the Proposal are satisfied or validly waived (as applicable) on or before Tuesday, 18 October 2016 (Bermuda time), the Proposal is expected to be completed on Tuesday, 18 October 2016 (Bermuda time).

**12. Who should I call if I have additional questions?**

- If you have questions concerning administrative matters, such as dates, documentation and procedures relating to the Proposal, please call the Company’s Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at +852 2862 8555 between 9:00 a.m. and 6:00 p.m. on Mondays to Fridays, excluding public holidays.
- The hotline cannot and will not provide advice on the merits of the Proposal or the Scheme or give financial or legal advice. If you are in any doubt as to any aspect of this document or as to the action to be taken, you should consult a licensed securities dealer, registered institution in securities, bank manager, solicitor or other professional adviser.

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## EXPECTED TIMETABLE

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### Hong Kong time

Latest time for lodging transfers of Shares to qualify for the entitlement to attend and vote at the Court Meeting and the SGM . . . . . 4:30 p.m. on Tuesday, 27 September 2016

Closure of the register of members of the Company for determining the entitlement to attend and vote at the Court Meeting and the SGM<sup>(1)</sup> . . . . . from Wednesday, 28 September 2016  
to  
Friday, 30 September 2016  
(both days inclusive)

Latest time for lodging forms of proxy in respect of:

Court Meeting<sup>(2)</sup> . . . . . 11:00 a.m. on Wednesday, 28 September 2016  
(or alternatively may be handed to the Chairman of the Court Meeting at the Court Meeting)

SGM<sup>(2)</sup> . . . . . 11:30 a.m. on Wednesday, 28 September 2016

Record date for determining the entitlement to attend and vote at the Court Meeting and the SGM . . . . . Friday, 30 September 2016

Trading halt in the Shares<sup>(3)</sup> . . . . . from 9:00 a.m. on Friday, 30 September 2016

Court Meeting<sup>(4)</sup> . . . . . 11:00 a.m. on Friday, 30 September 2016

SGM<sup>(4)</sup> . . . . . 11:30 a.m. on Friday, 30 September 2016  
(or as soon thereafter as the Court Meeting shall have been concluded or adjourned)

Announcement of (1) the results of the Court Meeting and the SGM and (2) the resumption of trading in the Shares, published on the Stock Exchange's website<sup>(3)</sup> . . . after 4:30 p.m. and no later than 7:00 p.m. on Friday, 30 September 2016

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## EXPECTED TIMETABLE

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### Hong Kong time

Resumption of trading in the Shares<sup>(3)</sup> . . . . . 9:00 a.m. on Monday,  
3 October 2016

Expected last day for dealings in the Shares  
on the Stock Exchange . . . . . 4:00 p.m. on Thursday,  
6 October 2016

Latest time for lodging transfers of Shares to qualify  
for the entitlement to the Cancellation Consideration  
under the Scheme . . . . . 4:30 p.m. on Wednesday,  
12 October 2016

Closure of the register of members of the Company  
for determining the entitlement of the Scheme  
Shareholders under the Scheme<sup>(5)</sup> . . . . . from Thursday,  
13 October 2016 onwards

Court Hearing of the petition to sanction the Scheme . . . . . Friday, 14 October 2016  
(*Bermuda time*)

Announcement of (1) the results of the Court Hearing  
of the petition to sanction the Scheme,  
(2) the expected Effective Date  
and (3) the expected date of withdrawal of  
the listing of the Shares on the Stock Exchange,  
published on the Stock Exchange's website . . . . . no later than 7:00 p.m. on  
Monday, 17 October 2016

Record Time for determining (1) the entitlement of  
the Scheme Shareholders under the Scheme and  
(2) the entitlement of the RSU Holders under the RSU Offer . . . . . 4:00 p.m. on Tuesday,  
18 October 2016

Effective Date<sup>(6)</sup> . . . . . Tuesday, 18 October 2016  
(*Bermuda time*)

Announcement of (1) the Effective Date, (2) the results  
of the RSU Offer (based on the acceptances and/or  
rejections of the RSU Offer received as at the date  
of the announcement<sup>(8)</sup>) and (3) the withdrawal of  
the listing of the Shares on the Stock Exchange,  
published on the Stock Exchange's website . . . . . no later than 7:00 p.m. on  
Wednesday, 19 October 2016



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## EXPECTED TIMETABLE

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### Hong Kong time

Withdrawal of the listing of the Shares on the Stock Exchange<sup>(6)</sup> . . . . . 4:00 p.m. on Thursday,  
20 October 2016

Latest time to despatch cheques for payment of the  
Cancellation Consideration to the Scheme Shareholders<sup>(7)</sup> . . . . . Thursday, 27 October 2016

Latest time to accept the RSU Offer and  
the closing date of the RSU Offer . . . . . 4:00 p.m. on Tuesday,  
1 November 2016

Announcement of the results of the RSU Offer  
published on the website of the SFC<sup>(8)</sup> . . . . . not later than 7:00 p.m.  
on Tuesday, 1 November 2016

**Shareholders and RSU Holders should note that the dates and times specified in the above timetable are subject to change. Further announcement(s) will be made in the event that there is any change to the above timetable.**

**All references in this document to times and dates are references to Hong Kong times and dates, other than references to the expected date of the Court Hearing in Bermuda and the Effective Date, which are the relevant times and dates in Bermuda. Bermuda time is 11 hours behind Hong Kong time.**

*Notes:*

- (1) The register of members of the Company will be closed during such period for the purpose of determining the entitlement of the Scheme Shareholders to attend and vote at the Court Meeting and the Shareholders to attend and vote at the SGM. For the avoidance of doubt, this period of closure is not for determining the Scheme Shareholders who are qualified for entitlement to the Cancellation Consideration under the Scheme.
- (2) The **pink** form of proxy in respect of the Court Meeting and the **white** form of proxy in respect of the SGM should be completed and signed in accordance with the instructions respectively printed on them and should be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event no later than the relevant times and dates stated above. In the case of the **pink** form of proxy in respect of the Court Meeting, it may alternatively be handed to the Chairman of the Court Meeting at the Court Meeting. Completion and return of a form of proxy for the Court Meeting or the SGM will not preclude a Scheme Shareholder or a Shareholder (as the case may be) from attending and voting in person at the relevant meeting if he, she or it so wishes. In such event, the returned form of proxy will be deemed to have been revoked.
- (3) Trading in the Shares will be halted from 9:00 a.m. on Friday, 30 September 2016 pending the publication of an announcement of the results of the Court Meeting and the SGM. Trading in the Shares is expected to resume at 9:00 a.m. on the trading day following the announcement of those results.
- (4) The Court Meeting and the SGM will be held at Regus Business Centre, 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong at the times and dates specified above. Please see the notices of the Court Meeting and the SGM set out on pages N-1 to N-4 of this document for details.

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## EXPECTED TIMETABLE

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- (5) The register of members of the Company will be closed from Thursday, 13 October 2016 onwards for the purpose of determining the Scheme Shareholders who are qualified for entitlement to the Cancellation Consideration under the Scheme.
- (6) The Scheme will become effective upon all the Conditions set out in “*Conditions Precedent to the Proposal*” in the Explanatory Statement on pages 41 to 45 of this document having been satisfied or validly waived (as applicable). Shareholders will be advised by an announcement of the exact date upon which the Scheme becomes effective. The withdrawal of the listing of the Shares will take place following the Scheme becoming effective on the Effective Date and it is expected that the listing of the Shares will be withdrawn at 4:00 p.m. on Thursday, 20 October 2016. All of the Conditions have to be satisfied or validly waived (as applicable) on or before Thursday, 29 December 2016 (which is the date falling 90 days after the date scheduled for the Court Meeting and the SGM) or such later date as may be proposed by the Offeror and permitted by the Court and the Executive, otherwise the Scheme will lapse and the Proposal will not proceed.
- (7) Cheques for the payment of the Cancellation Consideration under the Scheme will be despatched by ordinary post at the risk of the recipients to their registered addresses shown in the register of members of the Company as soon as possible following the Effective Date but in any event on or before Thursday, 27 October 2016.
- (8) The duly completed and executed Form of Acceptance must be lodged by the RSU Holders with the Offeror, c/o Bracell Limited at 21/F, China Building, 29 Queen’s Road Central, Central, Hong Kong, for the attention of the Offeror and marked “Bracell Limited — RSU Offer” by no later than 4:00 p.m. on Tuesday, 1 November 2016 (or such later date and time as may be notified to the RSU Holders by or on behalf of the Offeror). If acceptances and/or rejections of the RSU Offer have been received from all the RSU Holders as at the date of publication of the announcement of the results of the RSU Offer on Wednesday, 19 October 2016, no further announcement of the results of the RSU Offer will be published on the website of the SFC following the closing date of the RSU Offer on Tuesday, 1 November 2016.

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## IMPORTANT NOTICE AND ACTIONS TO BE TAKEN

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### ACTIONS TO BE TAKEN

Please refer to “*Actions to be Taken*” in the Explanatory Statement on pages 56 to 59 of this document for further information regarding the matters set out below.

#### **Actions to be taken by Shareholders**

A **pink** form of proxy for use at the Court Meeting and a **white** form of proxy for use at the SGM are enclosed with copies of this document sent to the Registered Owners.

**Whether or not you are able to attend the Court Meeting and/or the SGM, you are strongly encouraged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and also the enclosed white form of proxy in respect of the SGM, in accordance with the respective instructions printed on them, and to lodge them with the Company’s Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.**

In order to be valid, the **pink** form of proxy for use at the Court Meeting should be lodged not later than 11:00 a.m. on Wednesday, 28 September 2016. The **pink** form of proxy may alternatively be handed to the Chairman of the Court Meeting at the Court Meeting. The **white** form of proxy for use at the SGM should be lodged not later than 11:30 a.m. on Wednesday, 28 September 2016. The completion and return of the relevant form of proxy will not preclude you from attending and voting in person at the relevant meeting should you so wish. In such event, the returned form of proxy for that meeting will be deemed to have been revoked.

Even if you do not appoint a proxy and you do not attend and vote at the Court Meeting and/or the SGM, you will still be bound by the outcome of the Court Meeting and/or the SGM. You are therefore strongly encouraged to attend and vote at the Court Meeting and/or the SGM in person or by proxy.

Voting at the Court Meeting and the SGM will be taken by poll.

An announcement will be made by the Company in relation to the results of the Court Meeting and the SGM. If all of the requisite resolutions to approve the Scheme are passed at those meetings, further announcement(s) will be made in relation to, among other things, the results of the Court Hearing of the petition to sanction the Scheme, the Effective Date and the date of withdrawal of the listing of the Shares on the Stock Exchange.

#### **Actions to be taken by Beneficial Owners whose Shares are held by a Registered Owner**

Except as required by law, no person shall be recognised by the Company as holding any Shares on trust.

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## **IMPORTANT NOTICE AND ACTIONS TO BE TAKEN**

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If you are a Beneficial Owner whose Shares are registered in the name of a nominee, trustee, depository or any other authorised custodian or third party, you should contact such Registered Owner to give instructions to and/or to make arrangements with such Registered Owner as to the manner in which the Shares beneficially owned by you should be voted at the Court Meeting and/or the SGM.

If you are a Beneficial Owner who wishes to attend the Court Meeting and/or the SGM personally, you should:

- (a) contact the Registered Owner directly to make the appropriate arrangements with the Registered Owner to enable you to attend and vote at the Court Meeting and/or the SGM and, for such purpose, the Registered Owner may appoint you as its proxy; or
- (b) arrange for some or all of the Shares registered in the name of the Registered Owner to be transferred into your own name, if you wish to vote (in person or by proxy) at the Court Meeting and/or the SGM.

Instructions to and/or arrangements with the Registered Owner should be given or made in advance of the relevant latest time for the lodgement of forms of proxy in respect of the Court Meeting and the SGM in order to provide the Registered Owner with sufficient time to complete his/her/its forms of proxy accurately and to submit them by the deadline. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the relevant latest time for the lodgement of forms of proxy in respect of the Court Meeting and the SGM, any such Beneficial Owner should comply with the requirements of such Registered Owner.

### **ACTIONS TO BE TAKEN BY BENEFICIAL OWNERS WHOSE SHARES ARE DEPOSITED IN CCASS**

If you are a Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited, you should, unless you are admitted to participate in CCASS as an Investor Participant:

- (a) contact your broker, custodian, nominee or other relevant person who is, or has in turn deposited such Shares with, a CCASS participant regarding voting instructions to be given to such persons; or
- (b) arrange for some or all of such Shares to be withdrawn from CCASS and transferred into your own name, if you wish to vote (in person or by proxy) at the Court Meeting and/or the SGM.

The procedure for voting by the Investor Participants and the Other CCASS Participants with respect to Shares registered under the name of HKSCC Nominees Limited shall be in accordance with the “Operating Guide for Investor Participants”, the “General Rules of CCASS” and the “CCASS Operational Procedures” in effect from time to time.

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## IMPORTANT NOTICE AND ACTIONS TO BE TAKEN

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### **Actions to be taken by RSU Holders**

The RSU Offer Letter is being sent to each RSU Holder, together with this document and a Form of Acceptance. If you are a RSU Holder and you wish to accept the RSU Offer, you must complete and return the duly completed and executed Form of Acceptance so as to reach the Offeror, c/o Bracell Limited at 21/F, China Building, 29 Queen's Road Central, Central, Hong Kong, for the attention of the Offeror and marked "Bracell Limited — RSU Offer" **by no later than 4:00 p.m. on Tuesday, 1 November 2016 (or such later date and time as may be notified to the RSU Holders by or on behalf of the Offeror)**. No acknowledgement of receipt of any Form of Acceptance or any other document will be given.

You are encouraged to read the instructions and other terms and conditions of the RSU Offer in the RSU Offer Letter and the Form of Acceptance.

### **EXERCISE YOUR RIGHT TO VOTE**

If you are a Shareholder or a Beneficial Owner whose Shares are held by a Registered Owner, you are strongly encouraged to exercise your right to vote (in the case of a Shareholder) or to give instructions to the relevant Registered Owner (in the case of a Beneficial Owner) to vote in person or by proxy at the Court Meeting and/or the SGM. If you keep any Shares in a share lending programme, you are encouraged to recall any outstanding Shares on loan to avoid market participants using borrowed stock to vote.

**If you are a Beneficial Owner whose Shares are deposited in CCASS, you are strongly encouraged to withdraw at least some of your Shares from CCASS and become a registered holder of such Shares and exercise your right to vote, in person or by proxy, at the Court Meeting and/or the SGM. In respect of any Shares of which you are the Beneficial Owner and which remain in CCASS, you are encouraged to contact your broker, custodian, nominee or other relevant person regarding voting instructions in relation to the manner in which those Shares should be voted at the Court Meeting and/or the SGM without delay.**

If you are a Registered Owner holding Shares on behalf of one or more Beneficial Owners, you should inform the relevant Beneficial Owner(s) about the importance of exercising their right to vote.

### **NOTICE TO OVERSEAS SHAREHOLDERS AND RSU HOLDERS**

The making of the Proposal to certain Shareholders and RSU Holders may be subject to the laws of jurisdictions other than Hong Kong. Overseas Shareholders, Beneficial Owners and RSU Holders residing in jurisdictions other than Hong Kong should inform themselves about and observe all legal and regulatory requirements applicable to them. It is the responsibility of Shareholders, Beneficial Owners and RSU Holders to satisfy themselves as to the full observance of the laws of the relevant jurisdictions applicable to them in connection with the Proposal or the RSU Offer, as the case may be, including obtaining any governmental, exchange control or other consents which may be required, and compliance with other necessary formalities and the payment of any issue, transfer or other taxes due

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## IMPORTANT NOTICE AND ACTIONS TO BE TAKEN

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in such jurisdictions. Any action taken by such Shareholders or Beneficial Owners in respect of the Proposal or by such RSU Holders in respect of the RSU Offer will be deemed to constitute a representation and warranty from such persons to the Company and the Offeror that those local laws and requirements have been complied with.

Shareholders, Beneficial Owners and RSU Holders residing in jurisdictions other than Hong Kong should consult their professional advisers if they are in any doubt as to the potential applicability of, or consequence under, any provision of law or regulation or judicial or regulatory decisions or interpretations in any jurisdictions, territory or locality therein or thereof and, in particular, whether there will be any restriction or prohibition on the acquisition, retention, disposal or otherwise with respect to the Shares or the RSUs, as the case may be.

Overseas Shareholders, Beneficial Owners and RSU Holders are advised to read “*Overseas Shareholders and RSU Holders*” in the Explanatory Statement on pages 52 and 53 of this document for further information.

### PAST PERFORMANCE AND FORWARD-LOOKING STATEMENTS

The performance and the results of operations of the Group contained in this document are historical in nature and past performance is not a guarantee of the future results of the Group. This document may contain forward-looking statements and opinions that involve risks and uncertainties. Actual results may differ materially from expectations discussed in such forward-looking statements and opinions and you should not place undue reliance on such forward-looking statements and opinions. Subject to the requirements of applicable laws, rules and regulations, including the Takeovers Code, none of the Offeror, the Company, Credit Suisse, Anglo Chinese, Morgan Stanley, Rothschild, any of their respective directors, officers, employees, agents, affiliates or advisers or any other person involved in the Proposal or the RSU Offer assumes any obligation to correct or update the forward-looking statements or opinions contained in this document.

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## LETTER FROM THE BOARD

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*(incorporated in Bermuda with limited liability)*

**(Stock Code: 1768)**

*Independent Non-executive Directors:*

John Jeffrey YING (*Chairman*)

Jeffrey LAM Kin Fung

David YU Hon To

LIM Ah Doo

LOW Weng Keong

Armin MEYER

*Registered Office:*

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

*Principal Place of Business in Hong Kong:*

21/F, China Building

29 Queen's Road Central

Central

Hong Kong

*Executive Director:*

TEY Wei Lin (*Chief Executive Officer*)

30 August 2016

*To the Shareholders and the RSU Holders*

Dear Sir or Madam,

**(1) PROPOSED PRIVATISATION OF  
BRACELL LIMITED  
BY BHL LIMITED BY WAY OF  
A SCHEME OF ARRANGEMENT  
UNDER SECTION 99 OF THE COMPANIES ACT OF BERMUDA  
AND  
(2) PROPOSED WITHDRAWAL OF LISTING OF  
BRACELL LIMITED**

### **1. INTRODUCTION**

On 17 June 2016, the respective boards of directors of the Offeror and the Company jointly announced that, on 15 June 2016, the Offeror requested that the Board put forward to the Scheme Shareholders a proposal to privatise the Company by way of a scheme of arrangement under Section 99 of the Companies Act involving the cancellation of all the Scheme Shares for a cancellation consideration of HK\$1.78 for each Scheme Share and the allotment and issue of new Shares to the Offeror.

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## LETTER FROM THE BOARD

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On 3 August 2016, the respective boards of directors of the Offeror and the Company jointly announced that the Offeror proposed to revise the terms of the Proposal. Under the terms of the revised Proposal, each Scheme Shareholder will receive a Cancellation Consideration of HK\$2.28 for each Scheme Share. The revised Cancellation Consideration of HK\$2.28 for each Scheme Share represents a premium of approximately 28.1% to the original cancellation consideration of HK\$1.78 for each Scheme Share. It was subsequently jointly announced on 22 August 2016 that the revised Cancellation Consideration would not be increased by the Offeror and the Offeror does not reserve the right to do so and accordingly, the Cancellation Consideration will remain at HK\$2.28 for each Scheme Share.

**Shareholders and potential investors of the Company should be aware that, following the making of the statement that the Cancellation Consideration would not be increased, the Offeror will not be allowed to increase the Cancellation Consideration and the RSU Offer Price except in wholly exceptional circumstances in accordance with Rule 18.3 of the Takeovers Code.**

On completion of the Proposal, (a) the Offeror and Gold Silk will own 100% of the Shares and (b) the listing of the Shares on the Stock Exchange will be withdrawn.

The Offeror is making the RSU Offer to the RSU Holders to cancel all outstanding RSUs. The RSU Offer is conditional upon the Scheme becoming effective.

The Offeror has appointed Credit Suisse and Anglo Chinese as its joint financial advisers in respect of the Proposal and the RSU Offer.

The Board has established the Independent Board Committee, comprising John Jeffrey YING, Jeffrey LAM Kin Fung, David YU Hon To, LIM Ah Doo, LOW Weng Keong and Armin MEYER, all of whom are independent non-executive Directors, to make recommendations to the Scheme Shareholders and the RSU Holders in respect of the Proposal and the RSU Offer.

The Company has appointed Morgan Stanley as its financial adviser in respect of the Proposal and the RSU Offer. Rothschild has been appointed as the Independent Financial Adviser, with the approval of the Independent Board Committee, to advise the Independent Board Committee in respect of the Proposal and the RSU Offer.

The purpose of this document is to provide you with further information regarding the Proposal, the Scheme and the RSU Offer and to give you notices of the Court Meeting and the SGM, respectively.

## 2. THE PROPOSAL

It is proposed that, subject to the satisfaction or valid waiver (as applicable) of the Conditions as set out in “*Conditions Precedent to the Proposal*” in the Explanatory Statement on pages 41 to 45 of this document, the Proposal will be implemented by way of a scheme of arrangement of the Company under Section 99 of the Companies Act, pursuant to which all of the Scheme Shares will be cancelled and, in consideration for such cancellation, each Scheme Shareholder whose name appears in the register of members of the Company as at the Record Time will receive a Cancellation Consideration of HK\$2.28 for each Scheme Share held as at the Record Time.



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## LETTER FROM THE BOARD

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Under the Scheme, the share capital of the Company will, on the Effective Date, be reduced by the cancellation and extinguishment of the Scheme Shares, and immediately upon such reduction of capital taking effect, the share capital of the Company will be restored to its former amount by the issuance to the Offeror, credited as fully paid, of the same number of new Shares as is equal to the number of Scheme Shares cancelled. The credit arising in the books of account of the Company as a result of such capital reduction will be applied by the Company in paying up in full the newly created Shares, which will be allotted and issued to the Offeror.

The aggregate Cancellation Consideration payable for all Scheme Shares under the Proposal is HK\$1,272,065,580. The total cash consideration required for the Proposal and the RSU Offer (assuming 100% acceptance by the RSU Holders) is HK\$1,273,262,580.

The Offeror intends to finance the cash required for the Proposal and the RSU Offer by its own internal cash resources. Credit Suisse and Anglo Chinese are satisfied that sufficient financial resources are available to the Offeror for the full implementation of the Proposal and the RSU Offer in accordance with their respective terms.

Completion of the Proposal is subject to the satisfaction or valid waiver (as applicable) of the Conditions as set out in “*Conditions Precedent to the Proposal*” in the Explanatory Statement on pages 41 to 45 of this document. All of the Conditions have to be satisfied or validly waived (as applicable) on or before Thursday, 29 December 2016 (which is the date falling 90 days after the date scheduled for the Court Meeting and the SGM) or such later date as may be proposed by the Offeror and permitted by the Court and the Executive, otherwise the Scheme will lapse and the Proposal will not proceed. As at the Latest Practicable Date, none of the Conditions have been satisfied or validly waived.

### **3. RSU OFFER**

Your attention is drawn to “*RSU Offer*” in the Explanatory Statement on pages 48 and 49 of this document for details of the RSU Offer.

### **4. REASONS FOR AND BENEFITS OF THE PROPOSAL**

Your attention is drawn to “*Reasons for and Benefits of the Proposal*” in the Explanatory Statement on pages 45 and 46 of this document.

### **5. INFORMATION ON THE OFFEROR AND THE GROUP**

Information on the Offeror and the Group is set out in Appendices I and II to this document, respectively. Your attention is drawn to these Appendices. This information is provided solely to assist the Scheme Shareholders and the RSU Holders in their consideration of the Proposal and the RSU Offer.

### **6. INTENTIONS OF THE OFFEROR WITH REGARD TO THE GROUP**

Your attention is drawn to “*Intentions of the Offeror with Regard to the Group*” in the Explanatory Statement on page 46 of this document.

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## LETTER FROM THE BOARD

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### 7. RECOMMENDATIONS

The Independent Board Committee, having considered (a) the reasons for, and benefits of, the Proposal and the RSU Offer and their effects as set out in this document and (b) the terms of the Proposal and the RSU Offer and having taken into account the advice of Rothschild, the Independent Financial Adviser, and in particular, the factors, reasons and recommendations set out in “*Letter from Rothschild*” on pages 8 to 37 of this document, considers that the terms of the Proposal and the RSU Offer are fair and reasonable so far as the Scheme Shareholders and the RSU Holders are concerned.

Accordingly, the Independent Board Committee recommends that:

- (a) the Scheme Shareholders vote in favour of the resolution to approve the Scheme at the Court Meeting;
- (b) the Shareholders vote in favour of the special resolution to approve the implementation of the Scheme at the SGM; and
- (c) the RSU Holders accept the RSU Offer.

The attention of the Scheme Shareholders and the RSU Holders is drawn to “*Letter from Rothschild*”, which sets out the factors and reasons taken into account by Rothschild in arriving at its advice to the Independent Board Committee.

TEY Wei Lin, the sole Director who is not on the Independent Board Committee, holds positions in various companies controlled by the Ultimate Controlling Shareholder. As the Ultimate Controlling Shareholder is the sole shareholder of the Offeror, TEY Wei Lin has voluntarily abstained from providing a recommendation to the Scheme Shareholders and the RSU Holders on the terms of the Proposal and the RSU Offer.

### 8. COURT MEETING AND SGM

A notice convening the Court Meeting to be held at Regus Business Centre, 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Friday, 30 September 2016 at 11:00 a.m. is set out on pages N-1 and N-2 of this document. A notice convening the SGM to be held at the same venue on the same date at 11:30 a.m. (or as soon thereafter as the Court Meeting shall have been concluded or adjourned) is set out on pages N-3 and N-4 of this document.

The Court has directed that the Court Meeting be held for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme, with or without modification. The Scheme is subject to the approval by the Scheme Shareholders at the Court Meeting in the manner referred to in “*Conditions Precedent to the Proposal*” in the Explanatory Statement on pages 41 to 45 of this document.

Following the conclusion or adjournment of the Court Meeting, the SGM will be held for the purpose of considering and, if thought fit, passing a special resolution for the implementation of the Scheme.

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## LETTER FROM THE BOARD

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An announcement will be made by the Company in relation to the results of the Court Meeting and the SGM. Such announcement will contain the information as required by Rule 19.1 of the Takeovers Code and will include (a) the number of votes cast in favour of the Scheme at the Court Meeting and the number of CCASS Participants on whose instructions they are cast and (b) the number of votes cast against the Scheme at the Court Meeting and the number of CCASS Participants on whose instructions they are cast.

### 9. ACTIONS TO BE TAKEN

Your attention is drawn to “*Actions to be Taken*” in the Explanatory Statement on pages 56 to 59 of this document for details of the actions which you should take as a Shareholder or a Beneficial Owner whose Shares are held by a Registered Owner or deposited in CCASS in relation to the Court Meeting and the SGM or as a RSU Holder.

If you are an Overseas Shareholder or a RSU Holder, your attention is drawn to “*Overseas Shareholders and RSU Holders*” in the Explanatory Statement on pages 52 and 53 of this document.

### 10. FURTHER INFORMATION

You are encouraged to read carefully (1) the letter from the Independent Board Committee set out on pages 6 and 7 of this document, (2) the letter from Rothschild, the Independent Financial Adviser, set out on pages 8 to 37 of this document, (3) the Explanatory Statement set out on pages 38 to 60 of this document and (4) the Appendices. In addition, a copy of the Scheme is set out on pages S-1 to S-7 of this document.

**Shareholders and/or potential investors should be aware that the Proposal will only become effective upon all the Conditions being satisfied or validly waived (as applicable) and therefore the Scheme may or may not become effective. Shareholders and/or potential investors should therefore exercise caution when dealing in the Shares.**

**If you are in any doubt as to any aspect of this document or as to the action to be taken, you should consult your licensed securities dealer, registered institution in securities, bank manager, solicitor or other professional adviser.**

Yours faithfully,  
For and on behalf of the Board of  
**Bracell Limited**

**John Jeffrey Ying**  
*Chairman*

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LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*(incorporated in Bermuda with limited liability)*

**(Stock Code: 1768)**

30 August 2016

*To the Scheme Shareholders and the RSU Holders*

Dear Sir or Madam,

**(1) PROPOSED PRIVATISATION OF  
BRACELL LIMITED  
BY BHL LIMITED BY WAY OF  
A SCHEME OF ARRANGEMENT  
UNDER SECTION 99 OF THE COMPANIES ACT OF BERMUDA  
AND  
(2) PROPOSED WITHDRAWAL OF LISTING OF  
BRACELL LIMITED**

We refer to the document dated 30 August 2016 jointly issued by the Offeror and the Company in relation to the Proposal and the RSU Offer (the “**Scheme Document**”), of which this letter forms part. Terms defined in the Scheme Document shall have the same meanings in this letter unless the context otherwise requires.

We, being all the independent non-executive Directors, have been appointed by the Board as members of the Independent Board Committee to give a recommendation to the Scheme Shareholders and the RSU Holders in respect of the Proposal and the RSU Offer.

Rothschild (Hong Kong) Limited (“**Rothschild**”) has been appointed, with our approval, as the Independent Financial Adviser to advise us in respect of the Proposal and the RSU Offer.

Having considered (a) the reasons for, and the benefits of, the Proposal and the RSU Offer and their effects as set out in the Scheme Document and (b) the terms of the Proposal and the RSU Offer and having taken into account the advice of Rothschild, and in particular, the factors, reasons and recommendations set out in the letter from Rothschild, we consider that the terms of the Proposal and the RSU Offer are fair and reasonable so far as the Scheme Shareholders and the RSU Holders are concerned.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Accordingly, we recommend that:

- (a) the Scheme Shareholders vote in favour of the resolution to approve the Scheme at the Court Meeting;
- (b) the Shareholders vote in favour of the special resolution to approve the implementation of the Scheme at the SGM; and
- (c) the RSU Holders accept the RSU Offer.

We draw the attention of the Scheme Shareholders and the RSU Holders to (1) the letter from the Board set out on pages 1 to 5 of the Scheme Document, (2) the Explanatory Statement set out on pages 38 to 60 of the Scheme Document and (3) the letter from Rothschild, which sets out the factors and reasons taken into account in arriving at its advice to the Independent Board Committee, set out on pages 8 to 37 of the Scheme Document.

Yours faithfully,

**Independent Board Committee**

**John Jeffrey YING**

**Jeffrey LAM Kin Fung**

**David YU Hon To**

**LIM Ah Doo**

**LOW Weng Keong**

**Armin MEYER**

*Independent Non-executive Directors*

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## LETTER FROM ROTHSCHILD

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*The following is the text of a letter from Rothschild, the independent financial adviser appointed to advise the Independent Board Committee on the terms of the Proposal and the RSU Offer, which has been prepared for the purpose of inclusion in this document.*



30 August 2016

*To the Independent Board Committee of  
Bracell Limited*

Dear Sirs,

**PROPOSED PRIVATISATION OF  
BRACELL LIMITED  
BY BHL LIMITED BY WAY OF  
A SCHEME OF ARRANGEMENT  
UNDER SECTION 99 OF THE COMPANIES ACT OF BERMUDA**

We refer to our engagement to advise the Independent Board Committee with respect to the Proposal and the RSU Offer, details of which are contained in the scheme document jointly issued by the Offeror and the Company dated 30 August 2016 (the “Scheme Document”) of which this letter forms a part. Rothschild has been appointed as the Independent Financial Adviser to advise the Independent Board Committee as to (a) whether or not the terms of the Proposal are fair and reasonable so far as the Scheme Shareholders are concerned, (b) whether or not the terms of the RSU Offer are fair and reasonable so far as the RSU Holders are concerned; and to advise the Independent Board Committee as to (a) how the Scheme Shareholders should be advised to vote on the Scheme at the Court Meeting, (b) how the Shareholders should be advised to vote on the implementation of the Scheme at the SGM and (c) whether the RSU Holders should be advised to accept the RSU Offer.

The terms used in this letter shall have the same meanings as defined in the Scheme Document, unless the context otherwise requires.

In accordance with Rule 2.1 of the Takeovers Code, the Board has established the Independent Board Committee comprising all of the independent non-executive Directors, namely John Jeffrey Ying, Jeffrey Lam Kin Fung, David Yu Hon To, Lim Ah Doo, Low Weng Keong and Armin Meyer, for the purpose of making a recommendation to the Scheme Shareholders and the RSU Holders in respect of the Proposal and the RSU Offer, respectively. Other than members of the Independent Board Committee, the sole executive director of Company is not considered independent for the purpose of giving any advice or recommendation to the Scheme Shareholders and the RSU Holders in relation to the Proposal and the RSU Offer, respectively.

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Hong Kong  
香港中環遮打道18號歷山大廈16樓

Tel +852 2525 5333  
Fax +852 2868 1728  
rothschild.com



Rothschild (Hong Kong) Limited  
洛希爾(香港)有限公司

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## LETTER FROM ROTHSCHILD

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Rothschild is not associated with the Company, the Offeror, Gold Silk, the Ultimate Controlling Shareholder, the Concert Parties or any company controlled by any of them, and do not have any shareholding in any member of the Group or right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any of the aforementioned parties (as applicable) that could reasonably be regarded as relevant to the independence of Rothschild. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we will receive any fees or benefits from the Company, the Offeror, Gold Silk, the Ultimate Controlling Shareholder, the Concert Parties or any company controlled by any of them.

In formulating our recommendation, we have relied on the information and facts supplied to us by the Company and have assumed that any information and representations made to us are true, accurate and complete in all respects at the time they were made and continue to be true, accurate and complete in all material respects up to the Latest Practicable Date and that they may be relied upon by us. We consider that, in order to provide a reasonable basis for our advice, we have taken reasonable steps and performed sufficient work in compliance with Rule 13.80 of the Listing Rules (including the notes thereto). We have also assumed that all information, representations and opinions contained or referred to in the Scheme Document and provided to us by the Company are complete in all respects, fair and reasonable and, accordingly, we have relied on them.

We have been advised by the Directors that no material facts have been omitted and we are not aware of any facts or circumstances which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. The Directors have confirmed that they jointly and severally accept full responsibility for the accuracy of the information contained in the Scheme Document relating to the Group and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Scheme Document by the Company or the Directors have been arrived at after due and careful consideration and there are no other facts not contained in the Scheme Document, the omission of which would make any statement in the Scheme Document misleading. The Company will notify the Shareholders and the RSU Holders of any material changes to the information provided in the Scheme Document and our letter after the Latest Practicable Date and throughout the Offer Period as soon as possible in accordance with Rule 9.1 of the Takeovers Code.

The Offeror Directors and the Ultimate Controlling Shareholder (as the sole shareholder of the Offeror), jointly and severally accept full responsibility for the accuracy of the information contained in the Scheme Document (other than information relating to the Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Scheme Document (other than those expressed by the Company or the Directors) have been arrived at after due and careful consideration and there are no other facts not contained in the Scheme Document, the omission of which would make any statement in the Scheme Document misleading.

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## LETTER FROM ROTHSCHILD

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We believe that we have reviewed sufficient information to reach an informed view in order to provide a reasonable basis for our advice. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Group.

We have not considered the tax consequences on the Scheme Shareholders and the RSU Holders of their acceptances or non-acceptances of the Proposal and the RSU Offer since these are particular to their own individual circumstances. In particular, holders of the Shares and the RSUs who are residents outside of Hong Kong or subject to overseas taxes or Hong Kong taxation on securities dealing should consider their own tax position with regard to the Scheme and the RSU Offer and, if in any doubt, should consult their own professional advisers.

### TERMS OF THE PROPOSAL

On 15 June 2016, the Offeror requested the Board to put forward the Proposal to the Scheme Shareholders. On 3 August 2016, the Offeror amended the terms of the Proposal by increasing the cash consideration under the Proposal. Save for such increase, all the proposed terms and conditions of the Proposal remain unchanged and will continue to apply to the Proposal. On 22 August 2016, the Offeror and the Company jointly announced that the revised Cancellation Consideration and the RSU Offer Price would not be increased by the Offeror and the Offeror did not reserve the right to do so. The terms of the Proposal are set out in the “Letter from the Board” and the Explanatory Statement in the Scheme Document. In summary, the principal terms of the Proposal are as follows:

#### Scheme Shares

**For each Scheme Share . . . . .HK\$2.28 in cash**

The Offeror proposes a cash payment of HK\$2.28 for each Scheme Share in consideration for the cancellation of all Scheme Shares.

#### RSUs

**For each RSU . . . . .the RSU Offer Price of HK\$2.28 in cash**

Conditional upon the Scheme becoming effective, the Offeror will offer the RSU Holders cash equal to the “see-through” price (which is HK\$2.28, being equal to the Cancellation Consideration, as there is no exercise price for the RSUs) for the cancellation of each RSU that they hold, and the RSU Holders will be paid in accordance with the vesting date under, and subject to, the existing terms of each of the RSUs.



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## LETTER FROM ROTHSCHILD

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The Proposal will be implemented by way of a scheme of arrangement under Section 99 of the Companies Act. All of the Conditions have to be satisfied or validly waived (as applicable) on or before Thursday, 29 December 2016 (which is the date falling 90 days after the date scheduled for the Court Meeting and the SGM) or such later date as may be proposed by the Offeror and permitted by the Court and the Executive, otherwise the Scheme will lapse and the Proposal will not proceed. As at the Latest Practicable Date, none of the Conditions have been satisfied or validly waived.

On completion of the Proposal, (a) the Offeror and Gold Silk will own 100% of the Shares and (b) the listing of the Shares on the Stock Exchange will be withdrawn.

### **PRINCIPAL FACTORS AND REASONS**

In arriving at our opinion, we have taken into consideration the following principal factors and reasons:

#### **1. Background to, and the reasons for, the Proposal**

The Company is one of the largest specialty cellulose producers in the world. The Group produces dissolving wood pulp (“DWP”) (primarily specialty-grade and rayon-grade products) at its Bahia Specialty Cellulose (“BSC”) plant in Brazil using wood resources grown from its own eucalyptus plantations, and sells its products globally.

As noted in the paragraph headed “4. Reasons for and benefits of the Proposal” in the Explanatory Statement, the Share price performance has been affected by the decline in market prices for viscose staple fiber (“VSF”) and DWP due to excess supply and intense competition since early 2011. In addition to these negative market factors, the low liquidity levels in the Shares, lack of analyst coverage and relatively low institutional participation further affected the Share price performance.

It is further noted that the disposal of the VSF business in late 2014 was an attempt by the Company and the Ultimate Controlling Shareholder to improve the share price performance of the Company and the return to its Shareholders. The Share price increased from HK\$1.51 per Share (being the closing price of the Shares reflecting the value of both DWP and VSF businesses forming the Group on 15 September 2014 before the announcement of the potential disposal of VSF on 16 September 2014) to HK\$2.58 per Share (being the theoretical Share price which included DWP business value represented by the closing price of the Shares of HK\$1.18 on the ex-dividend date on 15 December 2014, and the special dividend of HK\$1.40 per Share). The disposal has unlocked the value of the VSF business and the special dividend was the value returned to the Shareholders from the disposal of the VSF business.

