



Powering Asia's Future
Annual Report 2007



Straits Asia
Resources



Today, Asia's market has 4.77 billion potential consumers and this is projected to increase by 34% to 5.38 billion by 2050. This means that Asia's energy demand will continue to grow at an average of 3.4% per annum through to 2020.

Global energy consumption is also projected to grow by 1.7% per annum to 2030 and approximately 50% of this will be in Asia, with around 35% of the increase being satisfied by an increase in consumption of coal.

We are continuing to power Asia's future by meeting growing energy demand through organic growth and acquisition.

Sources: The Institute of Energy Economics, Japan (IEEJ); International Energy Outlook 2003; Population Reference Bureau, 2007

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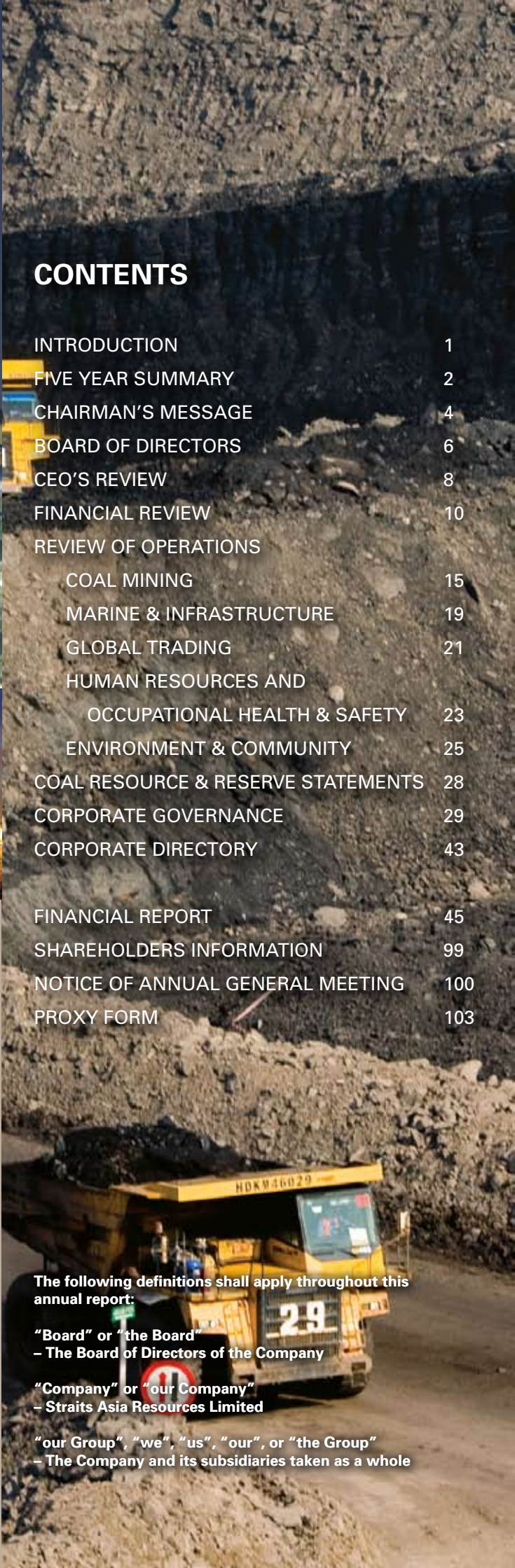
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The following definitions shall apply throughout this annual report:

"Board" or "the Board"
– The Board of Directors of the Company

"Company" or "our Company"
– Straits Asia Resources Limited

"our Group", "we", "us", "our", or "the Group"
– The Company and its subsidiaries taken as a whole



Introduction

Straits Asia Resources is headquartered in Singapore. Our management's working relationships and business activities in this region span more than 30 years and Straits Asia Resources itself has been operating in Southeast Asia for nearly a decade. In those 10 years we have risen to become one of Indonesia's largest producers and exporters of thermal coal.

The Group was spun out of the Australian-listed Straits Resources Limited and listed on the Singapore Exchange on 3 November 2006.

Our mining activities are exclusively in Indonesia where we have two operations: Sebuku mine on Sebuku Island in South East Kalimantan, and Jembayan mine near Samarinda in East Kalimantan. We have administrative offices in Jakarta, Balikpapan and Samarinda and a Head Office in Singapore for corporate and marketing activities.

Straits Asia Group has a culture that demands us to maintain international standards and professionalism at all levels of business. We describe our mission in two paragraphs:

- ✦ Through a strong mining base in Indonesian coal, Straits Asia will house a management team that will grow the Group into a leading Asia-wide coal mining company;
- ✦ By entrepreneurship, organic growth, acquisition and measured risk-taking Straits Asia Resources intends to develop all businesses in its stable to world class.

Highlights

- Profit after tax of US\$28.6 million
- Sales of 3.5 million tonnes from Sebuku
- Acquisition of the Jembayan thermal coal operation
- Acquisition of Sebuku northern leases
- 2007 final dividend of US0.75cents recommended for payment
- Earnings per share US3.00cents
- Resources upgrade at Sebuku to 387 million tonnes
- US\$230 million was raised through acquisition bridge facilities
- Equity raising of US\$102 million was completed in Oct 2007

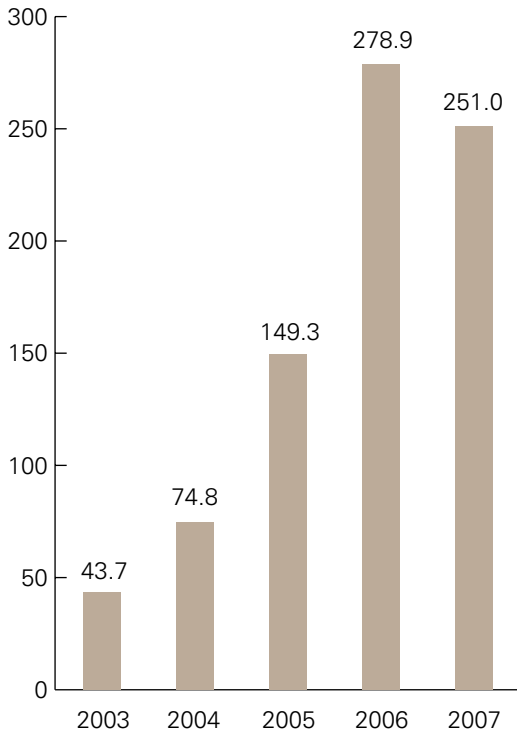
Five Year Summary

Operationally 2007 was a challenging year for Straits Asia Resources, mainly due to adverse weather conditions, but two acquisitions have transformed the Company as it enters 2008.

