UNITED PULP & PAPER COMPANY LIMITED

ANNUAL REPORT 2007

Cutting Edge QUALITY

Mission Statement

To offer quality products and innovative solutions to our customers; encourage the entrepreneurial spirit in our employees; serve with a social conscience; and create value for our shareholders, in harmony with the needs of the larger community.

Core Values

PRODUCTS

Deliver quality and reliability, to win customer loyalty and market share.

PEOPLE

Adopt best practices and promote innovation by encouraging the entrepreneurial spirit of our employees.

PROCESS

Attain efficiency and flexibility in our processes, to ensure nimble responses to market demands.

CONTENTS

OUR BUSINESS

The Company operates through the core divisions of Paper Mill, Corrugated Packaging and Recycled Fibre.

Paper Mill

Manufactures and sells industrial grade paper products including test liner, corrugated medium and grey chip board.

Corrugated Packaging

Designs, manufactures and sells corrugated paper packaging products for the packaging of electronics & electrical, food & beverages, paper printing & publishing and consumer goods.

Recycled Fibre

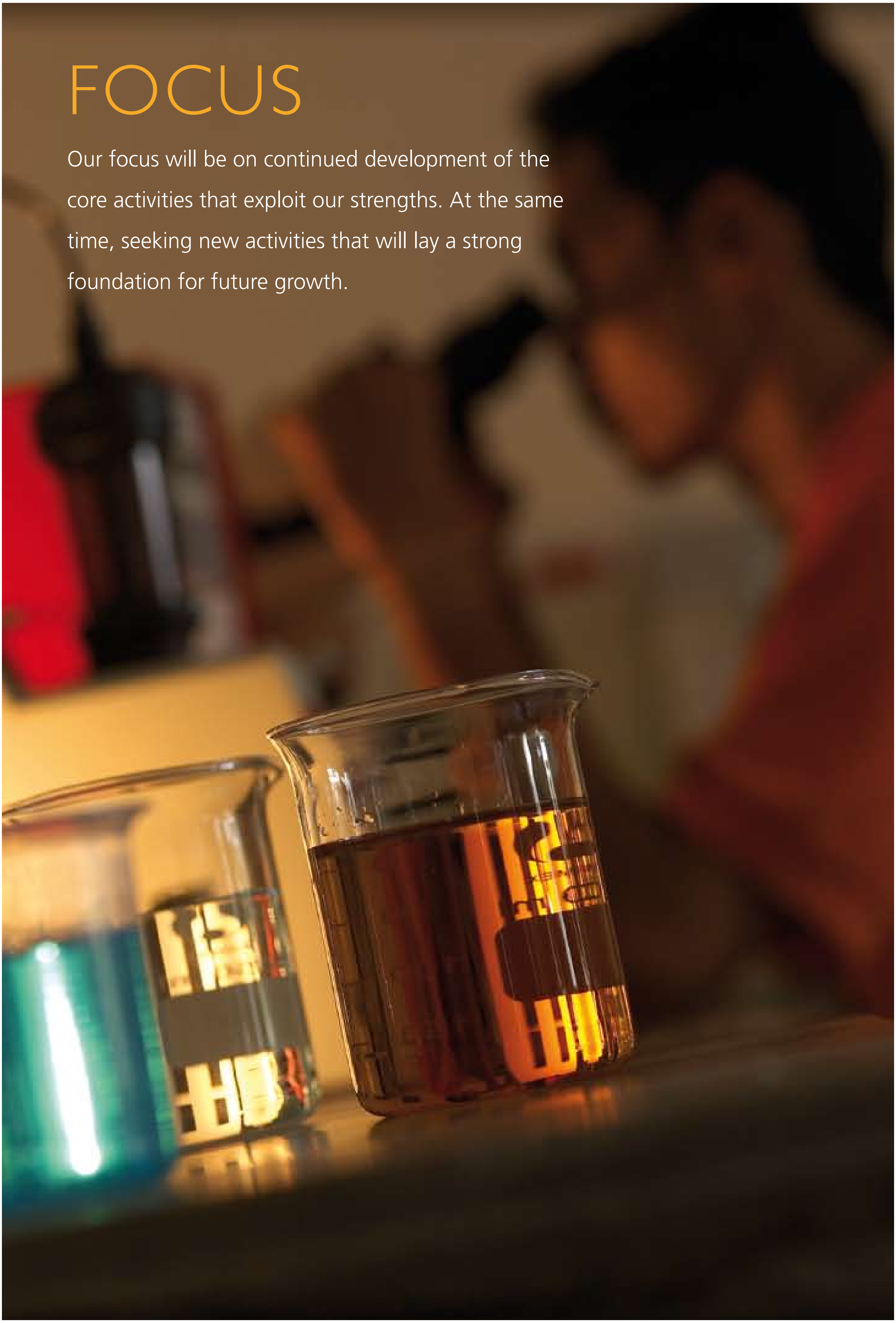
Collects and trades in waste paper products including old corrugated cartons, double liner kraft, old newspapers and recycled fibre products.

Future Business Opportunities

Constantly on the lookout for strategic investments or new ventures to build a sustainable foundation for future growth.

FOCUS

Our focus will be on continued development of the core activities that exploit our strengths. At the same time, seeking new activities that will lay a strong foundation for future growth.



CHAIRMAN'S STATEMENT

I am pleased to report that the Group had achieved a significant turnaround with all four operating divisions generating positive contributions to Group's earnings.

For the year under review, Group's turnover increased by 6% to $86.5 million with higher sales registered in the paper mill, corrugated packaging and recycled fibre divisions. Gross profit grew $4.4 million or 46% to $14.0 million. At the pre-tax level, the Group recorded a profit of $2.0 million compared to a loss of $2.1 million in the previous year. Net profit for the year was $2.1 million.

The Board has recommended a first and final dividend of 0.125 cents per ordinary share less tax for approval at the forthcoming Annual General Meeting.

Paper Mill Division

The division performed well and was the key contributor to Group's turnaround. Turnover increased 8% to $48.9 million. The division registered an operating profit of $3.7 million compared to a loss of $0.7 million in the previous year. The improved operating margins came significantly from the cost savings enjoyed by the division with the full conversion of the boilers in the paper mill to natural gas usage.

The paper mill had also put in considerable efforts to limit the adverse impact caused by the sustained rise in energy and raw material prices during the year. New measures were introduced to monitor plant performance and to reduce wastages. Increased planned maintenance had also helped to cut down machines downtime and improve production capacity.

The lamination board plant in Foshan, China continued to incur losses, and partly dampened the overall performance of the division.

CHAIRMAN'S STATEMENT

Corrugated Packaging Division

The division registered a 9% increase in sales to $25.3 million. Despite higher sales, operating profit for the division declined marginally from $1.9 million to $1.8 million. This was mainly due to the increase in raw material prices and higher distribution costs. Several new initiatives were taken during the year to enhance the yield per customer and to enhance production efficiencies in order to mitigate the impact of costs increase. Raw materials and other operational costs are expected to continue on an upward trend and management will remain vigilant to tackle the effects of these anticipated increases.

Medical and Flexible Packaging Division

The assets and business operations of this non-core division were divested in September 2007. Revenue recorded for nine months of operation was $7.7 million compared with $10.1 million in previous year. Operating profit for the same period was also lower at $0.4 million compared with $0.7 million in previous year.

Recycled Fibre Division

The Recycled Fibre division registered a 44% increase in turnover to $21.9 million. Despite increase in distribution costs, operating profit for the division grew to $0.2 million from a loss of $0.2 million in the previous year.

The current lease of the collection centre in Singapore will expire in June 2008. The division will assess the feasibility of consolidating its wastepaper collection activity in Malaysia.

Financial Review

Cash flows generated from operations before working capital changes improved from $4.3 million to $8.0 million in 2007. During the year, the Group also successfully completed a rights issue and raised a net proceeds of $13.9 million. As a result, the overall liquidity position of the Group had improved and the Group's net current liabilities were reduced from $25.4 million to $9.0 million during the year.

The improved cash flow from operations together with the funds raised from the rights issue were used partly to repay bank borrowings and partly for general working capital purposes. The cash holdings for the Group as at 31 December 2007 were $6.2 million.

Outlook & Strategy

The year ahead will be challenging for the paper and paperboard industries as the general business environment is expected to be affected by the volatility caused by the fallout from the US sub-prime crisis.

While demand for paper and paperboard products in both Malaysia and Singapore is expected to remain steady, operating margins may come under increasing pressure with higher production costs caused by rising fuel oil and raw material prices. To meet these challenges, the Group will continue to strengthen its service levels to meet customers' expectations and further improve on operating efficiencies in its plants to mitigate the anticipated cost increases. Our team of dedicated and experienced staff will remain customer focused and will continue to build on the strong relationships it already enjoys with our customers.

The Group will also look into opportunities to acquire new businesses and to strengthen its talent pool, in order to build up a sustainable foundation for future growth.

Acknowledgements

I take this opportunity to thank our management and staff for their dedication and hard work over the year. I would also like to express my heartfelt appreciation to all our customers, business associates, and shareholders who have supported us and maintained their confidence in us.

LEE SENG JIN
Executive Chairman

BOARD OF DIRECTORS

LEE SENG JIN *(Executive Chairman)*

As Executive Chairman of the Group, Mr Lee is responsible for the formulation of the Group's corporate strategies and corporate development. He has extensive experience in the paper industry, with vast knowledge of the China and Hong Kong markets.

KOH KIM HUAT *(Non-Executive Director)*

Mr Koh is currently a member of the Board of Directors and Chief Executive Officer of Rowsley Ltd, a listed company in Singapore. He brings to the Group extensive experience and knowledge, having held senior positions in both the public and private sectors. He has more than 10 years of working experience in Europe and Asia, and is particularly familiar with China.

He has also helmed other listed companies in Hong Kong and Singapore including Poh Tiong Choon Logistics where he was the Managing Director. A Singapore Government scholar, he graduated with Honours degree in Civil Engineering from National University of Singapore.

ADRIAN CHAN PENGEE *(Independent Non-Executive Director)*

Mr Chan is Head of Corporate and a Senior Partner at Lee & Lee. He is also a director of Lovells Lee & Lee, the joint law venture between Lee & Lee and the international law firm, Lovells, and is an independent director on the Boards of several publicly listed companies on the Singapore Stock Exchange. He also serves on the Governing Council of the Singapore Institute of Directors and the Listed Companies Committee of The Singapore International Chamber of Commerce.

CHAN LAY HOON *(Non-Executive Director)*

Ms Chan has over 10 years of experience in the areas of corporate management, corporate finance and investments. She sits on the Boards of various companies in Singapore, Hong Kong and Malaysia with business activities ranging from food & beverage, lifestyle, security printing and investments.

She started her career with international public accounting firm, Ernst & Young and holds a Bachelor of Accountancy from National University of Singapore. She has held directorships with executive functions in listed companies in Hong Kong and Singapore.

GARY HO KUAT FOONG *(Independent Non-Executive Director)*

Mr Ho has over 20 years' experience in corporate management and finance having been a Director of both publicly listed and private companies in Singapore, Malaysia and Australia.

He holds two Bachelor degrees in Commerce and Science from the University of Western Australia. He is also a member of Institute of Certified Public Accountants of Singapore and CPA Australia.

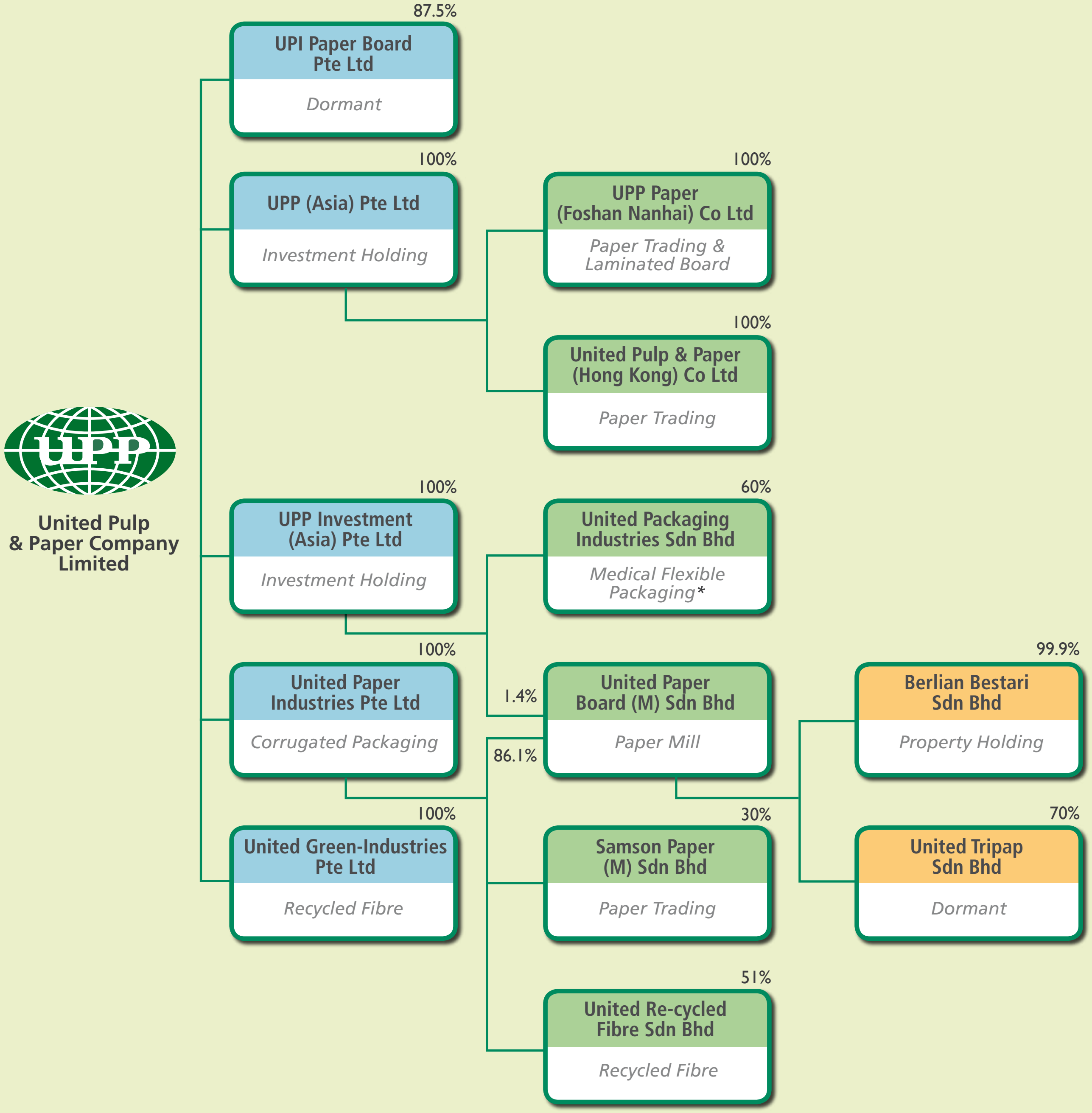
LEE ALBERT YUE KONG *(Alternate Director to Lee Seng Jin)*

Mr Lee is the Chief Financial Officer and Company Secretary of the Samson Group in Hong Kong. He has more than 20 years of experience in finance, auditing and accounting. He is a member of the Hong Kong Institute of Certified Public Accountants and Institute of Chartered Accountants of Australia.

PERSEVERANCE

If we have sufficient will that would translate to sufficient means. There is no insurmountable barrier because we believe in the cause.