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## LETTER FROM ROTHSCHILD

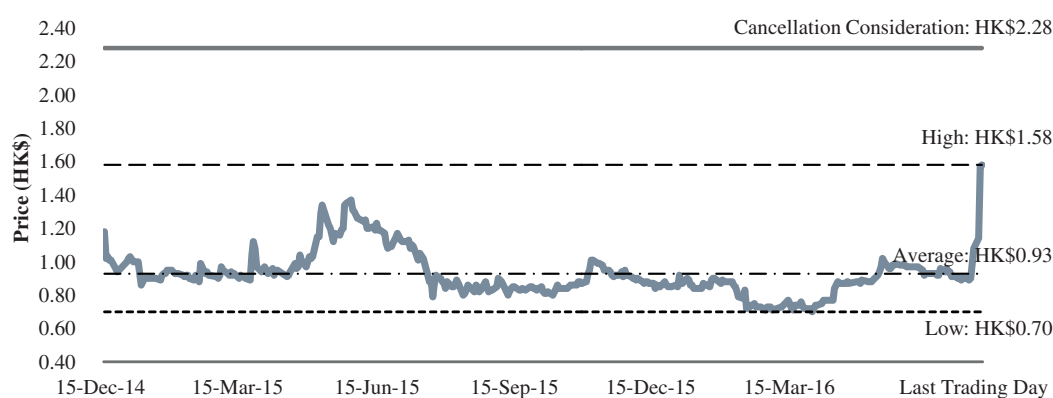
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After completion of the disposal, the Company became a pure-play DWP producer with the intention to focus its efforts on becoming a global leading player in the specialty cellulose market with a streamlined business model, which would allow analysts and investors to better understand the Company and its strategies. Nevertheless, despite achieving record production volumes and improved profitability in 2015, and continuing to benefit from reduced costs as a result of the weakening Brazilian currency, the Company has continued to suffer from low liquidity and weak share price performance.

For the period from 15 December 2014 up to and including the Last Trading Day, the average closing price was approximately HK\$0.93 per Share, representing approximately 21.3% lower than the ex-dividend day's closing price of HK\$1.18 per Share on 15 December 2014. During the same period, the lowest and highest closing price of the Shares were HK\$0.70 per Share (1 March 2016) and HK\$1.58 per Share (the Last Trading Day), respectively. The average daily trading volume as a percentage of total issued share capital of the Company for the same period was only 0.01%.

**Chart 1 Daily closing prices of the Shares for the period from 15 December 2014 up to and including the Last Trading Day**



Source: Bloomberg

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## LETTER FROM ROTHSCHILD

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The Offeror and the Ultimate Controlling Shareholder believe that the Company has not been able to fulfil the initial objectives of its public listing, including to attract funds for future growth and to act as a vehicle to effect acquisitions. Furthermore, the administrative costs and management resource associated with maintaining the Company's listing are no longer warranted given the difficulties of raising funds from public equity markets, which the Offeror and the Ultimate Controlling Shareholder believe is unlikely to see any significant improvement in the near term. Therefore, the Proposal and the RSU Offer, if implemented, will provide the Scheme Shareholders and the RSU Holders with an opportunity to redirect their capital at a premium over the market price of the Shares into other more attractive investment opportunities in the current market environment.

We note that save for the issue of Shares for the purpose of maintaining the minimum public float of the Shares in February 2012 and December 2015, the Company has not raised any funds from the equity capital markets since its initial listing on the Stock Exchange in December 2010. We concur with the view that administrative costs and management resource associated with maintaining the Company's listing may not be warranted. We also concur with the Offeror that the Proposal and the RSU Offer, if implemented, can provide the Scheme Shareholders and the RSU Holders with an opportunity to realise their investment at the Cancellation Consideration in the current market environment.

### 2. **Financial performance of the Company**

The Company became a pure-play DWP producer following the disposal of its VSF business in December 2014. The Company's current business comprises the production and sale of both specialty-grade and rayon-grade DWP at its BSC plant in Brazil using wood resources grown from its own eucalyptus plantations. China remained the major market for the Company's products, mostly rayon-grade DWP, representing approximately 70% of its total revenue for the year ended 31 December 2015. The Americas was the second largest market of the Company's products, representing approximately 24% of its total revenue for the year ended 31 December 2015.

#### (a) *Historical financial performance*

VSF business is presented as discontinued operations in the consolidated financial statements of the Company for the year ended 31 December 2014 and the comparative consolidated financial statements for the year ended 2013 had been restated to conform to the presentation used for the year ended 31 December 2014.

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**LETTER FROM ROTHSCHILD**

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**Table 2 Summary of key financial and operational data for DWP business  
(the “Continuing Operations”)**

|   | For the year<br>ended 31 December |                                   |                                   | For the six months<br>ended 30 June |                                   |
|---|-----------------------------------|-----------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|
|   | 2013<br><i>(US\$<br/>million)</i> | 2014<br><i>(US\$<br/>million)</i> | 2015<br><i>(US\$<br/>million)</i> | 2015<br><i>(US\$<br/>million)</i>   | 2016<br><i>(US\$<br/>million)</i> |
| <b>Revenue</b>  | 456                               | 479                               | 444                               | 221                                 | 213                               |
| <i>Growth rate (%)</i>  | (12.0%)                           | 5.1%                              | (7.3%)                            | (9.3%)                              | (3.2%)                            |
| <b>EBITDA</b>   | 177                               | 200                               | 184                               | 92                                  | 132                               |
| <i>Growth rate (%)</i>  | (3.0%)                            | 12.9%                             | (8.0%)                            | (2.4%)                              | 42.6%                             |
| <i>Margin (%)</i>   | 38.8%                             | 41.7%                             | 41.4%                             | 41.8%                               | 61.6%                             |
| <b>Profit attributable to Shareholders<br/>arising from the Continuing<br/>Operations</b> | 30                                | 15                                | 58                                | 32                                  | 83                                |
| <i>Growth rate (%)</i>  | (54.2%)                           | (49.5%)                           | 277.7%                            | (16.8%)                             | 159.4%                            |
| <i>Margin (%)</i>   | 6.7%                              | 3.2%                              | 13.1%                             | 14.5%                               | 39.0%                             |
| <b>Basic and diluted earnings per<br/>Share<br/>(US\$ cents)</b>                          | 0.9                               | 0.5                               | 1.7                               | 0.9                                 | 2.4                               |
| <b>Total sales volume</b>   | 415                               | 449                               | 460                               | 237                                 | 226                               |
| <i>Growth rate (%)</i>  | (4.1%)                            | 8.2%                              | 2.5%                              | 4.8%                                | (4.6%)                            |
| <b>- Rayon-grade sales volume<br/>(’000s metric tonnes)</b>                               | 309                               | 336                               | 342                               | 181                                 | 175                               |
| <i>Growth rate (%)</i>  | (7.8%)                            | 8.5%                              | 1.9%                              | 6.9%                                | (3.4%)                            |
| <b>- Specialty-grade sales volume<br/>(’000s metric tonnes)</b>                           | 106                               | 113                               | 118                               | 55                                  | 50                                |
| <i>Growth rate (%)</i>  | 8.8%                              | 7.3%                              | 4.3%                              | (1.3%)                              | (8.6%)                            |
| <b>Average selling price (Blended)<br/>(US\$ per metric tonne)</b>                        | 1,097                             | 1,066                             | 964                               | 932                                 | 945                               |
| <i>Growth rate (%)</i>  | (14.2%)                           | (2.8%)                            | (9.6%)                            | (13.5%)                             | 1.4%                              |

*Source: Annual reports of the Company for the three years ended 31 December 2015, interim report of the Company for the six months ended 30 June 2015 and interim results announcement of the Company for the six months ended 30 June 2016 (dated 15 August 2016)*

*Note: Subject to rounding differences*

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## LETTER FROM ROTHSCHILD

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(i) *Revenue*

Revenue grew slightly from approximately US\$456 million for the year ended 31 December 2013 to approximately US\$479 million for the year ended 31 December 2014 and then decreased to US\$444 million for the year ended 31 December 2015. The fluctuation in revenue of the DWP business over the three years was in large part attributable to the decline in average selling prices of the products due to intense competitions and oversupply, offsetting the increase in sales volume in both rayon-grade and specialty-grade products.

The decrease in the revenue for the six months ended 30 June 2016 compared to six months ended 30 June 2015 was largely due to the drop in sales volume of both rayon-grade and specialty-grade products and decrease in average selling price of the DWP products.

It is noted that at the time of the disposal of VSF business, SC International Macao Commercial Offshore Limited (“SCI Macao”), a subsidiary of the Company, entered into a pulp supply agreement with DP Marketing International Macao Commercial Offshore Limited (“DP Macao”), a company controlled by the Ultimate Controlling Shareholder, pursuant to which SCI Macao will supply rayon-grade DWP for use in the production of VSF only to DP Macao for a period of three years from 1 January 2015. DP Macao will purchase all rayon-grade DWP produced by BSC at the price of the prevailing global open market spot price at the time of purchase. This agreement enabled the Group to focus on specialty-grade DWP products which generate higher margin than rayon-grade products and utilise all of its surplus production capacity. Revenue generated under this agreement represented the majority of the Group’s total revenue to China for the year ended 31 December 2015. The Group increased sales volume of specialty-grade DWP by 4.3% for the year ended 31 December 2015 compared to the volume for the year ended 31 December 2014.

(ii) *Earnings before interest, tax, depreciation and amortisation (“EBITDA<sup>i</sup>”) and EBITDA margin*

EBITDA increased from approximately US\$177 million for the year ended 31 December 2013 to approximately US\$200 million for the year ended 31 December 2014 and decreased to US\$184 million for the year ended 31 December 2015. The EBITDA margins were approximately 38.8%, 41.7% and 41.4% for each of the three years ended 31 December 2013, 2014 and 2015, respectively, and approximately 61.6% for the six months ended 30 June 2016. The significant improvement in the EBITDA margin is primarily due to significant reduction in operating cash costs<sup>ii</sup> due the depreciation of Brazilian Real (“R\$”).

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i EBITDA is calculated as profit before income tax, finance costs, depreciation, amortisation of intangible assets, changes in the value of forestation and reforestation assets and gain on disposal of the VSF business, if any. While EBITDA is commonly used in the manufacturing industries worldwide as an indicator of operating performance because it is less likely to be affected by differences in accounting standards according to different jurisdictions and capital structure. However EBITDA is not presented as a measure of operating performance in accordance with the Hong Kong Financial Reporting Standards and should not be considered as representing net cash flows from operating activities.

ii Operating cash costs include cost of goods sold, selling and distribution expenses, general and administrative expenses, but excludes depreciation.

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## LETTER FROM ROTHSCHILD

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We understand from our discussion with the management of the Company, that, whilst the Company's revenue was denominated in US\$, a very significant portion of the operating cash costs were R\$ denominated with the remaining costs (primarily selling and distribution expenses) denominated in US\$. Movement in exchange rate of R\$ against US\$, therefore, has substantial impact on the Group's margins. For further information about the exchange rate, please refer to the sub-paragraph headed "(c) Future prospects of the Company — (ii) Overview of the exchange rate between R\$ and US\$" below.

(iii) *Profit attributable to Shareholders arising from the Continuing Operations*

The Group's profit attributable to Shareholders decreased by approximately 49.5% from approximately US\$30 million for the year ended 31 December 2013 to approximately US\$15 million for the year ended 31 December 2014. This was primarily due to the write-down of deferred income tax assets of US\$26 million in 2014. These deferred income tax assets were no longer expected to be utilised in the foreseeable future. The profit attributable to Shareholders increased by approximately 277.7% to approximately US\$58 million for the year ended 31 December 2015 was primarily due to change of functional currency to R\$ of major Brazilian plantation subsidiaries, which allowed the majority of the effect of the depreciation on the fair value of the forestation assets during 2015 to be reflected in other comprehensive income. As a result of this change in accounting policy in 2015, US\$37 million of currency translation losses were recognised in other comprehensive income rather than in the income statement. This had a pre-tax effect of US\$37 million increase in the profit attributable to Shareholders for the year ended 31 December 2015.

The Group's profit attributable to Shareholders increased by approximately 159.4% for the six months ended 30 June 2016 when compared to same period in 2015. This was primarily due to the depreciation of R\$ which improved the EBITDA margin of the Group despite a lower revenue for the period. For the six months ended 30 June 2016, the Group recorded currency translation gains of US\$29 million in other comprehensive income. This had a pre-tax effect of US\$29 million decrease in the profit attributable to Shareholders for the six months ended 30 June 2016.

(iv) *Interim dividend*

The Board has resolved to declare an interim dividend of HK\$0.015 per Share for the six months ended 30 June 2016, payable to the Shareholders whose names appear on the register of members of the Company on 1 September 2016.

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**LETTER FROM ROTHSCHILD**

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(b) *Financial position*

The consolidated statement of financial position in below Table 3 includes VSF business related assets for the year ended 31 December 2013.

**Table 3 Summary of consolidated statement of financial position**

|                           | As at 31 December                    |                                      |                                      | As at 30 June                        |                                      |
|---------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
|                           | <b>2013</b><br><i>(US\$ million)</i> | <b>2014</b><br><i>(US\$ million)</i> | <b>2015</b><br><i>(US\$ million)</i> | <b>2015</b><br><i>(US\$ million)</i> | <b>2016</b><br><i>(US\$ million)</i> |
| Non-current assets        | 2,040                                | 1,185                                | 1,046                                | 1,130                                | 1,075                                |
| Current assets            | 538                                  | 394                                  | 336                                  | 358                                  | 359                                  |
| <b>Total assets</b>       | <b>2,577</b>                         | <b>1,578</b>                         | <b>1,382</b>                         | <b>1,488</b>                         | <b>1,434</b>                         |
| Non-current liabilities   | 594                                  | 261                                  | 116                                  | 204                                  | 59                                   |
| Current liabilities       | 225                                  | 232                                  | 189                                  | 209                                  | 193                                  |
| <b>Total liabilities</b>  | <b>819</b>                           | <b>493</b>                           | <b>305</b>                           | <b>414</b>                           | <b>251</b>                           |
| Equity attributable to    |                                      |                                      |                                      |                                      |                                      |
| owners of the Company     | 1,720                                | 1,084                                | 1,076                                | 1,073                                | 1,182                                |
| Non-controlling interests | 38                                   | 2                                    | 1                                    | 1                                    | 1                                    |
| <b>Total equity</b>       | <b>1,758</b>                         | <b>1,086</b>                         | <b>1,077</b>                         | <b>1,074</b>                         | <b>1,182</b>                         |

*Source: Annual reports of the Company for the two years ended 31 December 2015, interim report of the Company for the six months ended 30 June 2015 and interim results announcement of the Company for the six months ended 30 June 2016 (dated 15 August 2016)*

*Note:* Subject to rounding differences

(i) *Assets*

As at 30 June 2016, the Group's non-current assets amounted to approximately US\$1,075 million, representing approximately 75.0% of the total assets. Non-current assets mainly comprised (aa) property, plant and equipment of approximately US\$904 million, and (bb) forestation and reforestation assets of approximately US\$127 million.

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## LETTER FROM ROTHSCHILD

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The Group owns 150,000 hectares of freehold land in Bahia, Brazil, which is stated at cost less identified impairment losses. No depreciation is provided for freehold land. Since the land is operating assets in nature, no valuation on the land has been performed.

The Group's total assets amounted to approximately US\$1,434 million as at 30 June 2016.

(ii) *Liabilities and indebtedness*

Net debt<sup>iii</sup> were approximately US\$500 million, US\$275 million and US\$137 million as at 31 December 2013, 2014 and 2015, respectively, and approximately US\$79 million as at 30 June 2016. The reduction in net debt in 2014 was due to the disposal of VSF business, and the Company paid down its five-year term syndicated loan in 2015 which further lower net debt. The net gearing ratios (calculated by dividing net debt by total equity) were approximately 28.4%, 25.3% and 12.7% as at 31 December 2013, 2014 and 2015, respectively, and approximately 6.7% as at 30 June 2016.

(c) *Future prospects of the Company*

Based on our review of the historical revenue and margins performance of the Group, we note that the global DWP market in terms of volume and average selling price as well as the exchange rate of R\$ against US\$ will be the key determinants of the prospects of the Company.

(i) *Overview of the global DWP market*

The over-supply situation for the global DWP market is expected to continue. According to PCI Wood Mackenzie, the supply of rayon-grade DWP is expected to grow further with a 2016-2018 compound annual growth rate ("CAGR") of approximately 4.0%, while the supply of specialty-grade DWP is expected to remain stable. The demand for rayon-grade DWP and specialty-grade DWP products is forecast to increase at a 2016-2018 CAGR of approximately 3.3% and 2.8%, respectively.

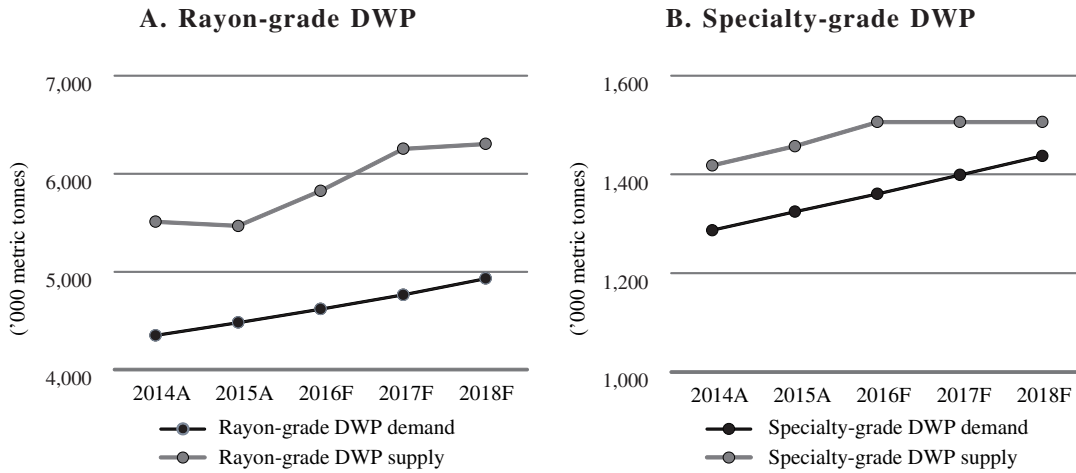
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iii Net debt includes bank borrowings in the current and non-current liabilities minus bank balances and cash.





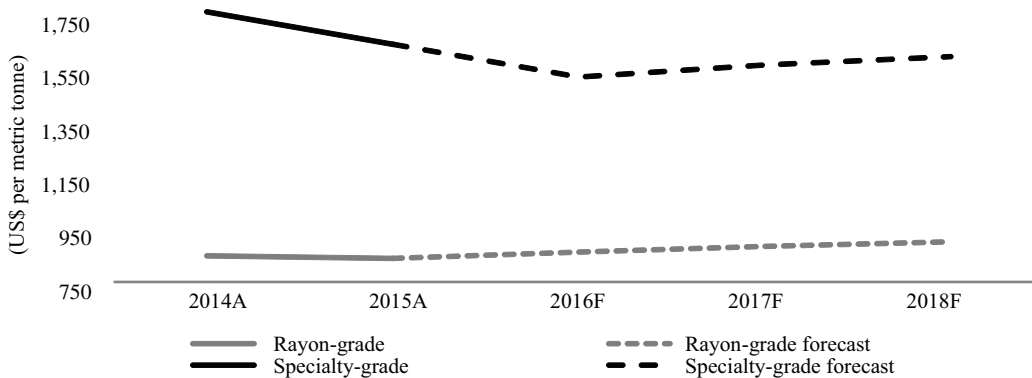
**Chart 4 Market demand and supply trends over the period of 2014 to 2018**



Source: PCI Wood Mackenzie

The average selling price of rayon-grade and specialty-grade DWP is estimated to reach the bottom in 2015 and 2016 respectively and then recover from 2016 to reach US\$901 per metric tonne and US\$1,595 per metric tonne respectively in 2018 according to PCI Wood Mackenzie. The average selling price for rayon-grade and specialty-grade DWP products is estimated to be increasing at a CAGR of approximately 2.2% and 2.5% over the period of 2016 to 2018.

**Chart 5 Rayon-grade and specialty-grade DWP average selling price trends**



Source: PCI Wood Mackenzie

Note: The Rayon-grade DWP average selling price refers to the selling price of hardwood products

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## LETTER FROM ROTHSCHILD

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The total global DWP market's over-supply situation is not expected to improve in the period of 2016 to 2018 with total demand volume increasing from approximately 6.0 million metric tonnes to approximately 6.4 million metric tonnes while total supply volume increasing from approximately 7.3 million metric tonnes to approximately 7.8 million metric tonnes. The annual total supply volume will remain at 22.6% higher than the annual total demand volume of DWP for both 2016 and 2018.

The demand for specialty-grade DWP is expected to continue to increase while the supply is expected to remain stable in the period of 2016 to 2018. The average selling price of specialty-grade DWP is forecast to grow at a faster pace than rayon-grade DWP. However, it is worth noting that the average selling price of rayon-grade DWP is only expected to recover in 2018 to its spot market price level of approximately US\$900 per metric tonne as at the end of 2015, while the average selling price of specialty-grade DWP is expected to stay below the level in 2015 as illustrated in the above Chart 5.

(ii) *Overview of the exchange rate of R\$ against US\$ ("R\$/US\$")*

The Group has benefited from improving EBITDA margins from, among others, strong depreciation of the R\$/US\$ for the year ended 31 December 2015 and the six months ended 30 June 2016.

**Table 6      Exchange rate evolution: R\$/US\$**

| R\$/US\$                  | 2013  | 2014 | 2015  | 2016F                | 2017F                | 2018F                |
|---------------------------|-------|------|-------|----------------------|----------------------|----------------------|
| High                      | 2.45  | 2.74 | 4.18  | n.a. <sup>Note</sup> | n.a. <sup>Note</sup> | n.a. <sup>Note</sup> |
| Low                       | 1.94  | 2.19 | 2.57  | n.a. <sup>Note</sup> | n.a. <sup>Note</sup> | n.a. <sup>Note</sup> |
| Annual average rate       | 2.16  | 2.35 | 3.33  | 3.58                 | 3.71                 | 3.85                 |
| Depreciation against US\$ | 10.4% | 9.1% | 41.4% | 7.6%                 | 3.7%                 | 3.8%                 |

*Source: Bloomberg, IHS Economics, estimates as at 15 August 2016*

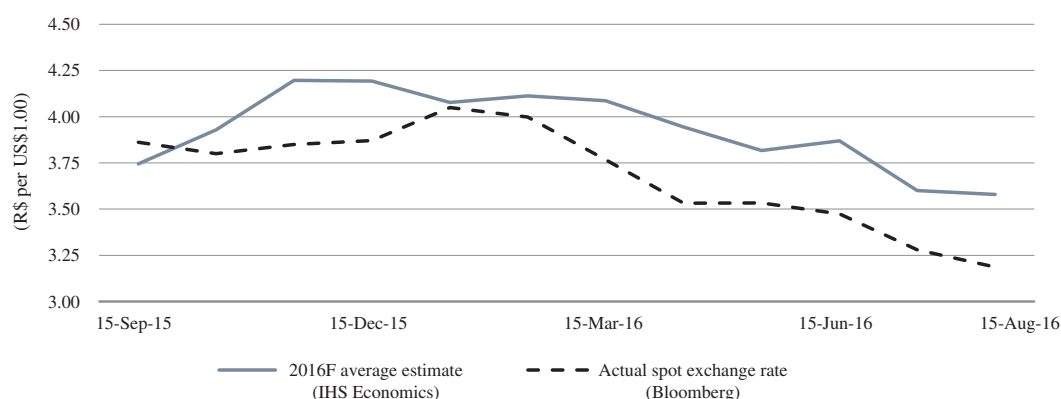
*Note: "n.a." stands for not available*



The annual average exchange rates of R\$/US\$ in 2013, 2014 and 2015 have depreciated substantially at 10.4%, 9.1% and 41.4% from the previous year, respectively and experienced very high volatility during the respective years. The depreciation is possibly due to the unfavorable political environment in Brazil and the policy of the Central Bank of Brazil. According to IHS Economics estimate and IHS country report on Brazil (18 July 2016), it is expected that the R\$ will continue to depreciate against US\$ for the next three years to 2018, though at a slower pace after 2016, mainly due to (aa) the expectation of a stronger US\$ as a result of actions by the US Federal Reserve which is expected to continue to tighten its monetary policy during 2016; and (bb) the expectation that the Brazilian central bank will continue to intervene in the foreign-exchange markets.

The exchange rate of R\$ against US\$ is highly volatile, when R\$ traded within a range of R\$2.57 to R\$4.18 per US\$1.00 in 2015, and in 2016 (up to the Latest Practicable Date) within a range of R\$3.13 to R\$4.16 per US\$1.00.

**Chart 7      Monthly exchange rate estimates compared with historical spot exchange rate<sup>note</sup>: R\$/US\$**



*Source: Bloomberg, IHS Economics as at 15 August 2016*

*Note:* IHS Economics estimates are published every 15th of each calendar month; Actual spot exchange rate (Bloomberg) refers to corresponding date of each publication of IHS Economics or one date prior when the exact corresponding date is not a trading date for the exchange rate of R\$ against US\$.

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Looking at the evolution of the R\$ against US\$ in the last one year period (i.e. September 2015 to August 2016), we have compared in Chart 7 the actual spot exchange rate (as quoted from Bloomberg) with the 2016 average exchange rate of R\$ against US\$ forecast by IHS Economics (which forecasts are published every 15th of each calendar month). The highly volatile fluctuation of the continuously updated estimates was in line with the trend of the highly volatile historical spot exchange rate of R\$ against US\$ during the same period. Therefore, the forecast numbers as summarised in Table 6 above are the estimates as at 15 August 2016 and good until the next publication. The closing exchange rate of R\$ against US\$ as quoted from Bloomberg reached R\$3.13 per US\$1.00 on 10 August 2016, its lowest point in the last one year period. On 25 August 2016, the closing exchange rate was R\$3.23 per US\$1.00, which is lower than 2016 forecasted average exchange rate as shown in Table 6 above.

As mentioned earlier, based on our review of the historical revenue and margins performance of the Group, we believe the performance of the Group has three key determinants, namely, the global DWP market in terms of volume, the average selling price as well as the exchange rate of R\$ against US\$. The forecasts for 2016 to 2018 set out in Charts 4 and 5 and Table 6 above, show that the trend of these three key determinants are forecast to sustain and remain reasonably favourable from the Group's perspective, these are:

- (aa) Charts 4 and 5: average selling prices of DWP products are forecast to reach the bottom in 2016 and then increase moderately in 2017 and 2018, while the total global DWP market's over-supply situation will remain relatively stable; and
- (bb) Table 6: current R\$ against US\$ is forecast to remain favourable to the Group's margins.

However, the global DWP market remains over-supplied and is not expected to improve in the period of 2016 to 2018, while the average selling price recovery will meet its limit which is expected to stay below its historical level in 2015. More importantly, we would caution that the volatile exchange rate of R\$ against US\$ represents a potential risk of a slower pace of depreciation of R\$ against US\$ than the current estimates of IHS Economics, or even of an adverse change to appreciation, in which case there may be an adverse impact on the operating environment, and hence, the profitability of the Group.

(d) ***Intentions of the Offeror with regard to the Group***

The Offeror, Gold Silk and Ultimate Controlling Shareholder have no intention to make any major changes to (i) the current operations and business of the Group, (ii) the redeployment of any fixed assets of the Group or (iii) the employment of any of the management or employees of the Group. Please refer to the paragraph headed "5. Intentions of the Offeror with regard to the Group" in the Explanatory Statement for further details.



### 3. Cancellation Consideration analysis

The Cancellation Consideration is HK\$2.28 for each Scheme Share. To analyse the Cancellation Consideration in this letter, we have used a number of commonly used methodologies namely (a) the “comparable companies analysis”, (b) the “public trading analysis”, and (c) the “comparable transactions analysis”. We have also considered the historical trading volume of the Shares in this paragraph.

#### (a) *Comparable companies analysis*

Since the Company is purely engaged in specialty cellulose production and sale (after the sale of the VSF business in late 2014) and is the only specialty cellulose producer listed in Hong Kong, in identifying the comparable companies, we have first shortlisted publicly listed non-integrated specialty cellulose producers globally with a market capitalisation of at least US\$100m. Companies that fit the criteria are Rayonier Advanced Materials Inc. (“Rayonier”), Sappi Limited (“Sappi”) and Borregaard ASA (“Borregaard”). Publicly listed specialty cellulose producers which are not retained in the shortlist are Tembec, Inc., PT Toba Pulp Lestari, Tbk and Fortress Paper Ltd. as their respective market capitalisation was below US\$100 million as at 25 August 2016. Listed paper pulp producers are not considered due to the incomparability of the products.

**Table 8 Economic contribution of specialty cellulose products to the whole group of the shortlisted non-integrated specialty cellulose producers**

| Financial year of<br>2015 <sup>1</sup> | Contribution of specialty cellulose<br>products to the whole group in % |                   |                     |  |
|--|---|-------------------|---------------------|--|
|  | Revenue   | EBITDA            | Operating<br>profit | Non-cellulose business                                     |
| Rayonier                               | 100%  | 100%              | 100%                | None   |
| Sappi                                  | 16.8%   | 45.0%             | 64.7%               | Paper and forest products                                  |
| Borregaard                             | 34.5%   | n.a. <sup>2</sup> | 28.1%               | Performance chemicals<br>and other businesses <sup>3</sup> |
| <b>The Company</b>                     | 100%  | 100%              | 100%                | None   |

Source: 2015 Annual report of respective companies

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*Notes:*

1. Financial year ended 31 December for the Company, Rayonier, and Borregaard; and 30 September for Sappi.
2. “n.a.” stands for not available.
3. Other businesses include wood-based vanillin, C3-aminodiols for non-ionic X-ray contrast media and microfibrillar cellulose.

Rayonier, listed on the New York Stock Exchange, is a pure DWP player. We consider Rayonier to be most comparable to the Company.

Since the other companies are involved in businesses in addition to specialty cellulose production and sale, we have further refined our criteria and believe the specialty cellulose products should represent at least 50% of the total revenue, or EBITDA, or operating profit to be comparable.

Sappi, listed on the Johannesburg Stock Exchange, is involved in paper and specialty cellulose production and sale globally. It reported 16.8% of its revenue from specialty cellulose but such products generated 45.0% of total adjusted EBITDA and 64.7% of total operating profit in 2015. Thus, we have included Sappi as a company comparable to the Company. Sappi is the world’s largest specialty cellulose producer in terms of production volume.

Borregaard, listed on the Oslo Stock Exchange, realised 34.5% of its revenue from specialty cellulose which generated 28.1% of total operating profit in 2015, with the remaining being mainly from performance chemicals including lignin-based binding and dispersing agents which are not comparable to the Company’s business. It is further noted that the production and sale of the second generation bioethanol is also included in the specialty cellulose segment which is not comparable to the Company’s business. Thus, we have excluded Borregaard as a comparable company to the Company.

Having considered the product mix, relevant underlying markets, and the economic contribution scale of specialty cellulose business to the whole group, we have selected Rayonier and Sappi as the “Comparable Companies”.

Although Rayonier and Sappi are listed on different markets than the Company, we are of the view that New York Stock Exchange could serve as a benchmark to Hong Kong Stock Exchange given both are developed markets, while Sappi is covered by seven analysts from established financial institutions and has a strong proportion of institutional investors making the stock traded in a liquid and educated environment. This list of Comparable Companies is exhaustive and is a fair representation of companies comparable to the Company.

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## LETTER FROM ROTHSCHILD

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We have compared the enterprise value<sup>iv</sup> (“EV”)/EBITDA and price-earnings ratio (“PER”) multiples (being the most commonly used multiples in this sector) of the Company and the Comparable Companies based on average closing prices over the preceding three-month period up to and including 25 August 2016 (“Three-month Period Average”) and the closing prices as at 25 August 2016. We have used the Three-month Average Period in order to conduct the assessment using prices of the Comparable Companies for a longer term to smooth any interim volatility.

The main assets of the Company and the Comparable Companies consist of property, plant and equipment which are operating assets and directly serve to generate revenues and earnings of these companies. Thus, earnings multiples are more appropriately adapted for the valuation approach in this sector, whereas P/NAV multiples are for reference only.

Our analysis is set forth in the following tables.

**Table 9      Trading multiples of Comparable Companies**

| Company                               | Listing      | Market capitalisation based on Three months period average share prices<br>(HK\$ million) | Based on Three-month Period Average share prices |                             |                               | Market capitalisation as at 25 August 2016<br>(HK\$ million) | Based on share prices as at 25 August 2016      |                             |                               |
|---------------------------------------|--------------|---|--|-----------------------------|-------------------------------|--|---|-----------------------------|-------------------------------|
|                                       |              |   | EV <sup>2</sup> /EBITDA <sup>3</sup><br>(Times)  | PER <sup>3</sup><br>(Times) | P/NAV <sup>4</sup><br>(Times) |  | EV <sup>2</sup> /EBITDA <sup>3</sup><br>(Times) | PER <sup>3</sup><br>(Times) | P/NAV <sup>4</sup><br>(Times) |
| Rayonier                              | New York     | 4,470   | 5.1  | 10.4                        | n.m. <sup>1</sup>             | 4,141  | 4.9   | 9.7                         | n.m. <sup>1</sup>             |
| Sappi                                 | Johannesburg | 20,054  | 6.7  | 15.5                        | 2.2                           | 20,819   | 6.8   | 16.1                        | 2.3                           |
| <b>Simple average</b>                 |              |   | 5.9  | 13.0                        | 2.2                           |  | 5.9   | 12.9                        | 2.3                           |
| <b>The Company under the Proposal</b> | Hong Kong    | 7,801   | 5.9  | 17.3                        | 0.9                           | 7,801  | 5.9   | 17.3                        | 0.9                           |

Sources: Bloomberg and the latest published financial statements of the respective companies

Notes:

- As the P/NAV multiples for Rayonier are 24.3 times and 22.5 times based on Three-month Period Average and 25 August 2016 share prices, respectively, it is not included in the average P/NAV multiple or used as reference.
- Enterprise value calculated based on market capitalisation and net debt (being the net financial debt less net assets held for sale less joint ventures) and minority interest published in the latest financial statements of the respective companies and adjusted of dividend amount announced in the latest financial statements of the respective companies but of which the ex-date was between the date of the publication of the latest financial statements and 25 August 2016.

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<sup>iv</sup> Enterprise value is defined as the equity value plus net debt and minority interests less interests in joint ventures and associates. Equity value is the market capitalisation excluding treasury shares' value.

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3. Net profit after tax (less minority interest) and EBITDA calculated with the 2015 published annual financial statements of the relevant Comparable Companies.
4. Net asset value being total assets less total liabilities less minority interest as per the financial statements of the Company and Sappi as at 30 June 2016 and the financial statements of Rayonier as at 25 June 2016.

In respect of the EV/EBITDA multiples, the EV/EBITDA multiple under the Proposal of 5.9 times 2015 EBITDA represents:

- (a) a premium of approximately 15.6% and 19.8% over Rayonier's 2015 EV/EBITDA multiple of 5.1 times based on the Three-month Period Average and 4.9 times as at 25 August 2016, respectively; and
- (b) a discount of approximately 11.4% and 13.5% to Sappi's 2015 EV/EBITDA multiple of 6.7 times based on the Three-month Period Average and 6.8 times as at 25 August 2016, respectively.

In respect of the PER multiples, the PER multiple under the Proposal of 17.3 times 2015 earnings represents:

- (a) a premium of approximately 66.0% and 79.2% to Rayonier's 2015 PER multiple of 10.4 times based on the Three-month Period Average and 9.7 times as at 25 August 2016, respectively; and
- (b) a premium of approximately 11.8% and 7.7% to Sappi's 2015 PER multiple of 15.5 times based on the Three-month Period Average and 16.1 times as at 25 August 2016, respectively.

In respect of the P/NAV multiples, the P/NAV multiple under the Proposal is 0.9 times the NAV as at 30 June 2016.

The Group reported a substantial improvement in financial performance for the six months ended 30 June 2016. One of the key determinative factors was the reduction of the cash costs due to the depreciation of R\$ against US\$. The EBITDA margin improved from 38.8% for the year ended 31 December 2013 to 61.6% for the six months ended 30 June 2016. Rayonier announced an increase in net income for the six months ended 25 June 2016 of approximately four times over the same period in 2015. Sappi also announced an increase in profits for the nine months ended 30 June 2016 of approximately 146.4% over the same period in 2015. These latest earning results have been reflected in their respective share price and, hence, their respective multiples.



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Having taken into consideration the potential impact of a highly volatile exchange rate of R\$ against US\$ on the Group's performance, coupled with the unclear future monetary policy and upcoming political situation in Brazil, we consider the premia implied by the Proposal to be acceptable.

(b) *Public trading analysis*

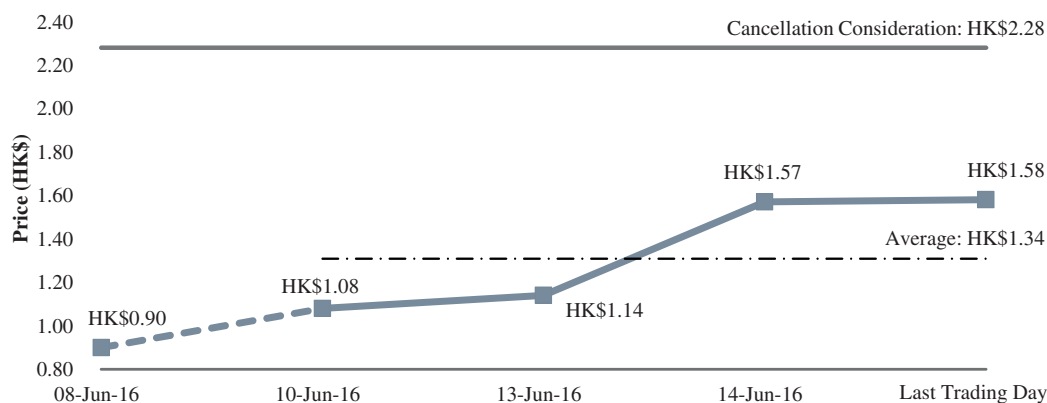
As illustrated in the Chart 1 above, the daily closing prices of the Company were relatively stable at an average Share price of HK\$0.93 per Share from 15 December 2014 up to and including the Last Trading Day.