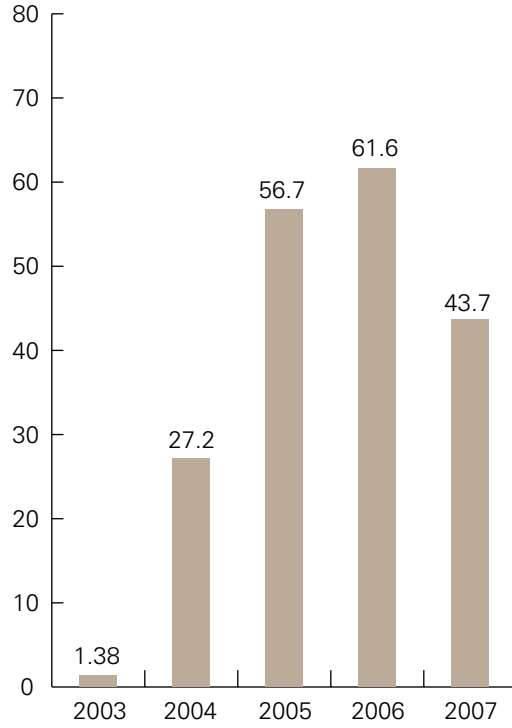
		2007	2006	2005	2004	2003
Profitability						
Total Revenue	US\$000	250,960	278,862	149,291	74,771	43,657
Gross Profit	US\$000	57,308	64,130	59,102	27,213	219
Gross Profit Margin	%	23	23	40	36	1
Profit (Loss)	US\$000	28,563	48,153	44,359	17,108	(1,501)
Earnings per share	UScents	3.00	5.22	5.01	2.03	(0.20)
Cash Flow						
Cash flow from operations	US\$000	32,891	46,526	44,072	18,734	6,085
Balance Sheet						
Total shareholder equity	US\$000	304,172	48,502	29,601	21,436	7,528

Note: Years 2003 to 2005 as disclosed in the Company's IPO Prospectus dated October 2006.

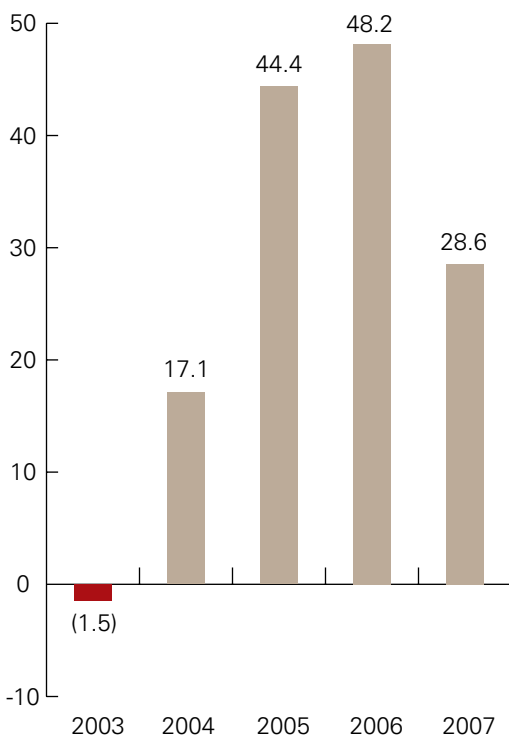
**Sales Revenue
(US\$m)**



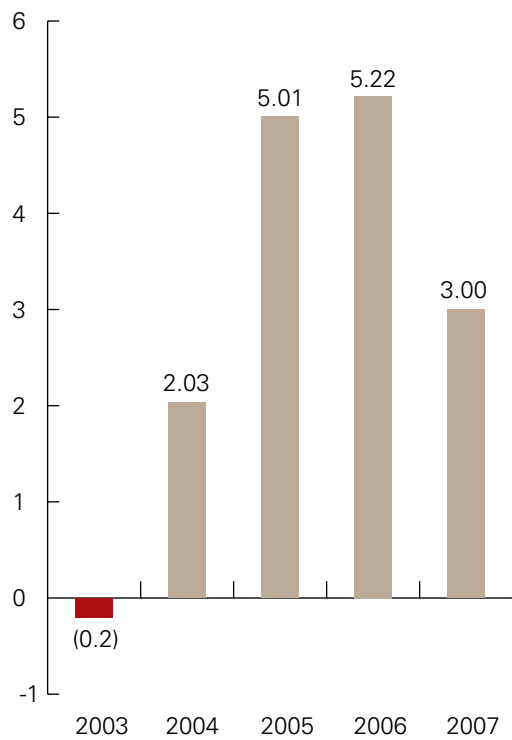
**EBITDA
(US\$m)**



**Net Profit after Tax
(US\$m)**



**Earnings Per Share
(UScents)**



Chairman's Message

We remain an acquisitive Group and will have no hesitation in using our strong balance sheet to make further purchases of strategic businesses.



Dear Shareholders

I am pleased to present to you the Straits Asia Resources Limited Annual Report for 2007, a year of significant achievement that has seen a transformation of the Group in its first full year of listing on the SGX.

Coal Mining

Straits Asia Resources began 2007 as a single mine, single pit coal mining company and the only pure coal play listed on the SGX. In December 2007, after a long period of negotiations, we completed two acquisitions that have turned the Group into the operator of multi-pits in two coal mines and the eighth largest thermal coal miner in Indonesia by production. We remain as the only pure coal company on the SGX.

Our acquisitions were two greenfields concessions lying immediately to the north of our existing mine on Sebuk, for which we paid US\$25 million, and the operational Jembayan mine in East Kalimantan for which we paid US\$350 million.

The Sebuk acquisitions were strategically very important. Through the purchase of these concessions we have consolidated our position as the only miner on Sebuk Island, we have protected the Sebuk coal brand and we now have additional options as to

how we optimise the coal in our resource base. The Jembayan mine is a quality operation that produced nearly 4.0 million tonnes of coal in 2007.

The Sebuk mine did not have an easy year operationally due to factors beyond our control. After the record 3.5 million tonnes production in 2006, we set a target of 4.0 million tonnes in 2007. Inclement weather meant that we suffered over 2.6 metres of rain in the first six months of 2007 against a 10-year average of 1.7 metres. We were forced to declare force majeure under our sales contracts for the first time. As a result, Sebuk sold only 3.46 million tonnes for the year, although Sebuk did achieve sales of 1.4 million tonnes, which is an annualised rate of 5.6 million tonnes for the last quarter of 2007. We have reviewed the operational issues and introduced procedures and equipment that will make us more able to deal with similar events in the future.

The mine recovered well from the weather interruptions. We also made extensive progress on exploring the shallow strait area west of Sebuk Island and the results gave us an upgrade in resources to 387 million tonnes.

Coal continues to demonstrate exceptional demand. We see no short term end to the present cycle and expect prices to be robust in the medium term.

Commodities Marketing

In 2007, we reviewed our Group purpose and strategy and made a decision that Straits Asia Resources' direction should be more definitively focussed on coal. Accordingly the Commodities Marketing division has been restructured to deal only with coal. The copper, gold and silver marketing activity was discontinued in the last half of 2007. This will make the performance of our coal mining activities more transparent to shareholders.

Marine and Infrastructure

PT Indo Straits was successfully integrated into Straits Asia Resources' operations during 2007. It begun work on the Sebuk mine's stockpile, its port upgrade and is involved in several other projects that support our mining work. The Company has a brief to expand its third party business even while demand for its services increases from Sebuk and, now additionally, Jembayan.

Directorate

David Toms, one of the founders of Straits Group, stood down from all his Group positions in 2007 after selling his shareholdings. We wish him well. David was replaced as Chief Executive Officer by Richard Ong, who is also one of the original Group founders and therefore gave us a seamless transfer of the CEO position.

In 2007 we welcomed Michael Gibson to the Board. Michael is an executive with Straits Resources (Straits Asia Resources' parent company) and has a very good knowledge of our companies in his prior work as a partner of one of Australia's leading law firms.

