UNITED PULP & PAPER COMPANY LIMITED

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UNITED PULP & PAPER COMPANY LIMITED
ANNUAL REPORT 2008

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ANNUAL REPORT 2008

CONTENTS

CHAIRMAN'S STATEMENT

In 2008, the Group decided to rationalise its operations by focusing on its core business of paper milling and divesting or winding up its non-core or loss making businesses or subsidiaries.

For the year under review, the Group's turnover decreased by 5% to S$51 million due to the rationalisation of the Group's activities. At the pre-tax level, the Group registered a loss of S$0.2 million compared to a pre-tax profit of S$0.3 million in the previous year. The pre-tax loss for the year under review was mainly due to lower margins from the Paper Mill Division and partly attributable to losses from the cessation of business of the Group's subsidiaries in Hong Kong and China.

Total profit after tax for the year, including the discontinued operations for the Group, was S$0.54 million.

PAPER MILL DIVISION

In view of the increasingly unfavourable market conditions for laminated board in China, the Group ceased the operations of UPP Paper (Foshan Nanhai) Company Limited ("UPP Foshan"), China and United Pulp & Paper (Hong Kong) Company Limited, Hong Kong in April 2008. Losses from realisation of assets of the two subsidiaries were fully accounted for in the year under review with UPP Foshan being placed in liquidation in September 2008.

Sales for this Division, excluding Hong Kong and China, increased by 0.7% to S$44.3 million. At the pre-tax level, the Division had a net profit of S$1.88 million, which is 47% lower than the previous year. The lower profit margin was mainly due to increases in operating costs and impairment loss for stock as a result of a drastic fall in selling price at the end of the year caused by the global economic melt down.

CORRUGATED PACKAGING DIVISION

In July 2008, the Group sold its corrugated packaging business and plant and machinery in its subsidiary, United Paper Industries Pte Ltd ("UPI") to Tat Seng Packaging Limited ("Tat Seng"). UPI also entered into a separate tenancy agreement to lease its factory premises to Tat Seng for an annual rental of S$1.2 million for 6 years.

RECYCLED FIBRE DIVISION

The operations in Singapore of United Green-Industries Pte Ltd ceased in May 2008. The lease of its factory from JTC expired in June 2008 with no further extension.

The Malaysia Recycled Fibre Division under United Re-cycled Fibre Sdn Bhd registered a 33% increase in turnover to S$19.1 million, pre-tax profit increased by 107% to S$0.27 million.

FINANCIAL REVIEW

Cash flow from operating activities, before taking into consideration the proceeds from disposal of a business segment, improved from negative S$1.9 million to S$10.4 million. The overall liquidity position of the Group improved due to an income tax refund during the year of S$4.0 million and the receipt of proceeds from the disposal of the Corrugated Packaging Division.

There was an improvement to the Group's net current assets by S$17.3 million, from net current liabilities of S$9.0 million in the previous year to net current assets of S$8.3 million for the current year under review. The improvement was mainly due to the conversion of short term bank borrowings of S$10.9 million into long term loans and the divestment of the Corrugated Packaging Division. The proceeds from the divestment were used to settle bank borrowings.

OUTLOOK

The year ahead will be challenging for the Group as the business environment is expected to worsen due to the global financial and economic crisis. The Group's paper and paper board business will continue to face stiff competition in Asia as the industry is experiencing an over capacity situation due to a sharp fall in demand.

The Group will continue to review its operating costs and business strategies to stay competitive.

RETIREMENT OF CHAIRMAN

Mr. Lee Seng Jin stepped down as Chairman and Director of the Company on 1 April 2009. Mr. Lee has chaired the Board since November 2002. The Board of Directors would like to place on record its profound appreciation of Mr. Lee's unstinting contributions and leadership over the years.

I am privileged to succeed Mr. Lee as Chairman of the Board. In compliance with best practices under the Code of Corporate Governance, I shall cease to be an Executive and shall hold a Non-Executive position as Chairman.

RESIGNATION AND APPOINTMENT OF DIRECTORS

On 1 December 2008, Ms. Chan Lay Hoon resigned as Director of the Company and Mr. Hardjanto Adiwana was appointed as Non-Executive Director. On 1 April 2009, Mr. Koh Wan Kai, James who has been the President of the Group since April 2008 was appointed as Executive Director and Chief Executive Officer and Mr. Tan Geok Kwang, Eric who was the Company's former Chief Financial Officer from April 2004 to July 2008 was appointed as Non-Executive Director of the Company. The Board of Directors would like to thank Ms. Chan for her contribution to the Company during the past years and welcome the new members to the Board.

ACKNOWLEDGEMENTS

Last but not least, on behalf of the Board, I would like to express our heartfelt appreciation to all our shareholders, customers, business associates and staff for their continuing support of the Group. I also thank our fellow Directors whose counsel, diligence and contributions have made the difference.

Koh Kim Huat
Chairman

BOARD OF DIRECTORS

KOH KIM HUAT
Chairman, 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. A Singapore Government scholar, he graduated with Honours degree in Civil Engineering from the National University of Singapore.

KOH WAN KAI
Executive Director, Chief Executive Officer

Mr. Koh joined the Company on 1 April 2008 as Group President. He was appointed as Executive Director and Chief Executive Officer on 1 April 2009.

Mr. Koh started his career in an international accounting firm as auditor and business consultant. His experience expanded to various industries. He has had more than 20 years experience in managerial positions in these industries. Prior to joining the Company, he was the Chief Financial Officer of Rowsley Limited.

He holds a Bachelor of Accountancy from the National University of Singapore. He is currently a Fellow member of the Institute of Certified Public Accountants 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 holds a law degree from the National University of Singapore and is a member of the Singapore Academy of Law. 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.

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 the Institute of Certified Public Accountants of Singapore and CPA Australia.

HARDJANTO ADIWANA
Non-Executive Director

Mr. Hardjanto has over 10 years experience in business management. He sits on the Boards of various companies in Indonesia with business activities ranging from trading, lifestyle and food & beverage. He is also the business partner of FJ Benjamin Holdings Limited, a listed company in Singapore and Home Fix The DIY Store Singapore to distribute their products in Indonesia.

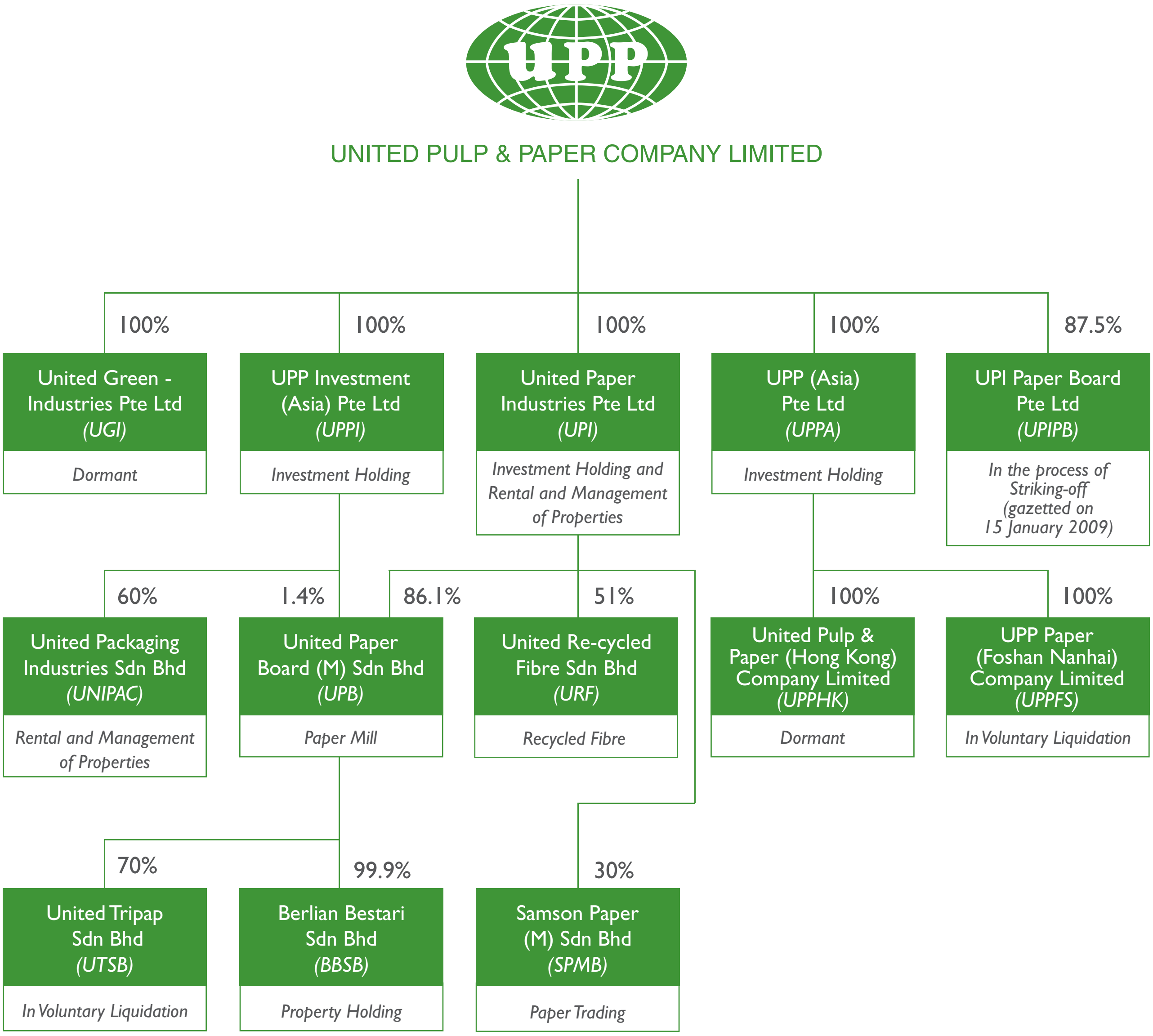
He is a member of Indonesia Business Chamber of Commerce in retail association.

TAN GEOK KWANG
Non-Executive Director

Mr. Tan has more than 20 years' working experience in finance, corporate planning, investor relations as well as operation management in publicly listed companies on the Singapore Stock Exchange. He was the Chief Financial Officer of the Company from April 2004 to July 2008.

He holds a Bachelor of Accountancy from The University of Singapore. He is a member of the Institute of Certified Public Accountants of Singapore and the Singapore Institute of Directors.