ORGANISATION CHART



*The company was dormant after disposal of all plant & machinery in September 2007

CORPORATE INFORMATION

Board of Directors
Mr Lee Seng Jin *(Executive Chairman)*
Mr Koh Kim Huat
Mr Adrian Chan Pengee
Ms Chan Lay Hoon
Mr Gary Ho Kuat Foong
Mr Lee Albert Yue Kong
(Alternate Director to Lee Seng Jin)

Company Secretaries
Ms Leong Shiao Yee
Ms Loo Hwee Fang

Audit Committee
Mr Adrian Chan Pengee *(Chairman)*
Mr Gary Ho Kuat Foong
Ms Chan Lay Hoon

Nominating Committee
Mr Adrian Chan Pengee *(Chairman)*
Mr Gary Ho Kuat Foong
Mr Lee Seng Jin
Mr Koh Kim Huat

Remuneration Committee
Mr Gary Ho Kuat Foong *(Chairman)*
Mr Adrian Chan Pengee
Mr Koh Kim Huat

Registered Office
35 Tuas View Crescent
Singapore 637608
Tel: (65) 6861 0018
Fax: (65) 6861 3318

Share Registrar
B.A.C.S. Private Limited
63 Cantonment Road
Singapore 089758

Auditor
Ernst & Young
One Raffles Quay
North Tower, Level 18
Singapore 048583
Mr Cheng Heng Tan
(Partner-in-charge since financial year 2004)

Solicitor
Lee & Lee
168 Robinson Road
#25-01 Capital Tower
Singapore 068912

Principal Bankers
Bangkok Bank Public Company Limited
Malayan Banking Berhad
KBC Bank N.V.
Oversea-Chinese Banking Corporation Limited
Public Bank Berhad
The Bank of East Asia Limited
The Development Bank of Singapore Limited
United Overseas Bank Limited

FINANCIAL CONTENTS

DIRECTORS' REPORT

The directors are pleased to present their report to the members together with the audited consolidated financial statements of United Pulp & Paper Company Limited (the "Company") and its subsidiary companies (the "Group") for the financial year ended 31 December 2007.

Directors

The directors of the Company in office at the date of this report are:

Lee Seng Jin	(Executive Chairman)
Koh Kim Huat	
Adrian Chan Pengee	
Chan Lay Hoon	
Gary Ho Kuat Foong	
Lee Albert Yue Kong	(alternate director to Lee Seng Jin)

Arrangements to enable directors to acquire shares and debentures

Except as disclosed, neither at the end, nor at any time during the financial year, was the Company a party to any arrangement which object was to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

Directors' interest in shares and debentures

No director who held office at the end of the financial year had, according to the register required to be kept under Section 164 of the Singapore Companies Act, an interest in shares, share options, warrants or debentures of the Company or of related companies, either at the beginning or end of the financial year, except as stated below:-

	United Pulp & Paper Company Limited			
	Direct Interest		Deemed Interest	
Name of director	At beginning of year	At end of year	At beginning of year	At end of year
Shares				
Lee Seng Jin	–	–	22,192,000	34,456,000
Warrants				
Lee Seng Jin	–	–	–	6,132,000[1]

Note:

[1] Lee Seng Jin is deemed to be interested in the warrants by virtue of Section 7 of the Companies Act.

	Options to subscribe for ordinary shares in the Company Held in the name of director			
Name of directors	At date of grant 15.1.2004	At end of year	Exercise Price ($)	Exercisable Period
Lee Seng Jin	1,500,000	1,500,000	0.385	12.1.2005 to 11.1.2014
Adrian Chan Pengee	200,000	200,000	0.385	12.1.2005 to 11.1.2009
Lee Albert Yue Kong (alternate director to Lee Seng Jin)	200,000	200,000	0.385	12.1.2005 to 11.1.2009

Except as disclosed, there was no change in the interests of the directors between the end of the financial year and 21 January 2008.

DIRECTORS' REPORT

Directors' contractual benefits

Except as disclosed, since the end of the previous financial year, no director of the Company has received or become entitled to receive benefits by reason of a contract made by the Company or a related corporation with the director, or with a firm of which the director is a member, or with a Company in which the director has a substantial financial interest.

Options

The United Pulp & Paper Company Limited Share Option Scheme (the "Scheme") is administered by the Remuneration Committee. The members of the Remuneration Committee at the date of this report are as follows:-

Gary Ho Kuat Foong (Chairman) - independent
Adrian Chan Pengee - independent
Koh Kim Huat - non-executive

Each share option entitles the employees of the Company to subscribe for one new ordinary share in the Company. The options are granted in consideration of $1 per option for all the shares in respect of which the option is granted. The options may be exercised after 1 year except under certain circumstances but not later than 5 years for Non-Executive Option and not later than 10 years for Executive Option from the date the share option was offered. The options may be exercised in full or in blocks of 1,000 shares or a multiple thereof on the payment of the exercise price. Options granted will, to the extent unexercised, immediately lapse and cease to have any effect when the option holder ceases to be in office (in the case of non-executive Directors) or under full-time employment of the Company or any corporation in the Group subject to certain exceptions at the discretion of the Company.

(A) Options granted under the Scheme:-

No further options will be granted under the Scheme as it had expired on 16 January 2004. However, shares will continue to be issued pursuant to the exercise of those options granted prior to the expiry of the Scheme.

(B) Exercise of shares under option:-

During the year, the Company exercised 453,000 ordinary shares at an average subscription price per share of $0.62 for cash upon conversion of options under the Scheme.

(C) Unissued shares under option:-

Details of the options to subscribe for ordinary shares in the Company that were granted to employees of the Group pursuant to the Scheme are as follows:-

Date of grant	Balance as at 1.1.2007 or date of grant if later	Options exercised	Options cancelled /lapsed	Balance as at 31.12.2007	Number of holders at 31.12.2007	Exercise price ($)	Exercisable period
28.2.2000	604,000	101,000	33,000	470,000	12	0.540	28.1.2002 to 27.1.2010
14.3.2001	440,000	139,000	126,000	175,000	4	0.420	14.2.2002 to 13.2.2011
04.3.2002	557,000	152,000	152,000	253,000	8	0.415	04.2.2003 to 03.2.2012
15.1.2004	400,000	–	–	400,000	2	0.385	12.1.2005 to 11.1.2009
15.1.2004	2,708,000	61,000	3,000	2,644,000	7	0.385	12.1.2005 to 11.1.2014

Except for the options that were granted in 2000 at a discount of 14% to the market price, all other options were granted at market prices under the Scheme.

DIRECTORS' REPORT

Warrants

Pursuant to an Offer Information Statement dated 8 May 2007, the Company issued rights shares with one free detachable warrant for every two rights shares on the basis of one rights share for every one existing ordinary share in the Company held by shareholders.

A total of 117,419,000 rights shares and 58,709,475 warrants were issued and were listed and quoted on the Singapore Exchange Securities Trading Limited on 1 June 2007 and 4 June 2007 respectively.

As at the date of this report, none of the 58,709,475 warrants has been exercised.

Audit Committee

The Audit Committee comprises two independent non-executive Directors, one of whom is also the Chairman of the Audit Committee, and a non-executive Director. The members of the Audit Committee at the date of this report are as follows:

Adrian Chan Pengee (Chairman)	-	independent
Gary Ho Kuat Foong	-	independent
Chan Lay Hoon	-	non-executive

The financial statements, accounting policies and system of internal accounting controls are the responsibility of the Board of Directors acting through the Audit Committee. The Audit Committee met twice during the year to review the scope of work of the external audit, the results arising therefrom, including their evaluation of the system of internal controls. The Audit Committee also reviewed the assistance given by the Company's officers to the auditors. The consolidated financial statements of the Group and the financial statements of the Company as well as the auditors' report thereon were reviewed by the Audit Committee prior to their submission to the Directors of the Company for adoption.

In addition, the Audit Committee has reviewed the requirements for approval and disclosure of interested persons transactions, reviewed the procedures set up by the Group and the Company to identify and report and, where necessary, seek approval for interested persons transactions and reviewed interested persons transactions.

The Audit Committee has recommended to the Board of Directors the nomination of Ernst & Young as external auditors at the forthcoming Annual General Meeting of the Company.

Auditors

Ernst & Young have expressed their willingness to accept re-appointment as auditors.

On behalf of the Board,

Lee Seng Jin
Director

Koh Kim Huat
Director

Singapore
20 March 2008

STATEMENT BY DIRECTORS

We, Lee Seng Jin and Koh Kim Huat, being two of the directors of United Pulp & Paper Company Limited (the "Company"), do hereby state that, in the opinion of the directors,

(a) the accompanying balance sheets, consolidated income statement, statements of changes in equity and consolidated cash flow statement together with the notes thereto are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the results of the business and changes in equity of the Company and of the Group and cash flows of the Group for the year then ended; and

(b) at the date of this statement there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the Board,

Lee Seng Jin
Director

Koh Kim Huat
Director

Singapore
20 March 2008

INDEPENDENT AUDITORS' REPORT

to the Members of United Pulp & Paper Company Limited

We have audited the accompanying financial statements of United Pulp & Paper Company Limited (the "Company") and its subsidiary companies (the "Group") set out on pages 18 to 59 which comprise the balance sheet of the Company and the Group as at 31 December 2007, the statement of changes in equity of the Company and the Group, the income statement and cash flow statement of the Group for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Singapore Companies Act, Cap 50 (the "Act") and Singapore Financial Reporting Standards. This responsibility includes:

(a) devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets;

(b) selecting and applying appropriate accounting policies; and

(c) making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

Opinion

In our opinion,

(i) the consolidated financial statements of the Group and the balance sheet, and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2007 and the results, changes in equity of the Group and of the Company and cash flows of the Group for the financial year ended on that date; and

(ii) the accounting and other records required by the Act to be kept by the Company and by those subsidiary companies incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

ERNST & YOUNG
Public Accountants and
Certified Public Accountants
Singapore
20 March 2008

CONSOLIDATED INCOME STATEMENT

For the financial year ended 31 December 2007

	Note	Group 2007 $'000	Group 2006 $'000 (Restated)
Turnover	3	86,465	81,690
Cost of sales		(72,484)	(72,093)
Gross profit		13,981	9,597
Other income		914	697
Selling and distribution expenses		(5,159)	(4,819)
General and administrative expenses		(5,128)	(5,130)
Other operating expenses		(458)	(207)
Finance costs		(2,282)	(2,375)
Share of results of associate		166	152
Profit/(Loss) before taxation	4	2,034	(2,085)
Taxation	5	41	1,593
Profit/(Loss) after taxation		2,075	(492)
Attributable to:			
Equity holders of the Company		1,549	(580)
Minority interests		526	88
		2,075	(492)
Earnings/(Losses) per share (cents)			
Basic	6	0.83	(0.50)
Diluted		0.70	(0.49)

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

BALANCE SHEETS

As at 31 December 2007

	Note	Group 2007 $'000	Group 2006 $'000 (Restated)	Company 2007 $'000	Company 2006 $'000
Non-current assets					
Property, plant and equipment	7	96,083	99,459	–	–
Investments in subsidiaries	8	–	–	17,000	17,000
Investments in associate	9	691	525	–	–
Current assets					
Inventories	10	7,981	10,458	–	–
Trade receivables	11	17,975	17,691	–	–
Other receivables	12	3,163	2,143	33,283	19,860
Tax recoverable	13	4,141	1,600	12	12
Prepaid operating expenses		1,691	1,533	19	23
Cash and bank balances	22	6,197	1,378	780	134
		41,148	34,803	34,094	20,029
Current liabilities					
Bank overdrafts	22	2	5,537	–	–
Amounts due to bankers	14	36,580	34,903	–	–
Trade payables and accruals	15	9,560	15,241	357	508
Other payables	16	3,549	3,931	–	–
Lease creditors	17	211	312	–	–
Provision for taxation		267	249	123	123
		50,169	60,173	480	631
Net current (liabilities)/assets		(9,021)	(25,370)	33,614	19,398
Non-current liabilities					
Lease creditors	17	144	535	–	–
Deferred taxation	18	901	1,029	–	–
Bank loans	19	–	2,609	–	–
		(1,045)	(4,173)	–	–
Net assets		86,708	70,441	50,614	36,398
Share capital	20	48,615	34,522	48,615	34,522
Share premium	21	–	–	–	–
Reserves		31,943	30,307	1,999	1,876
		80,558	64,829	50,614	36,398
Minority interests		6,150	5,612	–	–
Total equity		86,708	70,441	50,614	36,398

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

STATEMENTS OF CHANGES IN EQUITY

For the financial year ended 31 December 2007

Group	Attributable to equity holders of the Company							Minority interests	Total equity
	Share capital[(1)] $'000 (Note 20)	Share premium $'000	Capital reserve[(2)] $'000	Employee share option reserve[(3)] $'000	Foreign currency translation reserve[(4)] $'000	Revenue reserve $'000	Total reserve $'000	$'000	$'000
2007									
At 1 January 2007	34,522	–	674	172	(3,602)	33,063	30,307	5,612	70,441
Rights issue of ordinary shares	14,090	–	–	–	–	–	–	–	14,090
Share issue expenses	(196)	–	–	–	–	–	–	–	(196)
Exercise of employee share option	199	–	–	–	–	–	–	–	199
Net effect of translation differences	–	–	–	–	87	–	87	12	99
Net profit for the year	–	–	–	–	–	1,549	1,549	526	2,075
At 31 December 2007	48,615	–	674	172	(3,515)	34,612	31,943	6,150	86,708
2006									
At 1 January 2006	29,162	5,231	674	172	(2,789)	33,643	31,700	5,588	71,681
Prior year adjustment (Note 32)	–	–	–	–	–	1,295	1,295	185	1,480
Restated opening balance at 1 January 2006	29,162	5,231	674	172	(2,789)	34,938	32,995	5,773	73,161
Issuance of ordinary shares	129	–	–	–	–	–	–	–	129
Transfer of share premium reserve to share capital	5,231	(5,231)	–	–	–	–	–	–	–
Net effect of translation differences	–	–	–	–	(813)	–	(813)	(64)	(877)
Net loss for the year	–	–	–	–	–	(1,875)	(1,875)	(97)	(1,972)
At 31 December 2006	34,522	–	674	172	(3,602)	33,063	30,307	5,612	70,441

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

STATEMENTS OF CHANGES IN EQUITY

For the financial year ended 31 December 2007

	Attributable to equity holders of the Company						
Company	Share capital[1] $'000 (Note 20)	Share premium $'000	Capital reserve[2] $'000	Employee share option reserve[3] $'000	Revenue reserve $'000	Total reserve $'000	Total equity $'000
2007							
At 1 January 2007	34,522	–	74	172	1,630	1,876	36,398
Rights issue of ordinary shares	14,090	–	–	–	–	–	14,090
Share issue expenses	(196)	–	–	–	–	–	(196)
Exercise of employee share option	199	–	–	–	–	–	199
Net profit for the year	–	–	–	–	123	123	123
At 31 December 2007	48,615	–	74	172	1,753	1,999	50,614
2006							
At 1 January 2006	29,162	5,231	74	172	1,411	1,657	36,050
Issuance of ordinary shares	129	–	–	–	–	–	129
Transfer of share premium reserve to share capital	5,231	(5,231)	–	–	–	–	–
Net profit for the year	–	–	–	–	219	219	219
At 31 December 2006	34,522	–	74	172	1,630	1,876	36,398

(1) The holders of ordinary shares are entitled to receive dividends when declared by the Company. All ordinary shares carry one vote without restriction.

(2) These are not available for distribution as dividends.

(3) Employee share option reserve represents the equity-settled share options granted to employee (Note 23). The reserve is made up of the cumulative value of services received from employees recorded on grant of equity-settled share options.

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

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

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	2007 $'000	2006 $'000
Cash flows from operating activities:		
Profit/(Loss) before taxation	2,034	(2,085)
Adjustments for:		
Depreciation expenses	4,296	3,924
Property, plant and equipment written off	8	6
Gain on disposal of property, plant and equipment	(302)	(27)
Share of results of associate	(165)	(152)
Interest income	(42)	(14)
Interest expenses	2,268	2,375
Foreign currency translation adjustment	(107)	283
Operating profit before working capital changes	7,990	4,310
(Increase)/decrease in inventories	2,477	(187)
(Increase)/decrease in trade receivables	(284)	(747)
(Increase)/decrease in other receivables	(1,020)	1,578
(Increase)/decrease in prepayments	(158)	(1,194)
Increase/(decrease) in trade payables and accruals	(5,681)	2,831
Increase/(decrease) in other payables	(382)	(828)
Cash flows generated from operations	2,942	5,763
Interest income received	42	14
Interest expense paid	(2,268)	(2,375)
Net income tax paid	(2,614)	(1,505)
Net cash flow (used in)/generated from operating activities	(1,898)	1,897
Cash flows from investing activities:		
Advances to associate	–	(1,020)
Purchase of property, plant and equipment	(1,367)	(2,429)
Proceeds from disposal of property, plant and equipment	950	39
Net cash flows (used in) investing activities	(417)	(3,410)
Cash flows from financing activities:		
Net repayment of term loans and bank borrowings	(932)	(5,723)
Proceeds from the issuance of shares of the Company	14,093	129
Repayment of finance lease obligations	(492)	(218)
Net cash flows generated from/(used in) financing activities	12,669	(5,812)
Net increase/(decrease) in cash and cash equivalents	10,354	(7,325)
Cash and cash equivalents at beginning of year	(4,159)	3,166
Cash and cash equivalents at end of year (Note 22)	6,195	(4,159)

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

NOTES TO THE FINANCIAL STATEMENTS
31 December 2007

1. Corporate information

United Pulp & Paper Company Limited (the "Company") is a limited liability company incorporated in Singapore and publicly traded on the Singapore Exchange. The financial statements of the Company and the Group were authorised for issue in accordance with a resolution of the Directors on 20 March 2008.