On 8 June 2016, the Company made a positive profit alert (the "Profit Alert") that "based on a preliminary assessment of the unaudited management accounts of the Group for the five months ended 31 May 2016, it is currently expected that the Group may record a substantial increase in profit attributable to shareholders for the six months ending 30 June 2016 when compared to the corresponding period in 2015. The Group's profit attributable to shareholders for the six months ending 30 June 2016 may increase by 100% to 150% as compared to the profit attributable to shareholders of US\$32.1 million for the corresponding period in 2015." According to the Profit Alert, the increase is mainly due to the depreciation of R\$ against US\$, lower financing costs and non-cash write back of deferred income tax assets due to exchange rate fluctuation. Subsequently on 15 August 2016, the Company announced that the profit attributable to Shareholders for the six months ended 30 June 2016 increased by approximately 159.4% when compared to the corresponding period in 2015.

For the period from 15 December 2014 to 8 June 2016, the daily closing prices of the Company were at an average Share price of HK\$0.92. The Share price reacted positively and increased from the closing price of HK\$0.90 per Share on 8 June 2016 to close at HK\$1.58 per Share on 15 June 2016 (being the Last Trading Day) (an increase of approximately 75.6%). During the period from 10 June 2016 and up to including the Last Trading Day, the lowest and highest closing prices of the Shares were HK\$1.08 per Share on 10 June 2016 (being the first trading day after the Profit Alert) and HK\$1.58 per Share on the Last Trading Day, respectively. The daily trading volume also increased substantially from 117,500 Shares on 8 June 2016 to 15,251,000 Shares on 15 June 2016 (an increase of approximately 129 times).



**Chart 10      Daily closing prices of the Shares after the Profit Alert  
(i.e. 10 June 2016) up to and including the Last Trading Day  
(the “Post Profit Alert Period”)**



Source: Bloomberg

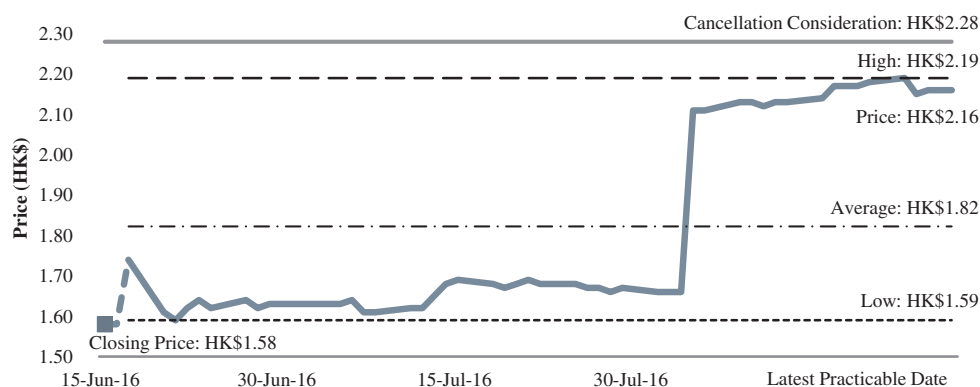
We have searched in the public domain for other news on the Group over the Post Profit Alert Period that may contribute to an increase in the price and trading volume of the Shares but we are not aware of any. Therefore, we have concluded that the Profit Alert to be the key factor on the revaluation of the Shares. Since the Profit Alert is announced after market close on 8 June 2016, we considered the fundamental correction to the intrinsic value of the Shares commenced on 10 June 2016 and continued during the Post Profit Alert Period. The only four undisturbed trading days in Post Profit Alert Period before the announcement pursuant to Rule 3.7 of the Takeovers Code were therefore used in our analysis.

Trading of the Shares was suspended for one day on 16 June 2016 and resumed on 17 June 2016 after the release of an announcement pursuant to Rule 3.7 of the Takeovers Code. The Share price went up by approximately 10.1% to close at HK\$1.74 per Share on 17 June 2016 in anticipation of the Proposal which details were disclosed in the Announcement released after the stock market closed on 17 June 2016.

Following the release of the Announcement, the closing price dropped to HK\$1.61 per Share on 20 June 2016 before it went up and traded within a fairly narrow range until 3 August 2016 (see Chart 11 below). During the period from 15 June 2016 to 3 August 2016, the lowest and highest closing prices of the Shares were HK\$1.59 per Share on 21 June 2016 and HK\$1.74 per Share on 17 June 2016, respectively. On 3 August 2016, the respective boards of directors of the Offeror and the Company jointly announced that the Offeror proposed to revise the terms of the Proposal. Subsequently, the closing price reached HK\$2.11 on 4 August 2016.



**Chart 11 Daily closing prices of the Shares from 15 June 2016 (Last Trading Day) up to and including the Latest Practicable Date**

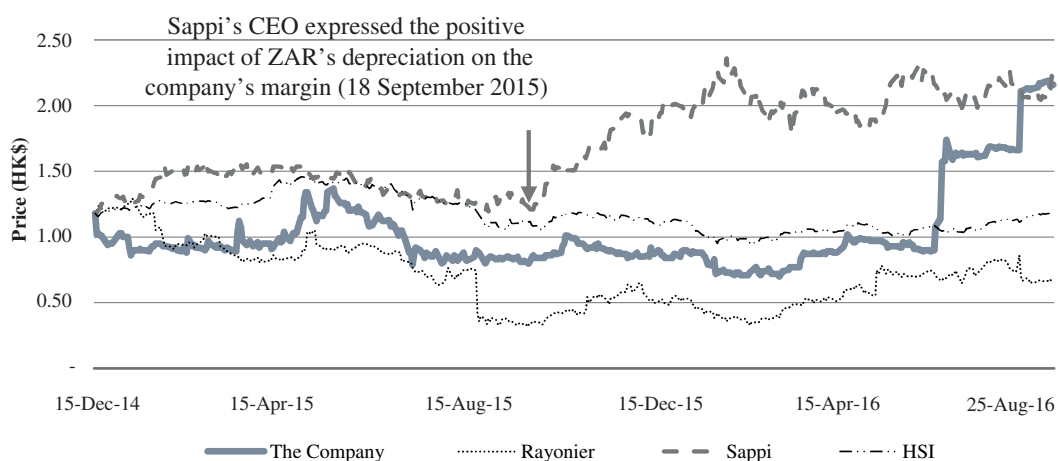


Source: Bloomberg

In addition to the above, we have also reviewed in the price performance of the Shares relative to the shares of the Comparable Companies and the Hang Seng Index (“HSI”).

The Shares have consistently underperformed whilst tracking closely to the movement of the HSI (on a rebased basis) during this period (except after the Profit Alert). It had consistently outperformed Rayonier, but underperformed Sappi, during the period between 15 December 2014 and 25 August 2016.

**Chart 12 Relative price performance of the Shares, the shares of the Comparable Companies and the HSI over the period from 15 December 2014 up to and including 25 August 2016<sup>Note</sup>**



Source: Bloomberg

*Note:* Share price of the Comparable Companies and HSI are rebased to the Share price on 15 December 2014 using trading days during the relative period.

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## LETTER FROM ROTHSCHILD

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In respect of Sappi, we observed that:

- (i) the Chief Executive Officer (“CEO”) of Sappi had an interview with Bloomberg on 18 September 2015 in which he formally expressed the positive impact of the depreciation of ZAR<sup>v</sup> against US\$ which was boosting the earnings as its exports gained in value.
- (ii) Sappi announced its annual results for the year ended 30 September 2015, and results for the three months ended 31 December 2015, for the six months ended 31 March 2016 and for the nine months ended June 2016 in which approximately 23.7%, approximately 212.5%, approximately 118.8% and approximately 146.4% increases of profit when compared to the corresponding year/periods. The depreciation of ZAR against the US\$ was one of the key positive contributors to the margin improvement in addition to its increasing sales volume and higher net selling price for Sappi.

Depreciation of ZAR against the US\$ had a positive effect on Sappi’s operating profit which in turn had a positive impact on the share price performance of Sappi.

In respect of Rayonier, we observed that:

- (i) its share performance was affected by (among others) the lawsuit with regard to the supply agreement with its largest customer Eastman Chemical Company filed on 19 August 2015 and settled on 1 December 2015. This may be the primary reason for the underperformance of Rayonier’s shares relative to the Shares (see Chart 12 above).
- (ii) Rayonier has its mills and manufacturing operations located in North America and its cost structure is not as sensitive as that of the Company’s or Sappi’s to foreign exchange rate movements.
- (iii) Rayonier announced its results for the three months ended 31 March 2016 and for the six months ended 30 June 2016 in which approximately 98.6% and approximately 294.1% increase of net income were reported for respective periods when compared to the corresponding periods in 2015.

Rayonier’s positive operating profit had a positive impact on the share price performance of Rayonier.

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v ZAR stands for South African Rand.

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## LETTER FROM ROTHSCHILD

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We believe the performance of Share price prior to the Profit Alert is less relevant in serving as a key factor in determining the appropriateness of the Cancellation Consideration. In light of the above, we believe it is more reasonable to analyse the Cancellation Consideration with the Share price on the Last Trading Day and during the Post Profit Alert Period. Hence, the reference that the Cancellation Consideration represents a premium of (i) approximately 44.3% over the closing price on the Last Trading Day, and (ii) approximately 69.8% over the average closing prices during the Post Profit Alert Period will be used to assess the fairness and reasonableness of the Cancellation Consideration as compared to the recent privatisation proposals in Hong Kong.

(c) *Comparable transactions analysis*

(i) *Comparable privatisation transactions analysis*

We have reviewed privatisation proposals in Hong Kong and selected several comparable transactions (“Comparable Privatisation Transactions”) based on the following criteria: (aa) successful privatisation or an acquisition of a remaining equity interest by its controlling shareholder in a Hong Kong listed company; (bb) cash consideration only; and (cc) announced and completed between 1 January 2013 and the Last Trading Day. We have not differentiated Comparable Privatisation Transactions by industrial sector. This list of Comparable Privatisation Transactions is exhaustive and is a fair representation of transactions comparable to the Proposal. Our analysis is summarised in the following table.

**Table 13      Recent Comparable Privatisation Transactions in Hong Kong**

| Company                                      | Date announced   | Method                           | Market capitalisation based on cancellation price<br>(HK\$ million) | Cancellation/ Offer price<br>(HK\$) | Premium over/Discount to the average share price |                           |                            |                            |                            |                             | Premium over/Discount to audited NAV<br>(%) |
|--|------------------|----------------------------------|---|-------------------------------------|--|---------------------------|----------------------------|----------------------------|----------------------------|-----------------------------|---|
|  |                  |                                  |   |                                     | 1-day <sup>1</sup><br>(%)                        | 4-day <sup>2</sup><br>(%) | 10-day <sup>1</sup><br>(%) | 30-day <sup>1</sup><br>(%) | 90-day <sup>1</sup><br>(%) | 180-day <sup>1</sup><br>(%) |   |
| Great Wall Technology Company Limited        | 16 December 2013 | Voluntary conditional cash offer | 1,452   | 3.20                                | 42.9%  | 56.1%                     | 63.3%                      | 74.9%                      | 95.9%                      | 100.0%                      | (32.2%)                                     |
| Regent Manner International Holdings Limited | 8 May 2014       | Scheme                           | 3,870   | 1.80                                | 32.4%  | 31.6%                     | 33.6%                      | 37.5%                      | 38.5%                      | 35.3%                       | 20.2%                                       |
| Hunan Nonferrous Metals Corporation Limited  | 11 December 2014 | Voluntary conditional cash offer | 6,857   | 4.20                                | 68.7%  | 65.5%                     | 60.3%                      | 55.6%                      | 58.4%                      | 70.0%                       | 230.2%                                      |
| econtext Asia Limited                        | 26 February 2015 | Scheme                           | 2,122   | 4.09                                | 41.0%  | 50.4%                     | 62.9%                      | 59.9%                      | 51.3%                      | 43.2%                       | 37.2%                                       |
| Wumart Stores, Inc.                          | 20 October 2015  | Voluntary conditional cash offer | 3,329   | 6.22                                | 90.2%  | 95.4%                     | 86.8%                      | 68.8%                      | 31.8%                      | 15.4%                       | 72.5%                                       |

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## LETTER FROM ROTHSCHILD

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| Company                                   | Date announced                             | Method                           | Market capitalisation based on cancellation price<br>(HK\$ million) | Cancellation/ Offer price<br>(HK\$) | Premium over/Discount to the average share price |                           |                            |                            |                            |                             | Premium over/ Discount to audited NAV<br>(%) |
|---|--|----------------------------------|---|-------------------------------------|--|---------------------------|----------------------------|----------------------------|----------------------------|-----------------------------|--|
|   |  |                                  |   |                                     | 1-day <sup>1</sup><br>(%)                        | 4-day <sup>2</sup><br>(%) | 10-day <sup>1</sup><br>(%) | 30-day <sup>1</sup><br>(%) | 90-day <sup>1</sup><br>(%) | 180-day <sup>1</sup><br>(%) |  |
| New World China Land Limited              | 6 January 2016                             | Voluntary conditional cash offer | 67,873  | 7.80                                | 25.6%  | 28.4%                     | 29.4%                      | 40.8%                      | 54.0%                      | 56.9%                       | 11.5%  |
| Dongpeng Holdings Company Limited         | 4 February 2016                            | Scheme                           | 5,681   | 4.48                                | 31.8%  | 40.5%                     | 47.4%                      | 46.9%                      | 54.5%                      | 35.8%                       | 60.4%  |
| <b>Simple average</b>                     |  |                                  |   |                                     |  |                           |                            |                            |                            |                             |  |
| <b>(Mean)</b>                             |  |                                  |   |                                     | 47.5%  | 52.6%                     | 54.8%                      | 54.9%                      | 54.9%                      | 50.9%                       | 57.1%  |
| <b>Median</b>                             |  |                                  |   |                                     | 41.0%  | 50.4%                     | 60.3%                      | 55.8%                      | 54.0%                      | 43.2%                       | 37.2%  |
| <b>The Company under the Proposal</b>     | 15 June 2016<br>(revised on 3 August 2016) | Scheme                           | 7,801   | 2.28                                | 44.3%  | 69.8%                     | 112.1%                     | 132.0%                     | 157.4%                     | 159.9%                      | (14.8%)                                      |
| <b>Excluded</b>                           |  |                                  |   |                                     |  |                           |                            |                            |                            |                             |  |
| Jingwei Textile Machinery Company Limited | 13 August 2015                             | Voluntary conditional cash offer | 2,170   | 12.0                                | 97.7%  | 103.2%                    | 109.7%                     | 122.6%                     | 123.5%                     | 130.2%                      | 16.5%  |

Sources: Circulars/documents of respective companies and Bloomberg

Notes:

- Day refers to trading day. The Cancellation Consideration is compared with the average closing prices over the 4, 10, 30, 90 and 180 trading days up to and including the last trading day (as disclosed in the circulars of respective companies).
- 4-day analysis coincides with Post Profit Alert Period. For further details, please refer to “3. Cancellation Consideration analysis — (b) Public trading analysis”.

In respect of Jingwei Textile Machinery Company Limited (“Jingwei Textile”), its 31.1% controlling shareholder made an announcement dated 20 March 2014 on a possible voluntary general offer with an initial proposed offer price of HK\$7.891 in cash per share, and had made a total number of 16 subsequent monthly announcements as required by Rule 3.7 of the Takeover Code to provide an update on the possible offer before the firm offer was eventually announced on 13 August 2015. On 13 August 2015, the offeror and the company jointly announced the voluntary conditional cash offer of HK\$12.00 per share, and proposed the withdrawal of listing of its shares. The last trading day of Jingwei Textile considered for this transaction was on 10 December 2013 the date following which

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## LETTER FROM ROTHSCHILD

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Jingwei Textile made a notice of significant events which led to the trading halt until 20 March 2014. The share price of Jingwei Textile on the last trading day was HK\$6.07 per share. Considering the long period of potential speculation of the share price of Jingwei Textile, we have not included this transaction as a Comparable Privatisation Transaction.

The premia implied by the cancellation/offer price over the closing price on last trading day under the Comparable Privatisation Transactions ranged from approximately 25.6% to 90.2%, with an average and a median of approximately 47.5% and 41.0% respectively. The premium represented by the Cancellation Consideration over closing price on the Last Trading Day is approximately 44.3%, which was lower than the average but higher than the median of the Comparable Privatisation Transactions and within range.

The premia implied by the average and median cancellation/offer price over the prevailing 4-day closing price under the Comparable Privatisation Transactions was approximately 52.6% and 50.4% respectively. The premium represented by the Cancellation Consideration over the Post Profit Alert Period of approximately 69.8% is significantly higher than the average and median prevailing 4-day closing prices of the Comparable Privatisation Transactions and towards the high end of the range.

The premia implied by the average cancellation/offer price over the prevailing 10-day, 30-day, 90-day and 180-day closing price under the Comparable Privatisation Transactions were approximately 54.8%, 54.9%, 54.9% and 50.9% respectively. The premia represented by the Cancellation Consideration are significantly higher because the underlying Share prices used in the comparison have not reflected the strong financial performance of the Company for the six months ended 30 June 2016. These premia in our view are less relevant in serving as a reference when determining the appropriateness of the Cancellation Consideration.

Based on the above, the premia from the Cancellation Consideration are consistently higher than the average or the median premium offered in the Comparable Privatisation Transactions when compared to the difference price ranges. For the completeness of our analysis, the Cancellation Consideration is at a 14.8% discount to the NAV of the Company as at 30 June 2016 compared to the average premium of 57.1% of the Comparable Privatisation Transactions.

### (ii) *Transactions precedent analysis*

In addition to the Comparable Privatisation Transactions, we have also reviewed comparable transactions involving any acquisition of companies or assets in the specialty cellulose industry (“Transactions Precedent”) globally. The following criteria have been taken into account: (aa) completed between 1 January 2013 and the Latest Practicable Date; (bb) the target company or assets are in the specialty cellulose industry; and (cc) the target company or assets are already controlled by the acquirer.

Though the acquisition of Buckeye Technologies Inc. by Georgia-Pacific LLC in 2013 is relevant to criteria (aa) and (bb), there is no sufficient reliable public information allowing us to identify and

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## LETTER FROM ROTHSCHILD

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isolate any possible controlling premium and/or synergies having been considered in the acquisition price, as the acquirers had not had control of the respective acquired target at the time of the transaction. For illustrative purpose only, the implied multiple of the acquisition of Buckeye Technologies Inc. by Georgia-Pacific LLC was approximately 6.8 times EV/EBITDA.

For completeness, the consideration for the disposal of VSF business by the Company in 2014 was at one time NAV as at 31 October 2014. The P/NAV multiple based on the Cancellation Consideration is approximately 0.9 times the net asset value of the Group as at 30 June 2016, which is slightly lower than that of the disposal transaction of VSF business. The implied EV/EBITDA multiple of the disposal transaction of VSF business was 24.7 times and the implied P/E multiple was 113.3 times due to low profit performance and the ramp up of the newly open plant in 2013. Therefore, these earnings multiples are not relevant in the analysis.

(d) *Historical trading volume*

The trading volume of the Shares as a percentage of the total issued share capital of the Company is significantly lower than the Comparable Companies.

**Table 14**      **Liquidity analysis of the Shares relative to the Comparable Companies**

| <b>Company</b>               | <b>Average daily trading volume of the shares as a percentage of total issued shares outstanding<sup>1</sup> from 15 December 2014 up to and including 8 June 2016</b> | <b>Average daily trading volume of the shares as a percentage of total issued shares outstanding<sup>1</sup> from 10 June 2016 up to and including the Last Trading Day</b> | <b>Average daily trading volume of the shares as a percentage of total issued shares outstanding<sup>1</sup> from 17 June 2016 up to and including 25 August 2016</b> |
|------------------------------|--|---|---|
| Rayonier                     | 1.59%  | 1.02%   | 1.98%   |
| Sappi                        | 0.36%  | 0.25%   | 0.31%   |
| <b>Simple average (Mean)</b> | <b>0.97%</b>   | <b>0.63%</b>  | <b>1.15%</b>  |
| <b>The Company</b>           | <b>0.01%</b>   | <b>0.24%</b>  | <b>0.05%</b>  |

Sources: Bloomberg

Note:

1. For the purpose of this letter the numbers of total issued shares outstanding was based on the total number of shares of the respective dates within the periods.
2. Average daily trading volume of the Shares as a percentage of total issued Shares outstanding from 17 June 2016 up to and including the Latest Practicable Date was 0.05%.



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## LETTER FROM ROTHSCHILD

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Following the Profit Alert, the daily trading volume of the Shares increased significantly to approximately 0.24% of the total issued capital over the period from 10 June 2016 up to and including the Last Trading Day, which is close to that of Sappi which itself has a public float rate of approximately 87.2% as at 25 August 2016. The average daily trading volume of the Shares dropped to 0.05% for the period from 17 June 2016 up to and including the Latest Practicable Date.

As illustrated in Table 14, the average daily trading volume of the Shares was significantly lower than that of the Comparable Companies for the period from 15 December 2014 up to and including 25 August 2016.

#### 4. The RSU Offer

Pursuant to the RSU Offer, which is conditional upon the Scheme becoming effective, the Offeror will offer the RSU Holders cash equal to the “see-through” price (which is HK\$2.28, being equal to the Cancellation Consideration, as there is no exercise price for the RSUs) for each RSU that they hold, and the RSU Holders will be paid in accordance with the vesting date under, and subject to, the existing terms of each of the RSUs. Please refer to the paragraph headed “7. RSU Offer” in the Explanatory Statement for further details.

#### SUMMARY

Having considered the analysis above and the principal factors and reasons behind the Proposal, we conclude that the main benefit of the Proposal is to provide the Scheme Shareholders with an opportunity to redirect their capital at a premium over the market price of the Shares into other more attractive investment opportunities in the current market environment. In addition, the Offeror believes that, in view of the relatively low trading volume and persistently weak performance of the Shares, access to the equity capital markets does not provide the Company with an attractive fund raising avenue, and that the costs and management resources associated with the maintenance of the Company’s listing status are not warranted. It is against this background that the Scheme Shareholders must decide whether or not to vote in favour of the Scheme at the Court Meeting and the SGM. We draw your attention to the following key factors in arriving at our conclusions to the Proposal:

#### Comparable companies analysis

1. The 2015 EV/EBITDA multiple of 5.9 times and the 2015 PER multiple of 17.3 times under the Proposal are respectively in the range of and exceed those of the Comparable Companies (see Table 9).
2. Due to the high volatility of the exchange rate of R\$ against US\$, coupled with the unclear future monetary policy and upcoming political situation in Brazil, there exists a potential risk of an adverse impact on the operating environment and, hence, the margin profile of the Group if the exchange rate of R\$ against US\$ is to be depreciated at a slower pace than IHS Economics estimates or is to be adversely appreciated.

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## LETTER FROM ROTHSCHILD

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3. The average daily trading volume of the Company was significantly lower than the Comparable Companies from 15 December 2014 up to and including 25 August 2016 (see Table 14).
4. Having taken into consideration the potential impact of a highly volatile exchange rate of R\$ against US\$ on the Group's performance, coupled with the unclear future monetary policy and upcoming political situation in Brazil, as well as the low trading volume, we consider the premia implied by the Proposal to be acceptable.

### **Public trading analysis and comparable transactions analysis**

5. The Share price performance was relatively stable between 15 December 2014 and 8 June 2016 and traded at an average closing Share price of HK\$0.92 per Share with a relatively low average daily trading volume of 0.01% as a percentage of total issued Shares outstanding.
6. The Profit Alert gave an affirmative signal over the Company's improved operating performance in the five months to 31 May 2016 mainly due to the depreciation of the R\$/US\$ exchange rate. This resulted in a fundamental correction to the intrinsic value of the Shares as reflected by the significant increase in both the price and trading volume of the Shares during Post Profit Alert Period. The interim results for the six months ended 30 June 2016 as announced on 15 August 2016 has confirmed that the profit attributable to Shareholders has increased 159.4% as compared for the corresponding period in 2015.
7. We consider the performance of the Shares prior to Profit Alert is of low relevance in serving as a key factor in determining the appropriateness of the Cancellation Consideration. We have, therefore, assessed the fairness and reasonableness of the Proposal by comparing the premium of the Cancellation Consideration of (a) approximately 44.3% over the closing price on the Last Trading Day, and (b) approximately 69.8% over the average closing prices during the Post Profit Alert Period with the recent privatisation proposals in Hong Kong.
8. The 14.8% discount to NAV of the Group as at 30 June 2016 implied by the Cancellation Consideration is lower than the average premium of 57.1% implied by the recent privatisation proposals in Hong Kong (see Table 13). However, earnings multiples are our primary valuation matrices and they are the most commonly used matrices and more appropriately adapted for the valuation approach in this sector, thus the analysis on NAV is for reference only.
9. The premia from the Cancellation Consideration are consistently higher than the average or the median premium offered in the Comparable Privatisation Transactions when compared to the aforementioned period in point 7 above (see Table 13).

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## LETTER FROM ROTHSCHILD

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### OPINION AND RECOMMENDATIONS

Having considered the above principal factors and reasons, we consider the terms of the Proposal to be fair and reasonable so far as the Scheme Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Scheme Shareholders to vote in favour of the resolution to approve the Scheme at the Court Meeting, as well as to recommend the Shareholders to vote in favour of the special resolution to approve the implementation of the Scheme at the SGM.

In respect of the RSU Offer, we consider that the terms of the RSU Offer are also fair and reasonable so far as the RSU Holders are concerned. We advise the Independent Board Committee to recommend the RSU Holders to accept the RSU Offer.

In making this recommendation, we note that the Scheme Shareholders are at liberty to vote according to their personal preference and circumstances and they should consult their own professional advisers for professional advice. Scheme Shareholders who are confident of the future prospects of the Company and/or do wish to continue to retain an exposure in the Company or who are not attracted by the capital value of the Cancellation Consideration as compared with the historical trading performance or their respective investment costs of the Shares may wish not to vote for the resolution in relation to the Proposal.

Those Scheme Shareholders who are concerned that the Proposal may not become effective and that the price and trading volume of the Shares may fall back to lower price levels and trading volume prior to the Last Trading Day may consider disposing of their Shares in the open market before the Court Meeting and the SGM, particularly if the market price of the Shares trades close to or above the Cancellation Consideration.

Yours very truly,

For and on behalf of

**Rothschild (Hong Kong) Limited**

**Catherine Yien**  
*Managing Director*

**Sharon Wu**  
*Director*

*Ms. Catherine Yien is a licensed person registered with the Securities and Futures Commission of Hong Kong and regarded as a responsible officer of Rothschild (Hong Kong) Limited under the SFO to carry out Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities and has over 20 years of experience in investment banking and corporate finance.*

*Ms. Sharon Wu is a licensed person registered with the Securities and Futures Commission of Hong Kong to carry out Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and has over 10 years of experience in investment banking and corporate finance.*

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## EXPLANATORY STATEMENT

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*This Explanatory Statement constitutes the statement required under Section 100 of the Companies Act.*

### SCHEME OF ARRANGEMENT

#### 1. INTRODUCTION

On 17 June 2016, the respective boards of directors of the Offeror and the Company jointly announced that, on 15 June 2016, the Offeror requested that the Board put forward to the Scheme Shareholders a proposal to privatise the Company by way of a scheme of arrangement under Section 99 of the Companies Act involving cancellation of all the Scheme Shares for a cancellation consideration of HK\$1.78 for each Scheme Share and the allotment and issue of new Shares to the Offeror.

On 3 August 2016, the respective boards of directors of the Offeror and the Company jointly announced that the Offeror proposed to revise the terms of the Proposal. Under the terms of the revised Proposal, each Scheme Shareholder will receive a Cancellation Consideration of HK\$2.28 for each Scheme Share. The revised Cancellation Consideration of HK\$2.28 for each Scheme Share represents a premium of approximately 28.1% to the original cancellation consideration of HK\$1.78 for each Scheme Share. It was subsequently jointly announced on 22 August 2016 that the revised Cancellation Consideration would not be increased by the Offeror and the Offeror does not reserve the right to do so and accordingly, the Cancellation Consideration will remain at HK\$2.28 for each Scheme Share.

**Shareholders and potential investors of the Company should be aware that, following the making of the statement that the Cancellation Consideration would not be increased, the Offeror will not be allowed to increase the Cancellation Consideration and the RSU Offer Price except in wholly exceptional circumstances in accordance with Rule 18.3 of the Takeovers Code.**

On completion of the Proposal, (a) the Offeror and Gold Silk will own 100% of the Shares and (b) the listing of the Shares on the Stock Exchange will be withdrawn.

The Offeror is making the RSU Offer to the RSU Holders to cancel all outstanding RSUs. The RSU Offer is conditional upon the Scheme becoming effective.

The purpose of this Explanatory Statement is to explain the terms and effects of the Proposal and, in particular, the Scheme and to provide the Shareholders and the RSU Holders with other relevant information in relation to the Proposal, the Scheme and the RSU Offer.

In addition to this Explanatory Statement, your attention is drawn to (1) the letter from the Board set out on pages 1 to 5 of this document, (2) the letter from the Independent Board Committee set out on pages 6 and 7 of this document, (3) the letter from Rothschild, the Independent Financial Adviser, set out on pages 8 to 37 of this document and (4) the Appendices. In addition, the terms of the Scheme are set out on pages S-1 to S-7 of this document.

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## EXPLANATORY STATEMENT

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### 2. THE PROPOSAL

#### 2.1 Summary of the Proposal

Under the Proposal, it is proposed that on the Effective Date:

- (a) the share capital of the Company will be reduced by cancelling and extinguishing the Scheme Shares (being all the Shares in issue as at the Record Time other than the Gold Silk Shares);
- (b) subject to and immediately upon such reduction of capital taking effect, the share capital of the Company will be increased to its former amount by the creation of such number of new Shares as is equal to the number of Scheme Shares cancelled and extinguished;
- (c) the Company will apply the credit arising in its books of account as a result of such capital reduction in paying up the newly created Shares, which will be allotted and issued, credited as fully paid, to the Offeror; and
- (d) in consideration for the cancellation and extinguishment of the Scheme Shares, the Scheme Shareholders will receive a Cancellation Consideration of HK\$2.28 for each Scheme Share.

If any dividend is declared by the Company on or before the Effective Date with a record date for entitlement to any such dividend which is on or before the Effective Date, Shareholders whose names appear in the register of members of the Company as at the record date for entitlement to any such dividend will be entitled to receive such dividend.

On 15 August 2016, the Board declared an interim dividend of HK\$0.015 per Share for the six months ended 30 June 2016, payable to Shareholders whose names appear on the register of members of the Company on 1 September 2016. Dividend warrants will be despatched to Shareholders on or around 12 September 2016.

On completion of the Proposal, the listing of the Shares on the Stock Exchange will be withdrawn.

#### 2.2 Total Consideration

As at the Latest Practicable Date, 3,421,420,250 Shares were in issue, of which 557,923,500 Shares are Scheme Shares which are held by Scheme Shareholders (representing approximately 16.31% of the Shares in issue). The Offeror does not hold any Shares as at the Latest Practicable Date. As at the Latest Practicable Date, Gold Silk, which is acting in concert with the Offeror for the purposes of the Takeovers Code in relation to the Proposal, holds 2,863,496,750 Shares in aggregate (representing approximately 83.69% of the Shares in issue).

Pursuant to the Scheme, upon the Scheme becoming effective, all the Scheme Shares will be cancelled and extinguished and the Scheme Shareholders will receive a Cancellation Consideration of HK\$2.28 for each Scheme Share.

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## EXPLANATORY STATEMENT

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The aggregate Cancellation Consideration payable for all Scheme Shares under the Proposal is HK\$1,272,065,580.

The total cash consideration required for the Proposal and the RSU Offer (assuming 100% acceptance by the RSU Holders) is HK\$1,273,262,580.

The Offeror intends to finance the cash required for the Proposal and the RSU Offer by its own internal cash resources. Credit Suisse and Anglo Chinese are satisfied that sufficient financial resources are available to the Offeror for the full implementation of the Proposal and the RSU Offer in accordance with their respective terms.

### 2.3 Comparisons of Value

The Cancellation Consideration of HK\$2.28 for each Scheme Share represents:

- (i) a premium of approximately 37.3% over the closing price of HK\$1.66 for each Share on 3 August 2016, being the last trading day prior to the announcement of the revised Cancellation Consideration of HK\$2.28 for each Scheme Share;
- (ii) a premium of approximately 31.0% over the closing price of HK\$1.74 for each Share on the Announcement Date;
- (iii) a premium of approximately 44.3% over the closing price of HK\$1.58 for each Share on the Last Trading Day;
- (iv) a premium of approximately 98.0% over the average closing price of approximately HK\$1.15 for each Share based on the daily closing prices as quoted on the Stock Exchange for the seven trading days up to and including the Last Trading Day;
- (v) a premium of approximately 132.0% over the average closing price of approximately HK\$0.98 for each Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;
- (vi) a premium of approximately 138.5% over the average closing price of approximately HK\$0.96 for each Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;
- (vii) a premium of approximately 157.4% over the average closing price of approximately HK\$0.89 for each Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Day;
- (viii) a premium of approximately 159.9% over the average closing price of approximately HK\$0.88 for each Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Day;

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- (ix) a premium of approximately 5.6% over the closing price of HK\$2.16 for each Share on the Stock Exchange on the Latest Practicable Date;
- (x) a discount of approximately 6.4% to the audited consolidated net asset value attributable to Shareholders for each Share of approximately US\$0.314 (approximately HK\$2.44) as at 31 December 2015; and
- (xi) a discount of approximately 14.8% to the unaudited consolidated net asset value attributable to Shareholders for each Share of approximately US\$0.345 (approximately HK\$2.68) as at 30 June 2016.

### 3. CONDITIONS PRECEDENT TO THE PROPOSAL

The Scheme will become effective and binding on the Company and all Scheme Shareholders upon, and completion of the Proposal is subject to, the satisfaction or valid waiver (as applicable) of the following conditions precedent:

- (a) the approval of the Scheme by a majority in number of Scheme Shareholders present and voting at the Court Meeting representing not less than three-fourths in value of those Shares that are voted by the Scheme Shareholders at the Court Meeting either in person or by proxy;
- (b) the approval of the Scheme (by way of poll) by at least 75% of the votes attaching to the Shares held by the Scheme Shareholders that are voted either in person or by proxy at the Court Meeting, provided that the number of votes cast against the resolution to approve (by way of poll) the Scheme is not more than 10% of the votes attaching to all the Shares held by the Scheme Shareholders;
- (c) the passing by Shareholders (other than those who are prohibited from voting under relevant laws, rules or regulations) of a special resolution at the SGM to approve (i) the reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares and (ii) the allotment and issue of an equal number of Shares immediately thereafter to the Offeror;
- (d) the sanction of the Scheme (with or without modifications) by the Court and the delivery to the Registrar of Companies in Bermuda of a copy of the order of the Court for registration;
- (e) the necessary compliance with the procedural requirements and conditions, if any, of Section 46(2) of the Companies Act in relation to the reduction of the issued share capital of the Company referred to in (c) above;
- (f) all Authorisations having been obtained or made from, with or by (as the case may be) the Relevant Authorities in Bermuda, Hong Kong and/or any other relevant jurisdictions;

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- (g) the Authorisations remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any Relevant Authorities which is not expressly provided for, or is in addition to requirements expressly provided for, in relevant laws, rules, regulations or codes in connection with the Proposal or any matters, documents (including circulars) or things relating thereto, in each aforesaid case up to and at the time when the Scheme becomes effective;
- (h) if required, the obtaining by the Offeror of such other necessary consent, approval, authorisation, permission, waiver or exemption which may be required from any Relevant Authorities or other third parties which are necessary or desirable for the performance of the Scheme under applicable laws and regulations;
- (i) no government, governmental, quasi-governmental, statutory or regulatory body, court or agency in any jurisdiction having taken or instituted any action, proceeding, suit, investigation or enquiry (or enacted, made or proposed, and there not continuing to be outstanding, any statute, regulation, demand or order) that would make the Proposal or the Scheme or its implementation in accordance with its terms void, unenforceable, illegal or impracticable (or which would impose any material and adverse conditions or obligations with respect to the Proposal or the Scheme or its implementation in accordance with its terms);
- (j) all necessary consents which may be required under any existing material contractual obligations of the Company being obtained;
- (k) there being no provision of any arrangement, agreement, licence or other instrument to which any member of the Group is a party or by or to which any of them is or are or may be bound, entitled or subject which as a consequence of the implementation of the Proposal or because of a change in control or management of the Company could or might reasonably result in, to an extent which is material in the context of the Group taken as a whole:
  - (i) any monies borrowed by or other indebtedness (actual or contingent) of any member of the Group being repayable or being capable of being declared payable prior to their stated maturity;
  - (ii) the creation of any mortgage, charge or other security interest over the whole or any material part of the business, property or assets of any member of the Group or any such security (whether arising or having arisen) becoming enforceable; and
  - (iii) any such arrangement, agreement, licence, permit, franchise or other instrument being terminated or adversely modified or any material action being taken or any material obligation arising thereunder;



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- (l) save as publicly announced prior to the Announcement Date, no member of the Group having since 31 December 2015 (being the date to which the latest published audited accounts of the Company were made up):
- (i) issued, agreed or authorised or proposed the issue of additional shares of any class, or securities convertible into, or rights, warrants or options to subscribe for or acquire, any such shares or convertible securities (save as between the Company and its wholly-owned subsidiaries) and including, for the avoidance of doubt, any scrip dividend;
  - (ii) recommended, declared, paid or made any bonus, dividend or other distribution other than between members of the Group (other than any declaration and payment of an interim dividend by the Company in the ordinary course for the six months ended 30 June 2016, if not disallowed by the Executive);
  - (iii) to an extent which is material in the context of the Group as a whole, merged with any body corporate or acquired or disposed of any assets or authorised, proposed or announced any intention to propose any merger, demerger, acquisition or disposal;
  - (iv) issued, authorised or proposed the issue of any debentures or, save in the ordinary course of business, incurred or increased any indebtedness or contingent liability in each case to an extent which is material in the context of the Group taken as a whole;
  - (v) purchased, redeemed or repaid or announced any proposal to purchase, redeem or repay any of its own shares or other securities or redeemed or reduced or made any other change to any part of its share capital to an extent which is material in the context of the Group taken as a whole;
  - (vi) entered into any contract, transaction, arrangement or commitment (whether in respect of capital expenditure or otherwise) which is of a long-term, onerous or unusual nature or magnitude, and which involves or is likely to involve an obligation of a nature or magnitude which, in any case, is material in the context of the Group taken as a whole;  
or
  - (vii) made or authorised or proposed or announced an intention to propose any change in its loan capital to an extent which is material in the context of the Group taken as a whole;
- (m) save as publicly announced prior to the Announcement Date, since 31 December 2015 (being the date to which the latest published audited accounts of the Company were made up):
- (i) there having been no material adverse change in the business, financial or trading position or prospects of any member of the Group to an extent which is material in the context of the Group taken as a whole; and

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- (ii) there not having been instituted or remaining outstanding any material litigation, arbitration proceedings, prosecution or other legal proceedings to which any member of the Group is a party (whether as plaintiff or defendant or otherwise) and no such proceedings having been threatened in writing against any such member and no investigation by any government or quasi-governmental, supranational, regulatory or investigative body or court against or in respect of any such member or the business carried on by any such member having been threatened in writing, announced, instituted or remaining outstanding by, against or in respect of any such member in each case which is material and adverse in the context of the Group taken as a whole; and
  
- (n) each member of the Group remaining solvent and not being subject to any insolvency or bankruptcy proceedings or likewise and no liquidator, receiver or other person carrying out any similar function having been appointed anywhere in the world in respect of the whole or any substantial part of the assets and undertakings of any member of the Group from the Announcement Date up to the date when all the Conditions are satisfied or validly waived (as applicable).