ORGANISATION CHART



CORPORATE INFORMATION

BOARD OF DIRECTORS

Koh Kim Huat
Chairman, Non-Executive Director

Koh Wan Kai
Executive Director, Chief Executive Officer

Adrian Chan Pengee
Independent Director

Gary Ho Kuat Foong
Independent Director

Hardjanto Adiwana
Non-Executive Director

Tan Geok Kwang
Non-Executive Director

COMPANY SECRETARY

Loo Hwee Fang

AUDIT COMMITTEE

Adrian Chan Pengee *(Chairman)*
Gary Ho Kuat Foong
Hardjanto Adiwana

NOMINATING COMMITTEE

Adrian Chan Pengee *(Chairman)*
Gary Ho Kuat Foong
Koh Kim Huat
Tan Geok Kwang

REMUNERATION COMMITTEE

Gary Ho Kuat Foong *(Chairman)*
Adrian Chan Pengee
Hardjanto Adiwana

REGISTERED OFFICE

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Singapore 089758

AUDITOR

Ernst & Young LLP
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Singapore 048583
Simon Yeo *(Partner-in-charge from financial year 2008)*

SOLICITOR

Lee & Lee
5 Shenton Way
#07-00 UIC Building
Singapore 068808

PRINCIPAL BANKERS

DBS Bank Limited
Malayan Banking Berhad
United Overseas Bank Limited

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 18 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, well aware of their duties and responsibilities. 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. Mr. Hardjanto Adiwana, a new Director, made a trip to visit the Company's paper mill in Malaysia in February 2009 together with the other Directors, to familiarise himself with the business of the Company.

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.

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 current Board comprises six (6) Directors. It is chaired by Mr. Koh Kim Huat who is a Non-Executive Director. He is responsible for the leadership and objective functioning of the Board.

As of 1 April 2009, the Board comprises the following members:

Mr. Koh Kim Huat	(Non-Executive Chairman)[1]
Mr. Koh Wan Kai	(Executive)[2]
Mr. Hardjanto Adiwana	(Non-Executive)[3]
Mr. Tan Geok Kwang	(Non-Executive)[4]
Mr. Adrian Chan Pengee	(Independent)
Mr. Gary Ho Kuat Foong	(Independent)

Notes:

1 On 1 April 2009, Mr. Koh Kim Huat was re-designated as a Non-Executive Chairman given the resignation of Mr. Lee Seng Jin. As a consequence, Mr. Lee Albert Yue Kong also ceased to be an Alternate Director to Mr. Lee Seng Jin.

2 Mr. Koh Wan Kai was appointed as an Executive Director on 1 April 2009.

3 On 1 December 2008, Ms. Chan Lay Hoon, a Non-Executive Director resigned and Mr. Hardjanto Adiwana was appointed as a Non-Executive Director.

4 On 1 April 2009, Mr. Tan Geok Kwang was appointed as a Non-Executive Director.

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, 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 page 4 of this Annual Report and details of Directors' shareholdings in the Company and its subsidiary companies are set out on pages 20 and 21 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 the Chief Executive Officer 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 Chief Executive Officer are not related to each other within the meaning of the Code.

On 9 May 2008, the Company announced that Mr. Lee Kwok Loon, who was then the Chief Executive Officer of the Company, would not be renewing his service contract with the Company when it expires on 8 June 2008. Mr. Koh Wan Kai, who was appointed on 1 April 2008 as the President of the Group, assumed the responsibilities of the Chief Executive Officer of the Company with effect from 8 June 2008. He was re-designated as the Chief Executive Officer of the Company with effect from 1 April 2009.

The Chief Executive Officer, who is responsible for the day-to-day operations of the Group, has his role and responsibilities established by the Board and set out in writing under his employment agreement. The Chairman, who is a Non-Executive Director, is responsible for the leadership and objective functioning of the Board.

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 Chief Executive Officer;

(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.

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. Tan Geok Kwang	(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 then makes 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 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 2008, 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 18 of this Annual Report.

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. Adrian Chan Pengee (Member)

Mr. Hardjanto Adiwana (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 21 to 22 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 page 21 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.

Directors are paid Directors' fees, determined by the Board based on the effort, time spent and responsibilities of the Directors. Directors' fees for Directors are subject to the approval of shareholders at the annual general meeting (the "AGM").

Principle 9: Disclosure on Remuneration

The remuneration of Directors and key executives for the financial year ended 31 December 2008 is set out below:

	Fees (%)	Salary (%)	Bonus (%)	Benefits (%)	Total (%)
(a) Directors					
(i) Between S$250,001 to S$500,000					
Mr. Lee Seng Jin[1]	23	77	-	-	100
(ii) Below S$250,000					
Mr. Koh Kim Huat	100	-	-	-	100
Mr. Adrian Chan Pengee	100	-	-	-	100
Ms. Chan Lay Hoon[2]	100	-	-	-	100
Mr. Gary Ho Kuat Foong	100	-	-	-	100
Mr. Hardjanto Adiwana[3]	100	-	-	-	100
Mr. Koh Wan Kai[4]	-	-	-	-	-
Mr. Tan Geok Kwang[5]	-	-	-	-	-
(b) Key Executives of the Group					
(i) Below S$250,000					
Mr. Lee Kwok Loon[6]	-	100	-	-	100
Mr. Koh Wan Kai[4]	-	100	-	-	100
Mr. Tan Geok Kwang[5]	-	100	-	-	100
Mr. Ng Chee Siang[7]	-	52	-	48	100
Mr. Wong Ee Leong[8]	-	87	-	13	100
Mr. Kenneth Lo Wai Pong[9]	-	90	2	8	100
Mr. Tong Kim Chai	-	86	14	-	100

Notes:

1 Mr. Lee Seng Jin resigned as a Non-Executive Director on 1 April 2009.
2 Ms. Chan Lay Hoon resigned as a Non-Executive Director on 1 December 2008.
3 Mr. Hardjanto Adiwana was appointed as a Non-Executive Director on 1 December 2008.
4 Mr. Koh Wan Kai was appointed as the President of the Group on 1 April 2008. He was subsequently appointed as an Executive Director and re-designated as the Chief Executive Officer of the Company on 1 April 2009.
5 Mr. Tan Geok Kwang resigned as the Chief Financial Officer of the Company on 31 July 2008. He was subsequently appointed as a Non-Executive Director on 1 April 2009.
6 Mr. Lee Kwok Loon resigned as the Chief Executive Officer of the Company on 8 June 2008.
7 Mr. Ng Chee Siang resigned on 31 May 2008.
8 Mr. Wong Ee Leong resigned on 20 July 2008 when the Company disposed of its business and assets in United Paper Industries Pte Ltd.
9 Mr. Kenneth Lo Wai Pong resigned on 31 October 2008.

The Company does not employ any immediate family member of a Director or the Chief Executive Officer of the Group.

The RC 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 2008. 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.

Principle 11: Audit Committee

The AC comprises:

Mr. Adrian Chan Pengee	(Chairman)
Mr. Gary Ho Kuat Foong	(Member)
Mr. Hardjanto Adiwana	(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 one of them is a Certified Public Accountant (CPA).

The AC meets at least twice a year. Details of members and their attendance at meetings are provided on page 18 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 cost 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 statement of the Company and the consolidated balance sheet and income statement, before approval by the Board;

(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 management is 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 LLP, 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 recognises the importance of the internal audit function as an integral part of an effective system of good corporate governance. During the financial period under review, the Company has established an in-house internal audit function together with Centegy Governance Advisory Sdn Bhd, reports findings and recommendations to the management and Chairman of the AC. However on 1 April 2009, the Company has decided to outsource fully the internal audit function to Centegy Governance Advisory Sdn Bhd.

Principle 14: Communication with Shareholders

The Company engages in regular, effective and fair communication with shareholders. It regularly conveys pertinent information, gathers views or inputs, and addresses shareholders' concerns. The Company also discloses information on a timely basis. Where there is inadvertent disclosure made to a selected group, the Company makes the same disclosure publicly to all others as soon as practicable.

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 Rule 1207(18) of the SGX-ST Listing Manual, 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 practices set out in Rule 1207(18). 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 best practices set out in Rule 1207(18).

CORPORATE INFORMATION

Particulars of Directors as at 1 April 2009

Name of Directors	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. Koh Kim Huat	Member: Nominating Committee	31 October 2006 28 April 2008	Non-Executive	AGM	Rowsley Ltd
Mr. Koh Wan Kai	-	01 April 2009	Executive	-	-
Mr. Adrian Chan Pengee	Chairman: Audit Committee, Nominating Committee Member: Remuneration Committee	05 November 2002 26 April 2007	Independent	AGM	Isetan (Singapore) Limited Oniontech Limited Yoma Strategic Holdings Ltd. AEM Holdings Ltd

Name of Directors	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. Gary Ho Kuat Foong	Chairman: Remuneration Committee Member: Audit Committee, Nominating Committee	31 October 2006 28 April 2008	Independent	-	-
Mr. Hardjanto Adiwana	Member: Audit Committee, Remuneration Committee	01 December 2008	Non-Executive	AGM	-
Mr. Tan Geok Kwang	Member: Nominating Committee	01 April 2009	Non-Executive	AGM	-

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[1]	4	4	NA	NA	NA	NA	2	2
Mr. Koh Kim Huat[2]	4	4	NA	NA	1	1	2	2
Mr. Adrian Chan Pengee	4	4	2	2	1	1	2	2
Ms. Chan Lay Hoon[3]	4	4	2	2	NA	NA	NA	NA
Mr. Gary Ho Kuat Foong	4	4	2	2	1	1	2	2
Mr. Hardjanto Adiwana[4]	4	-	2	-	1	-	NA	NA
Mr. Lee Albert Yue Kong	4	-	NA	NA	NA	NA	NA	NA
Mr. Koh Wan Kai[5]	NA	NA	NA	NA	NA	NA	NA	NA
Mr. Tan Geok Kwang[5]	NA	NA	NA	NA	NA	NA	NA	NA

Notes:

1. Mr. Lee Seng Jin resigned as the Non-Executive Chairman of the Board and a member of the Nominating Committee with effect from 1 April 2009.
2. Mr. Koh Kim Huat was re-designated as an Executive Director on 30 June 2008 and as such, on 1 December 2008, he resigned as a member of the Remuneration Committee. He is now the Non-Executive Chairman.
3. Ms. Chan Lay Hoon resigned as a Non-Executive Director on 1 December 2008.
4. Mr. Hardjanto Adiwana was appointed as a Non-Executive Director and a member of the Audit Committee and the Remuneration Committee on 1 December 2008.
5 Both Mr. Koh Wan Kai and Mr. Tan Geok Kwang were appointed as Directors on 1 April 2009 and hence, did not participate in any meetings for the financial year ended 31 December 2008.