The registered office and principal place of the business of the Company is located at 35 Tuas View Crescent, Singapore 637608.

The principal activity of the Company is that of an investment holding company. The principal activities of the subsidiary companies are stated in Note 8 to the financial statements. There have been no significant changes in the nature of these activities during the financial year.

2. Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company have been prepared in accordance with Singapore Financial Reporting Standards ("FRS").

The financial statements have been prepared on a historical cost basis except for leasehold land and buildings that have been measured at their fair values.

The financial statements are presented in Singapore Dollars (SGD or $) and all values are rounded to the nearest thousand ($'000) except when otherwise indicated.

The accounting policies have been consistently applied by the Group and the Company and are consistent with those used in the previous financial year.

2.2 Future changes in accounting policies

The Group has not adopted the following FRS and INT FRS that have been issued but not yet effective:

Reference	Description	Effective for annual periods beginning on or after
FRS 23	Amendment to FRS 23, Borrowing Costs	1 January 2009
FRS 108	Operating Segments	1 January 2009
INT FRS 111	Group and Treasury Share Transactions	1 March 2007
INT FRS 112	Service Concession Arrangements	1 January 2008

The directors expect that the adoption of the above pronouncements will have no material impact to the financial statements in the period of initial application, except for FRS 23 and FRS 108 as indicated below.

FRS 23 Borrowing Costs

FRS 23, Borrowing costs has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2007

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

2.2 Future changes in accounting policies (cont'd)

FRS 108 Operating Segments

FRS 108, Operating segments requires entities to disclose segment information based on the information reviewed by the entity's chief operating decision maker. The impact of this standard on the other segment disclosures is still to be determined. As this is a disclosure standard, it will have no impact on the financial position or financial performance of the Group when implemented in 2009.

2.3 Significant accounting judgements and estimates

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

(a) Key sources of estimation uncertainty

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

- Depreciation of plant and equipment

  The cost of plant and equipment for the manufacturing activities are depreciated on a straight-line basis over the machineries' useful lives. Management estimates the useful lives of these plant and equipment to be within 3 to 40 years. These are common life expectancies applied in the industry. The carrying amount of the Group's plant and equipment at 31 December 2007 was $58,005,000 (2006: $60,516,000). Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

- Income taxes

  The Group has exposure to income taxes in numerous jurisdictions. Significant judgement is involved in determining the group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The carrying amount of the Group's tax payables and tax recoverable at 31 December 2007 were $267,000 (2006: $249,000) and $4,141,000 (2006: $1,600,000) respectively.

- Allowances for bad and doubtful debts

  The Group makes allowances for bad and doubtful debts based on an assessment of recoverability of trade and other receivables. Allowances are adopted to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful requires the use of judgements and estimates, where the expectation is different from the original estimate, such difference will impact the carrying value of trade and other receivables and doubtful debts expenses in the period in which such estimate has been changed. As at 31 December 2007, the total allowances for bad and doubtful debts are $1,165,000 (2006: $1,340,000).

NOTES TO THE FINANCIAL STATEMENTS
31 December 2007

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

2.3 Significant accounting judgements and estimates (cont'd)

(a) Key sources of estimation uncertainty (cont'd)

- Inventory related allowances

  A review is made periodically on inventory for excess inventory obsolescence and declines in net realisable value below cost and record an allowance against the inventory balance for any such declines. These reviews require management to estimate future demand for our products. Possible changes in these estimates would result in revisions to the valuation of inventory.

(b) Critical judgements made in applying accounting policies

In the process of applying the Group's accounting policies, management has made certain judgements, apart from those involving estimates, which have significant effect on the amounts recognised in the financial statements.

- Impairment of investments and financial assets

  The Group follows the guidance of FRS 39 in determining when an investment and financial asset are other than temporarily impaired. This determination requires significant judgement. The Group evaluates, among other factors, the duration and extent to which fair value of an investment or financial asset is less than its carrying value; and the financial health of a near-term business outlook for the investment or financial asset, including factors such as industry and sector performance, changes in technology, operational and financing cash flows.

- Impairment of property, plant and equipment

  The Group determines whether property, plant and equipment are impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the property, plant and equipment are allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

2.4 Functional and foreign currency

(a) Functional currency

The management has determined the currency of the primary economic environment in which the company operates i.e. functional currency, to be SGD. Sales prices and major costs of providing goods and services including major operating expenses are primarily influenced by fluctuations in SGD.

(b) Foreign currency transactions

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate of exchange ruling at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2007

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

2.4 Functional and foreign currency (cont'd)

(b) Foreign currency transactions (cont'd)

Exchange differences arising on the settlement of monetary items or on translating monetary items at the balance sheet date are recognised in the profit and loss account except for exchange differences arising on monetary items that form part of the group's net investment in foreign subsidiaries, which are recognised initially in a separate component of equity as foreign currency translation reserve in the consolidated balance sheet and recognised in the consolidated profit and loss account on disposal of the subsidiary. In the company's separate financial statements, such exchange differences are recognised in the profit and loss account.

The results and financial position of foreign operations are translated into SGD using the following procedures:

- Assets and liabilities for each balance sheet presented are translated at the closing rate ruling at that balance sheet date; and
- Income and expenses for each income statement are translated at average exchange rates for the year, which approximates the exchange rates at the dates of the transactions.

All resulting exchange differences are recognised in a separate component of equity as foreign currency translation reserve.

On disposal of a foreign operation, the cumulative amount of exchange differences deferred in equity relating to that foreign operation is recognised in the profit and loss account as a component of the gain or loss on disposal.

2.5 Subsidiaries and principles of consolidation

(a) Subsidiaries

A subsidiary is an entity over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities.

The Group generally has such power when it directly or indirectly, holds more than 50% of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of Directors.

In the Company's separate financial statements, investments in subsidiary companies are accounted for at cost less impairment losses.

(b) Principles of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary companies as at the balance sheet date. The financial statements of the subsidiary companies are prepared for the same reporting date as the parent company. Consistent accounting policies are applied for like transactions and events in similar circumstances.

All intra-Group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets, are eliminated in full.

Subsidiary companies are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2007

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

2.5 Subsidiaries and principles of consolidation (cont'd)

(b) Principles of consolidation (cont'd)

Acquisitions of subsidiary companies are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

Minority interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group. They are presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity, and are separately disclosed in the consolidated profit and loss account.

2.6 Associates

An associate is an entity, not being a subsidiary or a joint venture, in which the Group has significant influence. This generally coincides with the Group having 20% or more of the voting power, or has representation on the board of Directors.

The Group's investments in associates are accounted for using the equity method. Under the equity method, the investment in associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. The Group's share of the profit or loss of the associate is recognised in the consolidated profit and loss account. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of such changes. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. The associate is equity accounted for from the date the Group obtains significant influence until the date the Group ceases to have significant influence over the associate.

Goodwill relating to an associate is included in the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share of the associate's profit or loss in the period in which the investment is acquired.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The most recent available audited financial statements of the associates are used by the Group in applying the equity method. Where the dates of the audited financial statements used are not co-terminous with those of the group, the share of results is arrived at from the last audited financial statements available and un-audited management financial statements to the end of the accounting period. Consistent accounting policies are applied for like transactions and events in similar circumstances.

In the Company's separate financial statements, investments in associates are accounted for at cost less impairment losses.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2007

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

2.7 Financial assets

Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables or available-for-sale financial assets, as appropriate. Financial assets are recognised on the balance sheet when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

Loans and receivables

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

The Group classifies the following financial assets as loans and receivables:

- cash and bank balances;
- trade and other receivables, including amounts due from subsidiaries, associate and related companies.

2.8 Derecognition of financial assets

A financial asset is derecognised where the contractual rights to receive cash flows from the asset have expired.

On derecognition of a financial asset the difference between the carrying amount and the sum of (a) the consideration received and (b) any cumulative gain or loss that has been recognised directly in equity is recognised in the profit and loss account.

2.9 Impairment of financial assets

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

(a) Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in the profit and loss account.

When the asset becomes uncollectible, the carrying amount of impaired financial assets is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying value of the financial asset.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2007

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

2.9 Impairment of financial assets (cont'd)

(a) Assets carried at amortised cost (cont'd)

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the profit and loss account, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

(b) Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measure, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

2.10 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. 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. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

Reversal of an impairment loss is recognised in the profit and loss account unless the asset is carried at revalued amount, in which case the reversal in excess of impairment loss previously recognised through the profit and loss account is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2007

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

2.11 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(a) Sale of goods

Revenue is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customers which generally coincides with delivery and acceptance of the goods sold. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

(b) Management fee

Management fee is recognised when amounts are due to be received.

(c) Dividend Income

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

(d) Interest income

Interest income is recognised as interest income accrues (using the effective interest method) unless collectibility is in doubt.

2.12 Income taxes

(a) Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

(b) Deferred tax

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

Deferred tax liabilities are recognised for all taxable temporary differences associated with investments in subsidiary companies and associate except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax losses and unabsorbed capital allowances, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax losses and unused tax credits can be utilised except where in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2007

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

2.12 Income taxes (cont'd)

(b) Deferred tax (cont'd)

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

Income tax relating to items recognised directly in equity is recognised in equity.

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

(c) Sales tax

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

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- Receivables and payables that are stated with the amount of sales tax included.

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

2.13 Borrowing costs

Borrowing costs are generally expensed as incurred. Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are being incurred. Borrowing costs are capitalised until the assets are ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

2.14 Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. Subsequent to recognition, property, plant and equipment are stated at cost or valuation less accumulated depreciation and any accumulated impairment losses.

When an asset is revalued, any surplus on revaluation is credited to capital reserve. A decrease in net carrying amount arising on revaluation of the asset is charged to the profit and loss account to the extent that it exceeds any surplus held in capital reserve relating to previous revaluation of the same class of assets.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. The revaluation surplus included in the capital reserve in respect of an asset is transferred directly to accumulated profits on retirement or disposal of the asset.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2007

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

2.14 Property, plant and equipment (cont'd)

Depreciation of an asset begins when it is available for use and is computed on a straight-line basis over the estimated useful life of the asset as follows:

Leasehold land and building	5 to 50 years
Plant and machinery	3 to 40 years
Furniture, fixtures and office equipment	3 to 10 years
Tools and equipment	3 to 13 years
Motor vehicles	5 to 7 years

No depreciation is provided for freehold land and capital work-in-progress.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the profit and loss account in the year the asset is derecognised.

2.15 Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing the inventories to its present location and condition are accounted for as follows:

Raw materials – purchase cost on a weighted average basis;

Finished goods and work-in-progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and costs necessary to make the sale.

2.16 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. These also include bank overdrafts that form an integral part of the Group's cash management.

2.17 Financial liabilities

Financial liabilities include trade payables, which are normally settled on 30-90 day terms, other amounts payable, payables to related parties and interest-bearing loans and borrowings.

Financial liabilities are recognised on the balance sheet when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2007

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

2.17 Financial liabilities (cont'd)

Financial liabilities are initially recognised at fair value of consideration received less directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the profit and loss account when the liabilities are derecognised as well as through the amortisation process. The liabilities are derecognised when the obligation under the liability is discharged or cancelled or expired.

2.18 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) where, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.19 Employee benefits

(a) Defined contribution plan

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. In particular, the Singapore companies in the Group make contributions to the Central Provident Fund scheme in Singapore, a defined contribution pension scheme. Contributions to national pension schemes are recognised as an expense in the period in which the related service is performed.

(b) Employee leave entitlement

Employee entitlements to annual leave are recognised as a liability when they accrue to employees. The estimated liability for leave is recognised for services rendered by employees up to the balance sheet date.

(c) Employee share option plans

Employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for share options ('equity-settled transactions').

(d) Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which the share options are granted. In valuing the share options, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ('market conditions'), if applicable.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2007

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

2.19 Employee benefits (cont'd)

(d) Equity-settled transactions (cont'd)

The cost of equity-settled transactions is recognised, together with a corresponding increase in the employee share option reserve, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vested irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

2.20 Leases

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the profit and loss account.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the profit and loss account on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

2.21 Segments

The Group's operating businesses are organised and managed separately according to the nature of products and services provided, with each segment representing a strategic business unit that offers different products.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The turnovers by geographical segments are based on the location of customers regardless of where the goods are produced. The assets and capital expenditure are based on the location of those assets.

The Group generally accounts for inter-segment sales and transfers as if the sales or transfers were to third parties at current market prices.

3. Turnover

Turnover of the Group represents invoiced trading sales to customers and excludes transactions between group companies.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2007

4. Profit/(Loss) before taxation

	Group	
	2007 $'000	2006 $'000
This is stated after (charging)/crediting:		
Non-audit fees paid to auditors of the Company	(79)	(67)
Bad debts written off – trade	(3)	–
Bad debts recovered – trade (Note 11)	7	–
Depreciation expenses	(4,296)	(3,924)
Foreign exchange (loss)/gain	(19)	142
Property, plant and equipment written off	(8)	(6)
Gain on disposal of property, plant and equipment	302	27
Interest income	42	14
Interest expense		
- term loans	(729)	(1,085)
- bank overdrafts	(165)	(228)
- hire purchase	(64)	(30)
- trust receipts, bills payable and bankers' acceptance	(1,161)	(1,010)
- factoring facilities	(149)	(22)
Other finance cost - bank charges	(14)	–
Operating lease expenses	(218)	(482)
Employee benefit expenses (Note 23)	(9,989)	(9,657)
Allowance for doubtful trade debts (Note 11)	(384)	(114)
Allowance for inventory obsolescence (Note 10)	(20)	(144)
Write back of allowance of doubtful trade debt	58	71
Write back of allowance of inventory obsolescence	–	88
Rental income	515	541

5. Taxation

	Group	
	2007 $'000	2006 $'000 (Restated)
Provision for taxation in respect of profit for the year:		
- current taxation	89	57
- deferred taxation	18	–
- change in tax rate in overseas subsidiaries	–	(155)
	107	(98)
Prior year adjustment on deferred taxation	–	(1,480)
(Over)/under provision of taxation in respect of prior years:		
- current taxation	(16)	62
- deferred taxation	(132)	(77)
	(41)	(1,593)

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5. Taxation (cont'd)

Reconciliation between the statutory rate and the product of accounting results multiplied by the applicable tax rate for the year ended 31 December were as follows:-

	Group	
	2007 %	2006 % (Restated)
Statutory tax rate	18.0	(20.0)
Difference in tax rates applicable to overseas operations	(1.0)	1.0
Changes in tax rate on opening balance of deferred tax	(2.0)	–
Expenses not deductible for tax purposes	7.1	7.9
(Over) provision of deferred tax in prior year	(2.6)	–
Exempt income	–	(0.7)
Deferred tax asset not recognised	6.0	23.2
Benefits from previously unrecognised deferred tax asset	(20.3)	(83.1)
Utilisation of previously unrecognised unabsorbed capital allowance	(5.8)	–
Others	(1.4)	(4.7)
	(2.0)	(76.4)

At 31 December 2007, the Group has unutilised tax losses, unabsorbed capital allowances and unabsorbed investment allowances of approximately $3,169,000 (2006: $3,196,000), $51,790,000 (2006: $51,953,000) and $56,305,000 (2006: $54,394,000) respectively, which are available for set off against future taxable income subject to the respective local tax provisions and regulations. No deferred tax assets are recognised on these amounts due to uncertainties of recoverability.