Conditions (a) and (b) take into account the approval requirements under Rule 2.10 of the Takeovers Code, in addition to the statutory requirements under Section 99 of the Companies Act. Under Section 99 of the Companies Act, the Scheme will, subject to the sanction of the Court, be binding on the Company and all Shareholders if the Scheme is approved by a majority in number of the Scheme Shareholders, representing not less than three-fourths in value of the Scheme Shares, present and voting either in person or by proxy at the Court Meeting. Under Rule 2.10 of the Takeovers Code, however, the Scheme has to be approved (by way of poll) by at least 75% of the votes attaching to the disinterested Shares held by the Scheme Shareholders that are cast either in person or by proxy at the Court Meeting and the number of votes cast (by way of poll) against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all the disinterested Shares held by all the Scheme Shareholders.

Conditions (a) to (e) above are not waivable. The Offeror reserves the right to waive any of Conditions (f) to (n), either in whole or in respect of any particular matter. All of the Conditions have to be satisfied or validly waived (as applicable) on or before Thursday, 29 December 2016 (which is the date falling 90 days after the date scheduled for the Court Meeting and the SGM) or such later date as may be proposed by the Offeror and permitted by the Court and the Executive, otherwise the Scheme will lapse and the Proposal will not proceed. As at the Latest Practicable Date, none of the Conditions have been satisfied or validly waived.

In respect of Conditions (f), (g), (h) and (j), the Offeror is not currently aware of any Authorisations or consents (other than the Authorisations or consents set out in Conditions (a) to (e) above) which are required. Neither the Offeror nor Gold Silk is a party to any agreements or arrangements which relate to circumstances in which it may or may not invoke or seek to invoke any of the above Conditions. Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, neither the Offeror nor Gold Silk will invoke any Condition so as to cause the Scheme not to become effective unless the circumstances which give rise to the right to invoke the Condition are of material significance to the Offeror in the context of the Scheme.

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It is currently expected that, if the required approvals from the Scheme Shareholders and the Shareholders are obtained at the Court Meeting and the SGM, respectively, and the Scheme has been sanctioned by the Court, the Scheme will become effective on Tuesday, 18 October 2016 (Bermuda time). If the Scheme has not become effective on or before Thursday, 29 December 2016 (which is the date falling 90 days after the date scheduled for the Court Meeting and the SGM) or such later date as may be proposed by the Offeror and permitted by the Court and the Executive, the Scheme will lapse and the Proposal will not proceed. An announcement will be made by the Company to advise the Shareholders and the RSU Holders whether the Scheme has become effective and of the Effective Date.

#### 4. REASONS FOR AND BENEFITS OF THE PROPOSAL

Driven by excess supply and intense competition, market prices for viscose staple fiber and dissolving wood pulp have declined significantly since 2011, which in turn has impacted the Company's share price performance.

The negative impact of these market factors on the Company's share price has been compounded by the low liquidity levels in the Shares, which are caused in part by the lack of analyst coverage in respect of the Company and relatively low institutional participation in the Shares. The average daily trading volume of the Shares for the 12 months up to and including the Last Trading Day was approximately 338,696 Shares per day, which is approximately 0.01% of the issued Shares as at the Announcement Date and approximately 0.06% of the Scheme Shares as at the Announcement Date.

The Company and the Ultimate Controlling Shareholder have attempted to improve the share price performance of the Company and the return to the Shareholders, including the disposal by the Company of its viscose staple fiber business, a special dividend in late 2014 and converting the Company's business model to become a pure-play dissolving wood pulp producer. The intention was to focus its efforts on becoming a global leading player in the specialty cellulose market with a streamlined business model, which would allow analysts and investors to better understand the Company and its strategies. Nevertheless, despite achieving record production volumes and improved profitability in 2015, and continuing to benefit from reduced costs as a result of the weakening Brazilian currency, the Company has continued to suffer from low liquidity and weak share price performance.

As a result, the Company has been unable to fulfil the initial objectives of its public listing, including to attract funds for future growth and to act as a vehicle to effect acquisitions. In this context, the Offeror and the Ultimate Controlling Shareholder believe that the administrative costs and management resources associated with maintaining the Company's listing are no longer warranted given the difficulties of raising funds from public equity markets, which the Offeror and the Ultimate Controlling Shareholder believe is unlikely to see any significant improvement in the near term.

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The Offeror and the Ultimate Controlling Shareholder are mindful that the low liquidity and weak performance of the Shares make it difficult for Shareholders to realise value from their investment in the Company. Therefore, the Proposal and the RSU Offer, if implemented, will provide the Scheme Shareholders and the RSU Holders with an opportunity to redirect their capital at a premium over the market price of the Shares into other more attractive investment opportunities in the current market environment.

### **5. INTENTIONS OF THE OFFEROR WITH REGARD TO THE GROUP**

Following implementation of the Proposal, the Offeror, Gold Silk and the Ultimate Controlling Shareholder intend for the Group to continue carrying on its current business. The Offeror, Gold Silk and Ultimate Controlling Shareholder have no intention to make any major changes to (a) the current operations and business of the Group, (b) the redeployment of any fixed assets of the Group or (c) the employment of any of the management or employees of the Group. Nevertheless, the Offeror, Gold Silk and the Ultimate Controlling Shareholder will continue to monitor the Group's operations and all business opportunities as they arise from time to time, which may necessitate changes to the manner in which the Group is operated so as to optimise the Group's business going forward. Following the implementation of the Proposal, the Offeror, Gold Silk and Ultimate Controlling Shareholder will also consider whether or not changes to certain management and employment roles are necessary to reflect the withdrawal of the listing of the Shares on the Stock Exchange.

The Board has noted the Offeror's intention in respect of the business of the Group following completion of the Proposal as described above and welcomes such intention.

### **6. EFFECTS OF THE PROPOSAL ON THE SHAREHOLDING STRUCTURE OF THE COMPANY**

As at the Latest Practicable Date, there were 3,421,420,250 Shares in issue, of which 557,923,500 Shares are Scheme Shares held by Scheme Shareholders (representing approximately 16.31% of the Shares in issue).

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The table below sets out the shareholding structure of the Company (a) as at the Latest Practicable Date and (b) immediately following completion of the Proposal, assuming that there is no other change in the shareholding of the Company after the Latest Practicable Date:

|   | As at the Latest<br>Practicable Date |                      | Immediately following<br>completion of the Proposal |                      |
|---|--------------------------------------|----------------------|---|----------------------|
|   | <i>Number of<br/>Shares</i>          | <i>%</i>             | <i>Number of<br/>Shares<sup>(3)</sup></i>           | <i>%</i>             |
| Offeror   | —                                    | —                    | 557,923,500   | 16.31                |
| Gold Silk <sup>(1)</sup>  | 2,863,496,750                        | 83.69                | 2,863,496,750                                       | 83.69                |
| Concert Parties   | —                                    | —                    | —   | —                    |
| <b>Offeror, Gold Silk and<br/>Concert Parties<sup>(1)</sup></b> | <b>2,863,496,750</b>                 | <b>83.69</b>         | <b>3,421,420,250</b>                                | <b>100.00</b>        |
| Scheme Shareholders <sup>(2)</sup>                              | <u>557,923,500</u>                   | <u>16.31</u>         | <u>—</u>  | <u>—</u>             |
| <b>Total</b>  | <b><u>3,421,420,250</u></b>          | <b><u>100.00</u></b> | <b><u>3,421,420,250</u></b>                         | <b><u>100.00</u></b> |

*Notes:*

- (1) Gold Silk is acting in concert with the Offeror for the purposes of the Takeovers Code in relation to the Proposal. The entire issued share capital of Gold Silk is held by Fiduco, as the trustee of a discretionary trust established by the Ultimate Controlling Shareholder as settlor. The beneficiaries of such discretionary trust include the Ultimate Controlling Shareholder and certain members of his family. The Ultimate Controlling Shareholder is deemed to be interested in 2,863,496,750 Shares held by Gold Silk pursuant to Part XV of the SFO and is treated as acting in concert with the Offeror in accordance with class (1) of the definition of “acting in concert” in the Takeovers Code.
- (2) These Shares include a total of 960,591 Shares (representing approximately 0.03% of the Shares in issue) held by John Jeffrey YING (Chairman and an independent non-executive Director) and 63,233 Shares (representing 0.00185% of the Shares in issue) held by the RSU Trustee. However, the RSU Trustee, in accordance with the terms of the trust under which the RSU Trustee holds such Shares, will not exercise any voting rights in respect of the Shares held by it at the Court Meeting and the SGM. If the Scheme becomes effective, the Shares held by the RSU Trustee will be cancelled in exchange for the Cancellation Consideration. In accordance with the terms of the trust under which the RSU Trustee holds such Shares, following the termination of the RSU Scheme and the termination of such trust, the moneys held by the RSU Trustee (including the Cancellation Consideration) will be paid to the Company.
- (3) Under the Scheme, the share capital of the Company will, on the Effective Date, be reduced by cancelling and extinguishing the Scheme Shares. Forthwith upon such reduction, the same number of Shares will be allotted and issued to the Offeror under the Proposal.

On completion of the Proposal, (a) the Offeror and Gold Silk will own 100% of the Shares and (b) the listing of the Shares on the Stock Exchange will be withdrawn.

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### 7. RSU OFFER

#### 7.1 RSU Scheme and RSUs

The Company adopted the RSU Scheme on 8 November 2010 for the purpose of, among other things, attracting skilled and experienced personnel and to incentivise them to remain with the Group.

A RSU is a contingent right of the grantee to receive a Share for no consideration upon the vesting of the RSU.

As at the Latest Practicable Date, there are three RSU Holders who have been granted 525,000 RSUs under the RSU Scheme. None of these RSUs will vest on or prior to the Record Time.

Pursuant to the rules of the RSU Scheme, the Board has determined that if the Scheme is approved by the Scheme Shareholders at the Court Meeting, none of such outstanding RSUs will vest earlier than their existing vesting date, which date is after the Record Time.

Accordingly, to facilitate the acquisition by the Offeror of 100% of the issued Shares (other than the Gold Silk Shares) on completion of the Proposal, the RSUs will be cancelled on the terms of the RSU Offer.

#### 7.2 RSU Offer

Under the Takeovers Code, the Offeror is required to make an offer to the RSU Holders for the cancellation of their RSUs. Accordingly, Credit Suisse and Anglo Chinese are making the RSU Offer to the RSU Holders on behalf of the Offeror.

Pursuant to the RSU Offer, the RSU Holders are being offered cash (being the RSU Offer Price) equal to the “see-through” price (which is HK\$2.28, being equal to the Cancellation Consideration, as there is no exercise price for the RSUs) for the cancellation of each RSU that they hold as at the Record Time. The RSU Holders will be paid the RSU Offer Price in accordance with the vesting date under, and subject to, the existing terms of each of the RSUs. The RSU Offer Price will not be increased and the Offeror does not reserve the right to do so.

The RSU Offer is conditional upon the Scheme becoming effective.

#### 7.3 Payment of RSU Offer Price

Each RSU Holder as at the Record Time who accepts the RSU Offer and lodges a completed Form of Acceptance by the prescribed deadline will be entitled to receive the RSU Offer Price for each RSU.

Settlement of the RSU Offer Price to which the RSU Holders are entitled under the RSU Offer will be implemented in full in accordance with the terms of the RSU Offer, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such RSU Holder.

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The amount of cash required to fully implement the RSU Offer (assuming 100% acceptance by the RSU Holders) would be HK\$1,197,000.

### **7.4 RSU Offer Letter**

The RSU Offer Letter setting out the terms and conditions of the RSU Offer is being sent separately to the RSU Holders.

### **7.5 Summary of Rights of RSU Holders and Cancellation of RSUs**

Any RSU Holder who accepts the RSU Offer will receive the RSU Offer Price for each RSU (such amount to be paid in accordance with the vesting date under, and subject to, the existing terms of each of the RSUs held by such RSU Holder) and the unvested RSUs will be cancelled following the closing date of the RSU Offer.

Any RSU Holder who does not accept the RSU Offer will not receive any cash consideration under the RSU Offer, and his unvested RSUs will be cancelled following the closing date of the RSU Offer in accordance with the provisions of the RSU Scheme.

## **8. INFORMATION ON THE OFFEROR**

The Offeror is a company incorporated in Bermuda with limited liability. The Offeror is a special purpose vehicle incorporated for the purpose of the Scheme and whose sole shareholder is the Ultimate Controlling Shareholder.

## **9. INFORMATION ON THE GROUP**

The Company is a company incorporated in Bermuda with limited liability, the shares of which have been listed on the Main Board since December 2010. The Group is one of the largest specialty cellulose producers in the world. The Company'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 that are natural raw materials and key ingredients in a diverse range of everyday items.

## **10. SHARE CERTIFICATES, DEALINGS AND LISTING**

Upon the Scheme becoming effective, all the Scheme Shares will be cancelled. The share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title. An application will be made by the Company to the Stock Exchange for the voluntary withdrawal of the listing of the Shares on the Stock Exchange immediately following the Scheme becoming effective pursuant to Rule 6.15(2) of the Listing Rules.

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It is currently expected that dealings in the Shares on the Main Board will cease at 4:00 p.m. on Thursday, 6 October 2016 and the listing of the Shares on the Main Board will be withdrawn at 4:00 p.m. on Thursday, 20 October 2016. The Company will make an announcement of the exact dates of the last day for dealing in the Shares and on which dates the Scheme and the withdrawal of the listing of the Shares on the Stock Exchange will become effective.

### **11. IF THE PROPOSAL IS NOT APPROVED OR LAPSES**

The Proposal will lapse if the Conditions have not been satisfied or validly waived (as applicable) on or before Thursday, 29 December 2016 (which is the date falling 90 days after the date scheduled for the Court Meeting and the SGM) or such later date as may be proposed by the Offeror and permitted by the Court and the Executive.

If the Proposal does not become unconditional or is withdrawn or lapses, the listing of the Shares on the Stock Exchange will not be withdrawn.

Under the relevant restrictions of the Takeovers Code relating to the making of subsequent offers, if the Proposal does not become unconditional or is withdrawn or lapses, none of the Offeror, Gold Silk or the Concert Parties nor any person who is subsequently acting in concert with any of them may, within 12 months from the date on which the Proposal is withdrawn or lapses, announce an offer or possible offer for the Company, except with the consent of the Executive.

### **12. REGISTRATION AND PAYMENT**

#### **12.1 Closure of the Register of Members of the Company**

In order to determine the entitlement of the Scheme Shareholders to the Cancellation Consideration under the Scheme, the register of members of the Company will be closed from Thursday, 13 October 2016 onwards (or such other date as may be notified to the Scheme Shareholders by announcement). The Scheme Shareholders should ensure that their Shares are registered or lodged for registration in their names or in the names of their nominees before the closure of the register of members of the Company. The Company's Hong Kong branch share registrar is Computershare Hong Kong Investor Services Limited, which is located at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

#### **12.2 Payment of the Cancellation Consideration to Scheme Shareholders**

Upon the Scheme becoming effective, payment of the Cancellation Consideration for the Scheme Shares will be made to the Scheme Shareholders whose names appear on the register of members of the Company as at the Record Time as soon as possible but in any event within seven business days following the Scheme becoming effective. On the basis that the Scheme becomes effective on Tuesday, 18 October 2016 (Bermuda time), cheques for payment of the Cancellation Consideration payable under the Scheme are expected to be despatched on or before Thursday, 27 October 2016. In the absence of any specific instructions to the contrary received in writing by Computershare Hong Kong Investor Services Limited, the Company's Hong Kong branch share registrar, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, cheques will be sent by ordinary post



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in postage pre-paid envelopes addressed to the persons entitled thereto at their respective registered addresses or, in the case of joint holders, to the registered address of that joint holder whose name stands first in the register of members of the Company in respect of the joint holding. All such cheques will be sent at the risk of the person(s) entitled thereto and none of the Offeror, Gold Silk, the Company, Credit Suisse, Anglo Chinese, Morgan Stanley, Rothschild, any of their respective directors, officers, employees, agents, affiliates or advisers or any other person involved in the Proposal will be responsible for any loss or delay in despatch.

On or after the day being six calendar months after the posting of such cheques, the Offeror shall have the right to cancel or countermand payment of any such cheque which has not been cashed or has been returned uncashed, and shall place all monies represented thereby in a deposit account in the Company's name with a licensed bank in Hong Kong selected by the Company.

The Company shall hold such monies until the expiry of six years from the Effective Date and shall, prior to such date, make payments therefrom of the sums to persons who satisfy the Company that they are respectively entitled thereto. On the expiry of six years from the Effective Date, the Offeror shall be released from any further obligation to make any payments under the Scheme.

Assuming that the Scheme becomes effective, all existing certificates representing the Scheme Shares will cease to have effect as documents or evidence of title as from the Effective Date, which is expected to be on Tuesday, 18 October 2016 (Bermuda time).

Settlement of the Cancellation Consideration to which the Scheme Shareholders are entitled under the Scheme will be implemented in full in accordance with the terms of the Scheme, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against any such Scheme Shareholders.

### **12.3 Payment of the RSU Offer Price to the RSU Holders**

If the RSU Offer becomes unconditional, the cash consideration under the RSU Offer due to the RSU Holders who accept the RSU Offer in accordance with the terms of the RSU Offer will be held by the Offeror in a separate account and will be retained in such account pending payment to the RSU Holders as and when the payments are due in accordance with the vesting date under, and subject to, the existing terms of each of the RSUs. Such payments will be made to the RSU Holders within seven business days following the vesting date of the relevant RSUs.

Settlement of the consideration to which the RSU Holders are entitled under the RSU Offer will be implemented in full in accordance with the terms of the RSU Offer, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against any such RSU Holders.

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### 13. OVERSEAS SHAREHOLDERS AND RSU HOLDERS

The making of the Proposal to certain Shareholders and RSU Holders may be subject to the laws of jurisdictions other than Hong Kong. Overseas Shareholders, Beneficial Owners and RSU Holders residing in jurisdictions other than Hong Kong should inform themselves about and observe all legal and regulatory requirements applicable to them. It is the responsibility of Shareholders, Beneficial Owners and RSU Holders to satisfy themselves as to the full observance of the laws of the relevant jurisdictions applicable to them in connection with the Proposal or the RSU Offer, as the case may be, including obtaining any governmental, exchange control or other consents which may be required, and compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdictions. Any action taken by such Shareholders or Beneficial Owners in respect of the Proposal or by such RSU Holders in respect of the RSU Offer will be deemed to constitute a representation and warranty from such persons to the Company and the Offeror that those local laws and requirements have been complied with.

Shareholders, Beneficial Owners and RSU Holders residing in jurisdictions other than Hong Kong should consult their professional advisers if they are in any doubt as to the potential applicability of, or consequence under, any provision of law or regulation or judicial or regulatory decisions or interpretations in any jurisdictions, territory or locality therein or thereof and, in particular, whether there will be any restriction or prohibition on the acquisition, retention, disposal or otherwise with respect to the Shares or the RSUs, as the case may be. It is emphasised that none of the Offeror, Gold Silk, the Company, Credit Suisse, Anglo Chinese, Morgan Stanley, Rothschild, any of their respective directors, officers, employees, agents, affiliates or advisers or any other person involved in the Proposal or the RSU Offer accept any responsibility in relation to the above.

#### **Overseas Shareholders in the United States**

The Proposal relates to the shares of a Bermuda company listed in Hong Kong and is proposed to be made by means of a scheme of arrangement provided for under the laws of Bermuda. The Proposal is subject to the disclosure requirements and practices applicable in Bermuda schemes of arrangement, which differ from the disclosure and other requirements of the US securities laws. Financial information included in this document has been prepared in accordance with IFRS and may not be comparable to the financial statements of US companies or companies whose financial statements are prepared in accordance with US generally accepted accounting principles, which differ in certain respects from IFRS.

It may be difficult for Scheme Shareholders or RSU Holders in the US to enforce their rights and any claim arising out of the US federal securities laws, since the Offeror and the Company are located in a non-US jurisdiction, and some or all of their officers and directors may be residents of a non-US jurisdiction. Scheme Shareholders or RSU Holders in the US may not be able to sue a non-US company or its officers or directors in a non-US court for violations of the US securities laws. Further, it may be difficult to compel a non-US company and its affiliates to subject themselves to a US court's judgement.

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## **EXPLANATORY STATEMENT**

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The receipt of cash pursuant to the Proposal or the RSU Offer by Scheme Shareholders or RSU Holders, respectively, who are US taxpayers may be a taxable transaction for US federal income tax purposes and under applicable US state and local, as well as foreign and other tax laws. Each Scheme Shareholder and RSU Holder is encouraged to consult his, her or its independent professional adviser immediately regarding the tax consequences of acceptance of the Proposal or the RSU Offer, respectively.

### **14. TAXATION**

#### **14.1 Certain Material Hong Kong Tax Considerations**

As the Scheme does not involve the sale and purchase of Hong Kong stock, no stamp duty will be payable pursuant to the Stamp Duty Ordinance on the cancellation of the Scheme Shares upon the Scheme becoming effective.

Similarly, as the acceptance of the RSU Offer and the payment of the cash consideration pursuant to the RSU Offer does not involve the sale and purchase of Hong Kong stock, no stamp duty will be payable pursuant to the Stamp Duty Ordinance upon the acceptance of the RSU Offer or the payment of the cash consideration pursuant to the RSU Offer.

#### **14.2 General**

The Scheme Shareholders and the RSU Holders, whether in Hong Kong or in other jurisdictions, are encouraged to consult their professional advisers if they are in any doubt as to the taxation implications of the Scheme or the RSU Offer and in particular, whether the receipt of the Cancellation Consideration under the Scheme or of the cash consideration under the RSU Offer would make such Scheme Shareholder or RSU Holder liable to taxation in Hong Kong or in other jurisdictions.

It is emphasised that none of the Offeror, Gold Silk, the Company, Credit Suisse, Anglo Chinese, Morgan Stanley, Rothschild, any of their respective directors, officers, employees, agents, affiliates or advisers or any other person involved in the Proposal or the RSU Offer accepts any responsibility in relation to any tax or other effects on, or liabilities of, any person in connection with the Proposal or the RSU Offer in Hong Kong or any other jurisdiction.

### **15. COURT MEETING AND SGM**

In accordance with the direction of the Court, the Court Meeting will be convened for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme (with or without modification).

The SGM will be held for the purpose of considering and, if thought fit, passing a special resolution to approve and give effect to (a) the reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares and (b) the application by the Company of the reserve created as a result of the cancellation of the Scheme Shares to restore the issued share capital of the Company to the amount immediately prior to the cancellation of the Scheme Shares by issuing and paying up in full at par the new Shares to the Offeror.

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## EXPLANATORY STATEMENT

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A notice convening the Court Meeting to be held at Regus Business Centre, 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Friday, 30 September 2016 at 11:00 a.m. is set out on pages N-1 and N-2 of this document. A notice convening the SGM to be held at the same venue on the same date at 11:30 a.m. (or as soon thereafter as the Court Meeting shall have been concluded or adjourned) is set out on pages N-3 and N-4 of this document.

The Offeror, Gold Silk and the Concert Parties are not Scheme Shareholders and therefore are not entitled to vote on the resolution to approve the Scheme at the Court Meeting.

All Scheme Shareholders will be entitled to vote at the Court Meeting and all Shareholders will be entitled to vote at the SGM.

For the avoidance of doubt, John Jeffrey YING (Chairman and an independent non-executive Director) and the RSU Trustee are not acting in concert with the Offeror, Gold Silk or the Concert Parties for the purposes of the Takeovers Code in relation to the Proposal and therefore, the Shares held by them are Scheme Shares and are entitled to be voted at the Court Meeting and the SGM. However, in accordance with the terms of the trust under which the RSU Trustee holds such Shares, the RSU Trustee will not exercise any voting rights in respect of the Shares held by it at the Court Meeting and the SGM.

### 16. DIRECTORS' INTERESTS

TEY Wei Lin, the sole Director who is not on the Independent Board Committee, holds positions in various companies controlled by the Ultimate Controlling Shareholder, who is the sole shareholder of the Offeror.

As at the Latest Practicable Date, John Jeffrey YING, the Chairman and an independent non-executive Director, held 960,591 Shares (representing approximately 0.03% of the Shares in issue) vested to him pursuant to the rules of the Pre-IPO Restricted Share Unit Scheme of the Company.

Save as disclosed above, none of the Directors have any direct or indirect interest in the Proposal or the RSU Offer.

### 17. RECOMMENDATIONS

#### 17.1 Recommendation of Rothschild

In the letter from Rothschild, the Independent Financial Adviser, set out in this document, Rothschild has stated that having considered the principal factors and reasons set out in its letter, it considers the terms of the Proposal and the RSU Offer to be fair and reasonable so far as the Scheme Shareholders and the RSU Holders are concerned. Accordingly, Rothschild has advised the Independent Board Committee to recommend (a) the Scheme Shareholders to vote in favour of the resolution to approve the Scheme at the Court Meeting, (b) the Shareholders to vote in favour of the special resolution to approve the implementation of the Scheme at the SGM and (c) the RSU Holders to accept the RSU Offer.

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## EXPLANATORY STATEMENT

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Your attention is drawn to the advice and recommendation of Rothschild in “*Letter from Rothschild*” on pages 8 to 37 of this document.

### 17.2 Recommendation of the Independent Board Committee

The Board has established the Independent Board Committee, comprising John Jeffrey YING, Jeffrey LAM Kin Fung, David YU Hon To, LIM Ah Doo, LOW Weng Keong and Armin MEYER, all of whom are independent non-executive Directors, to make recommendations to the Scheme Shareholders and the RSU Holders in respect of the Proposal and the RSU Offer.

The Independent Board Committee, having considered (a) the reasons for, and benefits of, the Proposal and the RSU Offer and their effects as set out in this document and (b) the terms of the Proposal and the RSU Offer and having taken into account the advice of Rothschild, the Independent Financial Adviser, and in particular, the factors, reasons and recommendations set out in “*Letter from Rothschild*” on pages 8 to 37 of this document, considers that the terms of the Proposal and the RSU Offer are fair and reasonable so far as the Scheme Shareholders and the RSU Holders are concerned.

Accordingly, the Independent Board Committee recommends that:

- (a) the Scheme Shareholders vote in favour of the resolution to approve the Scheme at the Court Meeting;
- (b) the Shareholders vote in favour of the special resolution to approve the implementation of the Scheme at the SGM; and
- (c) the RSU Holders accept the RSU Offer.

Your attention is drawn to (i) the recommendation of the Independent Board Committee in “*Letter from the Independent Board Committee*” on pages 6 and 7 of this document and (ii) “*Letter from Rothschild*” on pages 8 to 37 of this document, which sets out the factors and reasons taken into account by Rothschild in arriving at its advice to the Independent Board Committee.

TEY Wei Lin, the sole Director who is not on the Independent Board Committee, holds positions in various companies controlled by the Ultimate Controlling Shareholder. As the Ultimate Controlling Shareholder is the sole shareholder of the Offeror, TEY Wei Lin has voluntarily abstained from providing a recommendation to the Scheme Shareholders and the RSU Holders on the terms of the Proposal and the RSU Offer.

## 18. INDICATIONS AS TO VOTING

Gold Silk has indicated that the Shares held by it will be voted in favour of the special resolution to approve the implementation of the Scheme at the SGM.

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## EXPLANATORY STATEMENT

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In addition, John Jeffrey YING (Chairman and an independent non-executive Director), has indicated that the Shares held by him will be voted in favour of (a) the resolution to approve the Scheme at the Court Meeting and (b) the special resolution to approve the implementation of the Scheme at the SGM.

### 19. ACTIONS TO BE TAKEN

#### 19.1 Actions to be taken by Shareholders

A **pink** form of proxy for use at the Court Meeting and a **white** form of proxy for use at the SGM are enclosed with copies of this document sent to the Registered Owners.

**Whether or not you are able to attend the Court Meeting and/or the SGM, you are strongly encouraged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and also the enclosed white form of proxy in respect of the SGM, in accordance with the respective instructions printed on them, and to lodge them with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.**

In order to be valid, the **pink** form of proxy for use at the Court Meeting should be lodged not later than 11:00 a.m. on Wednesday, 28 September 2016. The **pink** form of proxy may alternatively be handed to the Chairman of the Court Meeting at the Court Meeting. The **white** form of proxy for use at the SGM should be lodged not later than 11:30 a.m. on Wednesday, 28 September 2016. The completion and return of the relevant forms of proxy will not preclude you from attending and voting in person at the relevant meeting should you so wish. In such event, the returned form of proxy for that meeting will be deemed to have been revoked.

Even if you do not appoint a proxy and you do not attend and vote at the Court Meeting and/or the SGM, you will still be bound by the outcome of the Court Meeting and/or the SGM. You are therefore strongly encouraged to attend and vote at the Court Meeting and/or the SGM in person or by proxy.

Voting at the Court Meeting and the SGM will be taken by poll.

If any Scheme Shareholder has questions concerning administrative matters, such as dates, documentation and procedures relating to the Proposal, please call the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at +852 2862 8555 between 9:00 a.m. and 6:00 p.m. on Mondays to Fridays, excluding public holidays. This hotline cannot and will not provide advice on the merits of the Proposal or the Scheme or give financial or legal advice.

For the purpose of determining the entitlement of the Scheme Shareholders to attend and vote at the Court Meeting and the Shareholders to attend and vote at the SGM, the register of members of the Company will be closed from Wednesday, 28 September 2016 to Friday, 30 September 2016 (both days inclusive) and, during such period, no transfer of Shares will be effected.

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In order to qualify to vote at the Court Meeting and the SGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Tuesday, 27 September 2016.

An announcement will be made by the Company in relation to the results of the Court Meeting and the SGM, and if all of the requisite resolutions to approve and implement the Scheme are passed at those meetings, further announcement(s) will be made in relation to, among other things, the results of the Court Hearing of the petition to sanction the Scheme, the Effective Date and the date of withdrawal of the listing of the Shares on the Stock Exchange.

### **19.2 Actions to be taken by Beneficial Owners whose Shares are held by a Registered Owner**

Except as required by law, no person shall be recognised by the Company as holding any Shares on trust.

If you are a Beneficial Owner whose Shares are registered in the name of a nominee, trustee, depositary or any other authorised custodian or third party, you should contact such Registered Owner to give instructions to and/or to make arrangements with such Registered Owner as to the manner in which the Shares beneficially owned by you should be voted at the Court Meeting and/or the SGM.

If you are a Beneficial Owner who wishes to attend the Court Meeting and/or the SGM personally, you should:

- (a) contact the Registered Owner directly to make the appropriate arrangements with the Registered Owner to enable you to attend and vote at the Court Meeting and/or the SGM and for such purpose, the Registered Owner may appoint you as its proxy; or
- (b) arrange for some or all of the Shares registered in the name of the Registered Owner to be transferred into your own name, if you wish to vote (in person or by proxy) at the Court Meeting and/or the SGM.

The appointment of a proxy by the Registered Owner at the relevant Court Meeting and/or the SGM shall be in accordance with all relevant provisions in the Bye-laws.

In the case of the appointment of a proxy by the Registered Owner, the relevant forms of proxy shall be completed and signed by the Registered Owner and should be lodged in the manner and before the latest time for lodging the relevant forms of proxy as described in this document.

The completion and return of a form of proxy for the Court Meeting and/or the SGM will not preclude the Registered Owner from attending and voting in person at the Court Meeting or the SGM. In such event, the returned form of proxy will be deemed to have been revoked.



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## EXPLANATORY STATEMENT

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Instructions to and/or arrangements with the Registered Owner should be given or made in advance of the relevant latest time for the lodgement of the forms of proxy in respect of the Court Meeting and the SGM in order to provide the Registered Owner with sufficient time to complete his/her/its forms of proxy accurately and to lodge them by the deadline. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the relevant latest time for the lodgement of the forms of proxy in respect of the Court Meeting and the SGM, any such Beneficial Owner should comply with the requirements of such Registered Owner.

### 19.3 Actions to be taken by Beneficial Owners whose Shares are deposited in CCASS

If you are a Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited, you should, unless you are admitted to participate in CCASS as an Investor Participant:

- (a) contact your broker, custodian, nominee or other relevant person who is, or has in turn deposited such Shares with, a CCASS participant regarding voting instructions to be given to such persons; or
- (b) arrange for some or all of such Shares to be withdrawn from CCASS and transferred into your own name, if you wish to vote (in person or by proxy) at the Court Meeting and/or the SGM.

The procedure for voting by the Investor Participants and the Other CCASS Participants with respect to Shares registered under the name of HKSCC Nominees Limited shall be in accordance with the “Operating Guide for Investor Participants”, the “General Rules of CCASS” and the “CCASS Operational Procedures” in effect from time to time.

### 19.4 Actions to be taken by RSU Holders

The RSU Offer Letter is being sent to each RSU Holder, together with this document and a Form of Acceptance. Any RSU Holder who wishes to accept the RSU Offer must complete and return the duly completed and executed Form of Acceptance so as to reach the Offeror, c/o Bracell Limited at 21/F, China Building, 29 Queen’s Road Central, Central, Hong Kong, for the attention of the Offeror and marked “Bracell Limited — RSU Offer” **by no later than 4:00 p.m. on Tuesday, 1 November 2016 (or such later date and time as may be notified to the RSU Holders by or on behalf of the Offeror)**. No acknowledgement of receipt of any Form of Acceptance or any other document will be given.

RSU Holders are encouraged to read the instructions and other terms and conditions of the RSU Offer in the RSU Offer Letter and in the Form of Acceptance.



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## EXPLANATORY STATEMENT

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### 19.5 Court Hearing to sanction the Scheme

In accordance with the Companies Act, if the resolutions are approved at the Court Meeting and the SGM, the Company must then make a further application to the Court to sanction the Scheme. The Offeror and the Company cannot complete the Proposal and the Scheme without obtaining this approval from the Court.

The Court Hearing is expected to take place at 9:30 a.m. on Friday, 14 October 2016 (Bermuda time). In determining whether to exercise its discretion to sanction the Scheme, the Court will determine, among other things, whether the Scheme is fair to the Scheme Shareholders. At the Court Hearing, the Court may impose such conditions as it deems appropriate in relation to the Scheme, but may not impose any material changes without the joint consent of the Offeror and the Company. The Company may consent on behalf of the Shareholders to any modification of the Scheme which the Court may think fit to approve or impose.

If the Court sanctions the Scheme and if all the other conditions of the Proposal are satisfied or validly waived (as applicable), the Company intends to file the Court order sanctioning the Scheme with the Registrar of Companies in Bermuda on Tuesday, 18 October 2016 (Bermuda time). This will cause the Scheme to become effective.

**Scheme Shareholders (including any Beneficial Owners of such Shares that give voting instructions to a custodian or clearing house that subsequently votes at the Court Meeting) should note that they will be entitled to appear at the Court Hearing expected to take place at 9:30 a.m. on Friday, 14 October 2016 (Bermuda time), at which the Company will seek, among other things, the sanction of the Scheme.**

### 20. COSTS OF THE SCHEME

The Offeror and the Company have agreed that:

- (a) if the Scheme becomes effective, all costs and expenses incurred in connection with the Scheme will be borne by the Offeror; and
- (b) if the Scheme does not become effective, the Offeror and the Company will each bear their own costs, charges and expenses of their respective advisers and counsels, and other costs, charges and expenses of the Scheme will be shared between the Offeror and the Company equally.

### 21. FURTHER INFORMATION

This document will be despatched to the Shareholders and the RSU Holders at no cost to them. Sufficient copies of this document will also be despatched to CCASS participants who hold Shares (including, where applicable, Beneficial Owners of Shares) at no cost to them.

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## EXPLANATORY STATEMENT

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In addition, electronic copies of this document may be obtained free of charge from the Company's website at [www.brazilcellulose.com](http://www.brazilcellulose.com) and the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk).

Further information is set out in the Appendices to, and elsewhere in, this document, all of which form part of this Explanatory Statement.

In addition to the documents available for inspection set out in "*Appendix IV — Documents Available for Inspection*", the Company publishes its annual and interim reports, announcements and other corporate communications on its website at [www.brazilcellulose.com](http://www.brazilcellulose.com) and on the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk). Information published by the Company on the Stock Exchange's website can be found on such website by reference to its stock code or stock name.

You should rely only on the information contained in this document in order to vote your Shares at the Court Meeting and the SGM. None of the Offeror, Gold Silk, the Company, Credit Suisse, Anglo Chinese, Morgan Stanley, Rothschild, any of their respective directors, officers, employees, agents, affiliates or advisers or any other person involved in the Proposal or the RSU Offer has authorised anyone to provide you with information that is different from what is contained in this document.

**Shareholders and/or potential investors should be aware that the Proposal will only become effective upon all the Conditions being satisfied or validly waived (as applicable) and therefore the Scheme may or may not become effective. Shareholders and/or potential investors should therefore exercise caution when dealing in the Shares. Persons who are in doubt as to the action they should take should consult their licensed securities dealer, registered institution in securities, bank manager, solicitor or other professional adviser.**

## 22. GENERAL

In case of any inconsistency, the English language text of this document and the accompanying forms of proxy shall prevail over the Chinese language text.

In case of any inconsistency between the Explanatory Statement on pages 38 to 60 of this document and the Scheme set out on pages S-1 to S-7 of this document, the Scheme will prevail.