Particulars of Key Management Staff as at 1 April 2009

Quek Kai Chua
Mr. Quek is the Finance Manager of United Pulp & Paper Company Limited. He joined the Group in March 2009 and is responsible for accounting, financial and taxation matters of the Company. He has over 13 years of experience in the accounting profession. He is a Fellow of ACCA and a Chartered Accountant of the Malaysian Institute of Accountants. He is also a non-practicing CPA of the Malaysian Institute of Certified Public Accountants.

Hung Wo Yi
Mr. Hung is the Deputy General Manager of United Paper Board (M) Sdn Bhd. He joined the Group in February 2001 and has over 15 years' experience in the paper industry. He holds a Bachelor of Chemical Engineering from the National Taiwan University of Science and Technology.

Tong Kim Chai
Mr. Tong is the General Manager of United Re-cycled Fibre Sdn Bhd ("URF"). He joined the Group in March 2000 and is responsible for the overall management of URF. 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 ("IPT") conducted under the shareholders' mandate for the financial year ended 31 December 2008 are set out in the table below.

Name of Interested Person	Aggregate value of all IPT during the financial period under review (excluding transactions less than $100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all IPT conducted under shareholders' mandate pursuant to Rule 920 of the SGX-ST Listing Manual during the financial period under review (excluding transactions less than $100,000)
	$'000	$'000
Transactions for Sale of Goods		
Samson Paper (M) Sdn Bhd	-	811
Samson Paper Co. Ltd	-	325
Shun Hing Paper Co Ltd*	-	(120)
Total Interested Person Transactions	-	1,016

* This negative amount related to inventory returned which was sold in prior year.

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 2008 ("Financial Year").

Directors

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

Koh Kim Huat
Koh Wan Kai
Adrian Chan Pengee
Gary Ho Kuat Foong
Hardjanto Adiwana
Tan Geok Kwang

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 (Cap. 50), 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 Directors	At beginning of year	At end of year	At beginning of year	At end of year
Shares				
Lee Seng Jin[1]	–	1,500,000	34,456,000	34,456,000
Adrian Chan Pengee	–	200,000	–	–
Warrants				
Lee Seng Jin[1]	–	–	6,132,000 [2]	6,132,000 [2]

Notes:

(1) Lee Seng Jin has resigned on 1 April 2009.

(2) Lee Seng Jin is deemed to be interested in the warrants by virtue of Section 7 of the Companies Act.

Directors' interest in shares and debentures (cont'd)

Name of Director	Options to subscribe for ordinary shares in the Company Held in name of Director: At date of grant 15.1.2004	At end of year	Exercise price ($)[4]	Exercisable period
Lee Seng Jin[1]	1,500,000	–	0.001	12.1.2005 to 11.1.2014
Adrian Chan Pengee	200,000	–	0.054	12.1.2005 to 11.1.2009
Lee Albert Yue Kong[3] (Alternate Director to Lee Seng Jin)	200,000	200,000	0.054	12.1.2005 to 11.1.2009

Notes:

[3] Lee Albert Yue Kong has resigned on 1 April 2009.

[4] The exercise price of the Options were adjusted as a result of a rights issue exercise that was undertaken by the Company in 2007.

Except as disclosed, there was no change in the interests of the Directors between the end of the Financial Year and 21 January 2009.

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 ("RC"). The members of the RC at the date of this report are as follow:

Gary Ho Kuat Foong (Chairman)	(Independent)
Adrian Chan Pengee	(Independent)
Hardjanto Adiwana	(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.

Options (cont'd)

(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) 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 follow:

Date of grant	Balance as at 01.1.2008 or date of grant if later	Options exercised	Options cancelled /lapsed	Balance as at 31.12.2008	Number of holders at 31.12.2008	Exercise price ($)(4)	Exercisable period
28.2.2000	470,000	470,000	–	–	–	0.142	28.1.2002 to 27.1.2010
14.3.2001	175,000	175,000	–	–	–	0.037	14.2.2002 to 13.2.2011
04.3.2002	253,000	233,000	–	20,000	2	0.013	04.2.2003 to 03.2.2012
15.1.2004	400,000	200,000	–	200,000	1	0.054	12.1.2005 to 11.1.2009
15.1.2004	2,644,000	2,641,000	–	3,000	1	0.001	12.1.2005 to 11.1.2014

Note:
(4) The exercise price of the Options were adjusted as a result of a rights issue exercise that was undertaken by the Company in 2007.

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.

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 ("AC") comprises two Independent Non-Executive Directors, one of whom is also the Chairman of the AC, and a Non-Executive Director. The members of the AC at the date of this report are as follow:

Adrian Chan Pengee (Chairman)	(Independent)
Gary Ho Kuat Foong	(Independent)
Hardjanto Adiwana	(Non-Executive)

The financial statements, accounting policies and system of internal accounting controls are the responsibility of the Board of Directors acting through the AC. The AC 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 AC 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 AC prior to their submission to the Directors of the Company for adoption.

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

The AC has recommended to the Board of Directors the re-appointment of Messrs Ernst & Young LLP as external auditors at the forthcoming Annual General Meeting of the Company.

Auditors

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

On behalf of the Board,

Kim Huat

Koh Kim Huat
Director

Koh Wan Kai
Director

Singapore
2 April 2009

STATEMENT BY DIRECTORS

We, Koh Kim Huat and Koh Wan Kai, 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 2008 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,

Koh Kim Huat
Director

Koh Wan Kai
Director

Singapore
2 April 2009

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") which comprise the balance sheets of the Group and the Company as at 31 December 2008, the statements of changes in equity of the Group and the Company, 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 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 account and balance sheet and to maintain accountability of assets; selecting and applying appropriate accounting policies; and 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 auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation 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.

To the members of United Pulp & Paper Company Limited (cont'd)

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 2008 and the results, changes in equity and cash flows of the Group and the changes in equity of the Company for the 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 incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

ERNST & YOUNG LLP
Public Accountants and
Certified Public Accountants

Singapore
2 April 2009

CONSOLIDATED INCOME STATEMENT

for the financial year ended 31 December 2008

	Note	Group 2008 $'000	Group 2007 $'000
CONTINUING OPERATIONS			
Turnover	3	51,056	53,534
Cost of sales		(43,032)	(44,865)
Gross profit		8,024	8,669
Other income		535	129
Selling and distribution expenses		(3,164)	(3,073)
General and administrative expenses		(3,951)	(3,683)
Other operating expenses		(589)	(15)
Finance costs		(1,189)	(1,856)
Share of results of associate		132	165
(Loss) / profit before taxation from continuing operations	4	(202)	336
Taxation	5	38	(43)
(Loss) / profit from continuing operations, net of tax		(164)	293
DISCONTINUED OPERATIONS			
Profit from discontinued operations, net of tax	9	707	1,782
Profit for the year		543	2,075
Attributable to:			
Equity holders of the Company		225	1,549
Minority interests		318	526
		543	2,075
Earnings per share (cents)			
Basic	6	0.09	0.83
Diluted	6	0.08	0.70

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

BALANCE SHEETS

as at 31 December 2008

	Note	Group 2008 $'000	Group 2007 $'000	Company 2008 $'000	Company 2007 $'000
Non-current assets					
Property, plant and equipment	7	86,407	96,083	39	–
Investments in subsidiaries	8	–	–	15,422	17,000
Investment in an associate	10	823	691	–	–
Current assets					
Inventories	11	7,463	7,981	–	–
Trade receivables	12	10,635	17,975	–	–
Other receivables	13	2,278	3,163	31,523	33,283
Tax recoverable	14	12	4,141	–	12
Prepaid operating expenses		239	1,691	20	19
Cash and bank balances	22	6,274	6,197	1,745	780
		26,901	41,148	33,288	34,094
Current liabilities					
Bank overdrafts	22	–	2	–	–
Amounts due to bankers	15	11,050	36,580	–	–
Trade payables and accruals	16	4,440	9,560	187	357
Other payables	17	2,993	3,549	–	–
Lease creditors	18	8	211	–	–
Provision for taxation		142	267	–	123
		18,633	50,169	187	480
Net current assets / (liabilities)		8,268	(9,021)	33,101	33,614
Non-current liabilities					
Lease creditors	18	–	144	–	–
Deferred taxation	19	905	901	–	–
Bank loans	20	10,873	–	–	–
		11,778	1,045	–	–
Net assets		83,720	86,708	48,562	50,614
Share capital	21	48,705	48,615	48,705	48,615
Reserves		28,990	31,943	(143)	1,999
Attributable to:					
Equity holders of the parent		77,695	80,558	48,562	50,614
Minority interests		6,025	6,150	–	–
Total equity		83,720	86,708	48,562	50,614

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 2008

Group	Share capital [1] $'000 (Note 21)	Capital reserve[2] $'000	Employee share option reserve [3] $'000	Foreign currency translation reserve [4] $'000	Revenue reserve $'000	Total Reserve $'000	Minority interests $'000	Total equity $'000
	Attributable to equity holders of the Company							
2008								
At 1 January 2008	48,615	674	172	(3,515)	34,612	31,943	6,150	86,708
Net effect of translation differences	–	–	–	(2,880)	–	(2,880)	(313)	(3,193)
Net income recognised directly in equity	48,615	674	172	(6,395)	34,612	29,063	5,837	83,515
Net profit for the year	–	–	–	–	225	225	318	543
Total recognised income for the year	48,615	674	172	(6,395)	34,837	29,288	6,155	84,058
Exercise of employee share option	90	–	–	–	–	–	–	90
Revaluation of option reserve	–	–	(86)	–	86	–	–	–
Dividend paid	–	–	–	–	(298)	(298)	–	(298)
Transfer of capital reserve	–	(600)	–	–	600	–	–	–
Liquidation of subsidiary	–	–	–	–	–	–	(130)	(130)
At 31 December 2008	48,705	74	86	(6,395)	35,225	28,990	6,025	83,720
2007								
At 1 January 2007	34,522	674	172	(3,602)	33,063	30,307	5,612	70,441
Net effect of translation differences	–	–	–	87	–	87	12	99
Net income recognised directly in equity	34,522	674	172	(3,515)	33,063	30,394	5,624	70,540
Net profit for the year	–	–	–	–	1,549	1,549	526	2,075
Total recognised income for the year	34,522	674	172	(3,515)	34,612	31,943	6,150	72,615
Right issue of ordinary shares	14,090	–	–	–	–	–	–	14,090
Share issue expenses	(196)	–	–	–	–	–	–	(196)
Exercise of employee share option	199	–	–	–	–	–	–	199
At 31 December 2007	48,615	674	172	(3,515)	34,612	31,943	6,150	86,708