6. Earnings/(Losses) per share

	Group	
	2007 $'000	2006 $'000 (Restated)
Earnings/(Losses) per share is calculated based on the following income and share data:		
Profit/(Loss) for the year attributable to equity holders of the Company	1,549	(580)
Weighted average number of ordinary shares in issue applicable to basic earnings per share	185,762	116,702
Effect of dilutive share options	35,676	1,090
Adjusted weighted average number of ordinary shares applicable to diluted earnings per share	221,438	117,792

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7. Property, plant and equipment

Group	Freehold land $'000	Leasehold land and buildings $'000	Plant and machinery $'000	Furniture, fixtures and office equipment $'000	Tools and equipment $'000	Motor vehicles $'000	Total $'000
Cost and valuation:							
As at 1 January 2006	5,029	38,344	85,349	2,162	21	2,346	133,251
Net translation differences	(76)	(401)	(1,159)	(21)	–	(24)	(1,681)
Additions	–	710	2,204	150	–	–	3,064
Disposals	–	–	(140)	(6)	–	–	(146)
Write-off	–	–	–	(153)	–	–	(153)
As at 31 December 2006 and 1 January 2007	4,953	38,653	86,254	2,132	21	2,322	134,335
Net translation differences	14	74	149	4	–	4	245
Additions	–	66	1,043	200	–	58	1,367
Disposals	–	–	(8,294)	(218)	–	(232)	(8,744)
Write-off	–	–	(40)	(115)	–	–	(155)
As at 31 December 2007	4,967	38,793	79,112	2,003	21	2,152	127,048
Accumulated depreciation and impairment:							
As 1 January 2006	–	4,739	23,341	1,680	11	1,783	31,554
Net translation differences	–	(35)	(249)	(16)	–	(21)	(321)
Depreciation charge for the year	–	778	2,766	141	5	234	3,924
Disposals	–	–	(120)	(14)	–	–	(134)
Write-off	–	–	–	(147)	–	–	(147)
As at 31 December 2006 and 1 January 2007	–	5,482	25,738	1,644	16	1,996	34,876
Net translation differences	–	5	24	2	–	4	35
Depreciation charge for the year	–	791	3,131	173	5	196	4,296
Disposals	–	–	(7,748)	(199)	–	(149)	(8,096)
Write-off	–	–	(38)	(108)	–	–	(146)
As at 31 December 2007	–	6,278	21,107	1,512	21	2,047	30,965
Net carrying amount							
As at 31 December 2007	4,967	32,515	58,005	491	–	105	96,083
As at 31 December 2006	4,953	33,171	60,516	488	5	326	99,459
Analysis of cost and valuation:							
As at 31 December 2007							
At cost	4,967	37,813	79,112	2,003	21	2,152	126,068
At valuation	–	980	–	–	–	–	980
	4,967	38,793	79,112	2,003	21	2,152	127,048
As at 31 December 2006							
At cost	4,953	37,673	86,254	2,132	21	2,322	133,355
At valuation	–	980	–	–	–	–	980
	4,953	38,653	86,254	2,132	21	2,322	134,335

NOTES TO THE FINANCIAL STATEMENTS

31 December 2007

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

(a) One of the Group's leasehold land and building was revalued on 7 October 1991 by an independent and professional valuer (Knight Frank Hock Chye & Bailieu (Property Consultants) Pte Ltd) at open market value basis for existing use. An impairment assessment was made in 1998 by the Directors based on professional appraisal by Robert Khan & Co. on 24 August 1998. The valuation was made on the basis of market value for existing use and the resulting impairment loss was charged against the valuation surplus in the financial statements in 1998. In 2005, an impairment assessment was made by the Directors and an impairment loss was charged against the valuation surplus in 2005. The lease expires on 15 June 2008.

(b) As at 31 December 2007, the Group has plant & machinery and motor vehicles with a total net carrying amount of $487,124 (2006: $837,200) under finance lease arrangements.

(c) The net carrying amount of property, plant and equipment pledged as securities for bank borrowings amounted to $33,473,000 (2006: $34,018,000) as at 31 December 2007.

(d) As at 31 December 2007, the Group is still in the process of finalising the transfer of the title to two pieces of leasehold land located in Selangor, Malaysia. The net carrying amount of these assets, amounted to approximately $3,926,000 (2006: $3,992,000) as at 31 December 2007.

(e) During the financial year, the Group acquired property, plant and equipment with an aggregate cost of approximately $1,367,000 (2006: $3,064,000).

8. Investments in subsidiaries

	Company	
	2007	2006
	$'000	$'000
Unquoted equity shares, at cost	17,000	17,000

NOTES TO THE FINANCIAL STATEMENTS

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8. Investment in subsidiaries (cont'd)

The subsidiary companies as at 31 December 2007 are:

	Name of company (Country of incorporation)	Principal activities	Effective equity interest held by the Group	
			2007	2006
	Held by the Company		%	%
1	United Paper Industries Pte Ltd (Singapore)	Manufacture and sale of paper and paper products	100.0	100.0
1	United Green-Industries Pte Ltd (Singapore)	Trading in paper products and recycled fibre	100.0	100.0
1	UPP Investment (Asia) Pte Ltd (Singapore)	Investment holding	100.0	100.0
1	UPI Paper Board Pte Ltd (Singapore)	Trading in paper products	87.5	87.5
1	UPP (Asia) Pte Ltd (Singapore)	Investment holding	100.0	100.0
	Held by subsidiary companies			
2	United Packaging Industries Sdn Bhd (Malaysia)	Manufacture and sale of flexible and medical packaging products ^	60.0	60.0
2	United Paper Board (M) Sdn Bhd (Malaysia)	Manufacture and sale of paper	87.5	87.5
2	United Re-cycled Fibre Sdn Bhd (Malaysia)	Trading in recycled fibre	51.0	51.0
2	Berlian Bestari Sdn Bhd (Malaysia)	Property holding	87.5	87.5
2	United Tripap Sdn Bhd (Malaysia)	Agent of and dealing of paper and paper related products	61.2	61.2
3	United Pulp & Paper (Hong Kong) Co Ltd (Hong Kong)	Manufacture and sale of paper and paper products	100.0	100.0
3	UPP Paper (Foshan Nanhai) Co Ltd (People's Republic of China)	Manufacture and sale of paper and paper products	100.0	100.0

1 audited by Ernst & Young, Singapore

2 audited by member firm of Ernst & Young Global in Malaysia

3 audited by Raymond Chin & Co, Hong Kong

^ The Company was dormant after disposal of all plant and machinery in September 2007

NOTES TO THE FINANCIAL STATEMENTS

31 December 2007

9. Investments in associate

	Group 2007 $'000	Group 2006 $'000
Unquoted shares, at cost	525	373
Share of post-acquisition reserve	166	152
Carrying amount of investment	691	525

The associate as at 31 December 2007 is:

Name of company (Country of incorporation)	Principal activities	Effective equity interest held by the Group 2007 %	Effective equity interest held by the Group 2006 %
Held by subsidiary company			
* Samson Paper (M) Sdn Bhd (Malaysia)	Manufacture and sale of paper and paper related products	30.0	30.0

* Audited by Horwath International, Malaysia

The summarised financial information of the associate is as follows:

	2007 $'000	2006 $'000
Assets and liabilities:		
Current assets	12,938	11,384
Non-current assets	33	40
Total assets	12,971	11,424
Current liabilities	10,691	9,698
Total liabilities	10,691	9,698
Results:		
Revenue	19,146	14,976
Profit for the year	537	507

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10. Inventories

	Group 2007 $'000	Group 2006 $'000
Raw materials	3,246	4,449
Work-in-progress	128	316
Goods in-transit	32	41
Production supplies	1,105	1,126
Finished goods	3,470	4,526
Total inventories at lower of cost and net realisable value	7,981	10,458

Inventories are stated after deducting allowance for inventory obsolescence of:

	Group 2007 $'000	Group 2006 $'000
Balance at beginning of year	419	367
Net translation difference	1	(4)
Allowance during the year	20	144
Write back during the year	–	(88)
Stocks written off	(85)	–
Balance at end of year	355	419

11. Trade receivables

	Group 2007 $'000	Group 2006 $'000
Trade receivables are stated after deducting allowance for doubtful debts of:		
Balance at beginning of year	1,340	1,309
Net translation difference	16	(12)
Allowance during the year	384	114
Write back during the year	(58)	(71)
Write off during the year	(517)	–
Balance at end of year	1,165	1,340
Bad debts recovered	7	–

Trade receivables are non-interest bearing and are generally on 30 to 90 days' terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

The net carrying amount of trade receivable pledged for factoring facilities (Note 14) amounted to $1,482,000 (2006: $1,500,000) as at 31 December 2007.

Included in trade receivables of the Group are amounts of $7,518,000 (2006: $10,629,000) and $4,331,000 (2006: $1,229,000) denominated in Malaysian Ringgit and United States dollars respectively.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2007

11. Trade receivables (cont'd)

Receivables that are past due but not impaired

The Group has trade receivables amounting to $10,357,000 (2006: $9,985,000) that are past due at the balance sheet date but not impaired. These receivables are unsecured and the analysis of their aging at the balance sheet date is as follows:

	Group	
	2007 $'000	2006 $'000
Trade receivables past due but not impaired:		
Lesser than 30 days	3,801	2,867
30 to 60 days	2,388	2,153
61-90 days	1,055	1,102
91-120 days	582	1,022
More than 120 days	2,531	2,841
	10,357	9,985

12. Other receivables

	Group		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Amounts due from subsidiary companies	–	–	33,283	19,860
Amounts due from associate	1,020	1,263	–	–
Deposits	96	89	–	–
Refund receivable from suppliers	–	26	–	–
Others	2,047	765	–	–
	3,163	2,143	33,283	19,860

The amounts for non-trade receivable from subsidiary companies and associate are unsecured, non-interest bearing and repayable on demand. The amounts are to be settled by cash.

Included in other receivables are the following amounts denominated in foreign currencies:

	Group		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Malaysian Ringgit	1,829	1,246	–	–
United States Dollars	–	461	–	–
Renminbi	159	99	–	–
Hong Kong Dollars	52	55	–	–

NOTES TO THE FINANCIAL STATEMENTS
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13. Tax recoverable

During the year, a subsidiary had paid an additional amount of $2,585,946 to Inland Revenue of Singapore ("IRAS") on top of $1,500,000 paid in 2006.

The subsidiary had received an ex-gratia sum of $19,940,000 from Jurong Town Corporation in 1998 for the costs of relocating its milling and converting divisions from 20 Liu Fang Road.

IRAS had taken the sum of $15 million, which was the net book value of the subsidiary's plant and machinery written off in YA2000 to compute balancing charge under section 20(3) of the Income Tax Act Cap. 134.

The subsidiary believes that the balancing charge should not be made and had objected to charge. Therefore, the tax paid has been recorded as a recoverable amount.

14. Amounts due to bankers

	Group	
	2007	2006
	$'000	$'000
Trust receipts, bills payable and bankers' acceptance	21,632	21,629
Short-term bank advances, unsecured	10,850	10,960
Short-term portion of bank loans (Note 19)	2,616	804
Factoring facilities	1,482	1,510
	36,580	34,903

Trust receipts, bills payable and bankers' acceptance of:

- $17,724,000 (2006: $17,357,000) bear interest of 4.64% to 7.75% (2006: 4.72% to 6.85%) per annum and are secured by a second legal charge over the freehold land of a subsidiary company in Malaysia.

- $1,657,000 (2006: $1,565,000) bear interest of 3.61% to 3.85% (2006: 2.87% to 3.20%) per annum and are secured by standby letter of credit from a bank.

- $nil (2006: $796,000) bear interest of nil% (2006: 4.70% to 5.00%) per annum.

- $2,251,000 (2006: $1,911,000) bear interest of 4.25% to 7.29% (2006: 5% to 7.07%) and are unsecured.

Included in amounts due to bankers of the Group are amounts of $19,381,000 (2006: $20,522,000) and $2,251,000 (2006: $1,911,000) denominated in Malaysian Ringgit and United States dollars respectively.

Short-term bank advances bear interest of 4.00% to 5.75% (2006: 4.72% to 6.85%) per annum.

Factoring facilities relate to trade receivables with a carrying amount of $1,482,000 (2006: $1,510,000) factored by a subsidiary company to a financial institution. It bears interest at 5.75% to 6.25% (2006: 5.75% to 6.25%) per annum.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2007

15. Trade payables and accruals

Trade payables are non-interest bearing and are normally settled on 30 to 90 days' terms.

Included in trade payables and accruals are the following amounts denominated in foreign currencies:-

	Group		Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Malaysian Ringgit	3,039	11,268	–	–
United States Dollars	1,868	1,393	–	–
Japanese Yen	20	41	–	–
Renminbi	659	408	–	–
Hong Kong Dollars	326	570	–	–

16. Other payables

	Group		Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Sundry payables	3,218	2,016	–	–
Amount due to corporate shareholders	90	90	–	–
Retention sum	67	123	–	–
Amount payable for purchase of property, plant and equipment	–	1,628	–	–
Amount due to associate	–	74	–	–
Amount due to a related party	174	–	–	–
	3,549	3,931	–	–

The amounts due to corporate shareholders of subsidiary companies and associate are unsecured, non-interest bearing and are repayable on demand. The amounts are to be settled in cash.

Sundry payables are non-interest bearing and have an average term of 6 months.

Included in other payables is amount of $3,284,000 (2006: $3,235,000) denominated in Malaysian Ringgit.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2007

17. Lease creditors

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

	Group			
	2007		2006	
	Minimum payments $'000	Present value of payments $'000	Minimum payments $'000	Present value of payments $'000
Within one year	553	485	345	312
After one year but not more than five years	(171)	(130)	609	535
Total minimum lease payments	382	355	954	847
Less amounts representing finance charges	(27)	–	(107)	–
Present value of minimum lease payments	355	355	847	847
Amount repayable within one year	(211)	(211)	(312)	(312)
Amount repayable after one year	144	144	535	535

Lease terms range from 2 to 7 years. Lease terms do not contain restrictions concerning dividends, additional debt or further leasing.

The effective interest rates for the hire purchase range from 3.75% to 6.60% (2006: 3.75% to 6.60%) per annum.

18. Deferred taxation

	Group	
	2007 $'000	2006 $'000 (Restated)
Balance at beginning of year	1,029	2,797
Net translation difference	4	(56)
Change in tax rate in overseas subsidiaries	–	(155)
Over provision in respect of prior year	(132)	(77)
Prior year adjustment (Note 32)	–	(1,480)
Balance at end of year	901	1,029

NOTES TO THE FINANCIAL STATEMENTS
31 December 2007

18. Deferred taxation (cont'd)

Deferred income tax assets and liabilities

	Group	
	2007 $'000	2006 $'000 (Restated)
Deferred tax liabilities		
Differences in depreciation	1,033	2,771
Unrealised exchange difference	–	20
Gross deferred tax liabilities	1,033	2,791
Deferred tax assets		
Provisions for assets	(33)	(150)
Unutilised leaves	(20)	–
Others	(79)	(1,612)
Gross deferred tax assets	(132)	(1,762)
Net deferred income tax liabilities	901	1,029

19. Bank loans

	Group	
	2007 $'000	2006 $'000
Amount repayable within 1 year (Note 14)	2,616	804
Amount repayable after 1 year but within 5 years	–	2,609
	2,616	3,413

All balances are denominated in Malaysian Ringgit.

Bank loans comprise:

(a) A term loan of $nil (2006: $370,000) which is secured by a third legal mortgage over the freehold land of a subsidiary company in Malaysia. The loan bears interest at nil% (2006: 6.4%) per annum and is repayable in 17 quarterly instalments commencing from April 2003.