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## PARTIES INVOLVED IN THE PROPOSAL

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### 1. ADVISERS TO THE COMPANY

|  |  |
|--|--|
| <b>Financial Adviser to the Company</b>  | Morgan Stanley Asia Limited<br>Level 46, International Commerce Centre<br>1 Austin Road West<br>Kowloon<br>Hong Kong |
| <b>Independent Financial Adviser to the Independent Board Committee of the Company</b> | Rothschild (Hong Kong) Limited<br>16/F, Alexandra House<br>18 Chater Road<br>Central<br>Hong Kong                    |
| <b>Legal Advisers to the Company as to Hong Kong Law</b>                               | Freshfields Bruckhaus Deringer<br>11th Floor, Two Exchange Square<br>8 Connaught Place<br>Central<br>Hong Kong       |
| <b>Legal Advisers to the Company as to Bermuda Law</b>                                 | Conyers Dill & Pearman<br>29th Floor, One Exchange Square<br>8 Connaught Place<br>Central<br>Hong Kong               |

### 2. ADVISERS TO THE OFFEROR

|  |  |
|--|--|
| <b>Joint Financial Advisers to the Offeror</b>           | Credit Suisse (Hong Kong) Limited<br>Level 88, International Commerce Centre<br>1 Austin Road West<br>Kowloon<br>Hong Kong |
|  | Anglo Chinese Corporate Finance, Limited<br>40th Floor, Two Exchange Square<br>8 Connaught Place<br>Central<br>Hong Kong   |
| <b>Legal Advisers to the Offeror as to Hong Kong Law</b> | Norton Rose Fulbright Hong Kong<br>38th Floor, Jardine House<br>1 Connaught Place<br>Central<br>Hong Kong                  |

**1. RESPONSIBILITY STATEMENT**

The issue of this document has been approved by the Offeror Directors and the Ultimate Controlling Shareholder (as the sole shareholder of the Offeror), who jointly and severally accept full responsibility for the accuracy of the information contained in this document (other than information relating to the Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document (other than those expressed by the Company or the Directors) have been arrived at after due and careful consideration and there are no other facts not contained in this document, the omission of which would make any statement in this document misleading.

**2. DISCLOSURE OF INTERESTS IN THE SHARES**

As at the Latest Practicable Date, save as disclosed in “*Effects of the Proposal on the Shareholding Structure of the Company*” in the Explanatory Statement on pages 46 and 47 of this document:

- (a) none of the Offeror, Gold Silk or any of the Offeror Directors was interested in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares;
- (b) none of the Concert Parties owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares; and
- (c) none of the Offeror, Gold Silk or any of the Concert Parties had borrowed or lent any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares, save for any borrowed Shares which have been either on-lent or sold.

The above disclosure has been included in this document in compliance with the requirements of the Takeovers Code.

## 3. DEALINGS IN THE SHARES

- (a) Details of the dealings for value in the Shares by members of the Credit Suisse group (except those which were conducted by exempt principal traders or exempt fund managers and which are covered by their respective exempt status, in each case as recognised by the Executive as such for the purpose of the Takeovers Code), during the Relevant Period are set out below:

| <b>Name</b>                       | <b>Date</b>      | <b>Type of Transaction</b> | <b>Number of Shares</b> | <b>Price per Share</b> |
|-----------------------------------|------------------|----------------------------|-------------------------|------------------------|
| Credit Suisse (Hong Kong) Limited | 17 December 2015 | Subscription of new Shares | 1,000,000               | HK\$0.81               |
|                                   | 31 December 2015 | Sale                       | 226,000                 | HK\$ 0.90              |
|                                   | 4 January 2016   | Sale                       | 235,000                 | HK\$ 0.90              |
|                                   | 5 January 2016   | Sale                       | 41,000                  | HK\$ 0.90              |
|                                   | 18 January 2016  | Sale                       | 85,500                  | HK\$ 0.78              |
|                                   | 20 January 2016  | Sale                       | 113,500                 | HK\$0.711              |
|                                   | 21 January 2016  | Sale                       | 299,000                 | HK\$ 0.72              |

- (b) Save as disclosed in paragraph 3(a) above, none of the Offeror, Gold Silk, the Offeror Directors or any of the Concert Parties has dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares during the Relevant Period.
- (c) No person who has an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror, Gold Silk or any of the Concert Parties has dealt for value in the Shares or any convertible securities, warrants, options or derivatives in respect of the Shares during the Relevant Period.

**4. ARRANGEMENTS IN CONNECTION WITH THE SCHEME**

As at the Latest Practicable Date:

- (a) save for the arrangements contemplated under the Proposal and the RSU Offer as disclosed in this document, there were no agreements, arrangements or understanding (including any compensation arrangements) between the Offeror, Gold Silk or any of the Concert Parties (on the one part) and any of the Directors, recent Directors, Shareholders or recent Shareholders (on the other part) having any connection with or dependence upon the Scheme;
- (b) there were no agreements or arrangements to which the Offeror, Gold Silk or any of the Concert Parties is a party which relate to any circumstances in which any of them may or may not invoke or seek to invoke a condition of the Scheme;
- (c) there was no agreement, arrangement or understanding that the Shares acquired by the Offeror pursuant to the Scheme would be transferred, charged or pledged to any other persons; and
- (d) save for the arrangements contemplated under the Proposal and the RSU Offer as disclosed in this document, there were no arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between the Offeror, Gold Silk or any of the Concert Parties and any other person.

**5. CONSENTS**

Each of Credit Suisse and Anglo Chinese has given and has not withdrawn its written consent to the issue of this document with the inclusion of references to its name in the form and context in which they respectively appear.

**6. MISCELLANEOUS**

- (a) The Offeror is a special purpose vehicle incorporated in Bermuda for the purpose of the Scheme. Its sole shareholder is the Ultimate Controlling Shareholder.
- (b) The registered address and the names of the directors of the Offeror are as follows:

**Registered Address:** Dallas Building  
7 Victoria Street  
Hamilton HM11  
Bermuda

**Board of Directors:** George Thomas Dantas  
Lee Chong

- (c) The addresses and (if applicable) the names of the directors of the principal members of the Offeror's concert group are as follows:

**Ultimate Controlling  
Shareholder  
(Mr. Sukanto Tanoto)**

**Address:**  
80 Raffles Place, #50-01  
UOB Plaza 1  
Singapore 048624

**Gold Silk<sup>(1)</sup>**

**Address:**  
Ugland House, South Church Street  
P.O. Box 309 GT  
George Town  
Grand Cayman  
Cayman Islands

**Sole Director:**  
Dorbat Treuhand-Und Verwaltungsanstalt

**Fiduco<sup>(1)</sup>**

**Address:**  
Wuhrstrasse 6, 9490 Vaduz  
Liechtenstein

**Directors:**  
Angelika Iris Moosleithner  
Christian Franz Wille  
Thomas Haas  
Reto Georg Hadorn  
Stephan Kaufmann  
Thomas Hanselmann  
Philipp Markus Schmid  
Erik Eduard Müller  
Iwan Josef Ackermann

*Note:*

- (1) The entire issued share capital of Gold Silk is held by Fiduco, as the trustee of a discretionary trust established by the Ultimate Controlling Shareholder as settlor. The beneficiaries of such discretionary trust include the Ultimate Controlling Shareholder and certain members of his family.
- (d) Credit Suisse and Anglo Chinese have been appointed as joint financial advisers to the Offeror in respect of the Proposal and the RSU Offer. The address of Credit Suisse is at Level 88, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong. The address of Anglo Chinese is at 40th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong.

- (e) As at the Latest Practicable Date, no person who owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares had irrevocably committed themselves to vote their Shares in favour of or against the resolutions in respect of the Scheme at the Court Meeting and/or the SGM. However, Gold Silk has indicated that the Shares held by it will be voted in favour of the special resolution to approve the implementation of the Scheme at the SGM. In addition, John Jeffrey YING (Chairman and an independent non-executive Director), has indicated that the Shares held by him will be voted in favour of (a) the resolution to approve the Scheme at the Court Meeting and (b) the special resolution to approve the implementation of the Scheme at the SGM.



**1. RESPONSIBILITY STATEMENT**

The issue of this document has been approved by the Directors, who jointly and severally accept full responsibility for the accuracy of the information contained in this document relating to the Group and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document by the Company or the Directors have been arrived at after due and careful consideration and there are no other facts not contained in this document, the omission of which would make any statement in this document misleading.

**2. SHARE CAPITAL**

- (a) As at the Latest Practicable Date, the share capital of the Company was as follows:

**Authorised Share Capital**

|                                    |                    |
|------------------------------------|--------------------|
| Number of authorised shares        | 15,000,000,000     |
| Amount of authorised share capital | US\$750,000,000.00 |

**Issued and Fully Paid-up Share Capital**

|   |                    |
|---|--------------------|
| Number of Shares in issue:                  | 3,421,420,250      |
| Amount of issued and paid-up share capital: | US\$171,071,012.50 |

- (b) All the Shares presently in issue are fully paid or credited as fully paid and rank *pari passu* in all respects with each other, including as to rights to capital, dividends and voting.
- (c) No Shares were issued by the Company since 31 December 2015, being the end of the last financial year of the Company, up to and including the Latest Practicable Date.
- (d) As at the Latest Practicable Date, there were 525,000 RSUs granted, but not yet vested, under the RSU Scheme. A RSU is a contingent right of the grantee to receive a Share for no consideration upon the vesting of the RSU. No RSUs will vest on or prior to the Record Time.
- (e) As at the Latest Practicable Date, the Company did not have any outstanding options, warrants or conversion rights affecting the Shares.

### 3. MARKET PRICES OF THE SHARES

The table below shows the closing prices of the Shares on the Stock Exchange on (i) the Latest Practicable Date, (ii) the Last Trading Day and (iii) at the end of each calendar month during the Relevant Period:

| Date                                     | Closing Price of<br>each Share<br>(HK\$) |
|--|--|
| 31 December 2015                         | 0.90                                     |
| 29 January 2016                          | 0.73                                     |
| 29 February 2016                         | 0.72                                     |
| 31 March 2016                            | 0.87                                     |
| 29 April 2016                            | 0.97                                     |
| 31 May 2016                              | 0.90                                     |
| 15 June 2016 (Last Trading Day)          | 1.58                                     |
| 17 June 2016 <sup>(1)</sup>              | 1.74                                     |
| 30 June 2016                             | 1.63                                     |
| 29 July 2016                             | 1.67                                     |
| 26 August 2016 (Latest Practicable Date) | 2.16                                     |

*Note:*

- (1) Subsequent to the issuance of the announcement by the Company pursuant to Rule 3.7 of the Takeovers Code on 17 June 2016, trading in the Shares on the Main Board resumed. After market close on 17 June 2016, the Company issued the Announcement pursuant to Rule 3.5 of the Takeovers Code.

During the Relevant Period, the highest closing price of the Shares on the Stock Exchange was HK\$2.19 each on 22 August 2016 and the lowest closing price of the Shares on the Stock Exchange was HK\$0.70 each on 1 March 2016.

### 4. DISCLOSURE OF INTERESTS IN SHARES

- (a) As at the Latest Practicable Date, the following Director had the following interests in the Shares. For the purpose of this paragraph, “interested” and “interests” have the same meanings given to those terms in Part XV of the SFO:

| Name of Director                 | Capacity         | Nature<br>of Interest | Number<br>of Shares | Approximate<br>% of<br>Shareholding |
|----------------------------------|------------------|-----------------------|---------------------|-------------------------------------|
| John Jeffrey YING <sup>(1)</sup> | Beneficial owner | Personal interest     | 960,591             | 0.03%                               |

*Note:*

- (1) As at the Latest Practicable Date, John Jeffrey YING held a total of 960,591 Shares representing the total number of Shares vested to him pursuant to the rules of the Pre-IPO Restricted Share Unit Scheme of the Company.
- (b) As at the Latest Practicable Date:
- (i) none of the subsidiaries of the Company, any pension fund of the Group or any adviser to the Company as specified in class (2) of the definition of “associate” under the Takeovers Code (but excluding exempt principal traders), owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares;
  - (ii) there were no arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) or (4) of the definition of “associate” under the Takeovers Code, and any other person;
  - (iii) no fund managers (other than exempt fund managers) connected with the Company who managed funds on a discretionary basis owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares; and
  - (iv) neither the Company nor any of the Directors had borrowed or lent any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares, save for any borrowed Shares which had been either on-lent or sold.

## **5. DISCLOSURE OF INTERESTS IN OFFEROR SHARES**

The Offeror is wholly owned by the Ultimate Controlling Shareholder. Accordingly, as at the Latest Practicable Date, neither the Company nor any of the Directors had any interests in any Offeror Shares or any convertible securities, warrants, options or derivatives in respect of the Offeror Shares.

## **6. DEALINGS IN THE SHARES**

- (a) On 17 December 2015, the Company announced that it had entered into a placing agreement with Credit Suisse pursuant to which the Company agreed to issue 1,000,000 Shares to Credit Suisse at a placing price of HK\$0.81 for each Share. The purpose of the share placing was to enable the Company to maintain the minimum public float of the Shares as required under the Listing Rules. The share placing was completed on 28 December 2015. As at the Latest Practicable Date, Credit Suisse does not hold any Shares. Save for the foregoing, neither the Company nor any of the Directors has dealt for value in any Shares or any other convertible securities, warrants, options or derivatives in respect of the Shares during the Relevant Period.

- (b) During the Offer Period and ending on the Latest Practicable Date:
- (i) none of the subsidiaries of the Company, any pension fund of the Group or any adviser to the Company as specified in class (2) of the definition of “associate” under the Takeovers Code (but excluding exempt principal traders) has dealt for value in the Shares or any convertible securities, warrants, options or derivatives in respect of the Shares;
  - (ii) no person who has an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) or (4) of the definition of “associate” under the Takeovers Code has dealt for value in the Shares or any convertible securities, warrants, options or derivatives in respect of the Shares; and
  - (iii) no fund managers (other than exempt fund managers) connected with the Company who managed funds on a discretionary basis has dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares.

## 7. DEALINGS IN OFFEROR SHARES

Neither the Company nor any of the Directors has dealt for value in any Offeror Shares or any convertible securities, warrants, options or derivatives in respect of the Offeror Shares during the Relevant Period.

## 8. MATERIAL LITIGATION

As at the Latest Practicable Date and save as disclosed below, none of the members of the Group was engaged in any litigation of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group.

The Group is involved in ongoing proceedings relating to the Bankruptcy Estate of Kuitu Finland Oy. Details of the proceedings are disclosed in the Company’s prospectus dated 26 November 2010 (the “**Prospectus**”) in the section headed “Business — Legal Proceedings”. As disclosed in the Prospectus, Gold Silk has agreed to indemnify the Group against all losses suffered or incurred by the Group arising out of or in connection with the claims against Sateri International Co. Ltd (now known as Bracell International Co. Ltd) pursuant to these proceedings. Accordingly, the Directors believe that the outcome of these proceedings would not have a material adverse effect on the Group’s financial position or results of operations.

As at 30 June 2016, the Group had total contingent liabilities of approximately US\$54 million in respect of possible future losses on certain lawsuits and administrative proceedings in Brazil. These comprise general tax, labour and civil litigation claims in Brazil in which the Group is involved in. The Group’s Brazilian legal counsels have evaluated the risk of loss from these claims as possible but not probable and the Directors concur with such risk assessment.

**9. MATERIAL CONTRACT**

The following contract (not being a contract entered into in the ordinary course of the business carried on or intended to be carried on by any member of the Group) has been entered into by members of the Group after the date which was two years before the commencement of the Offer Period, up to and including the Latest Practicable Date and which is material:

- (a) the sale and purchase agreement dated 29 October 2014 entered into between Sateri International Co. Ltd (now known as Bracell International Co. Ltd) and Pacific Viscose Limited relating to the disposal of the Group's viscose staple fiber business in the People's Republic of China for a consideration of US\$591,467,000.

**10. EXPERT**

The following is the qualification of the expert which has given advice which is contained in this document:

| <b>Name of Expert</b>          | <b>Qualification</b>  |
|--------------------------------|---|
| Rothschild (Hong Kong) Limited | Licensed under the SFO to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities |

**11. CONSENTS**

Each of Morgan Stanley Asia Limited and Rothschild (Hong Kong) Limited has given and has not withdrawn its written consent to the issue of this document with the inclusion of its report and/or letter and/or references to its name in the form and context in which they respectively appear.

**12. ARRANGEMENTS AFFECTING THE DIRECTORS**

As at the Latest Practicable Date:

- (a) no benefit (save for statutory compensation required under applicable laws) will be given to any Director as compensation for loss of office or otherwise in connection with the Scheme;
- (b) save for the arrangements contemplated under the Proposal and the RSU Offer as disclosed in this document, there were no agreements or arrangements between any Director and any other person which is conditional on or dependent upon the outcome of the Scheme or otherwise connected with the Scheme; and
- (c) there were no material contracts entered into by the Offeror in which any Director had a material personal interest.

**13. SERVICE CONTRACTS**

As at the Latest Practicable Date, there were no service contracts which had been entered into by any of the Directors with the Company or any of its subsidiaries or associated companies (a) which (including both continuous or fixed term contracts) had been entered into or amended within six months before the commencement of the Offer Period, (b) which were continuous contracts with a notice period of 12 months or more or (c) which were fixed term contracts with more than 12 months to run irrespective of the notice period.

### 1. THREE YEAR FINANCIAL SUMMARY

The Company's consolidated financial statements are prepared and presented in accordance with IFRS.

The Company's consolidated financial statements for each of the years ended 31 December 2013, 2014 and 2015 have been audited by PricewaterhouseCoopers, Certified Public Accountants, as stated in their unqualified audit reports dated 17 March 2014, 16 March 2015 and 14 March 2016, respectively.

During each of the years ended 31 December 2013, 2014 and 2015, the Group adopted all of the new and revised standards and amendments of IFRS that are relevant to the Group's operations and mandatory for annual accounting periods beginning 1 January 2013, 2014 and 2015 respectively. The adoption of these new and revised standards and amendments had no significant impact on the Group's results and financial position.

The following summary financial information (i) for each of the years ended 31 December 2013, 2014 and 2015 is extracted from the consolidated financial statements of the Company for the years ended 31 December 2014 and 2015 as set forth in the annual reports of the Company for the years ended 31 December 2014 and 2015 and (ii) for the six months ended 30 June 2015 and 2016 is extracted from the unaudited consolidated financial statements of the Company for the six months ended 30 June 2016 as set forth in the interim report of the Company for the six months ended 30 June 2016.

#### Summary Consolidated Income Statements

|  | Audited                         |                 |                 | Unaudited        |                 |
|--|---------------------------------|-----------------|-----------------|------------------|-----------------|
|  | Year ended 31 December          |                 |                 | Six months ended |                 |
|  | 2013                            | 2014            | 2015            | 2015             | 2016            |
|  | <i>(restated)<sup>(1)</sup></i> |                 |                 |                  |                 |
|  | <i>US\$'000</i>                 | <i>US\$'000</i> | <i>US\$'000</i> | <i>US\$'000</i>  | <i>US\$'000</i> |
| <b>Continuing operations</b>   |                                 |                 |                 |                  |                 |
| Revenue  | 455,511                         | 478,718         | 443,813         | 220,529          | 213,454         |
| Cost of sales  | (285,445)                       | (299,945)       | (273,520)       | (145,607)        | (102,768)       |
| Gross profit   | 170,066                         | 178,773         | 170,293         | 74,922           | 110,686         |
| Selling and distribution expenses  | (46,549)                        | (41,214)        | (41,118)        | (19,558)         | (18,320)        |
| General and administrative expenses  | (49,640)                        | (44,724)        | (38,805)        | (17,955)         | (15,136)        |
|  | 73,877                          | 92,835          | 90,370          | 37,409           | 77,230          |
| Other income and (losses)/gains, net<br>(Decrease)/increase in fair value of<br>forestation and reforestation assets | (22,465)                        | (20,551)        | (7,695)         | 3,107            | 9,675           |
| Others   | 15,006                          | 6,177           | (3,865)         | 5,925            | 3,386           |
|  | (7,459)                         | (14,374)        | (11,560)        | 9,032            | 13,061          |
| Operating profit   | 66,418                          | 78,461          | 78,810          | 46,441           | 90,291          |
| Finance costs  | (30,703)                        | (23,628)        | (18,920)        | (10,182)         | (8,099)         |

|   | Audited                                       |                  |                  | Unaudited        |                  |
|---|---|------------------|------------------|------------------|------------------|
|   | Year ended 31 December                        |                  |                  | Six months ended |                  |
|   | 2013<br>(restated) <sup>(1)</sup><br>US\$'000 | 2014<br>US\$'000 | 2015<br>US\$'000 | 2015<br>US\$'000 | 2016<br>US\$'000 |
| Profit before income tax  | 35,715  | 54,833           | 59,890           | 36,259           | 82,192           |
| Income tax (expense)/credit                                     | (5,447)                                       | (39,490)         | (2,809)          | (4,513)          | 1,171            |
| <b>Profit for the year/period from continuing operations</b>    | <b>30,268</b>                                 | <b>15,343</b>    | <b>57,081</b>    | <b>31,746</b>    | <b>83,363</b>    |
| <b>Discontinued operations</b>                                  |   |                  |                  |                  |                  |
| Profit for the year from discontinued operations                | 7,491   | 24,167           | —                | —                | —                |
| <b>Profit for the year/period</b>                               | <b>37,759</b>                                 | <b>39,510</b>    | <b>57,081</b>    | <b>31,746</b>    | <b>83,363</b>    |
| <b>Profit/(loss) attributable to:</b>                           |   |                  |                  |                  |                  |
| Owners of the Company   | 33,344  | 37,364           | 58,094           | 32,063           | 83,177           |
| Non-controlling interests                                       | 4,415   | 2,146            | (1,013)          | (317)            | 186              |
|   | <b>37,759</b>                                 | <b>39,510</b>    | <b>57,081</b>    | <b>31,746</b>    | <b>83,363</b>    |
| <b>Profit attributable to owner of the Company arising from</b> |   |                  |                  |                  |                  |
| Continuing operations   | 30,478  | 15,380           | 58,094           | 32,063           | 83,177           |
| Discontinued operations   | 2,866   | 21,984           | —                | —                | —                |
|   | <b>33,344</b>                                 | <b>37,364</b>    | <b>58,094</b>    | <b>32,063</b>    | <b>83,177</b>    |
| <b>Basic and diluted earnings per share (US cents)</b>          |   |                  |                  |                  |                  |
| From continuing operations                                      | 0.9   | 0.5              | 1.7              | 0.9              | 2.4              |
| From discontinued operations                                    | 0.1   | 0.6              | —                | —                | —                |
|   | <b>1.0</b>                                    | <b>1.1</b>       | <b>1.7</b>       | <b>0.9</b>       | <b>2.4</b>       |

Note:

- (1) The financial information of the continuing operations for the year ended 31 December 2013 were restated to include the sales of dissolving wood pulp to third parties as well as to the discontinued operations.

In 2014, the Group recorded a gain on disposal of the viscose staple fiber business of US\$36 million (before tax) and write-down deferred income tax assets of US\$26 million. Save as disclosed above, no item which was exceptional because of its size, nature or incidence was recorded in the financial statements of the Group for the years ended 31 December 2013, 2014 and 2015 or the six months ended 30 June 2015 and 2016.



## 2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

The following financial information has been extracted from the audited consolidated financial statements of the Group for the year ended 31 December 2015 as set forth in the annual report of the Company for the year ended 31 December 2015 which was published on 11 April 2016.

### CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2015

|   | <i>Notes</i> | <b>2015</b><br><i>US\$'000</i> | <b>2014</b><br><i>US\$'000</i> |
|---|--------------|--------------------------------|--------------------------------|
| <b>Continuing operations</b>                                    |              |                                |                                |
| Revenue   | 5            | 443,813                        | 478,718                        |
| Cost of sales   |              | <u>(273,520)</u>               | <u>(299,945)</u>               |
| Gross profit  |              | 170,293                        | 178,773                        |
| Selling and distribution expenses                               |              | (41,118)                       | (41,214)                       |
| General and administrative expenses                             |              | <u>(38,805)</u>                | <u>(44,724)</u>                |
|   |              | <u>90,370</u>                  | <u>92,835</u>                  |
| <b>Other income and (losses)/gains, net</b>                     |              |                                |                                |
| Decrease in fair value of forestation and reforestation assets  | 13           | (7,695)                        | (20,551)                       |
| Others  | 6            | <u>(3,865)</u>                 | <u>6,177</u>                   |
|   |              | <u>(11,560)</u>                | <u>(14,374)</u>                |
| Operating profit  | 7            | 78,810                         | 78,461                         |
| Finance costs   | 8            | <u>(18,920)</u>                | <u>(23,628)</u>                |
| Profit before income tax  |              | 59,890                         | 54,833                         |
| Income tax expense  | 9            | <u>(2,809)</u>                 | <u>(39,490)</u>                |
| <b>Profit for the year from continuing operations</b>           |              | 57,081                         | 15,343                         |
| <b>Discontinued operations</b>                                  |              |                                |                                |
| Profit for the year from discontinued operations                | 21           | <u>—</u>                       | <u>24,167</u>                  |
| <b>Profit for the year</b>                                      |              | <u><u>57,081</u></u>           | <u><u>39,510</u></u>           |
| <b>Profit/(loss) attributable to:</b>                           |              |                                |                                |
| Owners of the Company   |              | 58,094                         | 37,364                         |
| Non-controlling interests                                       |              | <u>(1,013)</u>                 | <u>2,146</u>                   |
|   |              | <u><u>57,081</u></u>           | <u><u>39,510</u></u>           |
| <b>Profit attributable to owner of the Company arising from</b> |              |                                |                                |
| Continuing operations   |              | 58,094                         | 15,380                         |
| Discontinued operations   | 21           | <u>—</u>                       | <u>21,984</u>                  |
|   |              | <u><u>58,094</u></u>           | <u><u>37,364</u></u>           |
| <b>Basic and diluted earnings per share (US cents)</b>          |              |                                |                                |
| From continuing operations                                      | 12           | 1.7                            | 0.5                            |
| From discontinued operations                                    |              | <u>—</u>                       | <u>0.6</u>                     |
|   |              | <u><u>1.7</u></u>              | <u><u>1.1</u></u>              |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

|   | 2015<br>US\$'000 | 2014<br>US\$'000 |
|---|------------------|------------------|
| Profit for the year   | <u>57,081</u>    | <u>39,510</u>    |
| Other comprehensive income:   |                  |                  |
| <i>Items that may be reclassified subsequently to profit or loss</i>              |                  |                  |
| Currency translation differences  | (54,686)         | (2,740)          |
| Unrealized gain/(loss) on cash flow hedge   | 3,560            | (1,668)          |
| Release of translation reserve upon disposal of the VSF<br>Business               | <u>—</u>         | <u>(40,486)</u>  |
| Other comprehensive income for the year   | <u>(51,126)</u>  | <u>(44,894)</u>  |
| Total comprehensive income for the year   | <u>5,955</u>     | <u>(5,384)</u>   |
| Total comprehensive income attributable to:                                       |                  |                  |
| Owners of the Company   | 6,968            | (7,485)          |
| Non-controlling interests   | <u>(1,013)</u>   | <u>2,101</u>     |
|   | <u>5,955</u>     | <u>(5,384)</u>   |
| Total comprehensive income attributable to owners of the<br>Company arising from: |                  |                  |
| Continuing operations   | 6,968            | 13,712           |
| Discontinued operations   | <u>—</u>         | <u>(21,197)</u>  |
|   | <u>6,968</u>     | <u>(7,485)</u>   |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

|  | <i>Notes</i> | <b>2015</b><br><i>US\$'000</i> | <b>2014</b><br><i>US\$'000</i> |
|--|--------------|--------------------------------|--------------------------------|
| <b>Non-current assets</b>                    |              |                                |                                |
| Forestation and reforestation assets         | 13           | 99,260                         | 138,942                        |
| Property, plant and equipment                | 14           | 909,461                        | 983,888                        |
| Intangible assets                            |              | 275                            | 375                            |
| Deferred income tax assets                   | 15           | 11,555                         | 13,438                         |
| Other non-current assets                     | 16           | <u>25,301</u>                  | <u>47,969</u>                  |
|  |              | <u>1,045,852</u>               | <u>1,184,612</u>               |
| <b>Current assets</b>                        |              |                                |                                |
| Inventories                                  | 18           | 54,101                         | 80,177                         |
| Trade and other receivables                  | 19           | 186,155                        | 212,718                        |
| Bank balances and cash                       | 20           | <u>95,992</u>                  | <u>100,955</u>                 |
|  |              | <u>336,248</u>                 | <u>393,850</u>                 |
| <b>Current liabilities</b>                   |              |                                |                                |
| Trade and other payables                     | 22           | 53,663                         | 90,154                         |
| Current income tax payable                   |              | 16,001                         | 20,767                         |
| Derivative financial instruments             | 23           | 1,937                          | 5,698                          |
| Bank borrowings                              | 24           | <u>117,875</u>                 | <u>115,578</u>                 |
|  |              | <u>189,476</u>                 | <u>232,197</u>                 |
| <b>Net current assets</b>                    |              | <u>146,772</u>                 | <u>161,653</u>                 |
| <b>Total assets less current liabilities</b> |              | <u>1,192,624</u>               | <u>1,346,265</u>               |

**APPENDIX III****FINANCIAL INFORMATION OF THE GROUP**

|  | <i>Notes</i> | <b>2015</b><br><i>US\$'000</i> | <b>2014</b><br><i>US\$'000</i> |
|--|--------------|--------------------------------|--------------------------------|
| <b>Non-current liabilities</b>               |              |                                |                                |
| Bank borrowings                              | 24           | 115,218                        | 260,051                        |
| Derivative financial instruments             | 23           | <u>793</u>                     | <u>592</u>                     |
|  |              | <u>116,011</u>                 | <u>260,643</u>                 |
|  |              | <u>1,076,613</u>               | <u>1,085,622</u>               |
| <b>Capital and reserves</b>                  |              |                                |                                |
| Share capital                                | 25           | 171,071                        | 171,021                        |
| Share premium and reserves                   |              | <u>904,866</u>                 | <u>912,912</u>                 |
| Equity attributable to owners of the Company |              | 1,075,937                      | 1,083,933                      |
| Non-controlling interests                    |              | <u>676</u>                     | <u>1,689</u>                   |
|  |              | <u>1,076,613</u>               | <u>1,085,622</u>               |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

For the year ended 31 December 2015

|   | Attributable to owners of the Company |                |                     |                           |                                     |                  |                  |                           |                  |
|---|---------------------------------------|----------------|---------------------|---------------------------|-------------------------------------|------------------|------------------|---------------------------|------------------|
|   | Share capital                         | Share premium  | Translation reserve | Cash flow hedging reserve | Awarded shares compensation reserve | Retained profits | Total            | Non-controlling interests | Total            |
|   | US\$'000                              | US\$'000       | US\$'000            | US\$'000                  | US\$'000                            | US\$'000         | US\$'000         | US\$'000                  | 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/(loss) for the year                    | —                                     | —              | —                   | —                         | —                                   | 58,094           | 58,094           | (1,013)                   | 57,081           |
| Currency translation differences              | —                                     | —              | (54,686)            | —                         | —                                   | —                | (54,686)         | —                         | (54,686)         |
| Unrealized gain on cash flow hedge            | —                                     | —              | —                   | 3,560                     | —                                   | —                | 3,560            | —                         | 3,560            |
| Total comprehensive income for the year       | —                                     | —              | (54,686)            | 3,560                     | —                                   | 58,094           | 6,968            | (1,013)                   | 5,955            |
| Transactions with owners                      |                                       |                |                     |                           |                                     |                  |                  |                           |                  |
| Issue of new shares                           | 50                                    | 54             | —                   | —                         | —                                   | —                | 104              | —                         | 104              |
| Cost of issuing new shares                    | —                                     | (9)            | —                   | —                         | —                                   | —                | (9)              | —                         | (9)              |
| Dividend (note 11)                            | —                                     | —              | —                   | —                         | —                                   | (15,160)         | (15,160)         | —                         | (15,160)         |
| Awarded shares compensation expense (note 26) | —                                     | —              | —                   | —                         | 196                                 | (95)             | 101              | —                         | 101              |
| Total transactions with owners                | 50                                    | 45             | —                   | —                         | 196                                 | (15,255)         | (14,964)         | —                         | (14,964)         |
| <b>At 31 December 2015</b>                    | <b>171,071</b>                        | <b>426,196</b> | <b>(54,766)</b>     | <b>(2,730)</b>            | <b>30</b>                           | <b>536,136</b>   | <b>1,075,937</b> | <b>676</b>                | <b>1,076,613</b> |

For the year ended 31 December 2014

|  | Attributable to owners of the Company |               |                 |                                  |                     |                           |                                     |                  |           |                           |           |
|--|---------------------------------------|---------------|-----------------|----------------------------------|---------------------|---------------------------|-------------------------------------|------------------|-----------|---------------------------|-----------|
|  | Share capital                         | Share premium | Special reserve | Other non-distributable reserves | Translation reserve | Cash flow hedging reserve | Awarded shares compensation reserve | Retained profits | Total     | Non-controlling interests | Total     |
|  | US\$'000                              | US\$'000      | US\$'000        | US\$'000                         | US\$'000            | US\$'000                  | US\$'000                            | US\$'000         | US\$'000  | US\$'000                  | US\$'000  |
|  |                                       |               | (Note a)        | (Note b)                         |                     |                           |                                     |                  |           |                           |           |
| At 1 January 2014  | 171,021                               | 426,151       | 277,394         | 6,252                            | 43,101              | (4,622)                   | 30                                  | 800,714          | 1,720,041 | 38,148                    | 1,758,189 |
| Profit for the year  | —                                     | —             | —               | —                                | —                   | —                         | —                                   | 37,364           | 37,364    | 2,146                     | 39,510    |
| Currency translation differences                                 | —                                     | —             | —               | —                                | (2,695)             | —                         | —                                   | —                | (2,695)   | (45)                      | (2,740)   |
| Release of translation reserve upon disposal of the VSF Business | —                                     | —             | —               | —                                | (40,486)            | —                         | —                                   | —                | (40,486)  | —                         | (40,486)  |
| Unrealized loss on cash flow hedge                               | —                                     | —             | —               | —                                | —                   | (1,668)                   | —                                   | —                | (1,668)   | —                         | (1,668)   |
| Total comprehensive income for the year                          | —                                     | —             | —               | —                                | (43,181)            | (1,668)                   | —                                   | 37,364           | (7,485)   | 2,101                     | (5,384)   |
| Transactions with owners   |                                       |               |                 |                                  |                     |                           |                                     |                  |           |                           |           |
| Disposal of the VSF Business                                     | —                                     | —             | —               | (6,252)                          | —                   | —                         | —                                   | 6,252            | —         | (38,560)                  | (38,560)  |
| Special dividend (note 11)                                       | —                                     | —             | (277,394)       | —                                | —                   | —                         | —                                   | (340,162)        | (617,556) | —                         | (617,556) |
| Dividend (note 11)   | —                                     | —             | —               | —                                | —                   | —                         | —                                   | (11,000)         | (11,000)  | —                         | (11,000)  |
| Awarded shares compensation expense (note 26)                    | —                                     | —             | —               | —                                | —                   | —                         | (196)                               | 129              | (67)      | —                         | (67)      |
| Total transactions with owners                                   | —                                     | —             | (277,394)       | (6,252)                          | —                   | —                         | (196)                               | (344,781)        | (628,623) | (38,560)                  | (667,183) |
| At 31 December 2014  | 171,021                               | 426,151       | —               | —                                | (80)                | (6,290)                   | (166)                               | 493,297          | 1,083,933 | 1,689                     | 1,085,622 |

Notes:

- Special reserve represents the sum of the deemed contribution of US\$38,769,000 from shareholders mainly arising from the waiver of interest-free advances and the excess of the aggregate nominal amount of the share capital and share premium of a subsidiary acquired by the Company over the nominal amount of shares of the Company issued to the then shareholders amounting to US\$238,625,000 in 2010.
- Other non-distributable reserves represent statutory reserves required to be appropriated from net profit after tax of subsidiaries established in the People's Republic of China (the "PRC") under the relevant laws and regulations at an amount determined annually by the respective boards of directors of the subsidiaries, but must not be less than 10% of the net profit after tax of the subsidiaries, until such reserves reach 50% of the registered capital of the relevant subsidiaries. The reserve may be used to offset accumulated losses and/or converted to increase capital of the relevant subsidiaries subject to certain restrictions set out in the Company Law of the PRC.

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

|  | <i>Notes</i> | <b>2015</b><br><i>US\$'000</i> | <b>2014</b><br><i>US\$'000</i> |
|--|--------------|--------------------------------|--------------------------------|
| <b>Cash flows from operating activities</b>  |              |                                |                                |
| Net cash generated from operations including continuing and discontinued operations    | 29           | 222,164                        | 174,130                        |
| Income taxes paid  |              | <u>(342)</u>                   | <u>(3,616)</u>                 |
| <b>Net cash from operating activities</b>  |              | <u>221,822</u>                 | <u>170,514</u>                 |
| - Continuing operations  |              | 221,822                        | 190,132                        |
| - Discontinued operations  | 21           | <u>—</u>                       | <u>(19,618)</u>                |
|  |              | <u>221,822</u>                 | <u>170,514</u>                 |
| <b>Cash flows from investing activities</b>  |              |                                |                                |
| Purchase of property, plant and equipment  |              | (20,257)                       | (125,966)                      |
| Additions of forestation and reforestation assets                                      |              | (31,492)                       | (43,400)                       |
| Additions to prepaid lease payments  |              | —                              | (11)                           |
| Interest received  |              | 336                            | 693                            |
| Proceeds on disposals of property, plant and equipment                                 |              | 1,761                          | 2,385                          |
| Net inflow of cash and cash equivalents in respect of the disposal of the VSF Business | 21           | <u>—</u>                       | <u>562,540</u>                 |
| <b>Net cash (used in)/generated from investing activities</b>                          |              | <u>(49,652)</u>                | <u>396,241</u>                 |
| <b>Cash flows from financing activities</b>  |              |                                |                                |
| Drawdown of bank borrowings  |              | 2,000                          | 167,160                        |
| Repayment of bank borrowings   |              | (147,333)                      | (135,894)                      |
| Interest paid  |              | (16,123)                       | (34,529)                       |
| Payment of dividends   |              | (15,160)                       | (628,556)                      |
| Net proceeds from issuance of shares   |              | <u>95</u>                      | <u>—</u>                       |
| <b>Net cash used in financing activities</b>   |              | <u>(176,521)</u>               | <u>(631,819)</u>               |
| <b>Net decrease in cash and cash equivalents</b>                                       |              | (4,351)                        | (65,064)                       |
| Foreign exchange differences   |              | (612)                          | (27)                           |
| <b>Cash and cash equivalents at beginning of the year</b>                              |              | <u>100,955</u>                 | <u>166,046</u>                 |
| <b>Cash and cash equivalents at end of the year</b>                                    |              |                                |                                |
| Represented by bank balances and cash  |              | <u>95,992</u>                  | <u>100,955</u>                 |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the year ended 31 December 2015****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 principal activity of the Company is investment holding and the principal activities of its subsidiaries are set out in note 32.

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

These consolidated financial statements are presented in United States dollars (“US\$” or “USD”), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 14 March 2016.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. The policies have been consistently applied to the years presented, unless otherwise stated.

**(a) Basis of preparation**

The consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board. These consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

They have 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 preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.