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 2008

Company	Share capital (1) $'000 (Note 21)	Capital reserve(2) $'000	Employee share option reserve (3) $'000	Revenue reserve $'000	Total reserve $'000	Total equity $'000
	Attributable to equity holders of the Company					
2008						
At 1 January 2008	48,615	74	172	1,753	1,999	50,614
Net profit for the year	–	–	–	(1,844)	(1,844)	(1,844)
Total recognised income for the year	48,615	74	172	(91)	155	48,770
Exercise of employee share option	90	–	–	–	–	90
Revaluation of option reserve	–	–	(86)	86	–	–
Dividend paid	–	–	–	(298)	(298)	(298)
At 31 December 2008	48,705	74	86	(303)	(143)	48,562
2007						
At 1 January 2007	34,522	74	172	1,630	1,876	36,398
Net profit for the year	–	–	–	123	123	123
Total recognised income for the year	34,522	74	172	1,753	1,999	36,521
Right issue of ordinary shares	14,090	–	–	–	–	14,090
Share issue expenses	(196)	–	–	–	–	(196)
Exercise of employee share option	199	–	–	–	–	199
At 31 December 2007	48,615	74	172	1,753	1,999	50,614

(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 financial year ended 31 December 2008

	2008 $'000	2007 $'000
Cash flows from operating activities:		
(Loss) / profit before taxation from continuing operations	(202)	336
Profit before taxation from discontinued operations	784	1,698
	582	2,034
Adjustments for:		
Depreciation expenses	3,433	4,296
Property, plant and equipment written off	49	8
Gain on disposal of property, plant and equipment	(51)	(302)
Share of results of associate	(132)	(165)
Impairment loss of property, plant and equipment	479	–
Gain from disposal of a business operation	(500)	–
Interest income	(17)	(42)
Interest expenses	1,622	2,268
Foreign currency translation adjustment	796	(107)
Operating profit before working capital changes	6,261	7,990
(Increase) / decrease in inventories	(2,122)	2,477
(Increase) / decrease in trade receivables	7,212	(284)
(Increase) / decrease in other receivables	885	(1,020)
(Increase) / decrease in prepayments	1,452	(158)
Decrease in trade payables and accruals	(5,120)	(5,681)
Decrease in other payables	(556)	(382)
Cash flows generated from operations	8,012	2,942
Interest income received	17	42
Interest expense paid	(1,622)	(2,268)
Net income tax refund / (paid)	3,974	(2,614)
Net cash flows generated from / (used in) operating activities	10,381	(1,898)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(878)	(1,367)
Proceeds from disposal of property, plant and equipment	563	950
Proceeds from disposal of a business segment	5,097	–
Distribution upon liquidation of subsidiary	257	–
Net cash flows generated from / (used in) investing activities	5,039	(417)
Cash flows from financing activities:		
Net repayment of term loans and bank borrowings	(14,657)	(932)
Proceeds from the issuance of shares of the Company	90	14,093
Dividend paid	(298)	–
Distribution to minority interest	(129)	–
Repayment of finance lease obligations	(347)	(492)
Net cash flows (used in) / generated from financing activities	(15,341)	12,669
Net increase in cash and cash equivalents	79	10,354
Cash and cash equivalents at beginning of year	6,195	(4,159)
Cash and cash equivalents at end of year (Note 22)	6,274	6,195

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

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 registered office and principal place of the business of the Company is located at 1 Kim Seng Promenade #14-01 Great World City East Tower Singapore 237994.

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 *Changes in accounting policies*

(a) *Adoption of new INT FRS*

On 1 January 2008, the Group has adopted the following new INT FRS that are mandatory for financial periods beginning on or after 1 January 2008:

INT FRS 111 *FRS 102 – Group and Treasury Share Transactions*
INT FRS 112 *Service Concession Arrangements*
INT FRS 114 *FRS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

The adoption of the above INT FRS did not have financial impact on the Group.

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

2.2 *Changes in accounting policies (cont'd)*

(b) ***FRS and INT FRS not yet effective***

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
INT FRS 113	:	Customer Loyalty Programmes	1 July 2008
INT FRS 116	:	Hedges of a Net Investment in a Foreign Operation	1 October 2008
INT FRS 117	:	Distributions of Non-Cash Assets to Owners	1 July 2009
FRS 1	:	– Presentation of Financial Statements – Revised presentation	1 January 2009
		– Presentation of Financial Statements – Amendments relating to Puttable Financial Instruments and Obligations Arising on Liquidation	1 January 2009
FRS 23	:	Borrowing Costs	1 January 2009
FRS 27	:	Consolidated and Separate Financial Statements – Amendments relating to Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 January 2009
FRS 32	:	Financial Instruments: Presentation – Amendments relating to Puttable Financial Instruments and Obligations Arising on Liquidation	1 January 2009
FRS 39	:	Financial Instruments: Recognition and Measurement – Amendments relating to Eligible of Hedged Items	1 July 2009
FRS 101	:	First Time Adoption of Financial Reporting Standards – Amendments relating to Cost of an investment in a Subsidiary, Jointly Controlled Entity or Associate	1 January 2009
FRS 102	:	Share-based payment – Vesting conditions and cancellations	1 January 2009
FRS 108	:	Operating Segments	1 January 2009

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 1 and FRS 108 as indicated below.

FRS 1 Presentation of Financial Statements – Revised presentation

The revised FRS 1 requires owner and non-owner changes in equity to be presented separately. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line item. In addition, the revised standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Group is currently evaluating the format to adopt.

FRS 108 Operating Segments

FRS 108 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. Summary of significant accounting policies (cont'd)

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 2008 was $50,640,000 (2007: $58,005,000). 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 2008 were $142,000 (2007: $267,000) and $12,000 (2007: $4,141,000) 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 2008, the total allowances for doubtful debts are $804,000 (2007: $1,165,000).

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

2.3 *Significant accounting estimates and judgements (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.

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

2.4. ***Functional and foreign currency (cont'd)***

(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.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the balance sheet date are recognised in the income statement 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 income statement on disposal of the subsidiary. In the Company's separate financial statements, such exchange differences are recognised in the income statement.

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 income statement 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.

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

2.5 *Subsidiaries and principles of consolidation (cont'd)*

(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.

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 income statement.

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 income statement. 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.

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

2.6 *Associates (cont'd)*

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.

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 income statement 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 income statement.

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

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 income statement.

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

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

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 income statement, 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.

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

2.10. *Impairment of non-financial assets (cont'd)*

Impairment losses are recognised in the income statement except for assets that are previously revalued where the revaluation was taken to equity. In this case the impairment is also recognised in equity up to the amount of any previous revaluation.

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 income statement unless the asset is carried at revalued amount, in which case the reversal in excess of impairment loss previously recognised through the income statement 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.

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 using the effective interest method.

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.

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

2.12 *Income taxes (cont'd)*

(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 assets and liabilities are recognised for all temporary differences, except:

- Where the deferred tax arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction affects neither the accounting profit not taxable profit or loss;

- In respect of temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future; and

- In respect of deductible temporary differences and carry-forward of unused tax credits and unused tax losses, if it is not probable that taxable profit will be available against which the deductible temporary differences and carry-forward of unused tax credits and unused tax losses can be utilised.

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. Summary of significant accounting policies (cont'd)

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 income statement 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.

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 income statement in the year the asset is derecognised.

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

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.

Financial liabilities recognised initially at fair value, plus, in the case of financial liabilities other than derivatives, directly attributable transaction costs. Subsequent to initial recognition, all financial liabilities are measured at amortised cost using the effective interest method, except for derivatives, which are measured at fair value.

A financial liability is derecognised when the obligation under the liability is extinguished. For financial liabilities other than derivatives, gains and losses are recognised in the income statement when the liabilities are derecognised, and through the amortisation process. Any gains or losses arising from changes in fair value of derivatives are recognised in the income statement. Net gains or losses on derivatives include exchange differences.

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. Summary of significant accounting policies (cont'd)

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.

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 income statement.

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.

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

2.20. *Leases (cont'd)*

Operating lease payments are recognised as an expense in the income statement 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. *Discontinued Operations*

A component of the Group is classified as a 'discontinued operation' when the criteria to be classified as held for sale have been met or it has been disposed of and such a component represents a separate major line of business or geographical area of operations or is part of a single co-ordinated major line of business or geographical area of operations. A component is deemed to be held for sale if its carrying amounts will be recovered principally through a sale of transaction rather than through continuing use.

Upon classification as held for sale, non-current assets and disposal groups are not depreciated and are measured at lower of carrying amount and fair value less costs to sell. Any differences are recognised in the income statement.

Prior period comparatives are re-presented so that the disclosures relate to all operations that have been discontinued by the balance sheet date of the current financial year.

2.22. *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.