Employees

Following the acquisition of Jembayan, Straits Asia Resources employs a total 658 people. I warmly welcome all the new employees and thank all those who have been with us in 2007 for their contribution and hard work.

Customer and Suppliers

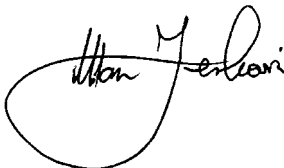
Our customers and suppliers are also core stakeholders in Straits Asia Resources and I thank all of them for their continued support. As our Group grows, we hope they will enjoy the benefits of the wider opportunities that we have available to offer.

Outlook

We expect 2008 will be another exciting year for the Group as we expand our operations and corporate activities.

We remain an acquisitive Group and will have no hesitation in using our strong balance sheet to make further purchases of strategic businesses if the right opportunities arise that are capable of adding to shareholder value.

I would like to formally acknowledge the effort and work done by our executive team lead by Richard Ong. I would also like to thank our service providers, customers and other stakeholders for their ongoing support. And, finally I would like to acknowledge the effort and input from my fellow directors.



Milan Jerkovic

Chairman



Board of Directors

Mr Jerkovic is a geologist with postgraduate qualifications in Mining and Mineral Economics. He has over 20 years experience in the mining industry involving resource evaluation, operations, financing, acquisitions, project development and general management. Mr Jerkovic was previously Chairman of Australian Stock Exchange listed Tritton Resources Limited and has held positions with WMC, BHP and Nord Pacific. Mr Jerkovic is the Chief Executive Officer of Straits Resources Limited.

Milan Jerkovic

Non-executive Chairman

• Member of Nomination Committee

Mr Ong is a marine civil engineer with over 30 years experience operating in Southeast Asia in construction, marine engineering, business development and resource exploration. Mr Ong is highly regarded by the Indonesian business community and has extensive commercial contacts throughout Asia. Mr Ong is a Non-executive director of Straits Resources Limited.

Richard Ong Chui Chat

Chief Executive Officer

Mr Purvis joined the company in 1997 to develop the Sebuk Coal Mine in Indonesia. He is a mining engineer with more than 25 years experience in the resource industry working in senior management roles in South Africa, Indonesia and Australia. Mr Purvis is the Chief Operating Officer of Straits Resources Limited and was formerly the Managing Director of ASX listed Tritton Resources.

Martin David Purvis

Non-executive Director

• Member of Remuneration Committee



Mr Gibson holds a degree in Arts and Law from Macquarie University and a Masters of Law degree from the University of Sydney. He was a partner for 12 years with a leading Australian law firm, specialising in advising resource companies on major mine acquisitions and disposals, joint ventures and development of mining and infrastructure projects. Mr Gibson is an executive of Straits Resources Limited.

Michael George Gibson

Non-executive Director

- Member of Audit, Risk and Compliance Committee

Dr Chua is a chemical engineer with postgraduate qualifications in chemical engineering and business administration. In the public sector, he was previously a Deputy Secretary in the Singapore Government Administrative Service. In the private sector, Dr Chua was managing several large companies and has also served on the boards of several listed companies in Singapore and Australia. He is Singapore's non-resident High Commissioner to Maldives and has been awarded a Public Service Medal and a Public Service Star for social and community work.

Chua Yong Hai

Independent and Non-executive Director

- Deputy Chairman of Board of Directors
- Chairman of Remuneration Committee
- Chairman of Nomination Committee
- Member of Audit, Risk and Compliance Committee

Mr Han is an accountant. He is a director of the Singapore Deposit Insurance Corporation Limited, a member of the Citizenship Committee of Inquiry and Treasurer of the Singapore Red Cross Society. Mr Han has been awarded the Public Administration Medal (Silver) for service in the public sector and the Public Service Medal for community work. Mr Han held senior positions in the Board of Commissioners of Currency Singapore and the Monetary Authority of Singapore. His last position was as Senior Managing Director and Singapore Country Head of Dexia Banque Internationale A Luxembourg.

Han Eng Juan

Independent and Non-executive Director

- Chairman of Audit, Risk and Compliance Committee
- Member of Remuneration Committee
- Member of Nomination Committee

CEO's Review

2008 is a year of great expectations for Straits Asia Resources and I am confident that it will be another successful year.



Dear Shareholders

In 2007, Straits Asia Resources was able to create considerable value for its shareholders principally on the back of very strong coal prices and the Group's strategy of growth through acquisition. Conversely, the Group had a difficult year at the Sebuku mine which resulted in disappointing results from operations but, overall, we have good reason to be satisfied with the outcome of our work in 2007.

Operations

Sebuku Mine

Sebuku mine's production of 3.38 million tonnes was very close to 2006's record 3.50 million tonnes. Coal sales reached US\$135.3 million (2006: US\$135 million). However, we had set a target of 4 million tonnes for Sebuku in 2007 and therefore the mine's performance was below expectations.

The principal cause of the shortfall was inclement weather that was so severe that we had to declare force majeure under our sales contracts. This was the first time we have had to take such action.

Our team at Sebuku took just one month to lift force majeure, for which I have commended them. We have learned from the experience. We have upgraded control of water pumping at the mine. We believe we can now contend with the worst rainfall that 2007

brought to Sebuku. There was no long-term damage to the mine, production resumed quickly as demonstrated by our final quarter sales of 1.4 million tonnes.

The initiatives for a mobile coal processing plant and self unloading barge that had been planned in 2006 both performed below expectations. A new coal processing plant will be built on Sebuku in 2008 that will be almost identical to our current plant and will, we expect, enable us to reach our 6 million tonnes annualised production target for 2009.

In December we completed the acquisition of two concessions on the North of Sebuku, giving us control over the remaining coal deposits on the Island and ensuring that we can protect the Sebuku brand. The concession immediately to the north of our own contract area will give us more mining flexibility in our existing pit but the majority of the coal lies in the designated "cagar alam" area which will need re-zoning before we can access it.

Jembayan Mine

In October 2007, we announced that we had signed a Memorandum of Understanding to acquire the 12,000 hectare Jembayan mine in East Kalimantan for US\$350 million in a mix of cash (US\$275 million) and shares (74.5 million new shares). I am delighted to report that we completed the deal in mid-December 2007 and that our results now consolidate Jembayan. This acquisition was one of our key objectives for 2007

and it has transformed our Group as we enter 2008. Jembayan is a multi-pit operation that produced 3.96 million tonnes of coal in 2007.

Exploration

We completed the study of the shallow sea basin to the west of Sebuku and announced the upgrade in resources to 387 million tonnes. We are continuing exploration on and around Sebuku.

Almost immediately after acquiring Jembayan, we set about upgrading the resource and reserve to JORC standards. I hope that we can announce good results from that work later this year. The study will then allow us to prepare a long-term mining plan for Jembayan. We have also set up a team to investigate ways of upgrading production from Jembayan.

Geologists undertook the geophysical mapping of the Lahung project in Central Kalimantan that we acquired in May 2007. There are two coal deposits in the concession, one of which may be high grade and we will be continuing the study in 2008, mainly through drilling.

Commodities Trading

Our Group was finding it difficult to develop a clear purpose for this activity, which we felt was distracting us from our coal activities. In the second half of 2007 we therefore discontinued this business, which, I am pleased to say, has not resulted in any redundancies as all employees concerned are able to contribute to our expanded coal business.