**Amendments to existing standards adopted by the Group**

During the year, the Group has adopted the following amendments to existing standards which are relevant to the Group's operations and are effective for accounting periods beginning on 1 January 2015:

|                    |   |
|--------------------|---|
| IFRSs (Amendments) | Annual Improvements 2010 — 2012 Cycle         |
| IFRSs (Amendments) | Annual Improvements 2011 — 2013 Cycle         |
| IAS 19 (Amendment) | Defined Benefit Plans: Employee Contributions |

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

**New Hong Kong Companies Ordinance (Cap. 622)**

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

**New standards and amendments that have been issued and relevant to the Group but are not yet effective**

At the date of approval of these financial statements, the following new/revised standards and amendments to existing standards have been issued and relevant to the Group but are not yet effective for the year ended 31 December 2015:

|  |   |
|--|---|
| IFRSs (Amendments) <sup>(i)</sup>                | Annual Improvements 2012 — 2014 Cycle                                   |
| IAS 1 (Amendment) <sup>(i)</sup>                 | Disclosure Initiative   |
| IAS 16 and IAS 38<br>(Amendments) <sup>(i)</sup> | Clarification of Acceptable Methods of Depreciation and<br>Amortization |
| IFRS 9 (2014) <sup>(ii)</sup>                    | Financial Instruments   |
| IFRS 15 <sup>(ii)</sup>                          | Revenue from Contracts with Customers                                   |
| IFRS 16 <sup>(iii)</sup>                         | Leases  |

(i) Effective for annual periods beginning on or after 1 January 2016

(ii) Effective for annual periods beginning on or after 1 January 2018

(iii) Effective for annual periods beginning on or after 1 January 2019

The Group has not early adopted the above new standards and amendments. Management has made a preliminary assessment that the adoption of these new standards and amendments is not expected to have a significant impact on the Group's consolidated financial statements.

**(b) Basis of consolidation**

The consolidated accounts include the financial statements of the Company and its subsidiaries made up to 31 December.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceased.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognized in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

**(i) Business combinations**

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in the consolidated income statement.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in the consolidated income statement or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

(ii) *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions — that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) *Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in the consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to the consolidated income statement.

(c) **Separate financial statements**

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

**(d) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

**(e) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of estimated customer returns, discounts, sales related taxes and other similar allowances.

- (i) Revenue from sale of goods is recognized when the goods are delivered and title has passed.
- (ii) Commission income is recognized when services are provided.
- (iii) Interest income is recognized on a time-proportion basis using the effective interest method.
- (iv) Income from sale of electricity is recognized when the electricity is delivered.

**(f) Financial instruments**

Financial assets and financial liabilities are recognized in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction cost directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in the consolidated income statement.

**(i) Financial assets**

The Group's financial assets comprise loans and receivables, available-for-sale financial assets and derivative financial instruments.

(1) *Effective interest method*

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts but excluding future credit losses) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis.

(2) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss (“FVTPL”), loans and receivables or held-to-maturity investments. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income when they are measured at fair value. When securities classified as available-for-sale are impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as “impairment loss”.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period.

(3) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade, bills and other receivables) are carried at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

(4) *Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For financial assets other than those at FVTPL, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- breach of contract, such as default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of between 30 to 180 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. Decrease in the carrying amount of the allowance account are recognized in the consolidated income statement. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the consolidated income statement.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through the consolidated income statement to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

(ii) *Derivative financial instruments and hedging*

Derivatives are classified as financial assets or liabilities held for trading and are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognized in the consolidated income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the consolidated income statement depends on the nature of the hedge relationship.

(1) *Hedge accounting*

The Group designates certain derivatives as hedges of highly probable forecast transactions for interest rate risk and foreign exchange risk exposures. At the inception of the hedging relationship, the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

(2) *Cash flow hedges*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated income statement as other income and gains/(losses).

Amounts previously recognized in other comprehensive income and accumulated in equity (cash flow hedging reserve) are reclassified to the consolidated income statement in the periods when the hedged item is recognized in the consolidated income statement, in the same line of the consolidated income statement as the recognized hedged item. However, when the hedge forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the consolidated income statement. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in the consolidated income statement.

(g) **Intangible assets**

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful lives is provided on a straight line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated income statement in the period when the asset is derecognized.

**(h) Forestation and reforestation assets**

Forestation and reforestation assets comprise the plantation in Brazil. These biological assets comprise plantations and seedling stocks. The Group's plantation comprises trees planted for the production of wood for use in the Group's dissolving wood pulp production process.

Plantation expenditure on forestation and reforestation includes land preparation expense and the cost of seedlings transferred for plantation which are capitalized as costs for forestation and reforestation assets. Expenditure on seedling stocks includes other direct expenses incurred during the cultivation period of the seedling stock. These expenditures on seedling stocks are deferred and transferred to plantation once they are planted.

Forestation and reforestation assets are stated at fair value less costs to sell at the end of the reporting period.

At the time the tree is harvested, the agricultural produce is measured at its fair value less estimated costs to sell. It is taken out of forestation and reforestation assets (non-current assets) and accounted for under inventories (current assets).

**(i) Property, plant and equipment**

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than freehold land and construction in progress) are stated in consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when 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. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than freehold land and construction in progress, over their estimated useful lives and after taking into account of their estimated residual values, using the straight line method.

|                        |  |
|------------------------|--|
| Leasehold improvements | Shorter of lease term of land and useful life of buildings   |
| Buildings              | Shorter of the unexpired term of the relevant lease and their estimated useful lives ranging from 25 to 30 years |
| Plant and machinery    | 5 to 25 years  |
| Other tangible assets  | 5 to 10 years  |

Freehold land is stated at cost less identified impairment losses. No depreciation is provided for freehold land.



Construction in progress represents property, plant and equipment in the course of construction for production purpose or for its own use. Construction in progress is carried at cost less any impairment loss. Construction in progress is classified into the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. (see the accounting policy in respect of impairment losses on tangible and intangible assets below)

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the period in which the item is derecognized.

**(j) Borrowings and borrowing costs**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after balance sheet date.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized in the consolidated income statement in the period in which they are incurred.

**(k) Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the weighted average method.

**(l) Impairment losses on tangible and intangible assets**

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately.

**(m) Income tax**

Income tax expense represents the sum of the income tax currently payable and deferred income tax.

The income tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred income tax liabilities are generally recognized for all taxable temporary differences. Deferred income tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred income tax liabilities are recognized for taxable temporary differences associated on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred income 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 profits will be available to allow all or part of the asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred income tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred income tax is recognized in the consolidated income statement, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred income tax is also recognized in other comprehensive income or directly in equity respectively.

(n) **Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (“foreign currencies”) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Foreign exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in the consolidated income statement in the period in which they arise. Foreign exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the consolidated income statement for the period, except for foreign exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which cases, the foreign exchange differences are also recognized directly in other comprehensive income.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group’s foreign operations are translated into the presentation currency of the Group (i.e. United States dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates

fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Foreign exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the foreign exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to the consolidated income statement. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated foreign exchange differences are re-attributed to non-controlling interests and are not recognized in the consolidated income statement.

**(o) Leasing**

Operating lease payments are recognized as an expense on a straight line basis over the lease terms. Benefits received and receivable as an incentive to enter into an operating lease are recognized as a reduction of rental expense over the lease terms on a straight line basis.

**(p) Leasehold land and building**

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

**(q) Retirement benefit costs**

Payments to defined contribution retirement benefit schemes and state-managed retirement benefit schemes are recognized as expenses when employees have rendered service entitling them to the contribution.

**(r) Provisions**

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the directors' best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of time value of money is material).

(s) **Contingent liabilities**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognized but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognized as a provision.

(t) **Share-based payment transactions**

(i) *Equity-settled share-based payment transactions*

(1) *Restricted Share Unit Schemes (“RSU Schemes”)*

RSU Schemes comprise the Company’s Pre-IPO Restricted Share Unit Scheme and Post- IPO Restricted Share Unit Scheme. The fair value of services received determined by reference to the fair value of shares awarded at the grant date is expensed on a straight line basis over the vesting period, with a corresponding increase in awarded shares compensation reserve.

When trustee purchases the Company’s shares from the open market, the consideration paid, including any directly attributable incremental costs, is presented as “Awarded shares compensation reserve” in the consolidated statement of changes in equity and deducted from total equity. No gain or loss is recognized on the transactions of the Company’s own shares.

When the trustee transfers the Company’s shares to grantees upon vesting, the related costs of the granted shares vested are reversed from the “Awarded shares compensation reserve”. Accordingly, the related expense of the granted shares vested is reversed from the “Awarded shares compensation reserve”. The difference arising from such transfer is debited/credited to accumulated profits.

When the restricted share units (“RSUs”) are forfeited before vesting, the amount previously recognized in the consolidated income statement in relation to that forfeiture will be reversed from the same line in the consolidated income statement.

(2) *Share options scheme*

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight line basis over the vesting period or recognized as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognized in the consolidated income statement such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

When the share options are exercised, the amount previously recognized in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in share options reserve will be transferred to accumulated profits.

**(u) Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, net of bank overdrafts.

**(v) Related parties**

Where one party has the ability to control the other party or exercise significant influence in making financial and operating decision of another party, they are considered to be related. Parties are also considered to be related if one party is subject to control, and another party is subject to control, joint control or significant influence by the same third party.

**(w) Discontinued operations**

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographic area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

When an operation is classified as discontinued, a single amount is presented in the income statement, which comprises the post-tax profit or loss of the discontinued operations and the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operations.

### **3 FINANCIAL RISK MANAGEMENT**

**(a) Financial risk factors**

The Group's activities expose it to a variety of financial risks: market risks (including foreign currency risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

(i) *Foreign currency risk management*

Several subsidiaries of the Company have foreign currency receipts and payments, which expose the Group to foreign currency risk. Also, certain trade and other receivables, trade and other payables, bank balances and other non-current assets of the Group are denominated in foreign currencies. Exchange rate exposures are managed within approved policy parameters utilizing forward foreign exchange contracts.

The Group's treasury's risk management policy is to hedge up to 100% of material foreign currency net cash flows for up to the subsequent 18 months. The Group enters into forward foreign exchange contracts to hedge material forecasted foreign currency exposures where applicable. Currently, forward exchange contracts are arranged mainly to hedge the currency fluctuation of Brazilian Reais ("BRL") against USD, with USD as the functional currency of the Company and its Brazilian operating subsidiary. The Group continues to adopt hedge accounting for its foreign exchange contracts entered into.

The Group is primarily exposed to currencies of BRL and Renminbi other than the functional currencies of the relevant group entities. The carrying amounts of these assets and liabilities at the end of each reporting period are as follows:

|                    | <b>2015</b>     | <b>2014</b>     |
|--------------------|-----------------|-----------------|
|                    | <i>US\$'000</i> | <i>US\$'000</i> |
| <b>Assets</b>      |                 |                 |
| BRL                | 41,437          | 69,844          |
| Renminbi           | <u>955</u>      | <u>658</u>      |
| <b>Liabilities</b> |                 |                 |
| BRL                | 11,877          | 33,739          |
| Renminbi           | <u>34</u>       | <u>—</u>        |

*Sensitivity analysis*

The respective functional currencies of the group entities are primarily USD and BRL, and the group entities are mainly exposed to the effects of fluctuation in BRL and Renminbi.

The following table details the increase and decrease by 5% (2014: 5%) in the functional currency of relevant group entity against BRL and Renminbi with other variables held constants. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end. A 5% (2014: 5%) strengthening of functional currencies against BRL and Renminbi (foreign currencies) respectively will give rise to the following impact to post-tax profit for the year.

|  | <b>BRL Impact (note a)</b> |                 | <b>Renminbi Impact (note b)</b> |                 |
|--|----------------------------|-----------------|---------------------------------|-----------------|
|  | <b>2015</b>                | <b>2014</b>     | <b>2015</b>                     | <b>2014</b>     |
|  | <i>US\$'000</i>            | <i>US\$'000</i> | <i>US\$'000</i>                 | <i>US\$'000</i> |
| Decrease in post-tax profit for the year | <u>(975)</u>               | <u>(1,191)</u>  | <u>(46)</u>                     | <u>(27)</u>     |

For a 5% (2014: 5%) weakening of BRL and Renminbi, there would be an equal and opposite impact.

*Notes:*

- a. This is mainly attributable to the exposure on BRL denominated other non-current assets, trade and other receivables, bank balances and trade and other payables at year end.
- b. This is mainly attributable to exposure on Renminbi denominated bank balances, other receivables and other payables at year end.

(ii) ***Interest rate risk management***

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank borrowings. The Group aims to keep certain borrowings at fixed rates of interest. In order to achieve this result, the Group entered into interest rate swaps to minimize its exposure to interest rate risk. The Group's bank deposits and bank balances also have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank deposits and bank balances.

*Interest rate swap contracts*

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on the agreed notional principal amounts. The Group's cash flow interest rate risk changed from variable rate to fixed rate. Such contracts enable the Group to mitigate the risk of changing interest rates on the cash flow exposures on the variable rate bank borrowings.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.



*Sensitivity analysis*

The sensitivity analysis below has been determined based on the exposure to interest rates for bank balances and bank borrowings that are not under cash flow hedge. The analysis has been prepared assuming these financial instruments outstanding at the end of the reporting period were outstanding for the whole year.

At 31 December 2015, interest rates increased by 50 (2014: 50) basis points with all other variables held constant, the potential effect on post-tax profit for the year is as follows:

|  | <b>2015</b>     | <b>2014</b>     |
|--|-----------------|-----------------|
|  | <i>US\$'000</i> | <i>US\$'000</i> |
| Increase in post-tax profit for the year | <u>480</u>      | <u>456</u>      |

If interest rates decreased by 50 (2014: 50) basis points with all other variables held constant, these would be an equal and opposite impact on the profit.

The sensitivity analysis is unrepresentative of the interest rate risk as the year end exposure does not reflect the exposure during the year.

*(iii) Credit risk management*

As at 31 December 2015, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties is arising from the carrying amount of the respective recognized financial assets as stated in the consolidated statement of financial position.

The extent of the Group's credit exposure is represented by the aggregate balance of trade and other receivables, derivative financial instruments and bank balances.

In order to minimize the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group has reviewed the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, management of the Company considers that the Group's credit risk is significantly reduced.

The credit risk on bank balances and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The Group has concentration of credit risk on its top three external customers which in aggregate accounted for 83% (2014: 81%) of the Group's total trade receivables as at 31 December 2015. These top three customers have good credit rating and repayment history and are well-known manufacturers of fiber in the world. The credit period granted to them ranged from 30 to 180 days. The Group has no significant concentration of credit risk in respect of other trade receivables, with exposure spread over a number of counterparties and customers.

The Group does not have any significant concentration of credit risk on other receivables.

(iv) *Liquidity risk management*

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilization of borrowings.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates on which the Group can be required to pay. The tables include both interest and principal cash flows. For variable rate non-derivative financial liabilities, the undiscounted cash flows on interest are estimated based on interest rates at the end of the reporting period, and therefore subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

In addition, the following tables detail the Group's liquidity analysis for its derivative financial liabilities. The tables have been drawn up based on the undiscounted contractual net cash outflows on derivative instruments settled on a net basis. Floating rate is determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period. The liquidity analysis for the Group's derivative financial liabilities are prepared based on the contractual maturities as management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

**APPENDIX III**
**FINANCIAL INFORMATION OF THE GROUP**

|   | <b>0-90 days</b> | <b>91-365 days</b> | <b>1-2 years</b> | <b>2-3 years</b> | <b>Over 3 years</b> | <b>Total undiscounted cash flows</b> | <b>Carrying amount</b> |
|---|------------------|--------------------|------------------|------------------|---------------------|--------------------------------------|------------------------|
|   | <i>US\$'000</i>  | <i>US\$'000</i>    | <i>US\$'000</i>  | <i>US\$'000</i>  | <i>US\$'000</i>     | <i>US\$'000</i>                      | <i>US\$'000</i>        |
| <b>At 31 December 2015</b>                  |                  |                    |                  |                  |                     |                                      |                        |
| <b>Non-derivative financial liabilities</b> |                  |                    |                  |                  |                     |                                      |                        |
| Trade and other payables                    | 8,099            | —                  | —                | —                | —                   | 8,099                                | 8,099                  |
| Bank borrowings                             |                  |                    |                  |                  |                     |                                      |                        |
| — Variable rates                            | 31,840           | 93,200             | 120,288          | —                | —                   | 245,328                              | 231,093                |
| — Fixed rates                               | 2,000            | —                  | —                | —                | —                   | 2,000                                | 2,000                  |
|   | <u>41,939</u>    | <u>93,200</u>      | <u>120,288</u>   | <u>—</u>         | <u>—</u>            | <u>255,427</u>                       | <u>241,192</u>         |
| <b>Derivative financial liabilities</b>     |                  |                    |                  |                  |                     |                                      |                        |
| Forward foreign exchange contracts          | 547              | 1,437              | —                | —                | —                   | 1,984                                | 1,937                  |
| Interest rate swaps                         | 162              | 384                | 264              | 18               | —                   | 828                                  | 793                    |
|   | <u>709</u>       | <u>1,821</u>       | <u>264</u>       | <u>18</u>        | <u>—</u>            | <u>2,812</u>                         | <u>2,730</u>           |
| <b>At 31 December 2014</b>                  |                  |                    |                  |                  |                     |                                      |                        |
| <b>Non-derivative financial liabilities</b> |                  |                    |                  |                  |                     |                                      |                        |
| Trade and other payables                    | 44,692           | —                  | —                | —                | —                   | 44,692                               | 44,692                 |
| Bank borrowings                             |                  |                    |                  |                  |                     |                                      |                        |
| — Variable rates                            | 33,408           | 97,673             | 128,060          | 121,504          | 30,282              | 410,927                              | 375,629                |
|   | <u>78,100</u>    | <u>97,673</u>      | <u>128,060</u>   | <u>121,504</u>   | <u>30,282</u>       | <u>455,619</u>                       | <u>420,321</u>         |
| <b>Derivative financial liabilities</b>     |                  |                    |                  |                  |                     |                                      |                        |
| Forward foreign exchange contracts          | 416              | 5,060              | —                | —                | —                   | 5,476                                | 5,325                  |
| Interest rate swaps                         | 67               | 591                | 237              | 108              | 6                   | 1,009                                | 966                    |
|   | <u>483</u>       | <u>5,651</u>       | <u>237</u>       | <u>108</u>       | <u>6</u>            | <u>6,485</u>                         | <u>6,291</u>           |

**(b) Capital risk management**

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to owners of the Company through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes bank borrowings net of cash and cash equivalents and equity attributable to owners of the Company, comprising share capital, share premium, various reserves and retained profits.

The management and directors of the Company review the capital structure of the Group on a regular basis. As part of this review, the cost of capital and the risks associated with each class of capital are considered. Based on this regular review, the Group will balance its overall capital structure through the payment of dividends, new share issues, new borrowings raised and repayment of borrowings as may be appropriate.

**(c) Fair value estimation**

The fair value of financial assets and financial liabilities are determined as follows:

- 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 each reporting period. Fair values of interest rate swaps have been determined using the valuations provided by the counterparty banks as at each reporting period with reference to market data such as settlement prices and interest rates; and
- 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.

Management of the Company considers that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in these consolidated financial statements approximate their fair values.

***Fair value measurements recognized in the consolidated statement of financial position***

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 judgment 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 derivatives financial instruments were all measured at fair value under level 2 at 31 December 2015 and 2014 and no transfers between any levels had occurred during the year.

#### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In prior years, the management regarded USD as the functional currency of certain subsidiaries in Brazil since the operations and cash flows of these subsidiaries were predominantly denominated in USD. Since 1 January 2015, because of changes in circumstances, the management reassessed the functional currency of two subsidiaries in Brazil and changed it from USD to BRL. The change in functional currency has been applied prospectively with effect from 1 January 2015.

The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

##### (a) Impairment and depreciation of property, plant and equipment

The Group performs impairment assessment on property, plant and equipment in accordance with the accounting policy state in Note 2(1) if there is any impairment indicator identified. The impairment assessment compares the recoverable amounts against the carrying values of the property, plant and equipment.

The determination of the recoverable amounts requires management judgements and the use of estimates.

The Group depreciates the property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual values, using the straight line method. The estimated useful lives reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. The residual values reflect management's estimated amount that the Group would currently obtain from disposal of the assets, after deducting the estimated costs of disposal, if the assets were already of the age and in the condition expected at the end of their useful lives. Changes in the above estimates will affect the depreciation charged to the consolidated income statement for the year in which such changes take place in future periods.

**(b) Fair value of forestation and reforestation assets**

As described in note 13, management of the Company uses their judgment in selecting an appropriate valuation technique for forestation and reforestation assets.

No active market for the forestation and reforestation assets exists and market-determined prices or values for the forestation and reforestation assets are not available. Management has used the present value of expected net cash flows from the assets discounted at the appropriate discount rate to determine the fair value.

Fair value of forestation and reforestation assets has been estimated using the discounted cash flow model with reference to estimates in growth, harvest, sales prices and costs. Details of the assumptions are listed in note 13. If the expectation on assumptions differs from the original estimate, such difference will impact the carrying amount of forestation and reforestation assets whenever such estimates are changed.

**(c) Inventory valuation**

Inventories are valued at the lower of the actual cost and net realizable value. Cost is determined using the weighted average method. Net realizable value is generally the merchandise's selling price quoted from the market for similar items. The Group reviews its inventory levels in order to identify slow-moving and obsolete merchandise. When the Group identifies items of inventories which have a market price that is lower than its carrying amount, the Group estimates the amount of allowance on inventories charged to the consolidated income statement for the year.

**(d) Estimated impairment of value-added-tax ("VAT") recoverable**

In determining whether there is any impairment loss on VAT recoverable, the Group estimates the amount, timing and the ways in which these VAT recoverable are to be utilized, including the utilization through offsetting of VAT payable on future domestic sales, transfer of VAT recoverable to third parties and/or utilization through offsetting with other tax payables. Where the actual amount utilized in offsetting against VAT payable on future sales are less than expected, a material impairment loss may arise and charge to the consolidated income statement for the period.

**(e) Estimated impairment of trade and other receivables**

The provision policy for doubtful debts of the Group is based on the ongoing evaluation of collectability and aging analysis of the outstanding receivables and on management's judgments. When there is objective evidence of impairment loss, the Group estimates the future cash flows to determine the impairment loss. A considerable amount of judgment is required in assessing the ultimate realization of these receivables, including creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, material amount of allowances may be required.

**(f) Taxes**

The Group is subject to income and other taxes in several jurisdictions and records tax liabilities based on its best estimates of the likely amounts payable in each jurisdiction. Where the final tax outcome differs from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

As described in note 15, deferred income tax assets are related to certain unused tax losses of the Group. The realizability of the deferred income tax asset mainly depends on whether sufficient future profits will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred income tax assets may arise, which would be recognized in the consolidated income statement for the period in which such a reversal takes place.

**(g) Fair value of derivative financial instruments and investments**

As described in note 3(c), management of the Company uses their judgment in selecting an appropriate valuation technique for derivative financial instruments not quoted in an active market. Actual results may differ when the assumptions and selections of valuation technique changes. In addition, the Group has certain unlisted investments, where the directors of the Company are of the opinion that the fair value cannot be measured reliably.

**(h) Provisions**

The Group made provisions for all loss contingencies when information available prior to the issuance of these consolidated financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of these consolidated financial statements and the amount of loss can be reasonably estimated. For provisions related to litigation, the Group makes provisions based on information from legal counsel and the best estimation of management. The actual resolution of these contingencies may differ from the estimation made by the Group. If the contingencies were settled for an amount greater than the Group's estimate, an additional charge to the consolidated income statement would result. Likewise, if the contingencies were settled for an amount that is less than the Group's estimate, a credit to the consolidated income statement would result.

**5 REVENUE AND SEGMENT INFORMATION****(a) Revenue**

|  | <b>2015</b>     | <b>2014</b>     |
|--|-----------------|-----------------|
|  | <i>US\$'000</i> | <i>US\$'000</i> |
| <b>Continuing operations:</b>                  |                 |                 |
| Dissolving wood pulp business ("DWP Business") | <u>443,813</u>  | <u>478,718</u>  |

DWP Business derives its revenue from selling specialty-grade pulp and rayon-grade pulp, which are manufactured by the Group. During the year ended 31 December 2015, 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. The Group entered into the pulp supply agreement upon the completion of the disposal of its viscose staple fiber business (“VSF Business”).

**(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.

On 17 December 2014, the Group completed the disposal of its VSF Business to a company controlled by the Major Shareholder. Accordingly, the results of the VSF Business have been presented as discontinued operations for the year ended 31 December 2014.

Subsequent to the disposal of the VSF Business, 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 are not presented.

***Geographical information***

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

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

|                          | <b>2015</b>     | <b>2014</b>     |
|--------------------------|-----------------|-----------------|
|                          | <i>US\$’000</i> | <i>US\$’000</i> |
| The PRC                  | 310,149         | 323,606         |
| The Americas             | 105,915         | 124,843         |
| Europe                   | 27,315          | 28,736          |
| Asia (excluding the PRC) | <u>434</u>      | <u>1,533</u>    |
|                          | <u>443,813</u>  | <u>478,718</u>  |

***Information about major external customers of the Group’s continuing operations***

One external customer (2014: one) contributed over 10% of the sales of Group’s continuing operations and the Group’s sales to this customer was US\$75,860,000 (2014: US\$76,429,000).



**6 OTHER INCOME AND (LOSSES)/GAINS, NET — OTHERS****Continuing operations**

|   | <b>2015</b>     | <b>2014</b>     |
|---|-----------------|-----------------|
|   | <i>US\$'000</i> | <i>US\$'000</i> |
| Foreign exchange loss   | (13,088)        | (7,194)         |
| Bank interest income  | 336             | 563             |
| Loss on disposals of property, plant and equipment                | (602)           | (685)           |
| Insurance claims  | 6,644           | —               |
| Sales of electricity  | 6,224           | 12,061          |
| Impairment loss recognized in respect of other non-current assets | (5,594)         | (4,231)         |
| Interest income from the VSF Business                             | —               | 4,727           |
| Commission income from a related party                            | —               | 813             |
| Others  | <u>2,215</u>    | <u>123</u>      |
|   | <u>(3,865)</u>  | <u>6,177</u>    |

**7 OPERATING PROFIT****Continuing operations**

|  | <b>2015</b>     | <b>2014</b>     |
|--|-----------------|-----------------|
|  | <i>US\$'000</i> | <i>US\$'000</i> |
| Operating profit has been arrived at after charging:                 |                 |                 |
| Salaries, wages and allowances                                       | 36,578          | 45,137          |
| Retirement benefit scheme contributions — defined contribution plans | 1,691           | 2,198           |
| Awarded shares compensation expense, net                             | <u>165</u>      | <u>136</u>      |
| Total staff costs  | <u>38,434</u>   | <u>47,471</u>   |
| Auditor's remuneration   | 1,393           | 995             |
| Depreciation of property, plant and equipment                        | 67,944          | 60,812          |
| Decrease due to harvest  | 29,276          | 39,801          |
| Operating lease expense of land and buildings and others             | <u>142</u>      | <u>221</u>      |

**8 FINANCE COSTS****Continuing operations**

|                            | <b>2015</b>          | <b>2014</b>          |
|----------------------------|----------------------|----------------------|
|                            | <i>US\$'000</i>      | <i>US\$'000</i>      |
| Interest expenses on:      |                      |                      |
| — bank borrowings          | 13,379               | 17,653               |
| Other finance costs (note) | <u>5,541</u>         | <u>5,975</u>         |
| Total borrowing costs      | <u><u>18,920</u></u> | <u><u>23,628</u></u> |

*Note:* Other finance costs represent primarily the release of fair value loss of interest rate swap amounting to US\$2,201,000 (2014: US\$1,068,000) and the amortization charge of a syndicated loan's upfront structure fee amounting to US\$2,797,000 (2014: US\$3,813,000).

**9 INCOME TAX EXPENSE**

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

**Continuing operations**

|  | <b>2015</b>           | <b>2014</b>            |
|--|-----------------------|------------------------|
|  | <i>US\$'000</i>       | <i>US\$'000</i>        |
| Current income tax:                    |                       |                        |
| - Provision for the year               | (5,616)               | (8,629)                |
| - Over-provision in prior years (note) | <u>4,690</u>          | <u>2,648</u>           |
|  | (926)                 | (5,981)                |
| Deferred income tax (note 15)          | <u>(1,883)</u>        | <u>(33,509)</u>        |
|  | <u><u>(2,809)</u></u> | <u><u>(39,490)</u></u> |

*Note:* Over-provision of income tax represents primarily the write back of aged tax provision balance amounting to US\$4,768,000 (2014: US\$2,650,000).

Brazilian Corporate Tax ("BCT") consists of income tax and social contributions, which are calculated at the rates of 25% and 9%, respectively on the Brazilian subsidiaries' taxable profit. Bahia Specialty Cellulose S. A. ("BSC"), a subsidiary incorporated in Brazil, obtained approval from the Federal Government (Sudene) for a 75% reduction in BCT arising from profits attributing to its then existing production line for a ten-year term starting from 1 January 2009.

The Group's Macau subsidiary is exempted from Macau Complementary Tax pursuant to Decree Law No. 58/99/M, Chapter 2, Article 12, dated 18 October 1999.

The corporate income tax of US incorporated entity is calculated based on the estimated assessable profits, multiplied by applicable United States Federal and State corporate income tax rates ranging from 6%-34%.

The corporate income tax of the Group's remaining subsidiaries is calculated at rates ranging from 16.50%-22.03% (2014: 16.50%-22.05%) on the estimated assessable profit of respective entities.

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

**Continuing operations**

|  | <b>2015</b>     | <b>2014</b>     |
|--|-----------------|-----------------|
|  | <i>US\$'000</i> | <i>US\$'000</i> |
| Profit before income tax   | <u>59,890</u>   | <u>54,833</u>   |
| Tax at the respective domestic income tax rates applicable to profits in the respective countries/location | (6,448)         | (16,170)        |
| Expenses not deductible for tax purposes   | (5,417)         | (9,229)         |
| Income not subject to income tax   | 35              | 1,156           |
| Tax losses not recognized  | —               | (1,726)         |
| Effect of tax exemption and concession granted   | 4,331           | 9,795           |
| Over-provision in respect of prior years   | 4,690           | 2,648           |
| Write-down of deferred income tax assets (note 15)   | <u>—</u>        | <u>(25,964)</u> |
| Income tax expense   | <u>(2,809)</u>  | <u>(39,490)</u> |

## 10 DIRECTORS' AND MANAGEMENT'S EMOLUMENTS

## (a) Directors' emoluments

The remuneration of each director is set out below:

For the year ended 31 December 2015

| Name                 | Fees<br><i>US\$'000</i> | Salaries,<br>allowances,<br>bonuses and<br>benefit-in-<br>kind<br><i>US\$'000</i> | Retirement<br>benefit<br>scheme<br>contributions<br><i>US\$'000</i> | Awarded<br>shares<br>compensation<br><i>US\$'000</i> | Total<br>emoluments<br><i>US\$'000</i> |
|----------------------|-------------------------|---|---|--|--|
| <b>Directors:</b>    |                         |   |   |  |  |
| John Jeffrey Ying    | 64                      | —   | —   | —  | 64                                     |
| Jeffrey Lam Kin Fung | 64                      | —   | —   | —  | 64                                     |
| David Yu Hon To      | 64                      | —   | —   | —  | 64                                     |
| Tey Wei Lin (note a) | 64                      | 209   | 10  | —  | 283                                    |
| Lim Ah Doo           | 64                      | —   | —   | —  | 64                                     |
| Low Weng Keong       | 64                      | —   | —   | —  | 64                                     |
| Armin Meyer (note b) | 64                      | —   | —   | —  | 64                                     |
|                      | <u>448</u>              | <u>209</u>  | <u>10</u>   | <u>—</u>   | <u>667</u>                             |

For the year ended 31 December 2014

| Name                 | Fees       | Salaries,<br>allowances,<br>bonuses and<br>benefit-in-<br>kind | Retirement<br>benefit<br>scheme<br>contributions | Awarded<br>shares<br>compensation | Total<br>emoluments |
|----------------------|------------|--|--|-----------------------------------|---------------------|
|                      | US\$'000   | US\$'000   | US\$'000   | US\$'000                          | US\$'000            |
| <b>Directors:</b>    |            |  |  |                                   |                     |
| John Jeffrey Ying    | 64         | —  | —  | 8                                 | 72                  |
| Jeffrey Lam Kin Fung | 64         | —  | —  | —                                 | 64                  |
| David Yu Hon To      | 64         | —  | —  | —                                 | 64                  |
| Tey Wei Lin (note a) | 64         | 122  | 7  | —                                 | 193                 |
| Lim Ah Doo           | 64         | —  | —  | —                                 | 64                  |
| Low Weng Keong       | 64         | —  | —  | —                                 | 64                  |
| Armin Meyer (note b) | 38         | —  | —  | —                                 | 38                  |
|                      | <u>422</u> | <u>122</u>   | <u>7</u>   | <u>8</u>                          | <u>559</u>          |

Notes:

- Tey Wei Lin was appointed as the Chief Executive Officer with effect from 18 March 2014.
- Armin Meyer was appointed as a non-executive Director on 1 June 2014 and has been redesignated to become independent non-executive director with effect from 17 August 2015.

**(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year do not include any directors (2014: nil). The emoluments payable to these five (2014: five) individuals are as follows:

|   | 2015<br>US\$'000 | 2014<br>US\$'000 |
|---|------------------|------------------|
| Basic salaries, housing allowances, other allowances,<br>bonuses and benefits in kind | 2,031            | 2,336            |
| Retirement benefit scheme contributions — defined<br>contribution plans               | 139              | 160              |
| Awarded shares compensation expense   | <u>72</u>        | <u>173</u>       |
|   | <u>2,242</u>     | <u>2,669</u>     |

The emolument of these individuals fell within the following bands:

|                                | 2015     | 2014     |
|--------------------------------|----------|----------|
| <b>Emoluments</b>              |          |          |
| HK\$2,000,001 to HK\$2,500,000 | 1        | —        |
| HK\$2,500,001 to HK\$3,000,000 | 1        | 1        |
| HK\$3,000,001 to HK\$3,500,000 | 1        | —        |
| HK\$4,000,001 to HK\$4,500,000 | 1        | 2        |
| HK\$4,500,001 to HK\$5,000,000 | <u>1</u> | <u>2</u> |
|                                | <u>5</u> | <u>5</u> |

During the years ended 31 December 2015 and 2014, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

None of the directors have waived any emoluments during the years.

(c) **Compensation of key management personnel**

During the year ended 31 December 2015, the emoluments paid to the key management personnel of the Group were approximately US\$2,307,000 (2014: US\$4,280,000). Apart from those five highest paid individuals whose emoluments are disclosed under Note 10(b) above, the remainder of the senior management were all individually paid under HK\$2,400,000 (2014: HK\$2,700,000).

## 11 DIVIDENDS

|  | 2015            | 2014            |
|--|-----------------|-----------------|
|  | <i>US\$'000</i> | <i>US\$'000</i> |
| Special dividend declared and paid of HK\$1.40 per share<br>(note a)             | —               | 617,556         |
| Interim dividend of HK1.0 cent per share (2014: nil)                             | 4,413           | —               |
| Proposed final dividend of HK3.0 cents per share (2014:<br>HK2.5 cents) (note b) | <u>13,244</u>   | <u>11,000</u>   |

*Notes:*

- a. Following completion of the disposal of VSF Business, the Company paid a special dividend of HK\$1.4 per share to all shareholders on 24 December 2014.
- b. At the board meeting held on 14 March 2016, the directors recommended a final dividend of HK3.0 cents per share to be paid for the year ended 31 December 2015 (2014: HK2.5 cents per share). Such dividend, which will be proposed at the annual general meeting of the Company to be held on 16 May 2016, has not been recognized as liabilities in the consolidated financial statements.

**12 EARNINGS PER SHARE**

Basic earnings per share is calculated by dividing the profit attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the year. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential shares.

|  | <b>2015</b>             | <b>2014</b>          |
|--|-------------------------|----------------------|
|  | <i>US\$'000</i>         | <i>US\$'000</i>      |
| Earnings for the purposes of basic and diluted earnings per share                        |                         |                      |
| Profit for the year from the continuing operations attributable to owners of the Company | 58,094                  | 15,380               |
| Profit for the year from discontinued operations attributable to owners of the Company   | <u>—</u>                | <u>21,984</u>        |
|  |                         |                      |
|  | <b>Number of shares</b> |                      |
|  | <b>2015</b>             | <b>2014</b>          |
| Weighted average number of ordinary shares for the purpose of basic earnings per share   | 3,420,228,606           | 3,418,584,003        |
| Effect of dilutive potential ordinary shares:  |                         |                      |
| Awarded shares compensation scheme   | <u>832,902</u>          | <u>826,663</u>       |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | <u>3,421,061,508</u>    | <u>3,419,410,666</u> |

**13 FORESTATION AND REFORESTATION ASSETS**

|  | <b>2015</b>     | <b>2014</b>     |
|--|-----------------|-----------------|
|  | <i>US\$'000</i> | <i>US\$'000</i> |
| At 1 January   | 138,942         | 161,554         |
| Additions  | 31,492          | 43,400          |
| Decrease due to harvest  | (26,188)        | (45,461)        |
| Foreign exchange differences recognized in other comprehensive income  | (37,291)        | —               |
| Decrease in fair value recognized in the consolidated income statement | <u>(7,695)</u>  | <u>(20,551)</u> |
| At 31 December   | <u>99,260</u>   | <u>138,942</u>  |

Wood is the principal raw materials used in producing DWP, one of the principal products of the Group. The Group owns plantation land in Brazil. Generally, the Group harvests the planted trees six to seven years (“harvest cycle”) after planting and two harvests can potentially be obtained from a single seedling. Additions of forestation and reforestation assets represent the costs incurred for maintaining the forest and planting new trees.

At 31 December 2015 and 2014, management of the Group determine the fair value of forestation and reforestation assets using a discounted cash flow model and under the Level 3 fair value hierarchy.

Management performed the valuation of the forestation and reforestation assets by using the discounted cash flow model with reference to wood price and other parameters as set out in below table. Valuation is performed for interim and annual financial reporting. The following significant unobservable inputs were used to value the Group’s forestation and reforestation assets:

| <u>Significant unobservable inputs</u>  | <u>Rate/data used</u>   | <u>Relationship of unobservable inputs to fair value</u>                    |
|---|---|---|
| Weighted average capital cost (“WACC”)  | 10% (2014:10%)  | The higher the WACC, the lower the fair value.                              |
| Reference wood price based on the prices agreed in the contracts entered into with local farmers                                      | BRL44.24 per cubic meter (2014: BRL40.02) (equivalent to US\$11.34 and US\$15.05 respectively)  | The higher the reference wood price used in USD, the higher the fair value. |
| Overhead expenses based on 2016 budget and projection for the remaining years in a proportional manner to the volume planted annually | BRL10,340,000 (equivalent to US\$2,651,000) (2014: BRL10,474,000 (equivalent to US\$3,944,000)) | The higher the overhead expenses in USD, the lower the fair value.          |

Other assumptions adopted in the discounted cash flow model are as follows:

- a six-year harvest cycle of the trees;
- the wood production rate calculated based on the planting programs during the period from 2010 to 2015;
- the forestry maintenance costs calculated based on the average historical expenses; and
- the exchange rate between USD and BRL.