4. (Loss)/profit before taxation from continuing operations

This is stated after (charging)/crediting:

	Group	
	2008	**2007**
	$'000	**$'000**
Non-audit fees paid to auditors of the Company	(13)	(24)
Bad debts written off – trade	(2)	–
Bad debts recovered – trade	3	–
Depreciation expenses	(3,050)	(3,180)
Foreign exchange (loss)/gain	(304)	51
Property, plant and equipment written off	(49)	–
Gain on disposal of property, plant and equipment	51	32
Interest income	16	34
Interest expense		
– Term loans	(328)	(165)
– Bank overdrafts	(62)	(94)
– Hire purchase	(29)	(24)
– Trust receipts, bills payable and bankers' acceptance	(764)	(949)
– Factoring facilities	(26)	–
Other finance cost – bank charges	(8)	–
Operating lease expenses	(35)	(64)
Employee benefit expenses	(4,781)	(5,208)
Allowance for doubtful trade debts	(454)	(345)
Allowance for inventory obsolescence	(707)	(20)
Write back of allowance of doubtful trade debt	433	57
Gain on disposal of a business segment	500	–
Rental income	612	274

5. Taxation

	Group	
	2008	**2007**
	$'000	**$'000**
Provision for taxation in respect of profit for the year:		
– Current taxation	–	(54)
– Deferred taxation	6	(137)
	6	(191)
Over-provision of taxation in respect of prior years:		
– Current taxation	32	16
– Deferred taxation	–	132
Income tax attributable to continuing operations	38	(43)
Income tax attributable to discontinued operations	(77)	84
Income tax expense recognised in the income statement	(39)	41

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 2008 %	Group 2007 %
Statutory tax rate	18.0	18.0
Difference in tax rates applicable to overseas operations	37.0	(1.0)
Changes in tax rate on opening balance of deferred tax	(1.0)	(2.0)
Expenses not deductible for tax purposes	100.0	7.1
Over-provision of deferred tax in prior year	(1.0)	(2.6)
Exempt income	(9.0)	–
Deferred tax asset not recognised	14.0	6.0
Benefits from previously unrecognised deferred tax asset	(129.0)	(20.3)
Utilisation of previously unrecognised unabsorbed capital allowance	(10.0)	(5.8)
Share of results of associate	(2.0)	-
Others	(10.0)	(1.4)
	7.0	(2.0)

At 31 December 2008, the Group has unutilised tax losses, unabsorbed capital allowances and unabsorbed investment allowances of approximately $2,588,000 (2007: $3,169,000), $39,261,000 (2007: $51,790,000) and $49,197,000 (2007: $56,305,000) 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 per share

	Group 2008 $'000	Group 2007 $'000
Earnings per share is calculated based on the following income:		
Loss from continuing operations for the year attributable to equity holders of the Company	(415)	(182)
Profit from discontinued operations for the year attributable to equity holders of the Company	640	1,731
Earnings for purposes of basic earning per share(profit for the year attributable to equity holders of the parent)	225	1,549
Weighted average number of ordinary shares in issue applicable to basic earnings per share	237,627	185,762
Effect of dilutive share options	1,760	187
Effect of dilutive warrants	58,709	35,489
Adjusted weighted average number of ordinary shares applicable to diluted earnings per share	298,096	221,438

6. Earnings per share (cont'd)

Continuing and Discontinued Operations

Basic earnings per share for continuing operations is -0.18 cents per share (2007: -0.10 cents per share) and diluted earnings per share for continuing operations is -0.14 cents per share (2007: -0.08 cents per share). Basic earnings per share for discontinued operations is 0.27 cents per share (2007: 0.93 cents per share) and diluted earnings per share for discontinued operations is 0.22 cents per share (2007: 0.78 cents per share).

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 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 and 1 January 2008	4,967	38,793	79,112	2,003	21	2,152	127,048
Net translation differences	(249)	(1,334)	(3,422)	(68)	–	(72)	(5,145)
Additions	–	14	588	136	–	140	878
Disposals	–	(68)	(1,424)	(50)	–	(1,007)	(2,549)
Disposal of a business operation	–	–	(8,883)	(251)	–	(7)	(9,141)
Write-off	–	(1,435)	(25)	(302)	(21)	–	(1,783)
As at 31 December 2008	4,718	35,970	65,946	1,468	–	1,206	109,308

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

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
Accumulated depreciation and impairment							
As at 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 and 1 January 2008	–	6,278	21,107	1,512	21	2,047	30,965
Net translation differences	–	(183)	(714)	(54)	–	(70)	(1,021)
Impairment loss	–	–	479	–	–	–	479
Depreciation charge for the year	–	775	2,455	150	–	53	3,433
Disposals	–	(59)	(997)	(26)	–	(955)	(2,037)
Disposal of a business operation	–	–	(7,007)	(173)	–	(4)	(7,184)
Write-off	–	(1,404)	(17)	(292)	(21)	–	(1,734)
As at 31 December 2008	–	5,407	15,306	1,117	–	1,071	22,901
Net carrying amount							
As at 31 December 2008	4,718	30,563	50,640	351	–	135	86,407
As at 31 December 2007	4,967	32,515	58,005	491	–	105	96,083

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

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
Analysis of cost and valuation							
As at 31 December 2008							
At cost	4,718	35,970	65,946	1,468	–	1,206	109,308
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

Company	Furniture, fixtures and office equipment $'000	Motor vehicles $'000	Total $'000
Cost			
As at 1 January 2008	–	–	–
Additions	34	–	34
Transfer from a subsidiary company	13	56	69
Disposals	(2)	(56)	(58)
Write-off	(3)	–	(3)
As at 31 December 2008	42	–	42

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

Company	Furniture, fixtures and office equipment $'000	Motor vehicles $'000	Total $'000
Accumulated depreciation and impairment			
As at 1 January 2008	–	–	–
Depreciation charge for the yesr	6	12	18
Disposals	(2)	(12)	(14)
Write-off	(1)	–	(1)
As at 31 December 2008	3	–	3
Net carrying amount			
As at 31 December 2008	39	–	39
As at 31 December 2007	–	–	–

(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 expired on 15 June 2008.

(b) As at 31 December 2008, the Group has plant & machinery and motor vehicles with a total net carrying amount of $11,003 (2007: $487,124) under finance lease arrangements.

(c) The net carrying amount of property, plant and equipment pledged as securities for bank borrowings amounted to $22,692,000 (2007: $33,473,000) as at 31 December 2008.

(d) As at 31 December 2008, the Group is still in the process of finalising the transfer of the title to two pieces of leasehold land located in Selangor, Malaysia. As at 31 December 2008, the net carrying amount of these assets, amounted to approximately $3,652,000 (2007: $3,926,000).

8. Investments in subsidiaries

	Company 2008 $'000	Company 2007 $'000
Unquoted equity shares, at cost	15,422	17,000

8. Investment in subsidiaries (cont'd)

The subsidiary companies as at 31 December 2008 are:

Name of company (Country of incorporation)	Principal activities	Effective equity interest held by the Group 2008 %	2007 %
Held by the Company			
[1] United Paper Industries Pte Ltd (Singapore)	Investment holding and rental and management of properties	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
UPI Paper Board Pte Ltd (Singapore)	In the process of striking off the register	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)	Rental and management of properties	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
United Tripap Sdn Bhd (Malaysia)	In the process of voluntary liquidation	61.2	61.2
[3] United Pulp & Paper (Hong Kong) Company Limited (Hong Kong)	Manufacture and sale of paper and paper products	100.0	100.0
UPP Paper (Foshan Nanhai) Company Limited (People's Republic of China)	In the process of voluntary liquidation	100.0	100.0

[1] Audited by Ernst & Young LLP, Singapore
[2] Audited by member firm of Ernst & Young Global in Malaysia
[3] Audited by Raymond Chin & Co, Hong Kong

9. Discontinued operations

On 6 June 2008, the Group publicly announced the sale of the Corrugated Packaging Division to Tat Seng Packaging Limited. The sale and purchase was completed on 21 July 2008.

Balance sheet disclosures

The major classes of assets of the business operation at the time of disposal and as at 31 December 2007 are as follows:

	Group	
	2008	**2007**
	$'000	**$'000**
Property, plant and equipment	1,957	1,414
Inventories	2,640	789
	4,597	2,203

Income statement disclosures

The results for the years ended 31 December are as follows:

	Group	
	2008	**2007**
	$'000	**$'000**
Turnover	16,676	32,931
Cost of sales	(14,302)	(27,619)
Gross profit	2,374	5,312
Other income	649	592
Selling and distribution expenses	(962)	(2,086)
General and administrative expenses	(711)	(1,445)
Other operating expenses	(127)	(249)
Finance costs	(439)	(426)
Profit before taxation	784	1,698
Taxation	(77)	84
Profit from discontinued operations, net of tax	707	1,782

Cash flow statement disclosures

Proceed from disposal of a business segment.

Impact of discontinued operations on the cash flows of the Company is as follows:

	Group
	2008
	$'000
Inventories	2,640
Property, plant and equipment	1,957
Gain on disposal of a business operation	500
Net cash inflows	5,097

10. Investments in associate

	Group 2008 $'000	Group 2007 $'000
Unquoted shares, at cost	301	301
Share of post-acquisition reserve	522	390
Carrying amount of investment	823	691

The associate as at 31 December 2008 is:

Name of company (Country of incorporation)	Principal activities	Effective equity interest held by the Group 2008 %	Effective equity interest held by the Group 2007 %
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:

	2008 $'000	2007 $'000
Assets and liabilities:		
Current assets	8,472	12,938
Non-current assets	86	33
Total assets	8,558	12,971
Current liabilities	5,963	10,691
Total liabilities	5,963	10,691
Results:		
Revenue	14,564	19,146
Profit for the year	439	537

11. Inventories

	Group 2008 $'000	Group 2007 $'000
Raw materials	2,117	3,246
Work-in-progress	31	128
Goods in-transit	13	32
Production supplies	575	1,105
Finished goods	4,727	3,470
Total inventories at lower of cost and net realisable value	7,463	7,981
Inventories are stated after deducting allowance for inventory obsolescence of:		
Balance at beginning of year	355	419
Net translation difference	(26)	1
Allowance during the year	707	20
Stocks written off	–	(85)
Balance at end of year	1,036	355

12. Trade receivables

	Group 2008 $'000	Group 2007 $'000
Trade receivables	11,439	19,140
Less: allowance for doubtful debts	(804)	(1,165)
	10,635	17,975
Movements in allowance for doubtful debts account:		
Balance at beginning of year	1,165	1,340
Net translation difference	(26)	16
Allowance during the year	480	384
Write-back during the year	(433)	(58)
Write-off during the year	(382)	(517)
Balance at end of year	804	1,165
Bad debts recovered	4	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 15) amounted to Nil (2007: $1,482,000) as at 31 December 2008.

12. Trade receivables (cont'd)

Included in trade receivables of the Group are amount of $1,024,000 (2007: $4,331,000) denominated in United States Dollars.

Receivables that are past due but not impaired

The Group has trade receivables amounting to $5,015,000 (2007: $10,357,000) 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	
	2008	2007
	$'000	$'000
Trade receivables past due but not impaired:		
– Less than 30 days	2,366	3,801
– 30 to 60 days	873	2,388
– 61 to 90 days	201	1,055
– 91 to 120 days	292	582
– More than 120 days	1,283	2,531
	5,015	10,357

13. Other receivables

	Group		Company	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Amounts due from subsidiary companies	–	–	31,489	33,283
Amounts due from associate	1,097	1,020	–	–
Deposits	68	96	29	–
Others	1,113	2,047	5	–
	2,278	3,163	31,523	33,283

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.

14. Tax recoverable

In 2007, 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. During the year the subsidiary has substantially recovered the tax from IRAS.

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

IRAS had taken the sum of $15,000,000, which was the net book value of the subsidiary's plant and machinery written off in YA 2000 to compute balancing charge under Section 20 (3) of the Income Tax Act Cap. 134.

The subsidiary company 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.