For the remaining coal trading, we will run down the last of our long-term fixed lower priced contracts in 2008 and this will set us well for 2009.

Marine and Infrastructure

PT Indo Straits has been established to lead this division. During 2007 we upgraded key areas of PT Indo Straits as part of our integration exercise and it gave the level of support to our coal business that we had hoped for. PT Indo Straits achieved a turnover of US\$13.4 million (2006: US\$5.03 million (6 months)). We intend to grow this business further both as a support operation to our mines and through more third party contracts.

Financial Performance

In the 12 months to December 2007, Straits Asia Resources achieved an operating profit after tax of US\$28.6 million (2006: US\$48.2 million). EBITDA was US\$43.7 (2006: US\$61.6). Dividend payout for 2007 (including the recommended final dividend of US0.75cents) will be US1.75cents per share (2006: US0.80cents per share).

With the two acquisitions that we made in December 2007, our balance sheet is still very strong, albeit very different from December 2006. Our net assets were US\$304.2 million as at 31 December 2007 (2006: US\$48.5 million) backed by a short term facility of US\$230 million from Standard Chartered and Sumitomo Mitsui banks. We chose a short-term facility to finance our acquisitions because we expect to be able to refinance it in 2008 at more competitive rates once we have proven up to JORC standard the resources and reserves at Jembayan and the Northern concessions on Sebuku.

Further discussion of the operating and financial performance is outlined in our Review of Operations.

Outlook

2008 is a year of great expectations for Straits Asia Resources. I am confident that it will be another successful year for your Company helped by continuing strong coal prices. A key priority will be to complete a successful handover of management of the Jembayan mine. The vendors are assisting us actively in this and their help is most valuable.

We will also be undertaking extensive drilling at Jembayan and on Sebuku, from which I expect upgrades to our JORC compliment reserves and resources to be announced later in the year. In the meantime we will continue our work to maximise and increase production at both mines. We remain acquisitive and have interest in further purchases of coal businesses.



Richard Ong Chui Chat
Chief Executive Officer

Financial Review

All figures in US\$ unless otherwise stated

	2007 US\$'000	2006 US\$'000	% Change
Sales revenue	250,960	278,862	(10.0)
Cost of sales	(193,652)	(214,732)	(9.8)
Gross profit	57,308	64,130	(10.6)
Other revenue	2,339	3,176	(26.4)
Other gains – net	1,515	299	406.7
Expenses			
Marketing and distribution expenses	(1,489)	(1,597)	(6.8)
Administrative, corporate & technical support	(20,062)	(7,814)	156.7
Finance costs	(876)	(81)	981.5
Profit before income tax expense	38,735	58,113	(33.3)
Income tax expense	(10,172)	(9,960)	2.1
Profit after tax	28,563	48,153	(40.7)

	2007 US\$'000	2006 US\$'000	Change %
Other financial information			
Cash and cash equivalents	35,717	23,066	55
Total assets	723,492	96,522	650
Total debt	220,460	4,050	5,343
Total equity	304,172	48,502	527

Discussion and Analysis

Net profit after tax

Net profit after tax for the 12 months ended 31 December 2007 (FY 2007) is \$28.56 million against \$48.15 million for the 12 months ended 31 December 2006 (FY 2006), representing a 40.7% decrease year on year. Gross profit margin for FY 2007 remained flat at 23%.

Administrative, corporate and technical expenditure reflects the Group's first full year of operating as a public company and includes non-recurrent write-downs of property, plant and equipment. The Company was listed on 3 November 2006.

Major reasons for variances between FY 2007 and FY 2006 can be attributed to;

Sales Revenue – US\$250.96 million FY 2007 v US\$278.86 million FY 2006

US\$'000	Q4 2007	Q4 2006	FY 2007	FY 2006
Coal Revenue	56,412	40,223	135,301	134,982
<i>Sales Volume (tonnes)</i>	1,423,429	1,045,768	3,465,000	3,531,000
Copper Revenue	–	23,343	72,497	107,333
<i>Sales Volume (tonnes)</i>	–	3,344	10,225	14,694
Gold Revenue	17	5,502	23,572	26,614
<i>Sales Volume (oz)</i>	–	9,001	33,273	43,239
Silver Revenue	(7)	939	4,347	3,614
<i>Sales Volume (oz)</i>	–	75,876	318,295	297,075
Total Gold & Silver Revenue	10	6,441	27,919	30,228
Consumables Revenue	423	(84)	1,810	1,291
Marine Engineering Revenue	4,537	494	13,434	5,028
Total Revenue	61,382	70,417	250,960	278,862

Coal

- Increased prices for coal drove net sales revenue to increase marginally over FY 2006, despite the lower sales volume, to a total of \$135.30 million. Sales volume for FY 2007 was 3.47 million tonnes, a 2% decrease from FY 2006 sales of 3.53 million tonnes. The decrease is due to the adverse weather conditions experienced in Sebuk in May, June and July.

Other Commodities

- Revenue from commodities marketing on behalf of Straits Resources Limited group for the FY 2007 decreased compared to the corresponding period. The decrease is due mainly to decreases in copper, gold and silver sales volumes;

- With effect from 1 September 2007, the Group ceased selling copper on behalf of Straits Resources Limited;
- With effect from 1 October 2007, the Group ceased selling gold and silver on behalf of Straits Resources Limited.

Marine Engineering

- Other revenue of \$13.43 million was generated by PT Indo Straits (our marine engineering company), which was acquired on 30 June 2006. Revenue and earnings for FY 2006 only reflects the earning in the second half of the year.
- The significant increase in revenue is due to new agreements with several resource companies in East Kalimantan in the year.

Cost of Sales – US\$193.65 million FY 2007 v US\$214.73 million FY 2006

US\$'000	Q4 2007	Q4 2006	FY 2007	FY 2006
Coal Production Cost	34,395	19,843	81,665	71,285
Commodity Purchases	553	29,980	101,804	136,077
Marine Engineering Cost of Sales	3,494	3,070	10,183	7,370
Total Cost of Sales	38,442	52,893	193,652	214,732

Coal

- Costs of sales associated with coal production increased by \$10.38 million for the FY 2007 against FY 2006, mainly attributable to increases in the market price paid for fuel, labour cost and contract mining rates.

Other Commodities

- Costs of sales associated with purchases of other commodities by our commodities marketing business decreased in FY 2007 due to the decreases in volumes of copper, gold and silver purchased from Straits Resources Limited.
- These decreases accounted for \$34.27 million of the decrease in cost of sales in FY 2007 against FY 2006.

Marine Engineering

- Costs of sales associated with PT Indo Straits recorded an increase in FY 2007 due to expanding operations and the incorporation of full year results.

Administrative, Corporate and Technical Support

Administrative, corporate and technical support expenses for FY 2007 increased by \$12.25 million over FY 2006. The increase is attributable to:

- Additional staff, administration and corporate expenses associated with becoming a public listed company;
- Increased expenditure related to resources required to support the Group's growth plans;
- Fair value adjustments to plant and equipment of \$3.25 million in the year.

Income Tax Expense

Income tax expense increased \$0.21 million in FY 2007 from FY 2006 as a result of the carry forward of a tax under provision from FY 2006 (that was not material to 2006 results), and the tax-effect accounting treatment of higher deferred mine development costs incurred during 2007.