(b) A term loan of $2,616,000 (2006: $3,043,000) which is secured by a fourth legal mortgage over the freehold land of a subsidiary company in Malaysia. The loan bears interest at 6% (2006: 6%) per annum and is repayable in 5 annual instalments commencing from January 2004.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2007

20. Share capital

	Group and Company			
	2007		2006	
	No of Shares '000	$'000	No of Shares '000	$'000
Issued and fully paid:				
At 1 January	116,966	34,522	116,649	29,162
Rights issue of ordinary shares	117,419	14,090	–	–
Share issue expenses	–	(196)	–	–
Exercise of employee share option (Note 23)	453	199	317	129
Transfer of share premium reserve to share capital (Note 21)	–	–	–	5,231
At 31 December	234,838	48,615	116,966	34,522

In accordance with the Companies (Amendment) Act, 2005, on 30 January 2006, the shares of the Company ceased to have a par value and the amount standing in the share premium reserve became part of the Company's share capital.

As at 31 December 2007, there are options granted to employees under the United Pulp & Paper Company Limited Share Option Scheme to take up unissued shares totalling 3,942,000 (2006: 4,709,000) ordinary shares in the Company. These options may be exercised in full or in blocks of 1,000 shares or a multiple thereof on the payment of the subscription price of $0.54 per share for 470,000 (2006: 604,000) ordinary shares, $0.42 per share for 175,000 (2006: 440,000) ordinary shares, $0.415 per share for 253,000 (2006: 557,000) ordinary shares and $0.385 per share for 3,044,000 (2006: 3,108,000) ordinary shares at any time after one year except under certain circumstances but not later than five years for Non-Executive Option and not later than ten years for Executive Option from the date the respective share options were granted to the employees.

21. Share premium

	Group and Company	
	2007 $'000	2006 $'000
Balance at beginning of year	–	5,231
Transfer to share capital (Note 20)	–	(5,231)
Balance at end of year	–	–

22. Cash and cash equivalents

Cash and cash equivalents included in the consolidated cash flows statement comprise the following balance sheet amounts:

	Group		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Cash and bank balances	6,197	1,378	780	134
Bank overdrafts	(2)	(5,537)	–	–
Cash and cash equivalents	6,195	(4,159)	780	134

NOTES TO THE FINANCIAL STATEMENTS
31 December 2007

22. Cash and cash equivalents (cont'd)

Cash at banks earns interest at floating rates based on daily bank deposit rates range from 1.0% to 6.42% (2006: 0.2% to 4.68%) per annum.

Included in cash and cash equivalents are the following amounts denominated in foreign currencies:

	Group		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Cash and bank balances				
Malaysian Ringgit	1,977	212	–	–
United States Dollars	2,010	572	–	–
Renminbi	121	121	–	–
Hong Kong Dollars	60	110	–	–
Bank overdrafts				
Malaysian Ringgit	–	(2,177)	–	–

23. Employee benefits

Employee benefits expense (including executive directors):

	Group	
	2007 $'000	2006 $'000
Salaries related costs and bonuses	8,552	8,356
Pension contributions	534	484
Other short-term benefits	903	817
	9,989	9,657

The Company has an employee share incentive plan, United Pulp & Paper Company Limited Share Option Scheme for the granting of non-transferable options. Each share option entitles the employees of the Company to subscribe for one new ordinary share in the Company. The options are granted in consideration of $1 per option for all the shares in respect of which the option is granted. The options may be exercised after one year except under certain circumstances but not later than 10 years from the date the share option was offered. Options granted will, to the extent unexercised, immediately lapse and cease to have any effect when the option holder ceases to be under full employment of the Company or any corporation in the Group subject to certain exceptions at the discretion of the Company. Except for the options that were granted in 2000 at a discount of 14% to the market price, all other options are granted at market prices under the Scheme.

No further options will be granted under the Scheme as it had expired on 16 January 2004. However, shares will continue to be issued pursuant to the exercise of those options granted prior to the expiry of the Scheme.

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23. Employee benefits (cont'd)

Information with respect to the number of options granted to employees (including options granted to non-executive Directors) under the United Pulp & Paper Company Limited Share Option Scheme is as follows:-

	Shares 2007	Weighted average exercise price 2007	Shares 2006	Weighted average exercise price 2006
Outstanding at beginning of year[1]	4,709,000	$0.41	5,604,000	$0.41
Forfeited	(314,000)	$0.43	(578,000)	$0.41
Exercised[2]	(453,000)	$0.44	(317,000)	$0.40
Outstanding at end of year[1,3]	3,942,000	$0.41	4,709,000	$0.41
Exercisable at year end	3,542,000	$0.41	4,709,000	$0.41

The following table summarises information about options outstanding at 31 December 2007:-

		Outstanding	
	Options	Average life[3]	Average option price
Date of Grant			
28.2.2000	470,000	3.08	$0.540
14.3.2001	175,000	4.12	$0.420
04.3.2002	253,000	5.12	$0.415
15.1.2004	3,044,000	7.08	$0.385
Total	3,942,000	5.35	$0.410

(1) Included within these balances are equity-settled options that have not been recognised in accordance with FRS 102 as these equity-settled options were granted on or before 22 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with FRS 102.

(2) The weighted average share price at the date of exercise for the options exercised was $0.62 (2006: $0.48).

(3) The range of exercise prices for options outstanding at the end of the year was $0.385 to $0.54 (2006: $0.385 to $0.54). The weighted average remaining contractual life for these options is 5.35 years (2006: 6.05 years).

24. Financial risk management objectives and policies

The Group and the Company is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk, interest rate risk and foreign currency risk. It is, and has been throughout the current and previous financial year the Group's policy that no derivatives shall be undertaken except for the use as hedging instruments where appropriate and cost-efficient. The Group and the Company do not apply hedge accounting.

The following sections provide details regarding the Group's and Company's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

NOTES TO THE FINANCIAL STATEMENTS

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

a) Credit Risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's and the Company's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including cash and cash equivalents), the Group and the Company minimise credit risk by dealing exclusively with high credit rating counterparties.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. For transactions that do not occur in the country of the relevant operating unit, the Group does not offer credit terms without the approval of the Credit Control department.

Exposure to credit risk

At the balance sheet date, the Group's and the Company's maximum exposure to credit risk is represented by:

- the carrying amount of each class of financial assets recognised in the balance sheets, and
- a nominal amount of $51,000,000 relating to a corporate guarantee provided by the Company to a bank on a subsidiary's bank loan.

Credit risk concentration profile

The Group determines concentrations of credit risk by monitoring the country and industry sector profile of its trade receivables on an ongoing basis. The credit risk concentration profile of the Group's trade at the balance sheet date is as follows:

	Group			
	2007		2006	
	$'000	% of total	$'000	% of total
By country:				
Singapore	6,059	34	6,517	37
Malaysia	11,007	61	11,092	63
Hong Kong	418	2	8	–
People's Republic of China	491	3	74	–
	17,975	100	17,691	100
By division:				
Paper Mill	9,493	53	7,337	41
Corrugated Packaging	5,876	33	6,153	35
Medical/Flexible Packaging	1,947	10	3,511	20
Recycled Fibre	659	4	690	4
	17,975	100	17,691	100

At the balance sheet date, approximately:

- 6% (2006: 8%) of the Group's trade and other receivables were due from related parties while almost all of the Company's receivables were balances with related parties.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2007

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

a) Credit Risk (cont'd)

Financial assets that are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired are creditworthy debtors with good payment record with the Group. Cash and cash equivalents, that are neither past due nor impaired are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 11 (Trade receivables).

b) Liquidity risk

The Group manages its liquidity risk by ensuring the availability of funding through adequate amount of committed facilities from banks.

Short term funding is obtained mainly from overdraft facilities, trade financing and short-term borrowing from banks. The Group monitors working capital projections regularly, taking into account the available banking and other borrowing facilities to ensure that the Group has adequate working capital to meet current requirements.

c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates. The Group's and the Company's exposure to interest rate risk arises primarily from their loans and borrowings.

d) Foreign currency risk

The Group incurs foreign exchange risk on sales and purchases that are denominated in a currency other than Singapore dollars. To minimise exposure on foreign currency risk, the Group usually settles such transactions within the given credit period.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2007

25. Financial instruments

Fair values

The fair value of financial assets and liabilities by classes that are not carried at fair value and whose carrying amounts are not reasonable approximations of fair value are as follows:

	Note	Group 2007 $'000		Group 2006 $'000		Company 2007 $'000		Company 2006 $'000	
		Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities:									
Amount due to bankers	14	33,964	33,992	34,099	39,553	–	–	–	–
Lease creditors	17	144	144	535	535	–	–	–	–
Bank loans (current)	19	2,616	2,616	804	816	–	–	–	–

The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale.

Financial instruments whose carrying amount approximate fair value

Management has determined that the carrying amounts of cash and bank balances, current trade and other receivables, related company balances, current trade and other payables, bank overdrafts, and current bank loans, based on their notional amounts, reasonably approximate their fair values because these are mostly short term in nature or are repriced frequently.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2007

25. Financial instruments (cont'd)

Interest rate risk

The following tables set out the carrying amount, by maturity, of the Group's and the Company's financial instruments that are exposed to interest rate risk:

	Within 1 year $'000	1-2 years $'000	2-3 years $'000	3-4 years $'000	4- 5 years $'000	Total $'000
2007						
Group						
Fixed rate						
Bank loans	(2,616)	–	–	–	–	(2,616)
Factoring facilities	(1,482)	–	–	–	–	(1,482)
Trust receipts, bills payables and bankers' acceptance	(21,632)	–	–	–	–	(21,632)
Obligations under finance lease	(211)	(144)	–	–	–	(355)
Floating rate						
Bank overdrafts	(2)	–	–	–	–	(2)
Short term bank advance	(10,850)	–	–	–	–	(10,850)
2006						
Group						
Fixed rate						
Bank loans	(804)	(2,609)	–	–	–	(3,413)
Factoring facilities	(1,510)	–	–	–	–	(1,510)
Trust receipts, bills payables and bankers' acceptance	(21,629)	–	–	–	–	(21,629)
Obligations under finance lease	(312)	(304)	(198)	(33)	–	(847)
Floating rate						
Bank overdrafts	(5,537)	–	–	–	–	(5,537)
Bank loans	(10,960)	–	–	–	–	(10,960)

Interest on financial instruments subject to floating interest rates is contractually repriced at intervals of less than 6 months. Interest on financial instruments at fixed rates are fixed until the maturity of the instrument. The other financial instruments of the Group and the Company that are not included in the above tables are not subject to interest rate risks.

26. Commitments and Contingencies

(a) Unsecured contingent liabilities

Contingent liabilities not provided for in the financial statements:-

	Group 2007 $'000	Group 2006 $'000
Bankers' guarantee	1,595	1,363

NOTES TO THE FINANCIAL STATEMENTS

31 December 2007

26. Commitments and Contingencies (cont'd)

(b) Financial support

The Company provided letters of financial support for certain of its subsidiary companies.

(c) Operating leases

The Group has entered into commercial leases for the use of properties and motor vehicles as lessee. There are no restrictions placed upon the Group by entering into these leases. Operating lease payments recognised into the consolidated profit and loss account during the year was $443,000 (2006: $482,000).

Future minimum lease payments payable under non-cancellable operating leases as at 31 December are as follows:-

	Group	
	2007 $'000	2006 $'000
Within one year	959	640
After one year but not more than five years	1,629	1,918
More than five years	9,572	9,994
	12,160	12,552

(d) Capital commitments

Capital expenditure contracted for as at the balance sheet date but not recognised in the financial statements is as follows:

	Group	
	2007 $'000	2006 $'000
Capital commitments in respect of property, plant and equipment	–	132

27. Financial guarantee contracts

	Group		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Guarantees given to bankers in respect of facilities granted to subsidiary companies	–	–	51,000	61,363

NOTES TO THE FINANCIAL STATEMENTS
31 December 2007

28. Related party transactions

An entity or individual is considered a related party of the Group for the purposes of the financial statements if: i) it possesses the ability (directly or indirectly) to control or exercise significant influence over the operating and financial decisions of the Group or vice versa; or ii) it is subject to common control or common significant influence.

(a) Sales of goods and services

The significant transactions between the Group and its related companies and the effects of these transactions on terms agreed among the parties are as follows:

	Group	
	2007	2006
	$'000	$'000
Rental paid to a related company	230	529
Rental income from a related company	21	308
Sales to related companies	1,395	1,553
Sales to an associate	9,881	15,252
Service fees from related companies	88	85

Related companies:

These are subsidiaries and associates of United Pulp & Paper Company Limited and its subsidiaries, excluding entities within the Group.

(b) Compensation of key management personnel

	Group	
	2007	2006
	$'000	$'000
Short term employee benefits	1,631	1,648
Pension contribution funds	47	56
Total compensation paid to key management personnel	1,678	1,704
Comprise amount paid to:		
• Directors of the Company	764	1,033
• Other key management personnel	914	671
	1,678	1,704

The remuneration of key management personnel is determined by the performance of individuals and market trends.

Directors' interests in an employee share option plan

At 31 December 2007, the Company's Directors held options to purchase ordinary shares of the Company under the Scheme as follows:

- 400,000 ordinary shares at a price of $0.385 each, exercisable between 12 January 2005 to 11 January 2009; and
- 1,500,000 ordinary shares at a price of $0.385 each, exercisable between 12 January 2005 to 11 January 2014.

During the year ended 31 December 2007, the Directors have not exercised any share options.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2007

29. Segment information

Reporting format

The primary segment reporting format is determined to be business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services produced. Secondary information is reported geographically. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

Business segments

Paper Mill

This division manufactures and sells industrial grade paper products including test liners, corrugated medium and grey chip, core and laminated boards.

Corrugated Packaging

This division designs, manufactures and sells corrugated paper packaging products such as corrugated boards and cartons for the packaging of electronics and electrical, food and beverages, paper printing and publishing, consumer goods and other products according to its customers' specifications.

Medical/Flexible Packaging

This division designs, manufactures and sells flexible and medical packaging products involving multi colour printing and multi layers lamination. ISO9001 certified with strict conformity to clean room standards, these products are of high quality and are suitable for packaging foods for human consumption or used in the medical trade. The asset and business operations of the division were divested in September 2007.

Recycled Fibre

This division collects and trades in waste paper products and recycled fibre. The main types of waste paper include old corrugated carton, double liner kraft and old newspaper.

Geographical segments

The Group's geographical segments are based on the location of the Group's assets. Sales to external customers disclosed in geographical segments are based on the geographical location of its customers.

Allocation basis and transfer pricing

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, liabilities and expenses.

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, expenses and results include transfers between business segments. These transfers are eliminated on consolidation.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2007

29. Segment information (cont'd)

Business segments	Paper Mill 2007 $'000	Paper Mill 2006 $'000	Corrugated Packaging 2007 $'000	Corrugated Packaging 2006 $'000	Medical/Flexible Packaging 2007 $'000	Medical/Flexible Packaging 2006 $'000	Recycled Fibre 2007 $'000	Recycled Fibre 2006 $'000	Eliminations 2007 $'000	Eliminations 2006 $'000	Consolidated 2007 $'000	Consolidated 2006 $'000
Revenue:												
Sales to external customers	43,404	40,252	25,253	23,243	7,678	10,075	10,130	8,120	–	–	86,465	81,690
Inter-segment sales	5,489	5,252	–	–	–	–	11,806	7,171	(17,295)	(12,423)	–	–
Total revenue	48,893	45,504	25,253	23,243	7,678	10,075	21,936	15,291	(17,295)	(12,423)	86,465	81,690
Results:												
Segment results	3,707	(711)	1,766	1,941	437	732	192	(202)	–	–	6,102	1,760
Unallocated corporate expenses											(1,994)	(1,636)
Interest income											42	14
Finance costs											(2,282)	(2,375)
Share of results of associate	166	152	–	–	–	–	–	–	–	–	166	152
Loss before taxation											2,034	(2,085)
Taxation											41	113
Profit/(Loss) for the year											2,075	(1,972)
Assets and liabilities:												
Segment assets	101,347	99,918	71,913	68,277	6,979	9,152	10,550	10,010	(58,609)	(54,940)	132,180	132,417
Investment in associate	691	525	–	–	–	–	–	–	–	–	691	525
Unallocated assets											5,051	1,845
Total assets											137,922	134,787
Segment liabilities	48,245	51,878	37,062	29,699	6,260	8,847	10,395	9,527	(53,216)	(37,433)	48,746	62,518
Unallocated liabilities											1,567	3,308
Total liabilities											50,313	65,826
Other segment information:												
Capital expenditure	1,008	2,488	220	545	12	1	127	30	–	–	1,367	3,064
Depreciation	2,977	2,639	929	804	187	271	203	210	–	–	4,296	3,924
Impairment losses	–	–	–	–	–	–	–	–	–	–	–	–

NOTES TO THE FINANCIAL STATEMENTS

31 December 2007

29. Segment information (cont'd)

Geographical segments

	ASEAN		Rest of Asia		Others		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Segment revenue	76,642	71,097	8,254	7,389	1,569	3,204	86,465	81,690
Segment assets	133,058	131,404	4,890	3,383	–	–	137,948	134,787
Capital expenditure	1,113	1,946	254	1,118	–	–	1,367	3,064

30. Directors' remuneration

The following information relates to the remuneration of the directors of the Company:-

	Number of Directors	
	2007	2006
Remuneration band		
$250,000 to $499,999	1	2
Below $250,000	4	4
	5	6

As at 31 December 2007, there were 5 directors (2006: 6) in office.