15. Amounts due to bankers

	Group	
	2008	**2007**
	$'000	**$'000**
Trust receipts, bills payable and bankers' acceptance	8,151	21,632
Short-term bank advances, unsecured	–	10,850
Short-term portion of bank loans (Note 20)	2,899	2,616
Factoring facilities	–	1,482
	11,050	36,580

Trust receipts, bills payable and bankers' acceptance of:

– $6,577,000 bears interest of 4.60% to 5.45% and is secured by a corporate guarantee of the company (2007: $17,724,000 bears interest 4.64% to 7.75% per annum and is secured by a second legal charge over the freehold land of a subsidiary company in Malaysia).

– $1,574,000 (2007: $1,657,000) bear interest of 3.46% to 3.68% (2007: 3.61% to 3.85%) per annum and are secured by standby letter of credit from a bank.

– Nil (2007: $2,251,000 bear interest of 4.25% to 7.29% and are unsecured).

Short-term bank advances bear interest of Nil (2007: 4.00% to 5.75%) per annum.

Factoring facilities relate to trade receivables with a carrying amount of Nil (2007: $1,482,000) factored by a subsidiary company to a financial institution. It bears interest at Nil (2007: 5.75% to 6.25%) per annum.

Included in amounts due to bankers of the Group are amount of Nil (2007: $2,251,000) denominated in United States Dollars.

16. Trade payables and accruals

	Group 2008 $'000	Group 2007 $'000	Company 2008 $'000	Company 2007 $'000
Trade payables	1,091	4,620	11	121
Accrued expenses	3,349	4,940	176	236
	4,440	9,560	187	357

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 other than functional currencies of the respective entities:

	Group 2008 $'000	Group 2007 $'000	Company 2008 $'000	Company 2007 $'000
United States Dollars	2,798	1,868	–	–
Malaysian Ringgit	9	15	–	–
Japanese Yen	–	20	–	–

17. Other payables

	Group 2008 $'000	Group 2007 $'000	Company 2008 $'000	Company 2007 $'000
Sundry payables	1,551	1,632	–	–
Amount payable for acquisition of leasehold land	1,235	1,586	–	–
Amount due to corporate shareholders	85	90	–	–
Retention sum	–	67	–	–
Amount payable for purchase of property, plant and equipment	94	–	–	–
Amount due to associate	28	–	–	–
Amount due to a related party	–	174	–	–
	2,993	3,549	–	–

Sundry payables are non-interest bearing and have an average term of 6 months (2007: 6 months).

The amount payable for acquisition of leasehold land has no fixed term of repayment.

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.

18. Lease creditors

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

	Group			
	2008		2007	
	Minimum payments $'000	Present value of payments $'000	Minimum payments $'000	Present value of payments $'000
Within one year	8	8	553	485
After one year but not more than five years	1	–	(171)	(130)
Total minimum lease payments	9	8	382	355
Less: Amounts representing finance charges	(1)	–	(27)	–
Present value of minimum lease payments	8	8	355	355
Amount repayable within one year	(8)	(8)	(211)	(211)
Amount repayable after one year	–	–	144	144

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 3.30% to 3.75% (2007: 3.75% to 6.60%) per annum.

19. Deferred taxation

	Group	
	2008 $'000	2007 $'000
Balance at beginning of year	901	1,029
Net translation difference	(2)	4
Over provision in respect of prior year	–	(132)
Current year	6	–
Balance at end of year	905	901

19. Deferred taxation (cont'd)

Deferred income tax assets and liabilities

	Group 2008 $'000	Group 2007 $'000
Deferred tax liabilities		
Differences in depreciation	1,025	1,033
Gross deferred tax liabilities	1,025	1,033
Deferred tax assets		
Provisions for assets	(20)	(33)
Unutilised leaves	(21)	(20)
Others	(79)	(79)
Gross deferred tax assets	(120)	(132)
Net deferred income tax liabilities	905	901

20. Bank loans

	Group 2008 $'000	Group 2007 $'000
Amount repayable within 1 year (Note 15)	2,899	2,616
Amount repayable after 1 year but within 5 years	10,873	–
	13,772	2,616

Bank loans comprise:

(a) A term loan of $13,772,000 (2007: $Nil) which is secured by a first legal mortgage over the freehold land of a subsidiary company in Malaysia. The loan bears interest of 5.90% to 7.03% (2007: Nil%) per annum.

(b) In 2007, a term loan of $2,616,000 was secured by a fourth legal mortgage over the freehold land of a subsidiary company in Malaysia. The loan bore interest at 6% per annum and was repayable in 5 annual instalments commencing from January 2004. During the year, the subsidiary company has repaid the loan.

21. Share capital

	Group and Company			
	2008		2007	
	No of Shares '000	$'000	No of Shares '000	$'000
Issued and fully paid:				
At 1 January	234,838	48,615	116,966	34,522
Right issue of ordinary shares	–	–	117,419	14,090
Share issue expenses	–	–	–	(196)
Exercise of employee share option (Note 23)	3,719	90	453	199
At 31 December	238,557	48,705	234,838	48,615

As at 31 December 2008, there are options granted to employees under the United Pulp & Paper Company Limited Share Option Scheme to take up unissued shares totalling 223,000 (2007: 3,942,000) 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 $0.142 per share for Nil (2007: 470,000) ordinary shares, $0.037 per share for Nil (2007: 175,000) ordinary shares, $0.013 per share for 20,000 (2007: 253,000) ordinary shares, $0.054 per share for 200,000 (2007: 400,000) ordinary shares and $0.001 per share for 3,000 (2007: 2,644,000) 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.

22. Cash and cash equivalents

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

	Group		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Cash and bank balances	6,274	6,197	1,745	780
Bank overdrafts	–	(2)	–	–
Cash and cash equivalents	6,274	6,195	1,745	780

Cash at banks earns interest at floating rates based on daily bank deposit rates range from 0.88% to 2.00% (2007: 1.0% to 6.42%) per annum.

Included in cash and cash equivalents are the following amounts denominated in foreign currencies other than functional currencies of the respective entities:

	Group		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Cash and bank balances				
Malaysian Ringgit	2,738	9	–	–
United States Dollars	621	2,010	–	–

23. Employee benefits

Employee benefits expense (including executive directors):

	Group	
	2008 $'000	2007 $'000
Salaries related costs and bonuses	5,884	8,552
Pension contributions	347	534
Other short-term benefits	574	903
	6,805	9,989

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.

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 2008	Weighted average exercise price[(4)] 2008	Shares 2007	Weighted average exercise price 2007
Outstanding at beginning of year [(1)]	3,942,000	0.03	4,709,000	$0.41
Forfeited	–	–	(314,000)	$0.43
Exercised [(2)]	(3,719,000)	0.02	(453,000)	$0.41
Outstanding at end of year [(1, 3)]	223,000	0.05	3,942,000	$0.41
Exercisable at year end	223,000	0.05	3,942,000	$0.41

23. Employee benefits (cont'd)

The following table summarises information about options outstanding at 31 December 2008:

		Outstanding	
Date of Grant	Options	Average life (3)	Average option price
04.3.2002	20,000	3.12	$0.013
15.1.2004	203,000	5.08	$0.053
Total	223,000	4.90	$0.050

(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 $0.28 (2007: $0.62).

(3) The range of exercise prices for options outstanding at the end of the year was $0.001 to $0.054 (2007: $0.385 to $0.54). The weighted average remaining contractual life for these options is 4.90 years (2007: 5.35 years).

(4) The weighted average exercise price of the options were adjusted as a result of a rights issue exercise that was undertaken by the Company in 2007.

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.

(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.

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

(a) *Credit risk* (cont'd)

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 $31,304,000 (2007: $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			
	2008		2007	
	$'000	% of total	$'000	% of total
By country:				
Singapore	290	2	6,059	34
Malaysia	10,145	95	11,007	61
Hong Kong	186	2	418	2
People's Republic of China	14	1	491	3
	10,635	100	17,975	100
By division:				
Paper Mill	9,372	88	9,493	53
Corrugated Packaging	290	3	5,876	33
Medical/Flexible Packaging	328	3	1,947	10
Recycled Fibre	645	6	659	4
	10,635	100	17,975	100

At the balance sheet date, approximately:

– 6% (2007: 6%) 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.

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.

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

(a) *Credit risk (cont'd)*

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 12 (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.

Sensitivity analysis

As at 31 December 2008, if market interest rates at that date had been 100 basis points higher with all other variables held constant, profit/loss for the year would have been $156,000 (2007: $307,000) lower. If market interest rates at that date had been 100 basis points lower with all other variables held constant, profit/loss for the year would have been $156,000 (2007: $307,000) higher.

(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.

The Group is mainly exposed to the United States Dollars, Malaysian Ringgit, Hong Kong Dollars and Renminbi.

Sensitivity analysis

The following table details the sensitivity to a 5% increase and decrease in the relevant foreign currencies against the functional currency of each group entity. The sensitivity analysis includes all outstanding foreign currency denominated monetary items. Their translation has been adjusted at the period end for a 5% change in foreign currency rates.

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

(d) ***Foreign currency risk (cont'd)***

If the relevant foreign currency strengthen/weakens by 5% against the functional currency of each group entity, profit/loss and other equity will increase/(decrease) by:

Strengthened by 5%

	Group			
	2008		2007	
	Profit/loss $'000	Other equity $'000	Profit/loss $'000	Other equity $'000
United States Dollars	(101)	–	306	–
Hong Kong Dollars	–	160	–	195
Renminbi	–	72	–	103
Malaysian Ringgit	–	3,286	–	3,152
	(101)	3,518	306	3,450

Weakened by 5%

	Group			
	2008		2007	
	Profit/loss $'000	Other equity $'000	Profit/loss $'000	Other equity $'000
United States Dollars	111	–	(338)	–
Hong Kong Dollars	–	340	–	298
Renminbi	–	(72)	–	(103)
Malaysian Ringgit	–	(1,993)	–	(2,218)
	111	(1,725)	(338)	(2,023)

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:

		Group				Company			
		2008 $'000		2007 $'000		2008 $'000		2007 $'000	
	Note	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities:									
Amount due to bankers	15	8,151	8,151	33,964	33,992	–	–	–	–
Lease creditors	18	–	–	144	144	–	–	–	–
Bank loans (current)	20	2,899	2,899	2,616	2,616	–	–	–	–

25. Financial instruments (cont'd)

Fair values (cont'd)

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.