Balance Sheet

The Group balance sheet incorporates the acquisition balance sheets of the Jembayan coal operation, and the Sebuku Northern leases.

- Trade and other receivables increased by \$55.87 million from \$34.51 million to \$90.38 million as at 31 December 2007. This increase is largely attributed to the acquisition of the Jembayan mine in December. Also contributing to the increase is the high sales volume in December 2007. At Company level, trade and other receivables increased by \$297.54 million from \$1.20 million to \$298.74 million as at 31 December 2007. This increase is attributed to intra-group loans to subsidiaries to finance the cost of the acquisition of the Jembayan coal operation and the Sebuku northern leases.
- Property, plant and equipment increased by \$32.13 million from \$14.86 million to \$46.99 million as at 31 December 2007. The increase is associated with assets recognised upon acquisition of the Jembayan coal operation, and capital expenditure associated with the Sebuku coal operation.
- Intangible assets of \$297.83 million include the fair value assigned to offtake agreements, and the goodwill associated with tax gross-up of intangible assets acquired as part of the Jembayan coal operation, and the Sebuku northern leases acquisitions. At Company level, the intangible asset of \$87 million represents goodwill associated with the acquisition of the Jembayan coal operation and the Sebuku northern leases.
- The Exploration and Evaluation asset of \$102.94 million mainly represents the fair value assigned to exploration as part of the Group's acquisition of the Jembayan coal operation and Sebuku Northern Leases acquisition. At Company level, the Exploration asset of \$101.26 million represents the fair value assigned to exploration as part of the Company's acquisition of the Jembayan coal operation and Sebuku Northern Leases acquisition.

- The Available for Sale Financial Asset of \$1.92 million is the value of the Group's investment in an unlisted exploration company exploring for mineral resources in Mongolia. During FY 2007, the Group increased its investment through participation in an equity raising exercise.
- Mine properties increased by \$122.58 million from \$19.62 million to \$142.20 million as at 31 December 2007. The increase represents the fair value assigned to mine properties as part of the acquisition of the Jembayan coal operation and the Sebuku northern leases, of which \$95 million was assigned to Jembayan and \$18 million to the Sebuku northern leases. The balance of the increase is mainly due to the capitalisation of waste mining expenditure at Sebuku which is currently above the operation's life of mine average stripping ratio.
- Trade and other payables increased by \$88.99 million from \$35.81 million to \$124.79 million as at 31 December 2007. The increase is mainly attributed to trade payables recognised upon the initial acquisition of the Jembayan coal operation.
- Current and Non-current Interest bearing borrowings increased by \$216.41 million from \$4.05 million to \$220.46 million as at 31 December 2007. This amount represents the loan outstanding under the Facility Agreement. Further details are disclosed separately under Item 1(b)(i) - Aggregate amount of group's borrowings and debt securities. As at 31 December 2007, the average cost of the Group's borrowings was 6.22% (Libor plus a margin).
- Deferred income tax liabilities increased by \$63.97 million from \$3.47 million to \$67.44 million as at 31 December 2006. The increase is mainly attributed to the fair value recognition of deferred tax liabilities upon acquisition of the Jembayan coal operation, and the Northern Leases acquisition on Sebuku.

Cashflow

Cash inflow from operating activities was \$32.89 million for the FY 2007 against \$46.53 million for FY 2006. The decrease is mainly attributed to lower contributions from the coal and other commodities segments.

Cash outflows from investing activities were \$326.08 million for FY 2007 against \$31.05 million for FY 2006.

The cash outflows primarily reflect the apportionment of fair values assigned to the acquisition of the Jembayan coal operation, and the Sebuku northern leases. These cash outflows are reflected net of cash acquired upon acquisition.

Payments for purchase of property, plant and equipment of \$15.98 million comprised sustaining and improvement capital expenditure at the Sebuku coal operation, and to a lesser extent, PT Indo Straits.

Mine development cash outflows relate to pit development expenditure at the Sebuku coal operation. Waste movement ahead of the current life of mine average stripping ratio is deferred, and amortised over the remaining coal reserve.

Cash from financing activities shows an inflow of \$300.01 million.

Proceeds from the share placement and proceeds of borrowings were used to fund the acquisition of the Jembayan coal operations and the Sebuku northern leases. Further details of the borrowings are outlined in paragraph Item 1(b)(i) - Aggregate amount of group's borrowings and debt securities. As part of the total consideration, \$144.10 million was paid via an issue of shares in Straits Asia to the vendors of Jembayan. This is not reflected as a cash outflow.

Dividends of \$16.57 million were paid in May and September 2007 to the Company's shareholders.

In respect of the acquisition of PT Metalindo Bumi Raya and PT Karbon Mahakam on 19 December 2007, the Group will pay an additional amount of \$111 million if certain additional conditions are fulfilled which include obtaining relevant Indonesian Government approvals to re-classify certain areas to be within the mining concessions, and obtaining relevant regulatory approvals to commence mining activities within that area. At the date of this announcement, the Group is unable to state when this payment will be made.



MANUFACTURING

Asian GDP grew 11.3 % from 13,206 billion in 2006 to 14,704 billion in 2007, the world's manufacturing base and fastest growing region.

Coal Mining

Sebuku mine's production in 2007 was close to 2006's record production, with very strong results in the final quarter of the year. At 4 million tonnes production in 2007, the Jembayan mine was a major acquisition.



SEBUKU COAL OPERATION Production

	2007	2006	2005	2004	2003	2002	2001	2000
Overburden mined (,000 bcm)	21,252	19,061	12,459	10,026	6,071	7,060	7,869	6,279
Coal mined (,000 t)	3,913	4,137	3,575	2,862	2,146	2,455	2,251	1,741
Coal product (,000 t)	3,382	3,494	3,000	2,558	1,964	2,065	1,969	1,525
Coal sold (,000 t)	3,465	3,531	2,912	2,654	1,991	2,005	1,976	1,558

Total coal production for 2007 was 3.38 million tonnes, lower than planned due to extremely high rainfall in May, June and July. Over two metres of rain fell during these three months, flooding all the available coal, and cutting off access to many parts of the pit. The pit was flooded in July but dewatered in August and September 2007 and record production was achieved in the last three months of the year of 360 thousand tonnes, 450 thousand tonnes and 393 thousand tonnes respectively in October, November and December 2007.

In order to avoid repeats of the flooding problem, we took over responsibility for pit dewatering from our contractor and purchased additional pumps and

pipelines. Pumping crews have been recruited and much of the required infrastructure was installed during the year. Dewatering performance has since been good, with very little water building up in the pit.

The pit was mined significantly deeper in 2007 and the mining contractor commenced drill and blast operations, which has improved overburden breakage performance. The contractor continues to operate a fleet of PC1250 excavators, with a mixed fleet of Komatsu HD465 and HD785 overburden trucks. The equipment mix will be reviewed during 2008 as larger equipment will be necessary if we are to achieve production increases.

A third crushing plant was installed in the second half of 2007. In preparation for the commissioning of the second wash plant. This plant was used to produce a higher ash coal than standard Sebuk coal and supplemented production of standard product. Approximately 200 thousand tonnes of this coal was produced in the last quarter of 2007. The assembly of the second wash plant was completed in 2007 and trial washing runs were conducted. The installation of the second wash plant has increased production capacity above 4 million tonnes.