At 31 December 2015, total forestation and reforestation assets were valued at approximately US\$99,260,000 (2014: US\$138,942,000). The decrease in fair value of US\$7,695,000 (2014: US\$20,551,000) was recognized in the consolidated income statement for the year.



## 14 PROPERTY, PLANT AND EQUIPMENT

|  | <b>Freehold<br/>land</b><br><i>US\$'000</i><br><i>(note a)</i> | <b>Buildings<br/>and leasehold<br/>improvement</b><br><i>US\$'000</i> | <b>Plant and<br/>machinery</b><br><i>US\$'000</i> | <b>Other<br/>tangible<br/>assets</b><br><i>US\$'000</i><br><i>(note b)</i> | <b>Construction<br/>in progress</b><br><i>US\$'000</i> | <b>Total</b><br><i>US\$'000</i> |
|--|--|---|---|--|--|---------------------------------|
| <b>Cost</b>  |  |   |   |  |  |                                 |
| At 1 January 2014                                      | 36,626   | 233,917   | 1,512,392   | 27,728   | 379,845  | 2,190,508                       |
| Additions  | —  | —   | 747   | 106  | 123,328  | 124,181                         |
| Transfer   | 931  | 163,884   | 244,378   | 14,355   | (423,548)  | —                               |
| Disposals  | —  | —   | (10,283)  | (562)  | —  | (10,845)                        |
| Foreign exchange<br>differences                        | —  | (473)   | (2,527)   | (44)   | (2,206)  | (5,250)                         |
| Disposal of the VSF<br>Business                        | —  | (237,380)   | (640,519)   | (18,943)   | (24,900)   | (921,742)                       |
| At 31 December 2014                                    | 37,557   | 159,948   | 1,104,188   | 22,640   | 52,519   | 1,376,852                       |
| Additions  | —  | 688   | 1,134   | 2  | 18,433   | 20,257                          |
| Transfer   | —  | —   | 57,490  | —  | (57,490)   | —                               |
| Disposals  | —  | —   | (3,200)   | (318)  | —  | (3,518)                         |
| Foreign exchange<br>differences                        | (7,682)  | (10,921)  | (9,552)   | (793)  | (2,522)  | (31,470)                        |
| <b>At 31 December 2015</b>                             | <b>29,875</b>  | <b>149,715</b>  | <b>1,150,060</b>                                  | <b>21,531</b>  | <b>10,940</b>  | <b>1,362,121</b>                |
| <b>Accumulated<br/>depreciation and<br/>impairment</b> |  |   |   |  |  |                                 |
| At 1 January 2014                                      | —  | 41,405  | 394,222   | 16,972   | —  | 452,599                         |
| Charge for the year                                    | —  | 12,312  | 86,496  | 2,743  | —  | 101,551                         |
| Disposals  | —  | —   | (7,342)   | (350)  | —  | (7,692)                         |
| Foreign exchange<br>differences                        | —  | (61)  | (668)   | (24)   | —  | (753)                           |
| Disposal of the VSF<br>Business                        | —  | (15,430)  | (132,951)   | (4,360)  | —  | (152,741)                       |
| At 31 December 2014                                    | —  | 38,226  | 339,757   | 14,981   | —  | 392,964                         |
| Charge for the year                                    | —  | 6,558   | 60,320  | 960  | —  | 67,838                          |
| Disposals  | —  | —   | (838)   | (317)  | —  | (1,155)                         |
| Foreign exchange<br>differences                        | —  | (2,145)   | (4,368)   | (474)  | —  | (6,987)                         |
| <b>At 31 December 2015</b>                             | <b>—</b>   | <b>42,639</b>   | <b>394,871</b>                                    | <b>15,150</b>  | <b>—</b>   | <b>452,660</b>                  |
| <b>Net book value</b>                                  |  |   |   |  |  |                                 |
| <b>At 31 December 2015</b>                             | <b>29,875</b>  | <b>107,076</b>  | <b>755,189</b>                                    | <b>6,381</b>   | <b>10,940</b>  | <b>909,461</b>                  |
| At 31 December 2014                                    | 37,557   | 121,722   | 764,431   | 7,659  | 52,519   | 983,888                         |

*Notes:*

- a. Freehold land comprises the land in Brazil.
- b. Other tangible assets comprise furniture, fixtures and fittings, motor vehicles and office equipment.
- c. At 31 December 2015, buildings and plant and machinery of approximately US\$815,201,000 (2014: US\$828,874,000) were pledged to secure the bank loans borrowed by the Group (Note 27).

## 15 DEFERRED INCOME TAX ASSETS

The movement of deferred income tax assets/(liabilities) are as follows:

|   | Accelerated<br>tax<br>depreciation<br><i>US\$'000</i> | Fair value of<br>forestation<br>and<br>reforestation<br>assets<br><i>US\$'000</i> | Unrealized<br>profit on<br>inventories<br><i>US\$'000</i> | Provisions<br><i>US\$'000</i> | Tax losses<br><i>US\$'000</i><br><i>(note b)</i> | Others<br><i>US\$'000</i><br><i>(note a)</i> | Total<br><i>US\$'000</i> |
|---|---|---|---|-------------------------------|--|--|--------------------------|
| At 1 January 2014   | (34,999)  | 7,551   | 1,562   | 4,912                         | 66,683   | 1,238  | 46,947                   |
| Credited/(charged)<br>to the<br>consolidated<br>income<br>statement for<br>the year |   |   |   |                               |  |  |                          |
| — Continuing<br>operations (note<br>9)  | 11,290  | (11,633)  | (993)   | (320)                         | (30,000)   | (1,853)                                      | (33,509)                 |
| — Discontinued<br>operations  | —   | —   | —   | 266                           | —  | —  | 266                      |
| Disposal of the VSF<br>Business   | —   | —   | —   | (266)                         | —  | —  | (266)                    |
| At 31 December 2014   | (23,709)  | (4,082)   | 569   | 4,592                         | 36,683   | (615)  | 13,438                   |
| Credited/(charged) to<br>the consolidated<br>income statement<br>for the year       | 16,234  | 2,179   | (441)   | (1,239)                       | (18,538)   | (78)   | (1,883)                  |
| <b>At 31 December<br/>2015</b>  | <u>(7,475)</u>  | <u>(1,903)</u>  | <u>128</u>  | <u>3,353</u>                  | <u>18,145</u>                                    | <u>(693)</u>                                 | <u>11,555</u>            |

*Notes:*

- a. Others represent deferred income tax assets/(liabilities) in respect of accruals and other miscellaneous items.
- b. At 31 December 2015, the Group has unused tax losses of approximately US\$95,844,000 (2014: US\$143,587,000) available for offsetting against future profits, of which US\$53,368,000 (2014: US\$107,888,000) have been recognized as deferred income tax assets. The tax effect on these recognized unused tax losses is US\$18,145,000 (2014: US\$36,683,000).

During the year ended 31 December 2015, unused tax losses with tax impact of US\$18,538,000 (2014: US\$15,557,000) was utilized by the Group. During the year ended 31 December 2014, the unused tax losses that are not expected to be utilized in the foreseeable future with tax impact of US\$14,443,000 was written off by the Group.

- c. At 31 December 2014 and 2015, the unused tax losses of the Group may be carried forward indefinitely.

**16 OTHER NON-CURRENT ASSETS**

|                                     | <b>2015</b>     | <b>2014</b>     |
|-------------------------------------|-----------------|-----------------|
|                                     | <i>US\$'000</i> | <i>US\$'000</i> |
| VAT recoverable (note a)            | 14,492          | 29,891          |
| Unlisted equity investment (note b) | 6,167           | 11,761          |
| Others                              | <u>4,642</u>    | <u>6,317</u>    |
|                                     | <u>25,301</u>   | <u>47,969</u>   |

*Notes:*

- a. This represents mainly 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 balance is 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 reason as Cetrel S.A. provides effluent treatment for Bahia Specialty Cellulose.

The Group’s other non-current assets that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

|     | <b>2015</b>     | <b>2014</b>     |
|-----|-----------------|-----------------|
|     | <i>US\$'000</i> | <i>US\$'000</i> |
| BRL | <u>22,454</u>   | <u>47,969</u>   |

**17 POST-EMPLOYMENT BENEFIT OBLIGATIONS**

The Group participates in defined contribution retirement benefit plans for qualifying employees mainly in Brazil, Hong Kong, Macau and Singapore. The assets of the plans are held separately from those of the Group in funds under the control of trustees or state appointed agencies.

The total costs charged to the consolidated income statement during the year ended 31 December 2015 of US\$1,691,000 (2014: US\$2,198,000) represent contributions to these schemes by the continuing operations of the Group.

**18 INVENTORIES**

|                  | <b>2015</b>     | <b>2014</b>     |
|------------------|-----------------|-----------------|
|                  | <i>US\$'000</i> | <i>US\$'000</i> |
| Raw materials    | 35,438          | 44,291          |
| Work in progress | 575             | 2,022           |
| Finished goods   | <u>18,088</u>   | <u>33,864</u>   |
|                  | <u>54,101</u>   | <u>80,177</u>   |

The cost of inventories recognized as expense and included in “cost of sales” of the continuing operations amounted to US\$254,331,000 (2014: US\$298,224,000).

**19 TRADE AND OTHER RECEIVABLES**

|   | <b>2015</b>     | <b>2014</b>     |
|---|-----------------|-----------------|
|   | <i>US\$'000</i> | <i>US\$'000</i> |
| Trade receivables                         | <u>33,834</u>   | <u>14,226</u>   |
| Other receivables:                        |                 |                 |
| Prepayments and deposits paid             | 4,411           | 5,286           |
| Advance to suppliers                      | 3,359           | 3,424           |
| VAT recoverable                           | 7,985           | 6,547           |
| Others                                    | <u>1,299</u>    | <u>1,539</u>    |
|   | <u>17,054</u>   | <u>16,796</u>   |
| Amounts due from related companies (note) |                 |                 |
| — Trade                                   | 135,267         | 181,175         |
| — Non-trade                               | <u>—</u>        | <u>521</u>      |
|   | <u>135,267</u>  | <u>181,696</u>  |
| Trade and other receivables               | <u>186,155</u>  | <u>212,718</u>  |

*Note:* Balances with related companies are unsecured and non-interest bearing.

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 amounts due from related parties presented based on the invoice date at the end of the reporting period is as follows:

|               | <b>2015</b>     | <b>2014</b>     |
|---------------|-----------------|-----------------|
|               | <i>US\$'000</i> | <i>US\$'000</i> |
| 0 — 60 days   | 76,616          | 62,163          |
| 61 — 90 days  | 25,322          | 33,910          |
| 91 — 180 days | 67,163          | 66,904          |
| Over 180 days | <u>—</u>        | <u>32,424</u>   |
|               | <u>169,101</u>  | <u>195,401</u>  |

Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed regularly.

As at 31 December 2015, trade receivables of US\$3,556,000 (2014: US\$1,734,000) were past due within 30 days but not impaired. These relate to a number of independent customers for whom based on past experience, the overdue amounts can be recovered.

No allowance for doubtful trade or other receivables was made in 2015 (2014: Nil).

The Group's trade and other receivables that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

|     | <b>2015</b>     | <b>2014</b>     |
|-----|-----------------|-----------------|
|     | <i>US\$'000</i> | <i>US\$'000</i> |
| BRL | <u>13,956</u>   | <u>15,710</u>   |

## 20 BANK BALANCES AND CASH

The Group's bank balances and cash that are not denominated in the functional currencies of the relevant group entities are as follows:

|          | <b>2015</b>     | <b>2014</b>     |
|----------|-----------------|-----------------|
|          | <i>US\$'000</i> | <i>US\$'000</i> |
| BRL      | 5,027           | 6,165           |
| Renminbi | <u>955</u>      | <u>651</u>      |

## 21 DISCONTINUED OPERATIONS

(a) Analysis of the results of discontinued operations is as follows:

|   | <b>2014</b><br><i>US\$'000</i> |
|---|--------------------------------|
| Revenue   | 529,060                        |
| Cost of sales   | <u>(490,390)</u>               |
| Gross profit  | 38,670                         |
| Selling and distribution expenses                                 | (8,680)                        |
| General and administrative expenses                               | (22,842)                       |
| Other income and gains, net                                       | 5,342                          |
| Finance costs   | <u>(15,365)</u>                |
| Loss before income tax and gain on disposal of the VSF Business   | (2,875)                        |
| Gain on disposal of the VSF Business                              | <u>36,254</u>                  |
| Profit before income tax  | 33,379                         |
| Income tax expenses   | <u>(13,367)</u>                |
| Profit after income tax   | 20,012                         |
| Eliminations with continuing operations                           | <u>4,155</u>                   |
| Profit for the year from discontinued operations                  | <u><u>24,167</u></u>           |
| Profit for the year from discontinued operations attributable to: |                                |
| — Owners of the Company   | 21,984                         |
| — Non-controlling interests                                       | <u>2,183</u>                   |
|   | <u><u>24,167</u></u>           |

## (b) Analysis of the cash flows for discontinued operations is as follows:

|  | <b>2014</b>          |
|--|----------------------|
|  | <i>US\$'000</i>      |
| Net cash outflow from operating activities   | (19,618)             |
| Net cash outflow from investing activities   | (77,530)             |
| Net cash inflow from financing activities    | <u>110,520</u>       |
| <br>   |                      |
| Net cash inflow from discontinued operations | <u><u>13,372</u></u> |

## (c) Assets and liabilities disposed are as follows:

|  | <b>2014</b>          |
|--|----------------------|
|  | <i>US\$'000</i>      |
| Consideration — cash                                 | 591,467              |
| Net assets disposed of:                              |                      |
| Property, plant and equipment                        | (769,001)            |
| Investment properties                                | (1,589)              |
| Prepaid land lease payments                          | (32,229)             |
| Intangible assets                                    | (119)                |
| Deferred income tax assets                           | (266)                |
| Other non-current assets                             | (1,477)              |
| Inventories  | (165,525)            |
| Trade, bills and other receivables                   | (241,696)            |
| Cash and bank balances                               | (28,927)             |
| Trade and other payables                             | 283,455              |
| Current income tax payable                           | 1,543                |
| Bank borrowings                                      | 323,693              |
| Amount due to the Group                              | 469,189              |
| Non-controlling interests                            | <u>38,560</u>        |
| <br>   |                      |
| Net assets disposed of                               | (124,389)            |
| Release of translation reserves                      | 40,486               |
| Transaction costs                                    | (4,000)              |
| Assignment of shareholders' loan                     | <u>(467,310)</u>     |
| <br>   |                      |
| Net gain on disposal of the VSF Business, before tax | <u><u>36,254</u></u> |

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of the VSF Business is as follows:

|  |                 |
|--|-----------------|
|  | <i>US\$'000</i> |
| Cash consideration   | 591,467         |
| Cash and bank balances disposed of   | <u>(28,927)</u> |
| Net inflow of cash and cash equivalents in respect of the disposal of the VSF Business | <u>562,540</u>  |

## 22 TRADE AND OTHER PAYABLES

|   | <b>2015</b>     | <b>2014</b>     |
|---|-----------------|-----------------|
|   | <i>US\$'000</i> | <i>US\$'000</i> |
| Trade payables                            | <u>7,907</u>    | <u>14,627</u>   |
| Other payables:                           |                 |                 |
| Accruals and other payables               | 33,283          | 30,784          |
| Other taxes payables                      | 1,472           | 3,445           |
| Provisions (note a)                       | <u>10,809</u>   | <u>11,233</u>   |
|   | <u>45,564</u>   | <u>45,462</u>   |
| Amounts due to related companies (note b) | <u>192</u>      | <u>30,065</u>   |
| Trade and other payables                  | <u>53,663</u>   | <u>90,154</u>   |

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

|             | <b>2015</b>     | <b>2014</b>     |
|-------------|-----------------|-----------------|
|             | <i>US\$'000</i> | <i>US\$'000</i> |
| 0 — 90 days | <u>7,907</u>    | <u>14,627</u>   |

*Notes:*

a. Provisions

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\$40,161,000 (2014: US\$47,300,000), which are considered as possible but not probable future losses. No provision has been made in the consolidated financial statements for these possible losses.

b. Amounts due to related companies

The balance at 31 December 2014 mainly represented the amount of US\$30,000,000 paid by the purchaser of the VSF Business to the Group pursuant to the agreement for the disposal of the VSF Business. Such US\$30 million represented the amounts owed by the VSF Business to the Group according to certain agreed invoices. Following the completion of the disposal, the amount has been fully settled with the purchaser during the year ended 31 December 2015.

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

These companies are beneficially owned and controlled by the Major Shareholder.

The Group's trade and other payables that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

|          | <b>2015</b>     | <b>2014</b>     |
|----------|-----------------|-----------------|
|          | <i>US\$'000</i> | <i>US\$'000</i> |
| BRL      | 11,877          | 33,739          |
| Renminbi | <u>34</u>       | <u>—</u>        |

## 23 DERIVATIVE FINANCIAL INSTRUMENTS

|   | <b>2015</b>     | <b>2014</b>     |
|---|-----------------|-----------------|
|   | <i>US\$'000</i> | <i>US\$'000</i> |
| Current liabilities   |                 |                 |
| - Forward foreign exchange contracts- cash flow hedges (note a) | (1,937)         | (5,324)         |
| - Interest rate swaps — cash flow hedges (note b)               | —               | (374)           |
| Non-current liabilities   |                 |                 |
| - Interest rate swaps — cash flow hedges (note b)               | <u>(793)</u>    | <u>(592)</u>    |
|   | <u>(2,730)</u>  | <u>(6,290)</u>  |

Notes:

a. Forward foreign exchange contracts

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2015 was US\$30,978,000 (2014: US\$126,093,000).

For the year ended 31 December 2015, the increase in fair value of the Group's outstanding forward foreign exchange contracts are estimated to be US\$3,387,000 (2014: decrease in fair value of US\$769,000). The amount has been recognized as other comprehensive income and accumulated in equity and are expected to be released to the consolidated income statement upon settlement.

For the year ended 31 December 2015, a loss on settlement of financial derivative contracts of approximately US\$23,690,000 (2014: US\$1,721,000) has been recognized in the consolidated income statement.

b. Interest rate swaps

The notional amount of the outstanding interest rate swaps at 31 December 2015 was US\$264,000,000 (2014: US\$365,894,000).

For the year ended 31 December 2015, the increase in fair value of the Group's outstanding interest rate swaps are estimated to be US\$173,000 (2014: decrease in fair value of US\$899,000) have been recognized as other comprehensive income and accumulated in equity and are expected to be released to the consolidated income statement upon settlement.

## 24 BANK BORROWINGS

|                  | <b>2015</b>     | <b>2014</b>     |
|------------------|-----------------|-----------------|
|                  | <i>US\$'000</i> | <i>US\$'000</i> |
| Bank borrowings: |                 |                 |
| Secured          | 231,093         | 375,629         |
| Unsecured        | <u>2,000</u>    | <u>—</u>        |
|                  | <u>233,093</u>  | <u>375,629</u>  |

At 31 December 2015, the Group's borrowings were repayable as follows:

|  | <b>2015</b>     | <b>2014</b>     |
|--|-----------------|-----------------|
|  | <i>US\$'000</i> | <i>US\$'000</i> |
| Within one year                                  | 117,875         | 115,578         |
| More than one year, but not more than two years  | 115,218         | 115,578         |
| More than two years but not more than five years | <u>—</u>        | <u>144,473</u>  |
|  | <u>233,093</u>  | <u>375,629</u>  |

The weighted average effective interest rates per annum were as follows:

|                 | 2015        | 2014        |
|-----------------|-------------|-------------|
| Bank borrowings | <u>4.4%</u> | <u>4.4%</u> |

In February 2013, the Group entered into a US\$500 million senior secured trade related facility agreement consisting of a five-year term syndicated loan of US\$440 million and a committed revolving credit facility of US\$60 million. The proceed was used to repay the outstanding balance of previous US\$470 million international syndicated loan facility as well as for general working capital purpose. This syndicated loan contains certain financial and other covenants, including, among other things, the maintenance of certain financial measures, such as the debt service coverage ratio and net senior debt to EBITDA ratio. Interest rate on the outstanding syndicated loan is based on the London Inter-Bank Offered Rate plus an applicable margin.

## 25 SHARE CAPITAL OF THE COMPANY

|  | Number of<br>shares         | Amounts<br>US\$'000   |
|--|-----------------------------|-----------------------|
| <b>Issued and fully paid:</b>                            |                             |                       |
| At 1 January 2014 and 31 December 2014, at US\$0.05 each | 3,420,420,250               | 171,021               |
| Issue of new shares (note)                               | <u>1,000,000</u>            | <u>50</u>             |
| <b>At 31 December 2015</b>                               | <u><u>3,421,420,250</u></u> | <u><u>171,071</u></u> |

*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).

## 26 SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme (the "Scheme"), Pre-IPO Restricted Share Unit Scheme ("Pre-IPO RSU Scheme") and Post-IPO Restricted Share Unit Scheme ("Post-IPO RSU Scheme"), were approved and adopted by the sole shareholder on 8 November 2010 for the primary purpose of attracting skilled and experienced personnel, to incentivize them 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.

### Share option scheme

Under the Scheme, the Board of Directors of the Company may, at its discretion, grant options pursuant to the Scheme to directors of the Company (including executive directors, non-executive directors and independent non-executive directors), directors of its subsidiaries and the employees of the Group who the Board considers, in its absolute discretion, have contributed or will contribute to the Group.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at the date of shareholders' approval of the Scheme from time to time. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue. Any further grant of share option in excess of these limits is subject to shareholders' approval in general meeting.

The Scheme shall be valid and effective for a period of 10 years commencing on 8 November 2010. Options granted during the life of the Scheme shall continue to be exercisable in accordance with their terms of grant after the end of the term. The exercise price is determined by the directors of the Company, and will not be less than the highest of (i) the closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant, which must be a business day; (ii) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares.

During the years ended 31 December 2015 and 2014, no options were granted under the Scheme.

### RSU Schemes

The terms of the RSU Schemes are not subject to the provisions of Chapter 17 of the Listing Rules as the RSU Schemes do not involve the grant of options by the Company to subscribe for new shares.

RSU is a contingent right to receive a share granted to a participant, subject to a vesting period.

The RSU Schemes comprise the Pre-IPO RSU Scheme and the Post-IPO RSU Scheme.

Details of the total movements during the year of the RSU granted pursuant to the RSU Schemes to the directors and employees are set out below:

|                               | <b>Number of underlying shares</b> |                  |
|-------------------------------|------------------------------------|------------------|
|                               | <b>2015</b>                        | <b>2014</b>      |
| Outstanding as of 1 January   | 1,975,000                          | 3,900,737        |
| Granted                       | 1,050,000                          | 1,900,000        |
| Vested                        | (1,300,000)                        | (2,545,688)      |
| Forfeited                     | —                                  | (1,280,049)      |
|                               | <u>1,725,000</u>                   | <u>1,975,000</u> |
| Outstanding as of 31 December | <u>1,725,000</u>                   | <u>1,975,000</u> |

The estimated fair value of the RSUs granted on 6 July 2015 was US\$85,000. The fair values of the outstanding RSUs granted are based on their fair values at the respective grant dates, which ranged from US\$0.08 to US\$0.15 per share.

The fair values were calculated using The Black-Scholes pricing model, taking into consideration market price of the underlying shares, risk-free yield rate, expected volatility and time to maturity.

The fair value of outstanding RSUs granted as at 31 December 2015 is approximately US\$188,000 (2014: US\$289,000) in aggregate.

## 27 PLEDGE OF ASSETS

The carrying values of assets pledged to various banks for securing bank loans are:

|   | <b>2015</b>     | <b>2014</b>     |
|---|-----------------|-----------------|
|   | <i>US\$'000</i> | <i>US\$'000</i> |
| Property, plant and equipment (note 14) | <u>815,201</u>  | <u>828,874</u>  |

## 28 COMMITMENTS

### (a) Operating lease commitments

#### *The Group as lessee*

At the end of the reporting period, the Group has outstanding commitments under non-cancellable operating leases, which fall due as follows:

|                                       | <b>2015</b>     | <b>2014</b>     |
|---------------------------------------|-----------------|-----------------|
|                                       | <i>US\$'000</i> | <i>US\$'000</i> |
| Within one year                       | 142             | 220             |
| In the second to fifth year inclusive | <u>284</u>      | <u>514</u>      |
|                                       | <u>426</u>      | <u>734</u>      |

### (b) Capital commitments

|  | <b>2015</b>     | <b>2014</b>     |
|--|-----------------|-----------------|
|  | <i>US\$'000</i> | <i>US\$'000</i> |
| Contracted but not provided for                |                 |                 |
| — acquisition of property, plant and equipment | <u>10,669</u>   | <u>12,651</u>   |

## 29 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of profit before income tax to net cash generated from operations

|   | <b>2015</b>           | <b>2014</b>           |
|---|-----------------------|-----------------------|
|   | <i>US\$'000</i>       | <i>US\$'000</i>       |
| <b>Cash flows from operating activities</b>                       |                       |                       |
| Profit before income tax  | 59,890                | 92,367                |
| Adjustments for:  |                       |                       |
| Amortization of intangible assets                                 | 100                   | 100                   |
| Amortization of prepaid lease payments                            | —                     | 668                   |
| Depreciation of property, plant and equipment                     | 67,838                | 101,551               |
| Decrease due to harvest on forestation and reforestation assets   | 26,188                | 45,461                |
| Depreciation of investment properties                             | —                     | 103                   |
| Gain on disposal of the VSF Business                              | —                     | (36,254)              |
| Loss on disposals of property, plant and equipment                | 602                   | 728                   |
| Release of fair value loss of derivative financial instruments    | 23,690                | 1,721                 |
| Impairment loss recognized in respect of other non-current assets | 5,594                 | 4,231                 |
| Decrease in fair value of forestation and reforestation assets    | 7,695                 | 20,551                |
| Awarded shares compensation expense                               | 165                   | 136                   |
| Interest income   | (336)                 | (693)                 |
| Finance costs   | <u>18,920</u>         | <u>34,266</u>         |
| Operating cash flows before changes in working capital            | 210,346               | 264,936               |
| Decrease/(increase) in inventories                                | 24,713                | (64,748)              |
| Decrease/(increase) in trade and other receivables                | 20,685                | (65,248)              |
| (Decrease)/increase in trade and other payables                   | (25,468)              | 36,497                |
| Change in derivative financial instruments                        | (23,690)              | (1,721)               |
| Decrease in other non-current assets                              | <u>15,578</u>         | <u>4,414</u>          |
| Net cash generated from operations                                | <u><u>222,164</u></u> | <u><u>174,130</u></u> |

**30 RELATED PARTY DISCLOSURES**

(a) Details of the balances with related parties are set out in notes 19 and 22.

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

| <u>Name of related parties</u>                                 | <u>Nature of transactions</u>                 | <b>2015</b>       | <b>2014</b>       |
|--|---|-------------------|-------------------|
|  |   | <i>US\$'000</i>   | <i>US\$'000</i>   |
| <i>Companies under common control of the Major Shareholder</i> |   |                   |                   |
| DP Marketing International Macao                               | Sale of goods                                 | 287,328           | —                 |
| Commercial Offshore Limited                                    | Purchase of goods                             | —                 | 16,250            |
|  | Commission income                             | —                 | 813               |
| Pec-Tech Engineering and Consulting<br>(Suzhou) Co., Ltd.      | Consulting service expense                    | —                 | 531               |
| Averis Sdn. Bhd.   | Service fee expense                           | 1,471             | 3,951             |
| East Trade Limited   | Rental expense                                | 105               | 186               |
| Pacific Viscose Limited  | Disposal of the VSF<br>Business (Note 21)     | —                 | 591,467           |
|  | Transfer of interest rate swap<br>arrangement | —                 | 2,886             |
|  |   | <u>          </u> | <u>          </u> |

(c) In the opinion of the directors, the related party transactions were conducted in the normal course of business and based on the terms mutually determined and agreed by the respective parties.

## 31 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

## (a) The Company balance sheet

|   | <b>2015</b>      | <b>2014</b>      |
|---|------------------|------------------|
|   | <i>US\$'000</i>  | <i>US\$'000</i>  |
| <b>Non-current assets</b>               |                  |                  |
| Investment in a subsidiary              | <u>1,007,993</u> | <u>1,007,993</u> |
| <b>Current assets</b>                   |                  |                  |
| Other receivables                       | 428              | 310              |
| Bank balances                           | <u>946</u>       | <u>1,438</u>     |
|   | <u>1,374</u>     | <u>1,748</u>     |
| <b>Current liabilities</b>              |                  |                  |
| Accrued charges                         | 193              | 529              |
| Amounts due to subsidiaries             | <u>17,954</u>    | <u>251</u>       |
|   | <u>18,147</u>    | <u>780</u>       |
| <b>Net current (liabilities)/assets</b> | <u>(16,773)</u>  | <u>968</u>       |
|   | <u>991,220</u>   | <u>1,008,961</u> |
| <b>Capital and reserves</b>             |                  |                  |
| Share capital                           | 171,071          | 171,021          |
| Share premium and reserves              | <u>820,149</u>   | <u>837,940</u>   |
|   | <u>991,220</u>   | <u>1,008,961</u> |



(b) Movements in the reserves of the Company are as follows:

|  | Share<br>premium<br><i>US\$'000</i> | Contributed<br>surplus<br><i>US\$'000</i><br><i>(Note)</i> | Awarded<br>shares<br>compensation<br>reserve<br><i>US\$'000</i> | Retained<br>profits<br><i>US\$'000</i> | Total<br><i>US\$'000</i> |
|--|-------------------------------------|--|---|--|--------------------------|
| At 1 January 2014                      | 426,151                             | 806,099  | 30  | 17,382                                 | 1,249,662                |
| Profit for the year                    | —                                   | —  | —   | 216,901                                | 216,901                  |
| Dividends                              | —                                   | (617,556)  | —   | (11,000)                               | (628,556)                |
| Awarded shares<br>compensation expense | —                                   | —  | (196)   | 129                                    | (67)                     |
| At 31 December 2014                    | 426,151                             | 188,543  | (166)   | 223,412                                | 837,940                  |
| Issue of new shares                    | 54                                  | —  | —   | —                                      | 54                       |
| Cost of issuing new<br>shares          | (9)                                 | —  | —   | —                                      | (9)                      |
| Loss for the year                      | —                                   | —  | —   | (2,777)                                | (2,777)                  |
| Dividends                              | —                                   | —  | —   | (15,160)                               | (15,160)                 |
| Awarded shares<br>compensation expense | —                                   | —  | 196   | (95)                                   | 101                      |
| <b>At 31 December 2015</b>             | <u>426,196</u>                      | <u>188,543</u>   | <u>30</u>   | <u>205,380</u>                         | <u>820,149</u>           |

*Note:* Contributed surplus represented the difference between the carrying amount of the equity items of Bracell International and the nominal value of the shares issued at the date of the group reorganization in preparation of the listing of the Company's shares on the Stock Exchange.

## 32 LIST OF SUBSIDIARIES

The Company had direct and indirect interests in the following subsidiaries for the years ended 31 December 2014 and 2015:

| Name of subsidiary   | Place of incorporation | Issued and fully paid share capital/ paid-in capital   | Attributable equity interest of the Company | Principal activities                              |
|--|------------------------|--|---|---|
| Bahia Specialty Cellulose S.A.                               | Brazil                 | 3,248,213,308 common shares with no par value<br><br>380,869,270 preferential shares with no par value | 98.4%                                       | Manufacturing and sales of dissolving wood pulp   |
| Copener Florestal Ltda.                                      | Brazil                 | Ordinary quotas Reais 549,374,402.37   | 100%  | Plantation in Brazil                              |
| Norcell S.A.   | Brazil                 | 42,800,334 common shares with no par value<br><br>29,771,891 preferential shares with no par value     | 100%  | Investment holding                                |
| Bracell Company Limited                                      | BVI                    | Ordinary shares US\$30,000,000   | 100%  | Investment holding                                |
| Bracell Copener Limited                                      | BVI                    | Ordinary shares US\$100,000  | 100%  | Investment holding                                |
| Bracell (Hong Kong) Management Limited                       | Hong Kong              | Ordinary shares HK\$10,000   | 100%  | Provision of advisory and administrative services |
| Bracell International Co. Ltd                                | BVI                    | Ordinary shares US\$100<br>Preference shares US\$381,799,200   | 100%  | Investment holding                                |
| Bracell Marketing International Limited                      | Cayman Islands         | Ordinary shares US\$1  | 100%  | Investment holding                                |
| Bracell Marketing SA (formerly known as Sateri Marketing SA) | Switzerland            | Ordinary shares CHF100,000   | 100%  | Marketing services for dissolving wood pulp       |

| Name of subsidiary  | Place of incorporation | Issued and fully paid share capital/ paid-in capital | Attributable equity interest of the Company | Principal activities                        |
|---|------------------------|--|---|---|
| Bracell (Shanghai) Investment Consulting Co., Ltd. (Note b) | The PRC                | Registered capital RMB1,000,000                      | 100%  | Consultancy services and capital management |
| Bracell Specialty Cellulose Limited                         | Cayman Islands         | Ordinary shares US\$183,939,551                      | 100%  | Investment holding                          |
| SC International Macao Commercial Offshore Limited          | Macao                  | Ordinary shares MOP100,000                           | 100%  | Marketing and sales of dissolving wood pulp |
| SC Marketing US Inc.  | USA                    | Ordinary shares US\$20,000                           | 100%  | Marketing and sales of dissolving wood pulp |
| Specialty Cellulose Marketing Pte. Ltd.                     | Singapore              | Ordinary shares US\$100,001                          | 100%  | Marketing and sales of dissolving wood pulp |

*Notes:*

- a. Except for Bracell International Co. Ltd, all of the subsidiaries are indirectly owned subsidiaries of the Company.
- b. Limited liability company and wholly-foreign owned enterprise established in the PRC in 2014.

### 3. UNAUDITED CONSOLIDATED FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2016

The following financial information has been extracted from the unaudited consolidated financial information of the Group for the six months ended 30 June 2016 as set forth in the interim report of the Company for the six months ended 30 June 2016.

#### CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2016

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

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE SIX MONTHS ENDED 30 JUNE 2016**

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AT 30 JUNE 2016

|  | <i>Notes</i> | Unaudited<br>30 June<br>2016<br><i>US\$'000</i> | Audited<br>31 December<br>2015<br><i>US\$'000</i> |
|--|--------------|---|---|
| <b>Non-current assets</b>                    |              |   |   |
| 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  |
|  |              | <u>1,074,655</u>                                | <u>1,045,852</u>                                  |
| <b>Current assets</b>                        |              |   |   |
| 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  |
|  |              | <u>359,087</u>                                  | <u>336,248</u>                                    |
| <b>Current liabilities</b>                   |              |   |   |
| 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   |
|  |              | <u>192,731</u>                                  | <u>189,476</u>                                    |
| <b>Net current assets</b>                    |              | <u>166,356</u>                                  | <u>146,772</u>                                    |
| <b>Total assets less current liabilities</b> |              | <u>1,241,011</u>                                | <u>1,192,624</u>                                  |

|  | <i>Notes</i> | <b>Unaudited<br/>30 June<br/>2016<br/>US\$'000</b> | <b>Audited<br/>31 December<br/>2015<br/>US\$'000</b> |
|--|--------------|--|--|
| <b>Non-current liabilities</b>               |              |  |  |
| Bank borrowings                              | 16           | 57,622   | 115,218  |
| Derivative financial instruments             |              | 897  | 793  |
|  |              | <u>58,519</u>                                      | <u>116,011</u>                                       |
|  |              | <u>1,182,492</u>                                   | <u>1,076,613</u>                                     |
| <b>Capital and reserves</b>                  |              |  |  |
| Share capital                                | 17           | 171,071  | 171,071  |
| Share premium and reserves                   |              | <u>1,010,559</u>                                   | <u>904,866</u>                                       |
| Equity attributable to owners of the Company |              | 1,181,630  | 1,075,937  |
| Non-controlling interests                    |              | <u>862</u>   | <u>676</u>   |
|  |              | <u>1,182,492</u>                                   | <u>1,076,613</u>                                     |

**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<br>capital                      | Share<br>premium | Translation<br>reserve | Cash flow<br>hedging<br>reserve | Awarded<br>shares<br>compensation<br>reserve | Retained<br>profits | Total     | Non-<br>controlling<br>interests | Total     |
|   | US\$'000                              | US\$'000         | US\$'000               | US\$'000                        | US\$'000                                     | US\$'000            | US\$'000  | US\$'000                         | 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<br>differences             | —                                     | —                | 29,407                 | —                               | —  | —                   | 29,407    | —                                | 29,407    |
| Unrealized gain on<br>cash flow hedge           | —                                     | —                | —                      | 6,294                           | —  | —                   | 6,294     | —                                | 6,294     |
| Total comprehensive<br>income for the<br>period | —                                     | —                | 29,407                 | 6,294                           | —  | 83,177              | 118,878   | 186                              | 119,064   |
| Transactions with<br>owners                     |                                       |                  |                        |                                 |  |                     |           |                                  |           |
| Dividend (Note 11)                              | —                                     | —                | —                      | —                               | —  | (13,215)            | (13,215)  | —                                | (13,215)  |
| Awarded shares<br>compensation<br>expense       | —                                     | —                | —                      | —                               | 45   | (15)                | 30        | —                                | 30        |
| Total transactions with<br>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 |



**APPENDIX III**
**FINANCIAL INFORMATION OF THE GROUP**

For the six months ended 30 June 2015

|   | Unaudited                             |                 |                     |                           |                                     |                  |                  |                           |                  |
|---|---------------------------------------|-----------------|---------------------|---------------------------|-------------------------------------|------------------|------------------|---------------------------|------------------|
|   | Attributable to owners of the Company |                 |                     |                           |                                     |                  |                  |                           |                  |
|   | Share capital                         | Share premium   | Translation reserve | Cash flow hedging reserve | Awarded shares compensation reserve | Retained profits | Total            | Non-controlling interests | Total            |
|   | <i>US\$'000</i>                       | <i>US\$'000</i> | <i>US\$'000</i>     | <i>US\$'000</i>           | <i>US\$'000</i>                     | <i>US\$'000</i>  | <i>US\$'000</i>  | <i>US\$'000</i>           | <i>US\$'000</i>  |
| 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                           | <u>171,021</u>                        | <u>426,151</u>  | <u>(26,611)</u>     | <u>(12,138)</u>           | <u>26</u>                           | <u>514,549</u>   | <u>1,072,998</u> | <u>1,372</u>              | <u>1,074,370</u> |

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS ENDED 30 JUNE 2016**

|   | <b>Unaudited</b>                |                 |
|---|---------------------------------|-----------------|
|   | <b>Six months ended 30 June</b> |                 |
|   | <b>2016</b>                     | <b>2015</b>     |
|   | <i>US\$'000</i>                 | <i>US\$'000</i> |
| <b>Net cash from operating activities</b>                   | <u>116,072</u>                  | <u>111,398</u>  |
| <b>Cash flows from investing activities</b>                 |                                 |                 |
| 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     | <u>384</u>                      | <u>927</u>      |
| <b>Net cash used in investing activities</b>                | <u>(37,694)</u>                 | <u>(24,057)</u> |
| <b>Cash flows from financing activities</b>                 |                                 |                 |
| Repayment of bank borrowings                                | (60,667)                        | (58,667)        |
| Interest paid   | (5,439)                         | (8,607)         |
| Payment of dividend   | <u>(13,215)</u>                 | <u>(10,716)</u> |
| <b>Net cash used in financing activities</b>                | (79,321)                        | (77,990)        |
| <b>Net (decrease)/increase in cash and cash equivalents</b> | (943)                           | 9,351           |
| Foreign exchange differences                                | 129                             | (286)           |
| <b>Cash and cash equivalents at 1 January</b>               | <u>95,992</u>                   | <u>100,955</u>  |
| <b>Cash and cash equivalents at 30 June</b>                 |                                 |                 |
| Represented by bank balances and cash                       | <u>95,178</u>                   | <u>110,020</u>  |

**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:

| <b>New standards and amendments</b>  | <b>Effective for accounting periods beginning on or after</b> |
|--|---|
| 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 Investors 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*

|  | <b>Six months ended 30 June</b> |                 |
|--|---------------------------------|-----------------|
|  | <b>2016</b>                     | <b>2015</b>     |
|  | <i>US\$'000</i>                 | <i>US\$'000</i> |
| Dissolving wood pulp business ("DWP Business") | <u>213,454</u>                  | <u>220,529</u>  |

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:

|                          | <b>Six months ended 30 June</b> |                 |
|--------------------------|---------------------------------|-----------------|
|                          | <b>2016</b>                     | <b>2015</b>     |
|                          | <i>US\$'000</i>                 | <i>US\$'000</i> |
| The PRC                  | 159,568                         | 154,409         |
| The Americas             | 46,227                          | 51,541          |
| Europe                   | 6,776                           | 14,231          |
| Asia (excluding the PRC) | <u>883</u>                      | <u>348</u>      |
|                          | <u>213,454</u>                  | <u>220,529</u>  |

**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**

|  | <b>Six months ended 30 June</b> |                 |
|--|---------------------------------|-----------------|
|  | <b>2016</b>                     | <b>2015</b>     |
|  | <i>US\$'000</i>                 | <i>US\$'000</i> |
| 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          | <u>77</u>                       | <u>65</u>       |

8 **Finance costs**

|                                      | <b>Six months ended 30 June</b> |                 |
|--------------------------------------|---------------------------------|-----------------|
|                                      | <b>2016</b>                     | <b>2015</b>     |
|                                      | <i>US\$'000</i>                 | <i>US\$'000</i> |
| Interest expenses on bank borrowings | 4,510                           | 7,236           |
| Other finance costs                  | <u>3,589</u>                    | <u>2,946</u>    |
| Total borrowing costs                | <u>8,099</u>                    | <u>10,182</u>   |

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.

|                            | <b>Six months ended 30 June</b> |                 |
|----------------------------|---------------------------------|-----------------|
|                            | <b>2016</b>                     | <b>2015</b>     |
|                            | <i>US\$'000</i>                 | <i>US\$'000</i> |
| Current income tax         |                                 |                 |
| - Provision for the period | (202)                           | (5,037)         |
| Deferred income tax        | <u>1,373</u>                    | <u>524</u>      |
|                            | <u>1,171</u>                    | <u>(4,513)</u>  |





## 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

|                                     | <b>30 June<br/>2016</b> | <b>31 December<br/>2015</b> |
|-------------------------------------|-------------------------|-----------------------------|
|                                     | <i>US\$'000</i>         | <i>US\$'000</i>             |
| VAT recoverable (Note a)            | 18,763                  | 14,492                      |
| Unlisted equity investment (Note b) | 6,167                   | 6,167                       |
| Others                              | <u>6,215</u>            | <u>4,642</u>                |
|                                     | <u><u>31,145</u></u>    | <u><u>25,301</u></u>        |

### 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

|  | <b>30 June<br/>2016</b> | <b>31 December<br/>2015</b> |
|--|-------------------------|-----------------------------|
|  | <i>US\$'000</i>         | <i>US\$'000</i>             |
| 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                       |
|  | <u>17,140</u>           | <u>17,054</u>               |
| Amount due from a related company (Note) |                         |                             |
| - Trade                                  | 145,193                 | 135,267                     |
| Trade and other receivables              | <u>182,319</u>          | <u>186,155</u>              |

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

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:

|               | <b>30 June<br/>2016</b> | <b>31 December<br/>2015</b> |
|---------------|-------------------------|-----------------------------|
|               | <i>US\$'000</i>         | <i>US\$'000</i>             |
| 0 - 60 days   | 67,714                  | 76,616                      |
| 61 - 90 days  | 27,609                  | 25,322                      |
| 91 - 180 days | 69,856                  | 67,163                      |
|               | <u>165,179</u>          | <u>169,101</u>              |

## 15 Trade and other payables

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

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

|             | <b>30 June<br/>2016</b> | <b>31 December<br/>2015</b> |
|-------------|-------------------------|-----------------------------|
|             | <i>US\$'000</i>         | <i>US\$'000</i>             |
| 0 - 90 days | <u><u>15,214</u></u>    | <u><u>7,907</u></u>         |

*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<br>shares         | Amounts<br>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)           | <u>1,000,000</u>            | <u>50</u>             |
| At 31 December 2015 and 30 June 2016 | <u><u>3,421,420,250</u></u> | <u><u>171,071</u></u> |

*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<br>2016<br>US\$'000 | 31 December<br>2015<br>US\$'000 |
|--|-----------------------------|---------------------------------|
| Contracted but not provided for                |                             |                                 |
| - acquisition of property, plant and equipment | <u>6,838</u>                | <u>10,669</u>                   |

## 19 Related party disclosures

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

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

#### 4. INDEBTEDNESS STATEMENT

As at 30 June 2016, being the latest practicable date prior to the printing of this document for ascertaining information for inclusion in this indebtedness statement, the Group had outstanding indebtedness as follows:

(a) **Bank Borrowings**

As at 30 June 2016, the Group had outstanding bank borrowings of approximately US\$174 million. All bank borrowings were secured as at 30 June 2016.

(b) **Pledge of Assets**

As at 30 June 2016, buildings, plant and machinery of approximately US\$786 million were pledged to secure the bank loans borrowed by the Group.

(c) **Contingent Liabilities**

As at 30 June 2016, the Group had total contingent liabilities of approximately US\$54 million in respect of possible future losses on certain lawsuits and administrative proceedings in Brazil. Please refer to “*Appendix II — Information on the Group — Material Litigation*” for details of these lawsuits and administrative proceedings.

Save as set out above and apart from intra-group liabilities and normal trade payables, as at 30 June 2016, the Group did not have any bank overdrafts or loans or other similar indebtedness, mortgages, charges or guarantees or other material contingent liabilities.

Apart from the scheduled repayment of bank borrowings of US\$29 million on 4 August 2016, the Directors have confirmed that there had been no material changes in the indebtedness position of the Group since 30 June 2016 and up to the Latest Practicable Date.

#### 5. MATERIAL CHANGES

On 17 June 2016, the respective boards of directors of the Offeror and the Company jointly announced that, on the 15 June 2016, the Offeror Board requested the Board to put forward the Proposal to the Scheme Shareholders to privatise the Company by way of the Scheme with a cancellation consideration of HK\$1.78 for each Scheme Share.

On 3 August 2016, the respective boards of directors of the Offeror and the Company jointly announced that the Offeror proposed to revise the terms of the Proposal. Under the terms of the revised Proposal, each Scheme Shareholder will receive a Cancellation Consideration of HK\$2.28 for each Scheme 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.

Please refer to “*Introduction*” and “*The Proposal*” in the Explanatory Statement on pages 38 to 41 of this document for further details of the Proposal.

On 15 August 2016, the Company announced its interim results for the six months ended 30 June 2016 and on 30 August 2016, the Company published its interim report for the six months ended 30 June 2016.

As disclosed in the Company’s interim results announcement and interim report for the six months ended 30 June 2016, the profit attributable to the Shareholders for the six months ended 30 June 2016 increased by 159% to US\$83 million and this is mainly due to lower operating costs as a result of the depreciation of the Brazilian currency against the US dollar as compared to the corresponding period in 2015 and more efficient operations of the Bahia Specialty Cellulose plant in Brazil.

Save as disclosed above, the Directors are not aware of any material changes in the financial or trading position or outlook of the Group since 31 December 2015, the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date.

## **6. DIVIDENDS**

Excluding the special dividend of approximately US\$618 million paid on 24 December 2014, representing a dividend per Share of HK\$1.40, the dividends paid by the Company for the years ended 31 December 2013, 2014 and 2015 were approximately US\$11 million, US\$11 million and US\$18 million (including the interim dividend of approximately US\$4 million paid on 11 September 2015, representing a dividend per Share of HK\$0.01), respectively, representing a dividend per Share of HK\$0.025, HK\$0.025 and HK\$0.04, respectively.

On 15 August 2016, the Board declared an interim dividend of HK\$0.015 per Share for the six months ended 30 June 2016, payable to Shareholders whose names appear on the register of members of the Company on 1 September 2016. Dividend warrants will be despatched to Shareholders on or around 12 September 2016.

Copies of the following documents are available for inspection from the date of this document until the Effective Date or the date on which the Scheme lapses or is withdrawn, whichever is the earlier (1) at the principal place of business of the Company in Hong Kong at 21/F, China Building, 29 Queen's Road Central, Central, Hong Kong from 9:30 a.m. to 5:30 p.m. (except Saturdays, Sundays and public holidays), (2) on the website of the Company at [www.brazilcellulose.com](http://www.brazilcellulose.com) and (3) on the website of the SFC at [www.sfc.hk](http://www.sfc.hk):

- (1) the memorandum of association and the bye-laws of the Company;
- (2) the memorandum and articles of association of the Offeror;
- (3) the annual reports of the Company for the two financial years ended 31 December 2015;
- (4) the interim report of the Company for the six months ended 30 June 2016;
- (5) the letter from the Board, the text of which is set out on pages 1 to 5 of this document;
- (6) the letter from the Independent Board Committee, the text of which is set out on pages 6 and 7 of this document;
- (7) the letter from Rothschild, the Independent Financial Adviser, the text of which is set out on pages 8 to 37 of this document;
- (8) the written consents referred to in “*Appendix I — Information on the Offeror — Consents*”;
- (9) the written consents referred to in “*Appendix II — Information on the Group — Consents*”;
- (10) the material contract referred to in “*Appendix II — Information on the Group — Material Contract*”;
- (11) the RSU Offer Letter and the Form of Acceptance; and
- (12) this document.

*In this document, the following words and expressions shall have the following meanings, unless the context otherwise requires:*

|                                     |   |
|-------------------------------------|---|
| <b>“acting in concert”</b>          | has the meaning ascribed to it in the Takeovers Code  |
| <b>“Anglo Chinese”</b>              | Anglo Chinese Corporate Finance, Limited, a corporation licensed under the SFO to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities, which has been appointed as one of the joint financial advisers to the Offeror in respect of the Proposal and the RSU Offer |
| <b>“Announcement”</b>               | the announcement dated 17 June 2016 jointly issued by the Offeror and the Company in respect of the Proposal and the RSU Offer  |
| <b>“Announcement Date”</b>          | 17 June 2016, being the date of the Announcement  |
| <b>“associate(s)”</b>               | has the meaning ascribed to it under the Takeovers Code   |
| <b>“Authorisations”</b>             | all necessary authorisations, registrations, filings, rulings, consents, permissions and approvals in connection with the Proposal  |
| <b>“Beneficial Owner”</b>           | any beneficial owner of Shares whose Shares are registered in the name of a Registered Owner  |
| <b>“Board”</b>                      | the board of Directors  |
| <b>“Business Day”</b>               | any day on which Stock Exchange is open for the business of dealing in securities   |
| <b>“Bye-laws”</b>                   | the Bye-laws of the Company   |
| <b>“Cancellation Consideration”</b> | the consideration of HK\$2.28 in cash for each Scheme Share cancelled   |
| <b>“CCASS”</b>                      | the Central Clearing and Settlement System established and operated by HKSCC  |
| <b>“CCASS Participant”</b>          | a person admitted to participate in CCASS as a direct clearing participant or general clearing participant, a custodian participant or an investor participant who may be an individual or joint individuals or a corporation   |
| <b>“Companies Act”</b>              | the Companies Act 1981 of Bermuda, as amended, supplemented or otherwise modified from time to time   |



|                         |  |
|-------------------------|--|
| “Company”               | Bracell Limited, a company incorporated in Bermuda with limited liability, whose shares are currently listed on the Main Board (stock code: 1768)  |
| “Concert Parties”       | parties acting in concert or presumed to be acting in concert with any of the Offeror or Gold Silk, including the Ultimate Controlling Shareholder and Fiduco  |
| “Conditions”            | the conditions of the Scheme, as set out in “ <i>Conditions Precedent to the Proposal</i> ” in the Explanatory Statement   |
| “Court”                 | the Supreme Court of Bermuda   |
| “Court Hearing”         | the hearing of the petition by the Court for the sanction of the Scheme  |
| “Court Meeting”         | the meeting of the Scheme Shareholders to be convened at the direction of the Court for the purpose of considering and, if thought fit, approving the Scheme   |
| “Credit Suisse”         | Credit Suisse (Hong Kong) Limited, a corporation licensed under the SFO to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 5 (advising on futures contracts) and type 6 (advising on corporate finance) regulated activities, which has been appointed as one of the joint financial advisers to the Offeror in respect of the Proposal and the RSU Offer |
| “Director(s)”           | the director(s) of the Company   |
| “Effective Date”        | the date on which the Scheme, if approved and sanctioned by the Court and filed with the Registrar of Companies in Bermuda, becomes effective in accordance with its terms, which is expected to be on Tuesday, 18 October 2016 (Bermuda time)   |
| “Executive”             | the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director  |
| “Explanatory Statement” | the explanatory statement relating to the Proposal, the text of which is set out on pages 38 to 60 of this document  |
| “Fiduco”                | Fiduco Trust Management AG, the trustee of a discretionary trust established by the Ultimate Controlling Shareholder as settlor and whose beneficiaries include the Ultimate Controlling Shareholder and certain members of his family   |
| “Form of Acceptance”    | the form of acceptance despatched to the RSU Holders in connection with the RSU Offer  |

|   |   |
|---|---|
| “Gold Silk”                                     | Gold Silk Holdings Limited, a company incorporated in the Cayman Islands with limited liability, whose entire issued share capital is held by Fiduco  |
| “Gold Silk Shares”                              | the Shares held by Gold Silk  |
| “Group”   | the Company and its subsidiaries from time to time  |
| “HK\$”  | Hong Kong dollars, the lawful currency of Hong Kong   |
| “HKSCC”   | Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited  |
| “Hong Kong”                                     | the Hong Kong Special Administration Region of the People’s Republic of China   |
| “IFRS”  | International Financial Reporting Standards   |
| “Independent Board Committee”                   | the independent committee of the Board established for the purpose of making recommendations to the Scheme Shareholders and the RSU Holders in relation to the Proposal and the RSU Offer, comprising John Jeffrey YING, Jeffrey LAM Kin Fung, David YU Hon To, LIM Ah Doo, LOW Weng Keong and Armin MEYER, all of whom are independent non-executive Directors |
| “Independent Financial Adviser” or “Rothschild” | Rothschild (Hong Kong) Limited, a corporation licensed under the SFO to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities, which has been appointed as the independent financial adviser to the Independent Board Committee in respect of the Proposal and the RSU Offer  |
| “Investor Participants”                         | persons admitted to participate in CCASS as investor participants   |
| “Last Trading Day”                              | 15 June 2016, being the last full trading day prior to the issue of the announcement published by the Company on 17 June 2016 pursuant to Rule 3.7 of the Takeovers Code  |
| “Latest Practicable Date”                       | 26 August 2016, being the latest practicable date prior to the printing of this document for the purpose of ascertaining certain information contained herein   |
| “Listing Rules”                                 | the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time   |

|                            |  |
|----------------------------|--|
| “Main Board”               | the Main Board of the Stock Exchange   |
| “Morgan Stanley”           | Morgan Stanley Asia Limited, a corporation licensed under the SFO to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities, which has been appointed as the financial adviser to the Company in respect of the Proposal and the RSU Offer |
| “Offer Period”             | the period commencing from the publication of the Announcement on 17 June 2016 and ending on the earliest of (a) the Effective Date, (b) the date on which the Scheme lapses and (c) the date on which an announcement is made on the withdrawal of the Scheme   |
| “Offeror”                  | BHL Limited, a special purpose vehicle incorporated in Bermuda for the purpose of the Scheme and whose sole shareholder is the Ultimate Controlling Shareholder  |
| “Offeror Board”            | the board of directors of the Offeror  |
| “Offeror Director(s)”      | director(s) of the Offeror   |
| “Other CCASS Participants” | persons admitted to participate in CCASS other than an Investor Participant  |
| “Overseas Shareholder(s)”  | Shareholder(s) whose addresses, as shown in the register of members of the Company, are in any jurisdiction other than Hong Kong   |
| “Proposal”                 | the proposal by the Offeror to privatise the Company by way of the Scheme  |
| “Record Time”              | the record time for determining (a) the entitlement of the Scheme Shareholders under the Scheme and the (b) the entitlement of the RSU Holders under the RSU Offer, being 4:00 p.m. (Hong Kong time) on the Effective Date, which is expected to be Tuesday, 18 October 2016   |
| “Registered Owner”         | in respect of a Beneficial Owner, any nominee, trustee, depository or any other authorised custodian or third party whose name is entered in the register of members of the Company as the holder of the Shares in which the Beneficial Owner is beneficially interested   |

|                                  |  |
|----------------------------------|--|
| “ <b>Relevant Authorities</b> ”  | the appropriate governments and/or governmental bodies, regulatory bodies, courts or institutions, including but not limited to the Court and the Registrar of Companies in Bermuda  |
| “ <b>Relevant Period</b> ”       | the period commencing on 17 December 2015, being the date falling six months prior to the date of the Announcement, and ending on the Latest Practicable Date  |
| “ <b>RSU(s)</b> ”                | restricted share unit(s) granted pursuant to the RSU Scheme  |
| “ <b>RSU Holder(s)</b> ”         | holder(s) of RSUs granted under the RSU Scheme   |
| “ <b>RSU Offer</b> ”             | the conditional offer jointly made by Credit Suisse and Anglo Chinese on behalf of the Offeror to the RSU Holders on the terms and subject to the conditions contained in this document and the RSU Offer Letters  |
| “ <b>RSU Offer Letter</b> ”      | the letter dated 30 August 2016 setting out the terms and conditions of the RSU Offer sent separately to the RSU Holders   |
| “ <b>RSU Offer Price</b> ”       | the “see-through” price for each RSU (which is HK\$2.28, being equal to the Cancellation Consideration, as there is no exercise price for the RSUs), such amount being payable in cash by the Offeror to the RSU Holders on the terms and subject to the conditions of the RSU Offer |
| “ <b>RSU Scheme</b> ”            | the Post-IPO Restricted Share Unit Scheme adopted by the Company on 8 November 2010  |
| “ <b>RSU Trustee</b> ”           | Bank of East Asia (Trustees) Limited, the trustee appointed to hold Shares pending the vesting of RSUs granted pursuant to the RSU Scheme  |
| “ <b>Scheme</b> ”                | a scheme of arrangement under Section 99 of the Companies Act involving the cancellation of all the Scheme Shares as set out on pages S-1 to S-7 of this document  |
| “ <b>Scheme Shareholder(s)</b> ” | registered holder(s) of Scheme Share(s) as at the Record Time, being all Shareholder(s), other than the Offeror, Gold Silk and the Concert Parties   |
| “ <b>Scheme Share(s)</b> ”       | Share(s) in issue as at the Record Time other than Gold Silk Shares  |
| “ <b>SFC</b> ”                   | the Securities and Futures Commission of Hong Kong   |

|                                    |   |
|------------------------------------|---|
| “SFO”                              | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time   |
| “SGM”                              | the special general meeting of the Company convened to be held on the same date as the Court Meeting, for the purposes of passing the special resolution for the implementation of the Proposal |
| “Share(s)”                         | ordinary share(s) of US\$0.05 each in the share capital of the Company  |
| “Shareholder(s)”                   | holder(s) of Shares   |
| “Stamp Duty Ordinance”             | the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time   |
| “Stock Exchange”                   | The Stock Exchange of Hong Kong Limited   |
| “subsidiary”                       | has the meaning ascribed to it under the Listing Rules  |
| “Takeovers Code”                   | the Code on Takeovers and Mergers issued by the SFC, as amended, supplemented or otherwise modified from time to time   |
| “Ultimate Controlling Shareholder” | Mr. Sukanto Tanoto  |
| “US”                               | the United States of America  |
| “US\$” or “US dollar”              | United States dollars, the lawful currency of the United States of America  |
| “%”                                | per cent.   |

All references in this document to times and dates are references to Hong Kong times and dates, except as otherwise specified.

All percentages stated in this document are approximations and certain amounts, totals and percentage figures included in this document have been subject to rounding adjustments.

For the purposes of this document, the exchange rate of US\$1.00 = HK\$7.75 has been used for currency translation, where applicable. Such exchange rate is for illustration purposes only and does not constitute representations that any amount in US\$ or HK\$ has been, could have been or may be converted at such rate.

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**SCHEME OF ARRANGEMENT**

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**IN THE SUPREME COURT OF BERMUDA  
CIVIL JURISDICTION  
COMMERCIAL COURT**

**2016: NO. 304**

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**IN THE MATTER OF  
BRACELL LIMITED**

**and**

**IN THE MATTER OF  
SECTION 99 OF THE COMPANIES ACT 1981**

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**SCHEME OF ARRANGEMENT**

between

**BRACELL LIMITED**

and

**THE HOLDERS OF SCHEME SHARES**  
(as defined herein)

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**PRELIMINARY**

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(A) In this Scheme of Arrangement, unless inconsistent with the subject or context, the following expressions shall bear the following meanings:

|                            |   |
|----------------------------|---|
| <b>“acting in concert”</b> | has the meaning ascribed to it in the Takeovers Code;   |
| <b>“Business Day”</b>      | a day on which The Stock Exchange of Hong Kong Limited is open for the business of dealing in securities;   |
| <b>“Companies Act”</b>     | the Companies Act of 1981 of Bermuda, as amended, supplemented or otherwise modified from time to time;   |
| <b>“Company”</b>           | Bracell Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited; |

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## SCHEME OF ARRANGEMENT

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|                                  |   |
|----------------------------------|---|
| <b>“Concert Parties”</b>         | parties acting in concert or presumed to be acting in concert with any of the Offeror or Gold Silk, including the Ultimate Controlling Shareholder and Fiduco;  |
| <b>“Court”</b>                   | the Supreme Court of Bermuda;   |
| <b>“Court Meeting”</b>           | a meeting of the Scheme Shareholders to be convened at the direction of the Court at which the Scheme (with or without modification) will be voted upon, or any adjournment thereof;  |
| <b>“Director(s)”</b>             | director(s) of the Company;   |
| <b>“Effective Date”</b>          | the date on which this Scheme becomes effective in accordance with paragraph 5 of this Scheme;  |
| <b>“Executive”</b>               | the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong or any delegate for the time being of the Executive Director;  |
| <b>“Fiduco”</b>                  | Fiduco Trust Management AG, the trustee of a discretionary trust established by the Ultimate Controlling Shareholder as settlor and whose beneficiaries include the Ultimate Controlling Shareholder and certain members of his family; |
| <b>“Gold Silk”</b>               | Gold Silk Holdings Limited, a company incorporated in the Cayman Islands with limited liability;  |
| <b>“HK\$”</b>                    | Hong Kong dollar, the lawful currency of Hong Kong;   |
| <b>“Hong Kong”</b>               | the Hong Kong Special Administrative Region of the People’s Republic of China;  |
| <b>“Latest Practicable Date”</b> | 26 August 2016, being the latest practicable date for the purpose of ascertaining certain information contained in the Scheme Document;   |
| <b>“New Shares”</b>              | the new Shares to be issued to the Offeror pursuant to this Scheme, the number of which is equal to the number of the Scheme Shares cancelled;  |
| <b>“Offeror”</b>                 | BHL Limited, a company incorporated in Bermuda with limited liability and whose sole shareholder is the Ultimate Controlling Shareholder;   |
| <b>“Offeror Director(s)”</b>     | director(s) of the Offeror;   |
| <b>“Proposal”</b>                | the proposal for the privatisation of the Company by the Offeror by way of and pursuant to the Scheme;  |

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## SCHEME OF ARRANGEMENT

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|   |   |
|---|---|
| <b>“Record Time”</b>                      | 4:00 p.m. (Hong Kong time) on the Effective Date, being the record time for determining the entitlement of the Scheme Shareholders under this Scheme;   |
| <b>“Register”</b>                         | the register of members of the Company;   |
| <b>“Scheme”</b>                           | this scheme of arrangement under section 99 of the Companies Act between the Company and the Scheme Shareholders in its present form or with or subject to any modification or addition or condition which the Court may approve or impose; |
| <b>“Scheme Document”</b>                  | the scheme document dated 30 August 2016 issued by the Offeror and the Company to the Shareholders, containing details of this Scheme;  |
| <b>“Scheme Shareholder(s)”</b>            | the Shareholder(s) whose name(s) appear on the Register at the Record Time, other than the Offeror, Gold Silk and the Concert Parties;  |
| <b>“Scheme Share(s)”</b>                  | all the Share(s) held by the Scheme Shareholders as at the Record Time;   |
| <b>“SGM”</b>                              | a special general meeting of the Shareholders to be convened for the purposes of passing the special resolution for the implementation of the Proposal;   |
| <b>“Shareholder(s)”</b>                   | registered holder(s) of the Share(s);   |
| <b>“Share(s)”</b>                         | ordinary share(s) of US\$0.05 each in the share capital of the Company;   |
| <b>“Takeovers Code”</b>                   | the Code on Takeovers and Mergers issued by the Securities and Futures Commission of Hong Kong, as amended, supplemented or otherwise modified from time to time; and   |
| <b>“Ultimate Controlling Shareholder”</b> | Mr. Sukanto Tanoto.   |

- (B) The Company was incorporated on 8 June 2010 in Bermuda under the Companies Act with an authorised share capital of US\$10,000 divided into 10,000 Shares. As at the date of this Scheme, the Company had an authorised share capital of US\$750,000,000 divided into 15,000,000,000 Shares of which 3,421,420,250 Shares had been issued and were fully paid or credited as fully paid.



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## **SCHEME OF ARRANGEMENT**

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- (C) As at the Latest Practicable Date, Gold Silk owned 2,863,496,750 Shares, representing approximately 83.69% of the total issued share capital of the Company, which Shares do not form part of the Scheme Shares. As at the Latest Practicable Date, the Offeror and the Concert Parties (excluding Gold Silk) did not own any Shares.
- (D) In consideration of the cancellation and extinguishment of the Scheme Shares on the Effective Date, all Scheme Shareholders as appearing in the Register as at the Record Time shall be entitled to receive HK\$2.28 in cash for each Scheme Share held.
- (E) Each of the Offeror and Gold Silk has agreed to appear by Conyers Dill & Pearman Limited at the hearing of the petition to sanction this Scheme and to undertake to the Court to be bound thereby and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed and done by the Offeror or Gold Silk (as the case may be) for the purpose of giving effect to this Scheme.
- (F) The primary purpose of this Scheme is to cancel and extinguish all the Scheme Shares on the Effective Date, and for the New Shares to be issued to the Offeror on such date, so that the Company becomes wholly-owned by the Offeror and Gold Silk.

### **THE SCHEME**

#### **PART I**

#### **CANCELLATION AND EXTINGUISHMENT OF THE SCHEME SHARES**

1. On the Effective Date:
  - (a) the issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares; and
  - (b) the Company shall apply the credit arising in its books of account as a result of the reduction of share capital referred to in paragraph 1(a) above in paying up in full at par the New Shares.

#### **PART II**

#### **CONSIDERATION FOR CANCELLATION AND EXTINGUISHMENT OF THE SCHEME SHARES**

2. In consideration of the cancellation and extinguishment of the Scheme Shares pursuant to paragraph 1 of this Scheme, the Offeror, shall pay or cause to be paid, subject to paragraph 3 of this Scheme, to each Scheme Shareholder as appearing in the Register as at the Record Time, HK\$2.28 in cash for each Scheme Share cancelled.

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## SCHEME OF ARRANGEMENT

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### PART III

#### GENERAL

3. (a) Not later than seven Business Days after the Effective Date, the Offeror shall, in respect of the Scheme Shareholders (as appearing in the Register as at the Record Time) who will receive cash in respect of their holdings of Scheme Shares, send or cause to be sent to such Scheme Shareholders cheques in respect of the sums payable to such Scheme Shareholders pursuant to paragraph 2 of this Scheme.
- (b) Unless indicated otherwise in writing to the Company's Hong Kong branch share registrar (being Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong) before the Effective Date, all such cheques shall be sent through the post (by airmail where appropriate) in pre-paid envelopes addressed to such Scheme Shareholders as follows:
- (i) in the case of each sole Scheme Shareholder, the registered address of such Scheme Shareholder as appearing in the Register as at the Record Time; or
- (ii) in the case of joint Scheme Shareholders, the registered address as appearing in the Register as at the Record Time of the first named joint Scheme Shareholder in respect of the relevant joint holding.
- (c) All cheques shall be made payable to the order of the person or persons to whom, in accordance with the provisions of paragraph 3(b) of this Scheme, the envelope containing the same is addressed and the encashment of any such cheque shall be a good discharge to the Company and the Offeror for the moneys expressed to be represented thereby.
- (d) All cheques shall be posted at the risk of the addressees and other persons entitled thereto and the Company, the Offeror and any other persons involved in the Scheme shall not be liable for any loss or delay in transmission.
- (e) On or after the day being six calendar months after the posting of the cheques pursuant to paragraph 3(b) of this Scheme, the Offeror shall have the right to cancel or countermand payment of any such cheque which has not then been cashed or has been returned uncashed, and shall place all monies represented thereby in a deposit account in the Company's name with a licensed bank in Hong Kong selected by the Company. The Company shall hold such monies on trust for those entitled under the terms of this Scheme until the expiry of six years from the Effective Date and shall prior to such date make payments thereof of the sums payable pursuant to paragraph 2 of this Scheme to persons who satisfy the Company that they are respectively entitled thereto, provided that the cheques referred to in paragraph 3(b) of this Scheme of which they are payees have not been cashed. Any payments made by the Company hereunder shall include any interest accrued on the sums to which the respective persons are entitled pursuant to paragraph 2 of this Scheme, calculated at the annual rate prevailing from time to time at the licensed bank in which the monies are deposited, subject, if applicable, to the deduction of interest, tax or any

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## SCHEME OF ARRANGEMENT

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withholding or other tax or any other deduction required by law and subject also to the deduction of any expenses. The Company shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled, and a certificate of the Company to the effect that any particular person is so entitled or not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant monies.

- (f) On the expiry of six years from the Effective Date, the Offeror shall be released from any further obligation to make any payments under this Scheme and the Company shall thereafter transfer to the Offeror the balance (if any) of the sums standing to the credit of the deposit account referred to in paragraph 3(e) of this Scheme including accrued interest subject to, if applicable, the deduction of interest, tax or any withholding or other tax or any other deduction required by law and subject also to the deduction of any expenses.
- (g) The preceding sub-paragraphs of this paragraph 3 shall take effect subject to any prohibition or condition imposed by law.

4. With effect from the Effective Date:

- (a) all certificates representing the Scheme Shares shall cease to have effect as documents or evidence of title and every holder thereof shall be bound, on the request of the Company, to deliver up to the Company the certificate(s) in respect of his, her or its entire holding of Scheme Shares;
- (b) all mandates or other instructions to the Company in force as at the Effective Date in relation to the Scheme Shares (including elections for the payment of dividends by way of scrip) shall cease to be valid as effective mandates or instructions; and
- (c) all instruments of transfer validly subsisting as at the Record Time in respect of the transfer of any Scheme Shares shall, with effect from the Effective Date, cease to be valid for all purposes as instruments of transfer.

5. This Scheme shall become effective as soon as a copy of the Order of the Court sanctioning this Scheme under Section 99 of the Companies Act shall have been delivered to the Registrar of Companies in Bermuda for registration.

6. The Company and the Offeror may jointly consent for and on behalf of all concerned to any modification(s) of or addition(s) to this Scheme or to any condition(s) which the Court may see fit to approve or impose.

7. Unless this Scheme shall have become effective on or before Thursday, 29 December 2016 or such later date as may be proposed by the Offeror and permitted by the Court and the Executive, this Scheme shall lapse.

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## SCHEME OF ARRANGEMENT

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8. The Offeror and the Company have agreed that:
- (a) if the Scheme becomes effective, all costs and expenses incurred in connection with the Scheme will be borne by the Offeror; and
  - (b) if the Scheme does not become effective, the Offeror and the Company will each bear their own costs, charges and expenses of their respective advisers and counsels, and other costs, charges and expenses of the Scheme will be shared between the Offeror and the Company equally.

Dated 30 August 2016

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## NOTICE OF COURT MEETING

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**IN THE SUPREME COURT OF BERMUDA  
CIVIL JURISDICTION  
COMMERCIAL COURT**

**2016: NO. 304**

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**IN THE MATTER OF  
BRACELL LIMITED**

**and**

**IN THE MATTER OF  
SECTION 99 OF THE COMPANIES ACT 1981**

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### NOTICE OF COURT MEETING

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**NOTICE IS HEREBY GIVEN** that, by an order (the “**Order**”) dated 25 August 2016 made in the above matter, the Court has directed a meeting (the “**Court Meeting**”) of the Scheme Shareholders (as defined in the Scheme mentioned below) to be convened and held for the purpose of considering and, if thought fit, approving (with or without modifications) a scheme of arrangement (the “**Scheme**”) proposed to be made between Bracell Limited (the “**Company**”) and the Scheme Shareholders (as defined in the Scheme mentioned above) and that the Court Meeting will be held at Regus Business Centre, 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Friday, 30 September 2016 at 11:00 a.m. (Hong Kong time) at which place and time all the Scheme Shareholders are invited to attend.

A copy of the Scheme and a copy of the explanatory statement explaining the Scheme pursuant to Section 100 of the Companies Act 1981 are incorporated in the scheme document of which this notice forms part. A copy of the scheme document can also be obtained by the Scheme Shareholders from the Company’s Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.

Scheme Shareholders may vote in person at the Court Meeting or they may appoint another person, whether a member of the Company or not, as their proxy to attend and vote in their stead. A **pink** form of proxy for use at the Court Meeting is enclosed with the scheme document.

In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and, for this purpose, seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.

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## NOTICE OF COURT MEETING

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It is requested that **pink** forms appointing proxies be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, by 11:00 a.m. on Wednesday, 28 September 2016, but if the forms are not so lodged they may be handed to the Chairman of the Court Meeting at the Court Meeting.

By the Order, the Court has appointed John Jeffrey YING or, failing him, Jeffrey LAM Kin Fung or, failing him, any other director of the Company to act as Chairman of the Court Meeting and has directed the Chairman to report the results of the Court Meeting to the Court.

The Scheme will be subject to the subsequent approval of the Court.

Dated this 30th day of August 2016.

By order of the Court  
**Conyers Dill & Pearman Limited**  
Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Attorneys for the Company*

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## NOTICE OF SGM

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Bracell Limited

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 1768)**

### NOTICE OF SPECIAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that a special general meeting (the “**SGM**”) of Bracell Limited (the “**Company**”) will be held at Regus Business Centre, 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Friday, 30 September 2016 at 11:30 a.m. (Hong Kong time) (or immediately after the meeting of the Scheme Shareholders as defined in the Scheme (set out in the scheme document of which this notice forms part) convened by the direction of the Supreme Court of Bermuda at the same place and on the same day shall have been concluded or adjourned, whichever is the later), for the purposes of considering and, if thought fit, passing the following resolution as a special resolution:

### SPECIAL RESOLUTION

**“THAT:**

- (a) for the purposes of giving effect to the scheme of arrangement dated 30 August 2016 (the “**Scheme**”), in the form of the print contained in the scheme document of which this notice forms part dated 30 August 2016, between the Company and the Scheme Shareholders (as defined in the Scheme), with any modifications thereof or additions thereto or subject to any conditions approved or imposed by the Court (as defined in the Scheme), on the Effective Date (as defined in the Scheme) the issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares (as defined in the Scheme);
- (b) the Company shall allot and issue at par such number of New Shares (as defined in the Scheme) as is equal to the number of Scheme Shares referred to in (a) above which are cancelled and extinguished to BHL Limited immediately upon and contemporaneously with the cancellation and extinguishment of the Scheme Shares referred to in (a) above on the Effective Date (as defined in the Scheme);
- (c) the Company shall apply the credit arising in its books of account as a result of the reduction of share capital referred to in (a) above in paying up in full at par the New Shares referred to in (b) above; and

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## NOTICE OF SGM

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- (d) any one of the directors of the Company be and is hereby authorised to do all acts and things as considered by him to be necessary or desirable in connection with the completion of the Scheme, including, without limitation, the giving or implementation of consent to any modifications of, or additions to, the Scheme, which the Court may see fit to impose and to do all other acts and things as considered by him to be necessary or desirable in connection with the Proposal (as defined in the Scheme) or in order to give effect to the transactions referred to above.”

By Order of the Board  
**Bracell Limited**  
**John Jeffrey YING**  
*Chairman*

Hong Kong, 30 August 2016

*Notes:*

1. Any member entitled to attend and vote at the SGM shall be entitled to appoint one or more proxies to attend and vote. A proxy need not be a member of the Company.
2. A **white** form of proxy for use at the SGM is enclosed. To be valid, the **white** form of proxy together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, must be delivered to the Company’s Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not less than 48 hours before the time fixed for the SGM or any adjournment thereof (as the case may be).
3. Completion and return of the **white** form of proxy will not preclude a member from attending and voting at the SGM or any adjournment thereof (as the case may be) should the member so desires. In the event that the member attends the SGM after having lodged the **white** form of proxy, it will be deemed to have been revoked.
4. The register of members of the Company will be closed from Wednesday, 28 September 2016 to Friday, 30 September 2016, both days inclusive, during which period no transfer of Shares will be effected. In order to determine the entitlement to attend and vote at the SGM, 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 Tuesday, 27 September 2016.