Classification of financial statements

Set out below is a comparison by category of carrying amounts of all the Group's financial instruments that are carried in the financial statements:

Group **2008**	**Loans and receivables** **$'000**	**Liabilities at amortised cost** **$'000**	**Non-financial assets / liabilities** **$'000**	**Total** **$'000**
Assets				
Property, plant and equipment	–	–	86,407	86,407
Investment in an associate	–	–	823	823
Inventories	–	–	7,463	7,463
Trade receivables	10,635	–	–	10,635
Other receivables	2,278	–	–	2,278
Tax recoverable	12	–	–	12
Prepaid operating expenses	–	–	239	239
Cash and bank balances	6,274	–	–	6,274
	19,199	–	94,932	114,131
Liabilities				
Amounts due to bankers	–	11,050	–	11,050
Trade payables and accruals	–	4,440	–	4,440
Other payables	–	2,993	–	2,993
Lease creditors	–	8	–	8
Provision for taxation	–	–	142	142
Deferred tax	–	–	905	905
Bank loans	–	10,873	–	10,873
	–	29,364	1,047	30,411

25. Financial instruments (cont'd)

Classification of financial statements (cont'd)

Group

2007	Loans and receivables $'000	Liabilities at amortised cost $'000	Non-financial assets / liabilities $'000	Total $'000
Assets				
Property, plant and equipment	–	–	96,083	96,083
Investment in an associate	–	–	691	691
Inventories	–	–	7,981	7,981
Trade receivables	17,975	–	–	17,975
Other receivables	3,163	–	–	3,163
Tax recoverable	4,141	–	–	4,141
Prepaid operating expenses	–	–	1,691	1,691
Cash and bank balances	6,197	–	–	6,197
	31,476	–	106,446	137,922
Liabilities				
Bank overdraft	–	2	–	2
Amounts due to bankers	–	36,580	–	36,580
Trade payables and accruals	–	9,560	–	9,560
Other payables	–	3,549	–	3,549
Lease creditors	–	355	–	355
Provision for taxation	–	–	267	267
Deferred tax	–	–	901	901
	–	50,046	1,168	51,214

Company

2008	Loans and receivables $'000	Liabilities at amortised cost $'000	Non-financial assets / liabilities $'000	Total $'000
Assets				
Property, plant and equipment	–	–	39	39
Investment in subsidiaries	–	–	15,422	15,422
Other receivables	31,523	–	–	31,523
Prepaid operating expenses	–	–	20	20
Cash and bank balances	1,745	–	–	1,745
	33,268	–	15,481	48,749
Liabilities				
Trade payables and accruals	–	187	–	187
	–	187	–	187

25. Financial instruments (cont'd)

Classification of financial statements (cont'd)

Company

2007	**Loans and receivables $'000**	**Liabilities at amortised cost $'000**	**Non-financial assets / liabilities $'000**	**Total $'000**
Assets				
Investment in subsidiaries	–	–	17,000	17,000
Other receivables	33,283	–	–	33,283
Tax recoverable	–	–	12	12
Prepaid operating expenses	–	–	19	19
Cash and bank balances	780	–	–	780
	34,063	–	17,031	51,094
Liabilities				
Trade payables and accruals	–	357	–	357
Provision for taxation	–	–	123	123
	–	357	123	480

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**
2008 - Group						
Fixed rate						
Trust receipts, bills payables and bankers' acceptance	(8,151)	–	–	–	–	(8,151)
Floating rate						
Bank loans	(2,899)	(2,899)	(2,899)	(2,899)	(2,176)	(13,772)
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)

25. Financial instruments (cont'd)

Interest rate risk (cont'd)

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 is 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. Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2008 and 31 December 2007.

Management monitors capital based on gearing ratio. The gearing ratio is calculated as total borrowings divided by total equity. At 31 December 2008, the gearing ratio is 28.2% (2007:45.8%).

27. Commitments and contingencies

(a) ***Unsecured contingent liabilities***

Contingent liabilities not provided for in the financial statements:

	Group	
	2008	2007
	$'000	$'000
Bankers' guarantee	1,794	1,595

(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 income statement during the year was $141,000 (2007: $443,000).

27. Commitments and contingencies (cont'd)

(c) *Operating leases (cont'd)*

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

	Group 2008 $'000	Group 2007 $'000
Within one year *	196	959
After one year but not more than five years *	1,105	1,629
More than five years	5,417	9,572
	6,718	12,160

* The lease payment for the use of property amounting to $1,214,000 shall be indemnified by tenant.

28. Financial guarantee contracts

	Group 2008 $'000	Group 2007 $'000	Company 2008 $'000	Company 2007 $'000
Guarantees given to bankers in respect of facilities granted to subsidiary companies	–	–	31,304	51,000

29. 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) *Sale 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 2008 $'000	Group 2007 $'000
Rental paid to related companies	203	230
Rental income from related companies	(229)	(21)
Sales to related companies	(1,348)	(1,395)
Service fees from related companies	–	(88)

29. Related party transactions (cont'd)

(a) ***Sale of goods and services (cont'd)***

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	
	2008	2007
	$'000	$'000
Short term employee benefits	1,240	1,631
Pension contribution funds	42	47
Total compensation paid to key management personnel	1,282	1,678
Comprise amount paid to:		
– Directors of the Company	486	764
– Other key management personnel	796	914
	1,282	1,678

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 2008, the Company's Directors held options to purchase ordinary shares of the Company under the Scheme as follows:

– 200,000 ordinary shares at a price of $0.054 each, exercisable between 12 January 2005 to 11 January 2009; and

During the year ended 31 December 2008, the Directors have exercised 1,700,000 share options.

30. 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.

30. Segment information (cont'd)

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.

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 newspapers.

Discontinued segment

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. The asset and business operations of the division were divested in July 2008.

Medical/Flexible Packaging

This division designs, manufactures and sells flexible and medical packaging products involving multi colour printing and multi layers lamination. ISO 9001 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.

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.

30. Segment information (cont'd)

Business segments	Continuing Operations								Discontinued Operations						Consolidated	
	Paper Mill		Recycled Fibre		Eliminations		Total		Corrugated Packaging		Medical/ Flexible Packaging		Total			
	2008 $'000	2007 $'000	2008 $'000	2007 $'000	2008 $'000	2007 $'000	2008 $'000	2007 $'000	2008 $'000	2007 $'000	2008 $'000	2007 $'000	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Revenue																
Sales to external customers	42,720	43,404	8,336	10,130	–	–	51,056	53,534	16,676	25,253	–	7,678	16,676	32,931	67,732	86,465
Inter-segment sales	1,692	5,489	13,929	11,806	(15,621)	(17,295)	–	–	–	–	–	–	–	–	–	–
Total revenue	44,412	48,893	22,265	21,936	(15,621)	(17,295)	51,056	53,534	16,676	25,253	–	7,678	16,676	32,931	67,732	86,465
Results																
Segment results	1,657	3,707	351	192	–	–	2,008	3,899	1,209	1,766	–	437	1,209	2,203	3,217	6,102
Unallocated corporate expenses															(1,156)	(1,994)
Interest income															17	42
Finance costs															(1,628)	(2,282)
Share of results of associate															132	166
Profit before taxation															582	2,034
Taxation															(39)	41
Profit for the year															543	2,075

30. Segment information (cont'd)

Business segments	Continuing Operations: Paper Mill 2008 $'000	Paper Mill 2007 $'000	Recycled Fibre 2008 $'000	Recycled Fibre 2007 $'000	Discontinued Operations: Corrugated Packaging 2008 $'000	Corrugated Packaging 2007 $'000	Medical/ Flexible Packaging 2008 $'000	Medical/ Flexible Packaging 2007 $'000	Consolidated 2008 $'000	Consolidated 2007 $'000
Assets and liabilities										
Segment assets	95,654	100,602	2,289	3,841	10,517	25,822	3,009	6,125	111,469	136,390
Investment in associate	823	691	–	–	–	–	–	–	823	691
Unallocated assets									1,839	841
Total assets									114,131	137,922
Segment liabilities	24,985	28,332	2,523	3,633	440	16,156	1,224	1,554	29,172	49,675
Unallocated liabilities									1,239	1,539
Total liabilities									30,411	51,214
Other segment information										
Capital expenditure	669	1,008	38	127	171	220	–	12	878	1,367
Depreciation	2,908	2,977	142	203	383	929	–	187	3,433	4,296

Geographical segments

	ASEAN 2008 $'000	ASEAN 2007 $'000	Rest of Asia 2008 $'000	Rest of Asia 2007 $'000	Others 2008 $'000	Others 2007 $'000	Consolidated 2008 $'000	Consolidated 2007 $'000
Segment revenue	61,145	76,642	4,476	8,254	2,111	1,569	67,732	86,465
Segment assets	112,705	133,058	1,426	4,890	–	–	114,131	137,948
Capital expenditure	860	1,113	18	254	–	–	878	1,367

31. Dividends

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

	Group and Company	
	2008	2007
	$'000	$'000
Dividend on ordinary shares, subject to shareholder's approval at the AGM:		
– Final dividend for 2008: 0.125 cents per share	–	294

33. Subsequent events

On 22 January 2009, the Singapore Finance Minister announced the revision in the Singapore corporate tax rate from 18% to 17% with effect from Year of Assessment 2010. In accordance with FRS 12, Income Taxes, and FRS 10, Events After the Balance Sheet, this is non-adjusting subsequent event and the financial effect of the reduced tax rate will be reflected in the 31 December 2009 financial year.

34. Authorisation of financial statements for issue

The financial statements for the year ended 31 December 2008 were authorised for issue in accordance with a resolution of the Directors on 2 April 2009.