Operating costs were again impacted by high diesel fuel prices and, to a lesser extent, a higher proportion of washed coal. The increase in production rates was sufficient to offset this and after amortisation of the pre-stripped waste, unit cost per tonne of coal sold remained at the bottom end of the cost curve.

Production from the coal preparation plant (CPP) decreased by 3% compared to 2006 mainly because of lower input. The new crushing circuit availability was 65%, producing both bypass low ash and high ash shipments towards the end of the year. The wash circuit was able to process all coal from the pit with an overall yield of 75%, 4% higher than 2006.

Exploration

The coal geological model at Tanah Putih area was renewed after 2007 drilling activity. We now have a measured and indicated resource of 57 million tonnes of coal.

Coal exploration at West of Sebuk proved a lateral extension of Tanah Putih seams with consistency in both thickness and quality, with the Tanjung Formation continuing to the West. An average of 18 metres total coal thickness was found extending laterally into the shallow Sebuk strait. Total coal resource in the shallow Sebuk strait is 296 million tonnes inferred resource.

A total of 770 holes with total depth of 30,968 metres were drilled in 2007. The variance between model and actual coal survey for 2007 was 6%. The actual volume of coal surveyed was 6% lower than model due to coal losses along the faulted zone in the central and northern part of the Tanah Putih pit.

In 2008, exploration will continue to increase definition of coal resources in the shallow Sebuk strait and to increase confidence of resources from "inferred" into "indicated".

Coal Marketing

In the first quarter of 2007, it became evident that China's exports of coal would be reduced and, indeed, the country became a net importer of coal during 2007. The impact on the thermal coal markets was pronounced and prices began a strong and consistent upward trend for the year.

This major piece of news was supplemented by severe rainfall in Kalimantan, an area that produces a significant part of the seaborne thermal coal for Asia and, of course, the well-documented supply problems in Australia where huge numbers of ships were waiting to be loaded.

Straits Asia Resources' policy of locking prices into long-term contracts, something that has been lauded for its certainty in previous years, meant that we were very restricted in the extent to which we could participate in these exceptional conditions in 2007.

We began 2007 by continuing to lock in prices under term contracts but, by March we had changed strategy and, so far as was possible, we delayed negotiations with our customers for 2008 deliveries until later in the year. The Jembayan mine that we bought in December also sells its coal under contract arrangements and had committed nearly 3.6 million tonnes of its 2008 production when we had completed the purchase.

The current market situation is still very favourable and we will be able to start showing the advantage of higher prices towards the second half of 2008. Most of our longer term contracts at low pricing will have ceased by the time we enter 2009.

Production Outlook

Straits Asia Resources has set a 2008 production and sales target of over 4 million tonnes for Sebuk and our aim is to bring Jembayan's output up as much as possible to its capacity limits, currently about 5.4 million tonnes. We also intend to upgrade the capacities at both mines in 2008.



Borneo

Singapore

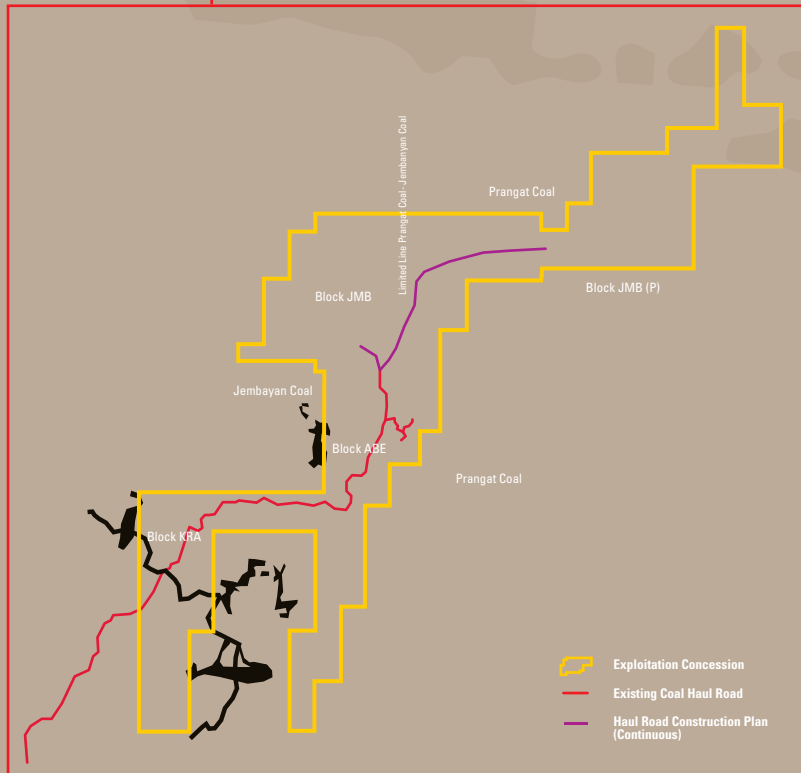
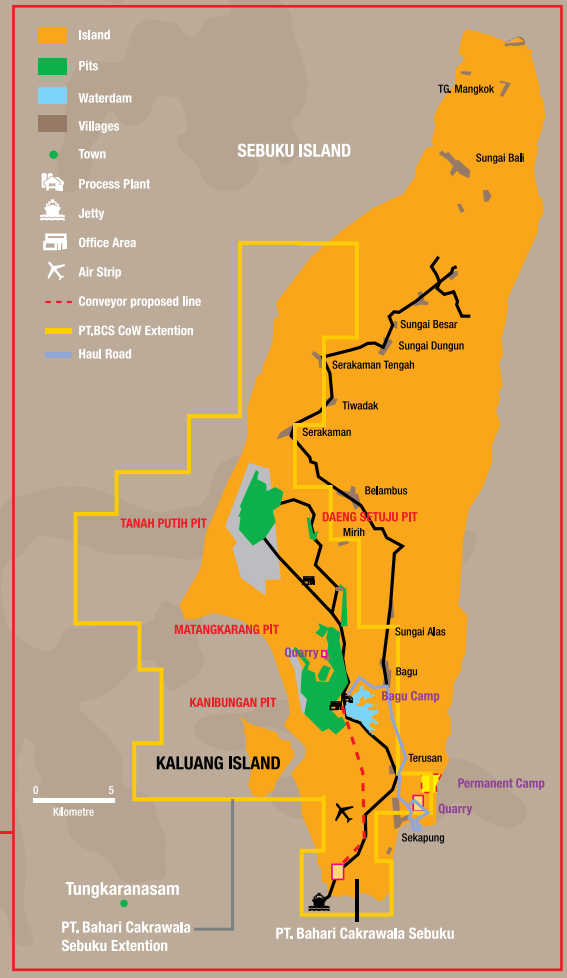
Jembayan Samarinda

Balikpapan

Banjarmasin

Sebuku

Jakarta





HOUSEHOLDERS

Asians are becoming wealthier. The number of people living below \$2 per day has fallen by 50% from 1 billion in 1990 to 500 million in 2007.

Marine & Infrastructure

Through PT Indo Straits, this division gives major support to our mine expansion plans and began expanding its third party business in 2007.



This division is headed by our subsidiary PT Indo Straits.

The division operates as an independent profit centre and is engaged in the procurement of equipment and machinery and the development of infrastructure projects such as barging, power generation and marine construction services for Straits Asia Resources as well as other members of the Straits Resources Limited group including the Mt Muro gold mine. It also provides marine infrastructure development services to coal mining and oil and gas resource companies in Indonesia.