31. Dividends

Proposed but not recognised as a liability as at 31 December:

	Group and Company	
	2007	2006
	$'000	$'000
Dividend on ordinary shares, subject to shareholders' approval at the AGM:		
- Final dividend for 2007: 0.125 cents per share	294	–

NOTES TO THE FINANCIAL STATEMENTS

31 December 2007

32. Prior year adjustment and comparatives

During the year, the subsidiary company has early adopted the revised Malaysia FRS 112, Income Taxes. This revised standard has removed the relevant provisions in Malaysia FRS 112 which explicitly prohibit the recognition of deferred tax on reinvestment allowance or other allowances in excess of capital allowance. Therefore, entities with unused investment tax allowances and reinvestment allowances will have to recognise deferred tax asset on such unused investment tax allowances and reinvestment allowances, to the extent that it is probable that future taxable profit will be available against which the unused investment tax allowances and reinvestment allowance can be utilised.

The adoption of the revised standard has resulted in the subsidiary changing its accounting policy and this change in accounting policy has been accounted for retrospectively.

	As previously stated $'000	As restated $'000
Balance Sheet		
Deferred taxation	2,509	1,029
Consolidated income statement		
Taxation	113	1,593

33. Authorisation of financial statements for issue

The financial statements for the year ended 31 December 2007 were authorised for issue in accordance with a resolution of the Directors on 20 March 2008.

ADDITIONAL SGX DISCLOSURES IN THE ANNUAL REPORT

Material Contracts

Since the end of the financial year ended 31 December 2007, the Company and its subsidiary companies did not enter into any material contracts involving interests of the Chief Executive Officer, Directors or controlling shareholders and no such material contract still subsist at the end of the financial year, save for Interested Person Transactions disclosed on page 71 of this Annual Report.

List of Major Properties

The following properties are owned/leased by the Group:

Location	Description	Land area (sq. m)	Tenure
United Paper Industries Pte Ltd 35 Tuas View Crescent Singapore 637608	Office and factory	16,000	30 years commencing 1 December 1999 (with an option to extend for an additional 30 years)
United Green-Industries Pte Ltd 8 Second Chin Bee Road Singapore 618775	Office and factory	6,981	35 years commencing 16 June 1973
United Packaging Industries Sdn Bhd 4, Persiaran Sungei Chua Pusat Perindustrian, Sungei Chua 43000 Kajang, Selangor Malaysia	Office and factory	7,343	99 years commencing 5 October 1991
United Re-cycled Fibre Sdn Bhd 3, Persiaran Sungei Chua Pusat Perindustrian, Sungei Chua 43000 Kajang, Selangor Malaysia	Office and factory	2,933	99 years commencing 5 October 1991
United Paper Board (M) Sdn Bhd Lot 225, Jalan Kuala Selangor 45620 Ijok, Batang Berjuntai Selangor Darul Ehsan Malaysia	Office and factory	121,659	Freehold
Berlian Bestari Sdn Bhd Lot 538, Mukim of Ijok Kuala Selangor, Selangor Malaysia	Land	6,828	99 years commencing 17 May 1984
Lot 2772, Mukim of Ijok Kuala Selangor, Selangor Malaysia	Land	3,399	99 years commencing 12 May 1992

REPORT ON CORPORATE GOVERNANCE

United Pulp & Paper Company Limited ("UPP" or the "Company") is committed to high standards of corporate governance within the UPP group of companies (the "Group") and adopts the corporate governance practices contained in the Code of Corporate Governance 2005 issued by the Ministry of Finance on 14 July 2005 and which came into effect on 1 January 2007 (the "Code"). We believe that good corporate governance establishes and maintains an ethical environment within the Group, which serves the interests of all shareholders.

BOARD MATTERS

Principle 1: Board's Conduct of Its Affairs

The Company is headed by the Board of Directors (the "Board") which is responsible for the overall management of the Company. The Board works closely with the management and the management remains accountable to the Board.

The principal functions of the Board, apart from its statutory responsibilities, include:

(a) approving the Group's corporate policies;

(b) approving annual budgets, key operational issues and major funding and investment proposals;

(c) setting overall strategies and supervision of the Group 's business and affairs;

(d) reviewing the financial performance of the Group;

(e) approving nominations of Directors and appointments to the various Board committees and key managerial personnel; and

(f) assuming responsibility for corporate governance.

During the year, the Board met regularly and as warranted by circumstances. Board meetings were also scheduled to coincide with half-yearly financial results reporting in order to facilitate a review of the financial statements and announcement of the unaudited half-yearly results of the Group.

Ad-hoc Board meetings were convened when the need arose. Where the attendance of certain Directors was not physically possible, the meeting was conducted with these Directors through teleconferencing. To further facilitate the efficient management of the Group, resolutions of the Board were passed by way of circulating minutes pursuant to Article 133 of the Articles of Association of the Company.

To assist in the efficient discharge of its fiduciary duties, the Board had previously established three (3) Board Committees namely, the Audit Committee ("AC"), the Nominating Committee ("NC"), and the Remuneration Committee ("RC"). Each Committee has its own terms of references to address their respective areas of focus.

Details of the number of Board meetings held in the year and attendance of each Board member at those meetings and meetings of the various Board committees are provided on page 70 of this Annual Report.

All Directors objectively take decisions in the interests of the Company. The management provides the Board with financial and operational updates, while decisions on all key matters such as material acquisition and disposal of assets or undertakings and the release of the Company's results are made by the Board.

Our Directors also sit on the boards of other listed companies, and are therefore not only well aware of their duties and responsibilities, but how to discharge such duties. For incoming and/or new Directors, if any, the Company will conduct briefings to ensure that any incoming and/or new Directors become familiar with the Group's businesses and corporate governance practices.

The Company has adopted a policy which welcomes Directors to request for further explanations, briefings or informal discussions on any aspect of the Company 's operations or businesses from the management.

REPORT ON CORPORATE GOVERNANCE

Changes to regulations and accounting standards are monitored closely by the management. To keep pace with regulatory changes, where these changes have an important bearing on UPP's or Directors' disclosure obligations, Directors are briefed either during Board meetings or at specially-convened sessions conducted by professionals.

Principle 2: Board Composition and Balance

UPP is headed by an effective Board to lead, control and direct UPP in its pivotal role in charting the strategic course and direction of the Group. The Board comprises six (6) Directors. It is chaired by Mr. Lee Seng Jin who is an executive Director. He is responsible for the leadership and objective functioning of the Board.

As of 31 December 2007, the Board comprises the following members:

Mr. Lee Seng Jin	(Executive Chairman)
Mr. Koh Kim Huat	(Non–executive)
Ms. Chan Lay Hoon	(Non–executive)
Mr. Adrian Chan Pengee	(Independent; Non-executive)
Mr. Gary Ho Kuat Foong	(Independent; Non-executive)
Mr. Lee Albert Yue Kong	(Alternate Director to Lee Seng Jin)

The Board, of which one-third (1/3) are independent non-executive Directors thereby fulfilling the Code's recommendation that independent Directors make up at least one-third (1/3) of the Board, is able to exercise its powers objectively and independently from the management. The criterion for independence is based on the definition given in the Code. The size of the Board, the standing of members of the Board in the business community, and their experience, knowledge and expertise, provide for effective decision-making and direction for the Group in its mission to be a leading manufacturer and supplier of paperboard and packaging products, focused on service and product excellence for our customers, superior returns to our shareholders, and a rewarding career for our employees. Profiles of the Directors are set out on pages 69 and 70 of this Annual Report and details of Directors' shareholdings in the Company and its subsidiary companies are set out on page 13 of this Annual Report.

The Board is of the view that the current Board size is appropriate, taking into consideration the nature and scope of the Company's operations.

Principle 3: Chairman and Chief Executive Officer

The roles of the Chairman and Chief Executive Officer ("CEO") are separate to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision-making. The Chairman and the CEO are not related to each other within the meaning of the Code.

The responsibilities of the Chairman include:

(a) scheduling meetings that enable the Board to perform its duties responsibly while not interfering with the flow of the Company's operations;

(b) preparing meeting agendas together with the CEO;

(c) exercising control over quality, quantity and timeliness of the flow of information between the management and the Board; and

(d) assisting in ensuring compliance with Company's guidelines on corporate governance.

REPORT ON CORPORATE GOVERNANCE

Principle 4: Board Membership

The NC comprises four (4) Directors, half of whom, including the Chairman, are independent non-executive Directors. The Chairman of the NC is not directly associated with a substantial shareholder of the Company within the meaning of the Code.

The members are:

Mr. Adrian Chan Pengee	(Chairman)
Mr. Lee Seng Jin	(Member)
Mr. Koh Kim Huat	(Member)
Mr. Gary Ho Kuat Foong	(Member)

The responsibilities of the NC are to make recommendations to the Board on all Board appointments.

In addition, the NC has its terms of reference defining its role which include the following:

(a) developing and maintaining a formal and transparent process for the appointment of Directors to the Board and all things incidental including re-nominating and re-electing Directors at regular intervals and determining annually whether or not a Director is independent;

(b) assessing the effectiveness of the Board as a whole, and the contribution by each Director to the effectiveness of the Board;

(c) deciding how the performance of the Board may be evaluated and to propose objective performance criteria;

(d) reporting to the Board its findings from time to time on matters arising and requiring the attention of the NC; and

(e) undertaking such other reviews, projects, functions, duties and responsibilities as may be requested by the Board.

When considering a new Board member, the NC reviewed the curriculum vitae of the potential candidate and considered his/her experience and likely contribution to the Board. Meetings with the potential candidate were subsequently conducted before the NC makes its recommendation to the Board. The Board will then make the final determination for the appointment.

The NC has fulfilled its duty of making the requisite recommendations to the Board on all Board appointments and has also carried out its duty of re-nomination and re-election.

New Directors are at present appointed by way of a Board resolution after the NC approves their appointment. Our Articles of Association require one-third (1/3) of our Directors to retire and subject themselves to re-election by shareholders at every annual general meeting (the "AGM"). This means that no Director stays in office for more than three (3) years without being re-elected by shareholders.

Each meeting of the NC was properly minuted and upon confirmation of such minutes by the Chairman, a copy of the confirmed minutes was duly circulated to all members and the Board.

Principle 5: Board Performance

In determining the objective performance criteria for evaluation and determination for the financial year ended 31 December 2007, the NC considered the attendance, participation and contribution of individual Directors at Board and Committee meetings and those factors set out in the Code to evaluate the individual Director's performance. The attendances at meetings are set out on page 70 of this Annual Report.

REPORT ON CORPORATE GOVERNANCE

Principle 6: Access to Information

Board members are provided with adequate and timely information prior to Board meetings on an ongoing basis, and have separate and independent access to UPP's senior management. Detailed Board papers are prepared for each meeting of the Board and are normally circulated in advance of each meeting. The Board papers include sufficient information from management on financial, business and corporate issues to enable the Directors to be properly briefed on issues to be considered at Board meetings.

A Company Secretary attends all Board meetings and is responsible to ensure that established procedures and all relevant statutes and regulations which are applicable to the Company are complied with. All Directors have separate, direct and independent access to the Company Secretary.

The Board also has in place procedures for Directors to take independent professional advice on matters affecting the Group, if necessary, at the Company's expense.

REMUNERATION MATTERS

Principle 7: Procedures for Developing Remuneration Policies

The RC comprises:

Mr. Gary Ho Kuat Foong	(Chairman)
Mr. Koh Kim Huat	(Member)
Mr. Adrian Chan Pengee	(Member)

The RC has its terms of reference defining the scope of its role. The RC is responsible for ensuring a formal and transparent procedure for developing policy on executive remuneration, and for fixing the remuneration packages of individual Directors and senior management. It reviews the remuneration packages with the aim of building capable and committed management teams through competitive remuneration compensation.

The RC's recommendations are made in consultation with the Chairman of the Board and submitted for endorsement by the entire Board.

The RC incorporates the committee of the UPP Share Option Scheme (the "Scheme"). Details of the Scheme are reported on pages 13 to 14 of this Annual Report. No further options will be granted under the Scheme as it had expired on 16 January 2004. However, shares will continue to be issued pursuant to the exercise of those options granted prior to the expiry of the Scheme. Details of the options granted to the Directors are set out on pages 13 to 14 of this Annual Report.

A majority of the RC including the Chairman, comprises independent non-executive Directors who are independent of the management and free from any business or other relationships which may materially interfere with the exercise of their independent judgment. The RC has access to expert professional advice on human resource matters whenever there is a need to consult externally.

Principle 8: Level and Mix of Remuneration

In setting remuneration packages, the RC takes into account the performance of the Group, as well as individual Directors and key executives, aligning their interests with those of shareholders, and linking rewards to corporate and individual performance. In its deliberations, the RC takes into consideration industry practices and norms in compensation.

The executive Chairman and the CEO both have service contracts with the Company. Independent and/or non-executive Directors are paid Directors' fees, determined by the Board based on the effort, time spent and responsibilities of the independent and/or non-executive Directors. Directors' fees for independent and/or non-executive Directors are subject to the approval of shareholders at the AGM.

REPORT ON CORPORATE GOVERNANCE

Principle 9: Disclosure on Remuneration

The remuneration of Directors and key executives for the financial year ended 31 December 2007 is set out below:

			Fees (%)	Salary (%)	Bonus (%)	Benefits (%)	Total (%)
(a)	**Directors**						
	(i)	Between S$250,001 to S$500,000					
		Mr. Lee Seng Jin	11	78	7	4	100
	(ii)	Below S$250,000					
		Mr. Koh Kim Huat	100	–	–	–	100
		Mr. Adrian Chan Pengee	100	–	–	–	100
		Ms. Chan Lay Hoon	100	–	–	–	100
		Mr. Gary Ho Kuat Foong	100	–	–	–	100
(b)	**Key Executives of the Group**						
	(i)	Between S$250,000 to S$500,000					
		Mr. Lee Kwok Loon	–	87	8	5	100
	(ii)	Below S$250,000					
		Mr. Tan Geok Kwang	–	81	11	8	100
		Mr. Ng Chee Siang	–	81	9	10	100
		Mr. Wong Ee Leong	–	80	11	9	100
		Mr. Kenneth Lo Wai Pong	–	82	11	7	100
		Mr. Tong Kim Chai	–	88	12	–	100

The Company does not employ any immediate family member of a Director or the CEO.

The Remuneration Committee met once during the year to decide on Directors' fees, review the remuneration packages of executive Directors, assess the performance of senior management and determine their compensation packages (including bonus awards) for Year 2007. The RC's recommendations covered all aspects of remuneration, including but not limited to Directors' fees, salaries, allowances, bonuses, options and benefits in kind.

ACCOUNTABILITY AND AUDIT

Principle 10: Accountability

The Board undertakes the responsibility of overseeing the corporate performance of the Company and is accountable to shareholders for the processes and structure of directing and managing the Company's business and affairs. The management's role is to report to the Board the operational and financial performance of the Group by keeping the Board informed and updated with the provision of financial and management reports, on a regular basis.