ADDITIONAL SGX DISCLOSURES IN THE ANNUAL REPORT

Material Contracts

Since the end of the financial year ended 31 December 2008, 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 19 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 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

SHAREHOLDING STATISTICS

As at 17 March 2009

ISSUED AND FULLY PAID-UP CAPITAL	:	S$48,705,177
NO. OF SHARES ISSUED	:	238,557,000
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	1,402	0.00
1,000 - 10,000	2,242	67.04	10,198,747	4.28
10,001 - 1,000,000	1,076	32.18	44,806,989	18.78
1,000,001 & ABOVE	18	0.54	183,549,862	76.94
TOTAL	3,344	100.00	238,557,000	100.00

TOP TWENTY SHAREHOLDERS	NO. OF SHARES	%
DBS VICKERS SECURITIES (S) PTE LTD	56,744,000	23.79
SSP INNOVATIONS PTE LTD	39,688,000	16.64
HONG LEONG FINANCE NOMINEES PTE LTD	23,152,376	9.70
UNITED OVERSEAS BANK NOMINEES PTE LTD	13,762,935	5.77
HARTONO TJAHJADI	10,600,000	4.44
DBS NOMINEES PTE LTD	10,434,551	4.37
OCBC NOMINEES SINGAPORE PTE LTD	6,071,000	2.54
UOB KAY HIAN PTE LTD	5,122,000	2.15
DMG & PARTNERS SECURITIES PTE LTD	3,883,000	1.63
CIMB-GK SECURITIES PTE. LTD.	2,186,000	0.92
CITIBANK NOMINEES SINGAPORE PTE LTD	1,983,000	0.83
HSBC (SINGAPORE) NOMINEES PTE LTD	1,688,000	0.71
OCBC SECURITIES PRIVATE LTD	1,655,000	0.69
LEE SENG JIN	1,500,000	0.63
NOMURA SINGAPORE LIMITED	1,500,000	0.63
ABN AMRO NOMINEES SINGAPORE PTE LTD	1,350,000	0.57
KIM ENG SECURITIES PTE. LTD.	1,180,000	0.49
LEE KWOK LOON	1,050,000	0.44
PHILLIP SECURITIES PTE LTD	913,000	0.38
SEET HONG KIANG	752,000	0.32
TOTAL	**185,214,862**	**77.64**

SUBSTANTIAL SHAREHOLDERS AS SHOWN IN THE COMPANY'S REGISTER AS AT 17 MARCH 2009

Substantial Shareholders	No. of Shares Shareholdings in which Substantial Shareholders Have a Direct Interest	Shareholdings in which Substantial Shareholders Have a Deemed Interest
SSP Innovations Pte Ltd (1)	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 (2)	1,500,000	34,456,000

Notes:

(1) 14,380,000 shares are held by Hong Leong Finance Nominees Pte Ltd.

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

Approximately 58.65% 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 2009

ANALYSIS OF WARRANTHOLDINGS

SIZE OF WARRANTHOLDINGS	NO. OF WARRANTHOLDERS	%	NO. OF WARRANTS	%
1 - 999	98	5.28	51,514	0.09
1,000 - 10,000	1,503	80.89	5,002,565	8.52
10,001 - 1,000,000	248	13.35	16,561,801	28.21
1,000,001 & ABOVE	9	0.48	37,093,595	63.18
TOTAL	1,858	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
LIM ENG HOCK	2,188,188	3.73
UNITED OVERSEAS BANK NOMINEES PTE LTD	2,124,207	3.62
HARTONO TJAHJADI	2,025,000	3.45
CIMB-GK SECURITIES PTE. LTD.	1,861,925	3.17
CHIEW POH CHENG	1,662,000	2.83
LIM TIEN LOCK CHRISTOPHER	1,639,500	2.79
DBS NOMINEES PTE LTD	1,275,275	2.17
CHUA CHAI TIANG	898,000	1.53
OCBC NOMINEES SINGAPORE PTE LTD	890,440	1.52
DMG & PARTNERS SECURITIES PTE LTD	772,000	1.31
PHILLIP SECURITIES PTE LTD	653,943	1.11
UOB KAY HIAN PTE LTD	633,000	1.08
OCBC SECURITIES PRIVATE LTD	599,000	1.02
TANG SONG HEE	528,000	0.90
TAN CHIN WAH	500,000	0.85
TOH PENG HUI	415,000	0.71
TSNG JOO WEE	405,000	0.69
TAN CHOR KHER TERRY	350,000	0.60
	43,737,978	**74.50**

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 42nd Annual General Meeting of **UNITED PULP & PAPER COMPANY LIMITED** (the "**Company**") will be held on 28 April 2009 at Kent Ridge Room, No. 87 Science Park Drive, Science Hub, Singapore 118260 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 2008 together with the Auditors' Report thereon. **(Resolution 1)**

2. To approve the payment of Directors' fees of up to S$180,000 payable by the Company for the year ending 31 December 2009. **(Resolution 2)**

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

   Mr. Adrian Chan Pengee (Retiring under Article 110) **(Resolution 3)**
   Mr. Koh Kim Huat (Retiring under Article 110) **(Resolution 4)**
   Mr. Hardjanto Adiwana (Retiring under Article 120) **(Resolution 5)**
   Mr. Tan Geok Kwang (Retiring under Article 120) **(Resolution 6)**

4. To re-appoint Messrs Ernst & Young LLP as Auditors of the Company and to authorise the Directors to fix their remuneration. **(Resolution 7)**

5. 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:

6. That pursuant to Section 161 of the Companies Act, Chapter 50 (the "**CA**") and the rules, guidelines and measures issued by the Singapore Exchange Securities Trading Limited (the "**SGX-ST**"), the Directors of the Company be and are hereby authorised and empowered to issue:

   (i) shares in the capital of the Company ("**shares**"); or

   (ii) convertible securities; or

   (iii) additional convertible securities issued pursuant to adjustments; or

   (iv) shares arising from the conversion of the securities in (ii) and (iii) above,

   (whether by way of rights, bonus or otherwise in pursuance of any offer, agreement or option made or granted by the Directors during the continuance of this authority or thereafter) at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may in their absolute discretion deem fit (notwithstanding the authority conferred by this Resolution may have ceased to be in force), provided that:

1) the aggregate number of shares to be issued pursuant to this Resolution (including shares to be issued in pursuance of convertible securities made or granted pursuant to this Resolution does not (i) in the case of a renounceable rights issue, exceed one hundred per cent (100%) of the total number of issued shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below ("**Issued Shares**"); and (ii) in all other cases exceed fifty per cent (50%) of the total number of Issued Shares provided that the aggregate number of shares to be issued other than on a pro-rata basis to shareholders of the Company (including shares to be issued in pursuance of convertible securities made or granted pursuant to this Resolution) does not exceed twenty per cent (20%) of the total number of Issued Shares;

2) (subject to such manner of calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of shares that may be issued under sub-paragraph (1) above, the percentage of Issued Shares shall be based on the total number of issued shares (excluding treasury shares) in the capital of the Company at the time this Resolution is passed, after adjusting for:

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

   (ii) (where applicable) new shares arising from exercising 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 Listing Manual; and

   (iii) any subsequent bonus issue, consolidation or subdivision of shares;

3) in exercising the authority conferred by this Resolution, the Company shall comply with the rules, guidelines and measures issued by the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Articles of Association of the Company; and

4) (unless revoked or varied by the Company in General Meeting), the authority conferred by this Resolution 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 earlier.
   See Explanatory Note (v) **(Resolution 8)**

7. That subject to and pursuant to the share issue mandate in Resolution 8 above being obtained, authority be and is hereby given to the Directors to issue new shares in the capital of the Company other than on a pro-rata basis to shareholders of the Company at an issue price per new share which shall be determined by the Directors in their absolute discretion provided that such price shall not represent more than a twenty per cent (20%) discount to the weighted average price per share determined in accordance with the requirements of the SGX-ST.
   See Explanatory Note (vi) **(Resolution 9)**

8. That pursuant to Section 161 of the CA, authority be and is hereby given to the Directors to allot and issue from time to time such number of shares in the capital of the Company as may be required to be issued pursuant to the exercise of the options under the United Pulp & Paper Company Limited Share Option Scheme (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 per cent (15%) of the issued shares in the capital of the Company.
   See Explanatory Note (vii) **(Resolution 10)**

BY ORDER OF THE BOARD
Koh Kim Huat
Chairman
13 April 2009

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. Adrian Chan Pengee, when re-elected, will be considered an Independent Director, and will remain as the Chairman of the Audit Committee and Nominating Committee, and a member of the Remuneration Committee.

(ii) Ordinary Resolution 4

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

(iii) Ordinary Resolution 5

Mr. Hardjanto Adiwana, when re-elected, will be considered a Non-Executive Director, and will remain as a member of the Audit Committee and the Remuneration Committee.

(iv) Ordinary Resolution 6

Mr. Tan Geok Kwang, when re-elected, will be considered a Non-Executive Director, and will remain as a member of the Nominating Committee.

(v) Ordinary Resolution 8

The Ordinary Resolution 8 proposed above, if passed, will empower the Directors of the Company, from the date of the above Meeting until the next Annual General Meeting, to issue shares in the capital of the Company and to make or grant convertible securities, and to issue shares in pursuance of such convertible securities, without seeking any further approval from shareholders in general meeting, up to a number not exceeding one hundred per cent (100%) of the total number of issued shares (excluding treasury shares) in the capital of the Company in the case of a renounceable rights issue and in all other cases, not exceeding fifty per cent (50%) of the total number of issued shares (excluding treasury shares in the capital of the Company), of which up to twenty per cent (20%) of the total number of issued shares (excluding treasury shares) may be issued other than on a pro-rata basis to shareholders.

(vi) Ordinary Resolution 9

Contingent on the passing of Ordinary Resolution 8 above, the Ordinary Resolution 9 proposed above, if passed, will authorise the Directors, from time to time, to determine up to twenty per cent (20%) discount to the price per new share pursuant to the share issue mandate, and in accordance with the requirements of the SGX-ST.

(vii) Ordinary Resolution 10

The Ordinary Resolution 10 proposed 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.

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Proxy Form

United Pulp & Paper Company Limited and Subsidiary Companies

ANNUAL GENERAL MEETING TO BE HELD ON 28 APRIL 2009
(Before completing this form, please see notes below)

IMPORTANT:

1. For investors who have used their CPF monies to buy ordinary shares in the capital of United Pulp & Paper Company Limited, this Annual 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 such CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.

I/We ____ (Name)

of ____ (Address)

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

Name	Address	NRIC/ Passport No.	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 Tuesday, 28 April 2009 at 10.00am 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 2009		
3	Re-election of Mr. Adrian Chan Pengee as Director		
4	Re-election of Mr. Koh Kim Huat as Director		
5	Re-election of Mr. Hardjanto Adiwana as Director		
6	Re-election of Mr. Tan Geok Kwang as Director		
7	Re-appointment of Messrs Ernst & Young LLP as Auditors and to authorise the Directors to fix their remuneration		
	SPECIAL BUSINESS		
8	To authorise Directors to issue shares and convertible securities under Section 161		
9	Contingent upon the passing of Resolution 8, to authorise Directors to issue new shares on a non pro-rata basis at a discount of not more than 20%		
10	To authorise Directors to issue shares under the Scheme		

Dated this ________ day of _________ 2009

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

____
Signature(s) of Member(s) / 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 1 Kim Seng Promenade #14-01 Great World City East Tower Singapore 237994 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.