In 2007, PT Indo Straits recorded turnover of US\$13.4 million. This was the first full year in which the company was owned by the Group, having been acquired in June 2006. Even though the level of activities from inter-group business is increasing as our mines expand, Straits Asia Resources also intends to secure more third party work.

PT Indo Straits has more than 20 years of experience in marine civil contracting work such as dredging, reclamation, marine piling and construction. PT Indo Straits owns a fleet of 25 units comprising floating cranes, dredgers, hopper barges, tugboats and workboats of varying sizes.



INFRASTRUCTURE

Electricity consumption in Asia over the next 30 years is expected to increase by a factor of 2.5 and coal-fired electric power generation will be the main source of supply.

Global Trading

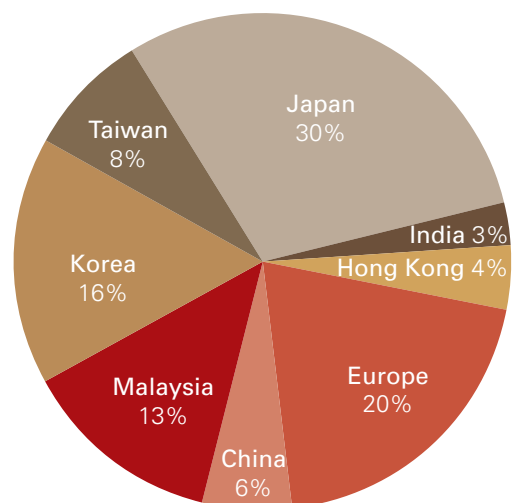
2007 saw a major change in this activity, which will in future deal exclusively in coal.



Straits Global Trading, which was established in Singapore in 2004, redefined its focus in 2007 so that it ended the year dealing exclusively with coal and also supplying chemical reagents from international suppliers, primarily for companies within the Straits Resources Limited group.

This division still holds Global Trader Award status under the Singapore Government's Global Trader Programme which entitles Straits Global Trading to various business incentives and benefits.

**Sales Revenue by Geography
FY 2007**





TRANSPORTATION

Tourism arrivals in Asia have doubled from 85 million in 1990 to more than 198 million today, 25% of the world total.

Human Resources and Occupational Health & Safety

Employee Relations

As at 31 December 2007, the Group had 658 direct employees. Contractors in our mines engaged 2,359 people in Indonesia.

There continues to be high demand for professionals and tradesmen, but we have been successful in attracting and retaining good calibre personnel.

The strategies which Straits Asia Resources has adopted with its staff include:

- maintaining competitive remuneration levels with benefits and conditions to ensure that the Group is regarded as a "good employer";
- introducing performance measurements and incentives which apply across the Group.

Straits Asia Resources runs programmes that are designed to continuously improve management skills and career opportunities. We make every effort to recruit personnel in the local areas in which we operate and provide these recruits with proper education and training.

Occupational Health & Safety

Straits Asia Resources is committed to maintaining the highest standards of health and safety for its employees, contractors, visitors and the community within which we operate. Providing an environment for continuous improvement in Occupational Health and Safety (OHS) is fundamental to the Straits Asia Resources corporate culture. Our primary focus is to ensure the adoption of a philosophy that integrates OHS, training and education into all facets of daily operations and long-term planning to maintain a safe working environment.

A key focus for 2007 was the development of an integrated site Health, Safety and Environment (HSE) risk register. In addition, steps were taken to conform our HSE Management System (HSEMS) to both AS 4801 and ISO 14001. This work will continue to be a key priority for 2008.

We took over Jembayan mine only in 2007 and will be conducting work to ensure that OHS at Jembayan can conform to Straits Asia Resources standards.

Operations

External auditing of Straits Asia Resources' OHS performance provides a useful tool to measure improvements across the Group, which is then fed back into structured programmes to drive positive changes. Results from 2007 showed that all sites have maintained or improved their OHS performance.

In addition to annual and internal audits, ongoing monitoring of performance at each site is measured using established monthly Key Performance Indicators (KPI's).

Whilst standard statistical reporting of incidents and the frequency in which they occur is mandatory, other performance indicators reported and reviewed by senior site and corporate management include:

- compliance with statutory legislation;
- performance against continuous improvement plans and remedial actions;
- a summary and significance rating of incidents that have occurred during the reporting period;
- details of OHS topics discussed during tool-box briefings and safety meetings;
- summaries of OHS training conducted;
- number of corrective actions completed by due date;
- number of OHS inspections completed by due date; and
- number of job hazard analyses or risk assessments completed.

The safety performance of Sebuk for 2007 was:

Site	LTI FR	MTI FR	Days since last LTI
Sebuk Coal Mine	0.37	0.56	123

Note

LTI FR = Lost time injury frequency rate

MTI FR = Medical Treatment injury frequency rate



HEALTHCARE

Today there are over 7 million health workers in South East Asia, operating from 3,500 hospitals across the region.

Environment & Community

Straits Asia Resources demands high standards in environmental performance and community relations, achieving all its targets in 2007.



Straits Asia Resources demands a high standard of environmental performance for all projects and operations. A system to provide continuous improvement has been developed that conforms to ISO 14001, together with a set of specific corporate Environmental Performance Standards. This sets a framework and a set of corporate compliance guidelines to assist managers of projects and operations in meeting best practice environmental management standards, legislative requirements, special project regulatory commitments and corporate objectives for continuous improvement.

An active routine internal and independent annual external auditing programme provides the necessary feedback to drive continuous improvement, while addressing key environmental risks, setting a framework to improve management control and to assess overall group compliance in meeting statutory obligations. Independent Government audits and inspections also provide valuable feedback on our

environmental performance, assist us in understanding how we fare in the mining industry, identify areas where we can improve and give a conduit for providing examples of industry best practices to common environmental issues that we feed back into our improvement programmes.

Operations

All sites underwent impact assessment for mine expansion. Maintaining and improving environmental performance during a general expansion phase for the group is challenging, and this was compounded by the potential damage from heavy rainfall during the year. However, environmental targets were achieved without compromising overall performance in 2007.

Significant expansion works occurred at the Sebuk mine with respect to installation of new plant, equipment and expansion of mining areas at Tanah



Putih and is on-going. Progressive reclamation and rehabilitation works at the southern and central parts of the Tanah Putih pit have received approvals from the Mines and Forestry authorities. The Sebuku mine achieved the "Blue Rank" Award for outstanding environmental management from the Environmental Assessment (PROPER) of the Provincial Environmental Controlling Agency.

Research

Straits Asia Resources will continue to commit resources to fund research for better environmental management practices. Collaboration continues between Indonesian Universities, at both undergraduate and graduate levels, and our Sebuku mine, as is direct collaboration with the Indonesian Department of Forestry focussed on rehabilitation techniques in the post-mined landscaping and associated completion criteria in the southern and central operational areas. A rehabilitation study of Tanah Putih in collaboration with a nationally recognised university has started and the results

will be terms of reference to implement reclamation works in the area. Straits Asia Resources will continue to engage regional and national universities and international environmental consultants in conducting environmental studies to better manage their operations.