Aside from adopting corporate governance practices in line with the spirit of the Code, the Company also observes obligations of continuing disclosure under the SGX-ST Listing Manual. The Company undertakes to circulate timely, adequate and non-selective disclosure of information. The Board also issues half-yearly financial statements as reviewed by the AC to provide shareholders with comprehensive information and a balanced view on the Group's performance, position and prospects.

REPORT ON CORPORATE GOVERNANCE

Principle 11: Audit Committee

The AC comprises:

Mr. Adrian Chan Pengee	(Chairman)
Ms. Chan Lay Hoon	(Member)
Mr. Gary Ho Kuat Foong	(Member)

All members are non-executive Directors appropriately qualified to discharge their responsibilities. The majority of the members, including the Chairman, are independent. The Chairman and its members have extensive management and financial experience and two (2) of them are Certified Public Accountants (CPAs).

The AC meets at least twice a year. Details of members and their attendance at meetings are provided on page 70 of this Annual Report.

The AC has its terms of reference defining its role which include:

(a) reviewing the scope and results of audit, its costs effectiveness and the objectivity of the external auditors;

(b) reviewing the independence of the external auditors annually;

(c) where the auditors also supply a substantial volume of non-audit services to the Company, the AC shall keep under review the nature and extent of such services, so as to balance the maintenance of objectivity and value for money;

(d) meeting with the external auditors without the presence of the Company's management at least once a year;

(e) reviewing, at least annually, the effectiveness of the Company's material internal controls;

(f) ensuring that the internal audit function is adequately resourced and has appropriate standing within the Company;

(g) ensuring, at least annually, the adequacy of the internal audit function;

(h) reviewing with the external auditors:

- the audit plan, including the nature and scope of the audit before the audit commences;
- their evaluation of the system of internal accounting controls;
- their audit report; and
- their management letter and the management's response;

(i) ensuring co-ordination where more than one (1) audit firm is involved;

(j) reviewing the half-year and annual financial statements before submission to the Board for approval;

(k) discussing problems and concerns, if any, arising from the internal and external audits, and any matters which the auditors may wish to discuss (in the absence of the management, where necessary);

(l) reviewing the assistance given by the management to the auditor;

(m) reviewing the balance sheet and income statements of the Company and the consolidated balance sheet and income statements, before approval by the Board;

REPORT ON CORPORATE GOVERNANCE

(n) reviewing and discussing with the external auditors, any suspected fraud or irregularity, or suspected infringement of any Singapore law, rules or regulations, which has or is likely to have a material impact on the Company's operating results or financial position, and the management's response;

(o) reporting to the Board on its findings from time to time on matters arising and requiring the attention of the AC;

(p) undertaking such other reviews and projects as may be requested by the Board; and

(q) considering the appointment/re-appointment of the external auditors, the audit fee and matters relating to the resignation or dismissal of the auditors.

The AC has explicit authority to conduct or authorise investigations into any aspect of the Group's financial affairs, audits and exposure to risks of a regulatory or legal nature, with full access to records, resources and personnel, to enable it to discharge its functions properly. The AC has full access to and cooperation of the management, and has full discretion to invite any Director and executive officer to attend its meetings. The CEO and Chief Financial Officer are invited to attend all meetings of the AC.

The AC has reviewed and is satisfied with the effectiveness of the Company's system of accounting controls including financial, operational and compliance controls. The AC also conducted a review of the Group's interested person transactions.

In performing its functions, the AC met with the external auditors, without the presence of the management. The external auditor has unrestricted access to the AC. Reasonable resources were made available to the AC to enable it to discharge its functions properly.

The AC, having reviewed all non-audit services provided by the external auditors of the Group, Messrs Ernst & Young, is satisfied that the nature and extent of such services would not prejudice the independence and objectivity of the external auditors and recommends to the Board, the nomination of the external auditors for re-appointment.

The Company introduced a whistle-blowing framework, where employees of the Company may, in confidence, raise concerns about possible corporate improprieties in matters of financial reporting and other matters. Details of the whistle-blowing policies and arrangements were made available to all employees.

Principle 12: Internal Controls

The Board recognises that it is responsible for the overall internal control framework and a review of the effectiveness of the Company's internal controls is conducted at least annually. It believes that the system of internal control maintained by the Company's management that was in place throughout the financial year and up to the date of this Annual Report provides reasonable, but not absolute, assurance against material financial misstatements or loss, including the safeguarding of assets, the maintenance of proper accounting records, the reliability of financial information, compliance with appropriate legislation, regulation and best practice, and the identification and containment of business risk.

Principle 13: Internal Audit

The Company is actively seeking to outsource its internal audit, risk management and compliance functions. The Company has appointed an internal auditor, Mr Lim Hock Siong, who will report findings and recommendations to the management and the Chairman of the AC. The Company recognises the importance of the internal audit function as an integral part of an effective system of good corporate governance.

REPORT ON CORPORATE GOVERNANCE

Principle 14: Communication with Shareholders

Principle 15: Greater Shareholder Participation

The Board is mindful of the obligation to provide timely and fair disclosure of material information in accordance with the Corporate Disclosure Policy of the SGX-ST. The Company is committed to timely dissemination of information and proper transparency and disclosure of relevant information to the public via SGXNET system and the press when appropriate.

The Company also encourages active shareholder participation at its general meetings. Notices of meetings are published in the major newspapers together with explanatory notes or a circular on items of special business, at least fourteen (14) clear days before the meeting. Reports or circulars of the general meetings are despatched to all shareholders by post.

The Board welcomes the views of shareholders on matters affecting the Company, whether at shareholders' meetings or on an ad-hoc basis. The Chairmen of the AC, RC and NC are normally available at the AGM to answer those questions relating to the work of these committees. The external auditors are also usually present to assist the Directors in addressing any relevant queries by shareholders.

Our Articles of Association permit a shareholder to appoint one (1) or two (2) proxies to attend and vote in his stead. The Company has not amended its Articles to provide for absentia voting methods which call for elaborate and costly implementation of a fool-proof system, the need for which does not presently arise.

Separate resolutions are passed at every general meeting on each distinct issue.

CODE OF BUSINESS CONDUCT

The Group has adopted a Code of Business Conduct to regulate the standards of ethical conduct of the Group, which provides that its Directors, officers and employees are required to observe and maintain high standards of integrity in compliance with the law, regulations and Company policies.

DEALINGS IN SECURITIES

In line with SGX's Best Practices Guide, the Group has issued a policy on share dealings by Directors and key officers of the Company, setting out the implications of insider trading and recommendations of the Best Practice Guide. The Group adopts a code of conduct to provide guidance to its Directors and officers with regard to dealing in the Company's shares, which includes an annual declaration by the Company's Directors and officers with regard to securities trading and disclosure by the Company's Directors and officers when they deal in the Company's shares.

The Group also issues periodic circulars to its Directors, officers and employees reminding them that there must be no dealings in the Company's shares one (1) month before the half year or financial year, as the case may be, and ending on the date of announcement of the relevant results, and if they are in possession of unpublished material price-sensitive information.

In the opinion of the Directors, UPP is in compliance with the SGX-ST's Best Practices Guide.

REPORT ON CORPORATE GOVERNANCE

CORPORATE INFORMATION

Particulars of Directors as at 31 December 2007

Name of Directors	Academic or professional qualifications	Board committee as Chairman or Member	Directorship: Date first appointed Date last re-elected	Board appointment	Due for re-election at next AGM	Directorship in other listed companies in Singapore (present & held over preceding 3 years)
Mr. Lee Seng Jin	Bachelor of Business Administration	Member: Nominating Committee	05.11.2002 26.04.2007	Executive		–
Mr. Koh Kim Huat	Bachelor of Civil Engineering (Hons)	Member: Remuneration Committee, Nominating Committee	31.10.2006 26.04.2007	Non-executive	28.04.08	Rowsley Ltd
Mr. Adrian Chan Pengee	LLB (Hons) Advocate & Solicitor	Chairman: Audit Committee, Nominating Committee Member: Remuneration Committee	05.11.2002 26.04.2007	Independent Non-executive		Isetan (Singapore) Limited Oniontech Limited
Ms. Chan Lay Hoon	Bachelor of Accountancy Member of Institute of Certified Public Accountants of Singapore	Member: Audit Committee	31.10.2006 26.04.2007	Non-executive	–	–
Mr. Gary Ho Kuat Foong	Bachelor of Commerce Bachelor of Science Member CPA Australia Member of Institute of Certified Public Accountants of Singapore	Chairman: Remuneration Committee Member: Audit Committee, Nominating Committee	31.10.2006 26.04.2007	Independent Non-executive	28.04.08	–

REPORT ON CORPORATE GOVERNANCE

Name of Directors	Academic or professional qualifications	Board committee as Chairman or Member	Directorship: Date first appointed Date last re-elected	Board appointment	Due for re-election at next AGM	Directorship in other listed companies in Singapore (present & held over preceding 3 years)
Mr Lee Albert Yue Kong (alternate director to Mr. Lee Seng Jin)	Bachelor of Commerce Member of Institute of Chartered Accountants of Australia Member of the Hong Kong Institute of Certified Public Accountants	–	–	–	–	–

Attendance at Board and Committee Meetings

Directors	Board		Audit Committee		Remuneration Committee		Nominating Committee	
	No. of meetings	Attendance	No. of meetings	Attendance	No. of meetings	Attendance	No. of meetings	Attendance
Mr. Lee Seng Jin	4	4	NA	NA	NA	NA	#	#
Mr. Koh Kim Huat	4	4	NA	NA	1	1	#	#
Mr. Adrian Chan Pengee	4	4	2	2	1	1	#	#
Ms. Chan Lay Hoon	4	4	2	2	NA	NA	NA	NA
Mr. Gary Ho Kuat Foong	4	4	2	2	1	1	#	#
Mr. Lee Albert Yue Kong	4	–	NA	NA	NA	NA	NA	NA

Note:
no meeting was held during the year

Particulars of Key Management Staff as at 31 December 2007

Lee Kwok Loon
Mr. Lee is the Chief Executive Officer of the Group and is responsible for the overall management of the Group's operations in Singapore, Malaysia and China. Mr. Lee has extensive experience in the paper industry, with vast knowledge of the China and Hong Kong markets. He holds a master in Business Administration from the University of Leicester.

Tan Geok Kwang
Mr. Tan is the Chief Financial Officer of the Group. He holds a Bachelor of Accountancy degree from the National University of Singapore. He is a member of the Institute of Certified Public Accountants of Singapore and the Singapore Institute of Directors. He has more than 20 years' working experience in finance, corporate planning, investor relations as well as in operations management.

REPORT ON CORPORATE GOVERNANCE

Ng Chee Siang
Mr. Ng is the General Manager of United Green-Industries Pte Ltd. He joined the Group in October 2001 and is responsible for the overall management of the company. He holds a Bachelor of Business Administration from the University of Auston Australia and has more than 10 years' experience in the corrugated, flexible packaging industry and paper recycling industry.

Wong Ee Leong
Mr. Wong is the General Manager of United Paper Industries Pte Ltd. He joined the Group in April 1989 and is responsible for the overall management of the Company. He holds a Bachelor of Business Administration from the University of South Australia and more than 15 years' experience in the corrugated packaging industry.

Kenneth Lo Wai Pong
Mr. Lo is the General Manager of United Paper Board (M) Sdn Bhd. He holds a Bachelor of Science degree from the Hong Kong Baptist University. He joined the Group in January 2004. Prior to joining the Group, he was responsible for the overall management of the Southern Region in China in the Samson Group. He has more than 10 years' experience in the paper industry.

Tong Kim Chai
Mr. Tong is the General Manager of United Re-cycled Fibre Sdn Bhd. He joined the Group in March 2000 and is responsible for the overall management of the Company. He has more than 20 years' working experience in the paper recycling industry.

INTERESTED PERSON TRANSACTIONS POLICY

The Company has adopted an internal policy in respect of any transaction with interested persons and has set out the procedures for review and approval of the Company's interested person transactions.

The interested person transactions conducted under the shareholders' mandate for the financial year ended 31 December 2007 are set out in the table below.

Name of Interested Person	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than S$100,000 and transactions under shareholders' mandate pursuant to Rule 920 of the SGX–ST Listing Manual)	Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 of the SGX–ST Listing Manual (excluding transactions less than S$100,000)
Samson Paper (M) Sdn Bhd	–	S$848,000

SHAREHOLDING STATISTICS

As at 17 March 2008

ISSUED AND FULLY PAID-UP CAPITAL	:	S$48,615,492.45
NO. OF SHARES ISSUED	:	234,838,000 SHARES
CLASS OF SHARES	:	ORDINARY SHARES
VOTING RIGHTS	:	1 VOTE PER SHARE

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 - 999	8	0.24	688	0.00
1,000 - 10,000	2,198	66.87	10,026,747	4.27
10,001 - 1,000,000	1,063	32.34	44,394,703	18.90
1,000,001 & ABOVE	18	0.55	180,415,862	76.83
TOTAL	3,287	100.00	234,838,000	100.00

TOP TWENTY SHAREHOLDERS

	NO. OF SHARES	%
SSP INNOVATIONS PTE LTD	54,068,000	23.02
DBS VICKERS SECURITIES (S) PTE LTD	48,375,000	20.60
UNITED OVERSEAS BANK NOMINEES PTE LTD	14,347,935	6.12
DBS NOMINEES PTE LTD	10,952,551	4.66
KIM ENG SECURITIES PTE. LTD.	9,347,000	3.98
HONG LEONG FINANCE NOMINEES PTE LTD	9,007,376	3.84
OCBC NOMINEES SINGAPORE PTE LTD	6,181,000	2.63
LIM TIEN LOCK CHRISTOPHER	5,395,000	2.30
UOB KAY HIAN PTE LTD	5,312,000	2.26
DMG & PARTNERS SECURITIES PTE LTD	4,783,000	2.04
CIMB-GK SECURITIES PTE. LTD.	2,232,000	0.95
HSBC (SINGAPORE) NOMINEES PTE LTD	1,932,000	0.82
OCBC SECURITIES PRIVATE LTD	1,861,000	0.79
NOMURA SINGAPORE LIMITED	1,550,000	0.66
CITIBANK NOMINEES S'PORE PTE LTD	1,491,000	0.64
ABN AMRO NOMINEES S'PORE PTE LTD	1,350,000	0.57
HARTONO TJAHJADI	1,172,000	0.50
PHILLIP SECURITIES PTE LTD	1,059,000	0.45
BOO SONG HENG PETER	850,000	0.36
SEET HONG KIANG	752,000	0.32
TOTAL	182,017,862	77.51

SUBSTANTIAL SHAREHOLDERS AS SHOWN IN THE COMPANY'S REGISTER AS AT 17 March 2008

	No. of Shares	
	Shareholdings in which Substantial Shareholders Have a Direct Interest	Shareholdings in which Substantial Shareholders Have an Indirect Interest
SSP Innovations Pte Ltd	54,068,000	–
Garville Pte Ltd	–	54,068,000
Rowsley Ltd	–	54,068,000
Lim Eng Hock	8,626,376	54,068,000
Smartpro Holdings Limited	32,210,000	2,246,000
Samson Paper Holdings Limited	–	34,456,000
Lee Seng Jin[(1)]	–	34,456,000

Note:

(1) Lee Seng Jin is also deemed to be interested in 6,132,000 warrants by virtue of Section 7 of the Companies Act.

Approximately 58.63% of the issued Ordinary Shares are held in the hands of the public. Rule 723 of the Listing Manual of the Singapore Exchange Securities Trading Limited has accordingly been complied with.

WARRANTHOLDING STATISTICS

As at 17 March 2008

ANALYSIS OF WARRANTHOLDINGS

SIZE OF WARRANTHOLDINGS	NO. OF WARRANTHOLDERS	%	NO. OF WARRANTS	%
1 - 999	97	5.32	51,014	0.09
1,000 - 10,000	1,473	80.80	4,903,565	8.35
10,001 - 1,000,000	244	13.39	16,240,836	27.66
1,000,001 & ABOVE	9	0.49	37,514,060	63.90
TOTAL	1,823	100.00	58,709,475	100.00

TOP TWENTY WARRANTHOLDERS

	NO. OF WARRANTS	%
SSP INNOVATIONS PTE LTD	13,517,000	23.02
DBS VICKERS SECURITIES (S) PTE LTD	10,800,500	18.40
KIM ENG SECURITIES PTE. LTD.	2,297,965	3.91
HONG LEONG FINANCE NOMINEES PTE LTD	2,253,188	3.84
UNITED OVERSEAS BANK NOMINEES PTE LTD	2,215,207	3.77
CIMB-GK SECURITIES PTE. LTD.	1,861,925	3.17
LIM TIEN LOCK CHRISTOPHER	1,639,500	2.79
CHIEW POH CHENG	1,577,000	2.69
DBS NOMINEES PTE LTD	1,351,775	2.30
DMG & PARTNERS SECURITIES PTE LTD	917,000	1.56
OCBC NOMINEES SINGAPORE PTE LTD	910,940	1.55
CHUA CHAI TIANG	898,000	1.53
PHILLIP SECURITIES PTE LTD	673,943	1.15
UOB KAY HIAN PTE LTD	633,000	1.08
OCBC SECURITIES PRIVATE LTD	599,000	1.02
TAN CHIN WAH	500,000	0.85
TOH PENG HUI	415,000	0.71
TSNG JOO WEE	405,000	0.69
TANG SONG HEE	400,000	0.68
SEET HONG KIANG	267,000	0.46
	44,132,943	75.17

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Forty-First Annual General Meeting of **United Pulp & Paper Company Limited** (the "Company") will be held at The Conference Room, No. 35 Tuas View Crescent, Singapore 637608 on 28 April 2008 at 10.00am for the following purposes:

AS ORDINARY BUSINESS

To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without any modifications:

1. To receive and adopt the Directors' Report and Audited Accounts of the Company for the year ended 31 December 2007 together with the Auditors' Report thereon. **(Resolution 1)**

2. To approve the payment of Directors' fees of up to S$243,000 payable by the Company for the year ending 31 December 2008. **(Resolution 2)**

3. To re-elect the following Directors retiring pursuant to Article 110 of the Articles of Association of the Company:

   Mr. Koh Kim Huat (Retiring under Article 110) **(Resolution 3)**
   Mr. Gary Ho Kuat Foong (Retiring under Article 110) **(Resolution 4)**

4. To re-appoint Messrs Ernst & Young as Auditors of the Company and to authorise the Directors to fix their remuneration. **(Resolution 5)**

5. To declare a final dividend of Singapore 0.125 cents per ordinary share for the year ended 31 December 2007. **(Resolution 6)**

6. To transact any other ordinary business which may be transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without any modifications:

7. **Authority to allot and issue shares up to 50 per centum (50%) of issued shares in the capital of the Company**

   That pursuant to Section 161 of the Companies Act, Cap. 50 (the "Companies Act") and Rule 806 of the Listing Manual (the "Listing Manual") of the Singapore Exchange Securities Trading Limited (the "SGX-ST"), authority be and is hereby given to the Directors of the Company to issue shares and convertible securities in the capital of the Company, whether by way of rights, bonus or otherwise, or in pursuance of any offer, agreement or option made or granted by the Directors during the continuance of this authority which would or might require shares or convertible securities to be issued during the continuance of this authority or thereafter, at any time to such persons and upon such terms and conditions and for such purposes as the Directors may in their absolute discretion deem fit (notwithstanding that such issue of shares pursuant to the offer, agreement or option or the conversion of the convertible securities may occur after the expiration of the authority contained in this Resolution), provided that the aggregate number of shares and convertible securities to be issued pursuant to this Resolution shall not exceed fifty (50) per cent. of the total number of issued shares of the Company excluding treasury shares, of which the aggregate number of shares and convertible securities to be issued other than on a pro rata basis to existing shareholders of the Company shall not exceed twenty (20) per cent. of the total number of issued shares in the capital of the Company excluding treasury shares.

NOTICE OF ANNUAL GENERAL MEETING

For the purpose of determining the aggregate number of shares that may be issued pursuant to the authority contained in this Resolution, the total number of issued shares excluding treasury shares is based on the total number of issued shares excluding treasury shares at the time of the passing of this Resolution after adjusting for:

(a) new shares arising from the conversion or exercise of convertible securities;

(b) new shares arising from the exercise of share options or vesting of share awards outstanding or subsisting at the time of the passing of this Resolution, provided the options or awards were granted in compliance with the Rules of the Listing Manual; and

(c) any subsequent bonus issue, consolidation or subdivision of shares.

Unless revoked or varied by the Company in general meeting, such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier.

(Resolution 7)

8. Authority to allot and issue shares pursuant to the exercise of options under the United Pulp & Paper Company Limited Share Option Scheme (the "Scheme")

That pursuant to Section 161 of the Companies Act, authority be and is hereby given to the Directors of the Company to allot and issue from time to time such number of shares in the Company as may be required to be issued pursuant to the exercise of the options under the Scheme, provided always that the aggregate number of shares to be issued under the Scheme and all other share option, share incentive, performance share or restricted share plans implemented by the Company shall not exceed fifteen (15) per cent. of the issued shares in the capital of the Company for the time being. **(Resolution 8)**

9. Authority for the renewal of the Shareholders' Mandate for Interested Person Transactions

That for the purposes of Chapter 9 of the Listing Manual:

(a) approval be and is hereby given for the Company and its subsidiary companies and associated companies (the "Group") or any of them to enter into any of the transactions falling within the categories of Interested Person Transactions, particulars of which are set out in the Company's addendum to the shareholders dated 11 April 2008 (being an addendum to the Annual Report of the Company for the financial year ended 31 December 2007) (the "Addendum"), with any person who falls within the class of Interested Persons described in the Addendum, provided that such transactions are carried out in the normal course of business, at arm's length and on commercial terms and in accordance with the review procedures for Interested Person Transactions as set out in the Addendum (the "Shareholders' Mandate");

(b) the Shareholders' Mandate shall, unless revoked or varied by the Company in general meeting, continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier;

(c) the Audit Committee of the Company be and is hereby authorised to take such action as it deems proper in respect of procedures and/or to modify or implement such procedures as may be necessary to take into consideration any amendment to Chapter 9 of the Listing Manual which may be prescribed by the SGX-ST from time to time; and

(d) the Directors of the Company be and are hereby authorised to do all such acts and things (including, without limitation, executing all such documents as may be required) as they may consider necessary or desirable or expedient or in the interest of the Company to give effect to the Shareholders' Mandate and/or this Resolution. **(Resolution 9)**

NOTICE OF ANNUAL GENERAL MEETING

10. Authority for the renewal of the Share Purchase Mandate

That for the purposes of Sections 76C and 76E of the Companies Act:

(a) approval be and is hereby given to the Directors of the Company to make purchases (whether by way of market purchases or off-market purchases on an equal access scheme) from time to time of shares up to ten (10) per cent. of the issued share capital of the Company as at the time of the passing of this Resolution at the price of up to but not exceeding the Maximum Price (as hereafter defined in Explanatory Note (vi)) in accordance with the "Guidelines on Share Purchase Mandate" set out on pages 49 to 51 of the Company's circular to shareholders dated 10 June 2003 (the "Guidelines"), (as supplemented by the addendum dated 12 April 2006) (the "Share Purchase Mandate");

(b) the Share Purchase Mandate shall, unless revoked or varied by the Company in general meeting, continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier; and

(c) the Directors of the Company be and are hereby authorised to do all such acts and things (including, without limitation, executing all such documents as may be required) as they may consider necessary or desirable or expedient or in the interest of the Company to give effect to the Share Purchase Mandate and/or this Resolution. **(Resolution 10)**

BY ORDER OF THE BOARD

Lee Seng Jin
Executive Chairman
11 April 2008

Notes

(i) A member of the Company entitled to attend and vote at the above Meeting may appoint not more than two proxies to attend and vote in his stead.

(ii) Where a member appoints two proxies, he shall specify the proportion of his shareholdings to be represented by each proxy. A proxy need not be a member of the Company.

(iii) The instrument appointing a proxy must be deposited at the Registered Office of the Company not less than 48 hours before the time appointed for holding the Meeting.

(iv) If the member is a corporation, the instrument appointing the proxy must be under common seal or the hand of an officer or attorney duly authorised.

Explanatory Notes

(i) Ordinary Resolution 3

Mr. Koh Kim Huat, when re-elected, will be considered a Non-Independent Director, and will remain a member of the Nominating Committee.

NOTICE OF ANNUAL GENERAL MEETING

(ii) Ordinary Resolution 4

Mr. Gary Ho Kuat Foong, when re-elected, will be considered an Independent Director, and will remain as the chairman of the Remuneration Committee and a member of the Audit Committee and the Nominating Committee.

(iii) Ordinary Resolution 7

The Ordinary Resolution 7 if passed, will empower the Directors, from the date of this Annual General Meeting until the next Annual General Meeting, to allot and issue shares and convertible securities in the Company, without seeking any further approval from shareholders in general meeting but within the limitation imposed by this Resolution 7, for such purposes as the Directors may consider to be in the best interests of the Company. The number of shares and convertible securities that the Directors may allot and issue under this Resolution 7 will not exceed fifty (50) per cent. of the issued shares excluding treasury shares at the time of the passing of this Resolution. For issues of shares and convertible securities other than on a pro rata basis to all shareholders, the aggregate number of shares and convertible securities to be issued shall not exceed twenty (20) per cent. of the issued shares excluding treasury shares at the time of the passing of this Resolution.

(iv) Ordinary Resolution 8

The Ordinary Resolution 8 above, if passed, gives authority to the Directors to issue shares in connection with the Scheme. No further options will be granted under the Scheme as it had expired on 16 January 2004, but shares will continue to be issued pursuant to the exercise of those options granted prior to the expiry of the Scheme.

(v) Ordinary Resolution 9

The Ordinary Resolution 9 proposed above, if passed, renews the Shareholders' Mandate to allow the Group to enter into certain interested person transactions with those classes of interested persons set out in paragraph 2.4 of the Addendum ("Interested Persons"). As Mr. Lee Seng Jin and Mr. Lee Albert Yue Kong both hold executive positions/directorships in Samson Paper Holdings Limited, they will abstain and procure their associates to abstain from voting in respect of their shareholdings, if any, in respect of this Resolution relating to the Shareholders' Mandate. As Samson Paper Holdings Limited and Smartpro Holdings Limited are Interested Persons in relation to the Shareholders' Mandate, they will each abstain and procure their associates to abstain from voting on this Resolution relating to the Shareholders' Mandate, in respect of any shares held by them.

An independent financial adviser's opinion is not required for the renewal of this Shareholders' Mandate as the Company's Audit Committee has confirmed that the methods or procedures for determining the transaction prices have not changed since the last renewal of the Shareholders' Mandate on 26 April 2007 and that such methods or procedures are sufficient to ensure that the transactions will be carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its minority shareholders.

(vi) Ordinary Resolution 10

The Ordinary Resolution 10 proposed above, if passed, renews the Share Purchase Mandate and will authorise the Directors, from time to time, to purchase shares subject to and in accordance with the Guidelines (as supplemented by the addendum dated 12 April 2006), the listing rules of the SGX-ST and such other laws and regulations as may for the time being be applicable.

For the purpose of Ordinary Resolution 10, 'Maximum Price' in relation to a share to be purchased or acquired pursuant to the Share Purchase Mandate means the purchase price which shall not exceed:

(a) in the case of a market purchase, five (5) per cent. above the average of the closing market prices of the shares over the five (5) market days on which transactions in the shares were recorded, before the day on which the market purchase was made by the Company and deemed to be adjusted for any corporate action that occurs after the relevant five (5)-day period; and

NOTICE OF ANNUAL GENERAL MEETING

(b) in the case of an off-market purchase, twenty (20) per cent. above the average of the closing market prices of the shares over the five (5) market days on which transactions in the shares were recorded, before the day on which the Company announces its intention to make the off-market purchase and deemed to be adjusted for any corporate action that occurs after the relevant five (5)-day period.

Purchases of shares by the Company may be made out of the Company's capital or profits so long as the Company is solvent.

Where the consideration paid by the Company for the purchase of shares is made out of profits, such consideration (excluding related brokerage, goods and services tax, stamp duties and clearance fees) will correspondingly reduce the amount available for the distribution of cash dividends by the Company. Where the consideration paid by the Company for the purchase of shares is made out of capital, the amount available for the distribution of cash dividends by the Company will not be reduced.

NOTICE OF BOOK CLOSURE

NOTICE IS ALSO HEREBY GIVEN that the Share Transfer Books and Register of Members of the Company will be closed on 8 May 2008 for the purpose of determining the entitlements of shareholders to the proposed final dividend.

Duly completed transfers received by the Company's Share Registrar, B.A.C.S. Private Limited, 63 Cantonment Road Singapore 089758, up to 5.00 p.m. on 7 May 2008 will be registered to determine entitlements to the proposed final dividend of Singapore 0.125 cents per ordinary share in respect of the financial year ended 31 December 2007. Payment of the final dividend, if approved by shareholders at the Annual General Meeting on 28 April 2008, will be made on 22 May 2008.

BY ORDER OF THE BOARD

Lee Seng Jin
Executive Chairman
11 April 2008

IMPORTANT

1. For investors who have used their CPF monies to buy ordinary shares in the capital of United Pulp & Paper Company Limited, this report is forwarded to them at the request of their CPF Approved Nominees and is sent solely FOR INFORMATION ONLY.
2. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.

Proxy Form

United Pulp & Paper Company Limited and Subsidiary Companies

ANNUAL GENERAL MEETING TO BE HELD ON 28 APRIL 2008
(Before completing this form, please see notes below)

I/We ____ (Name)

of ____ (Address)

being a member/members of United Pulp & Paper Company Limited (the "Company"), hereby appoint

Name	Address	NRIC/ Passport Number	Proportion of Shareholdings (%)
and/or (delete as appropriate)			

as my/our proxy/proxies to attend and to vote for me/us on my/our behalf and, if necessary, to demand a poll, at the Annual General Meeting of the Company to be held on Monday, 28 April 2008 at 10.00 a.m. and at any adjournment thereof in the following manner indicated below: (Please indicate with a cross ("X") in the spaces provided whether you wish your vote(s) to be cast for or against the Resolutions. In the absence of specific directions, the proxy/proxies will vote or abstain as he/they may think fit.)

No.	Resolution	For	Against
1	Adoption of Directors' Report and Accounts		
2	Approval of Directors' Fees for Financial Year 2008		
3	Re-election of Mr. Koh Kim Huat as a Director		
4	Re-election of Mr. Gary Ho Kuat Foong as a Director		
5	Re-appointment of Auditors		
6	Declaration of dividend for Financial Year 2007		
	SPECIAL BUSINESS:		
7	To Authorise Directors to Issue Shares and Convertible Securities under Section 161		
8	To Authorise Directors to Issue Shares under the Scheme		
9	To Approve the renewal of the Shareholders' Mandate		
10	To Approve the renewal of the Share Purchase Mandate		

Dated this ________ day of ________________ 2008

Total Number of Shares held:	
(a) CDP Register	
(b) Register of Members	

____
Signature(s) of Member(s) or Common Seal

Notes

1. If you have shares entered against your name in the Depository Register (as defined in Section 130A of the Companies Act, Chapter 50 of Singapore), you should insert that number of shares. If you have shares registered in your name in the Register of Members, you should insert that number of shares. If you have shares entered against your name in the Depository Register and shares registered in your name in the Register of Members, you should insert the aggregate number of shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the shares in the capital of the Company held by you.

2. A member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint not more than two proxies to attend and vote in his stead. A proxy need not be a member of the Company.

3. Where a member appoints two proxies, the appointment shall be invalid unless he specifies the proportion of his shareholding (expressed as a percentage of the whole) to be represented by each proxy.

4. The instrument appointing a proxy or proxies must be lodged at the registered office of the Company at 35 Tuas View Crescent, Singapore 637608 not less than 48 hours before the time appointed for holding the Meeting.

5. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of an officer or attorney duly authorised.

6. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Meeting, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.

General

The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have shares entered against his name in the Depository Register as at 48 hours before the time appointed for holding the Meeting, as certified by The Central Depository (Pte) Limited to the Company.

UNITED PULP & PAPER COMPANY LIMITED
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