Community Relations

Straits Asia Resources is committed to ensuring community values are not compromised by its activities and that open and transparent relationships are maintained with all key stakeholders, including government and non-government institutions, local communities, indigenous people, the broader community and shareholders. It is fundamental to Straits Asia Resources that we engage at all levels of and integrate community relations into how we conduct our daily business.

In 2007, Straits Asia Resources further refined a structured programme for Sebuku in which we engage the local and broader community and implemented

specific targets, budgets and managed programmes. Further research and collaboration with government and industry were undertaken to facilitate indigenous employment and training at the local level and through our key contractors in Indonesia.

Our ability to maximise local employment on our projects and mines has become increasingly difficult to maintain in this current positive commodity cycle where the availability of skilled local workers has been reduced. Despite this, local staff ratios remained high across the Group.

Straits Asia Resources is committed to facilitating the preservation and protection of local customs and indigenous cultural heritage areas. All development works are implemented to minimise the risk of impact to significant cultural sites as a first principle. If in the rare circumstance that a proposed development may compromise a site of cultural significance, full engagement with key local stakeholders is conducted and if a suitable resolution is identified subject to statutory approvals, fair and reasonable compensation is provided together with management procedures to protect any further impacts to sites within the region.

Community

Sebuku coal operations continue to engage, support and provide funds for the local villages and regional community. An extensive community development package is reviewed on an annual basis with inputs from each village and a sign-off of the package by the local government and the village heads. A continuation of regular monthly meetings with senior representatives of each village was conducted throughout 2007. These meetings discussed any issues associated with the mine and its operations and also the progress of community assistance programmes.

Sebuku coal operations continue to employ a large local workforce of approximately 65% from local islanders and to support various local businesses in respect to preferred suppliers and contracting groups. The mine supports the supply of local services for infrastructure developments for local villages that include roads, bridges, water supply, power generators, municipal buildings, schools, village administration offices, further refurbishments of mosques and maintenance works to local village markets. Sebuku has always provided strong support for local education programmes, vocational training, public health issues such as pre-natal and post natal care and child immunisation programmes. Annual intakes of trainees to the mine for future employment opportunities are also an ongoing activity.

We took over the Jembayan mine only in December 2007 and will be conducting work to ensure that our community involvement in and around Jembayan is undertaken to Straits Asia Resources' standards.

Coal Resource and Reserve Statements

AS AT 31 DECEMBER 2007

Coal Resources

Project	Measured Tonnes ('000t)	Indicated Tonnes ('000t)	Inferred Tonnes ('000t)	Total Tonnes ('000t)
Sebuku	41,000	16,000	34,000	91,000
Sebuku (CCoW Extension)		36,000	260,000	296,000
Jembayan		48,000		48,000
Grand Total	41,000	100,000	294,000	435,000

Coal Reserves

Project	Proved Tonnes ('000t)	Probable Tonnes ('000t)	Total Tonnes ('000t)	Marketable Tonnes ('000t)
Sebuku	20,200		20,200	17,400
Jembayan		39,000	39,000	39,000
Grand Total	20,200	39,000	59,200	56,400

Coal Resource and Coal Reserve Notes:

1. The information in this report that relates to Coal Resources and Coal Reserves is based on information compiled by Peter Storey, who is a member of the Australian Institute of Mining and Metallurgy. Mr Storey is a full-time employee of Straits Resources Limited and has sufficient experience relevant to the style of mineralisation, type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Mineral Resources and Ore Reserves". Mr Storey consents to the inclusion in the report of the matters based on their information in the form and context in which it appears.
2. Coal Resources and Coal Reserves are quoted at an operational level (ie 100%).
3. Coal Resources are inclusive of Coal Reserves.

Corporate Governance

The directors of Straits Asia Resources Limited believe that effective corporate governance improves the Company's performance, enhances corporate social responsibility and benefits all stakeholders. Governance practices are not a static set of principles and the Company assesses its governance practices on an ongoing basis. Changes and improvements are made in a substance over form manner, which appropriately reflect the changing circumstances of the Company as it grows and evolves. Accordingly, the Board has established a number of practices and policies to ensure that these intentions are met and that all shareholders are fully informed about the affairs of the Company.

Straits Asia Resources was listed on the Singapore Exchange on 3 November 2006. Prior to this, the Company was a wholly owned subsidiary of Straits Resources Limited, a company listed on the Australian Stock Exchange ("ASX"). As a subsidiary of Straits Resources the Company was subject to the corporate governance environment of its parent and this was disclosed as part of Straits Resources Limited's obligations under the ASX listing rules.

In July 2005, the Singapore Council on Corporate Disclosure and Governance issued a revised Code of Corporate Governance (the "2005 Code") that superseded and replaced the Code of Corporate Governance that was issued in March 2001. Companies are required to disclose their corporate governance practices and explain deviations from the 2005 Code in their annual reports for annual general meetings held from 1 January 2007 onwards.

This report describes the Group's corporate governance practices that were in place during the financial year ended 31 December 2007. For ease of comparison to the 2005 Code, the Corporate Governance statement addresses each of the principles in turn. Where the Company has not followed a recommendation, this is identified with the reasons for not following the recommendation. This disclosure is in accordance with Rule 710 of Singapore Exchange Listing Manual.

The 2005 Code

The 2005 Code is divided into four main sections, namely:

- (A) Board Matters
- (B) Remuneration Matters
- (C) Accountability and Audit
- (D) Communication with Shareholders

(A) BOARD MATTERS

Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the success of the Company. The Board works with management to achieve this, and Management remains accountable to the Board.

(Principle 1)

The Board of Directors as at 25 February 2008 comprises;

Mr Milan Jerkovic	Chairman and Non-executive Director
Dr Chua Yong Hai	Deputy Chairman/ Independent Director
Mr Richard Ong Chui Chat	Chief Executive Officer
Mr Martin David Purvis	Non-executive Director
Mr Michael George Gibson	Non-executive Director
Mr Han Eng Juan	Independent Director

Broadly the key responsibilities of the Board are;

1. setting the strategic direction of the Company with management and monitoring management implementation of that strategy;
2. evaluating, approving and monitoring major capital expenditure, capital management and all major corporate transactions;
3. approving the annual operating budget, annual shareholders report and annual financial accounts;
4. appointing, monitoring, managing the performance of, and if necessary terminating the employment of the Chief Executive Officer;
5. approving and monitoring the Company's risk management framework; and
6. ensuring compliance with the corporations' law, SGX listing rules and other relevant regulations.

Corporate Governance

The Board has adopted a set of guidelines on matters that require its approval. Matters which are specifically reserved to the Board for decision thereunder include those involving business plans and budgets, material acquisitions and disposal of assets, corporate or financial restructuring, corporate strategy, share issuances, dividends, and other returns to shareholders.

The Board has delegated certain specific responsibilities to three committees, namely the Audit, Risk and Compliance, Nomination and Remuneration Committees. More information on these committees is set out below. The Board accepts that these committees have the authority to examine particular issues and will report back to the Board with their decisions and recommendations, the ultimate responsibility for the final decision on all matters lies with the entire Board.

Details of Board and committee meetings held during the year ended 31 December 2007, and attendance by directors at those meetings is set out below. It is the intention of the Board to hold at least five board meetings per year in future, with other meetings held as and when deemed necessary.

The Articles of Association of the Company allow directors to participate in a board meeting by telephone conference or videoconference, whereby all persons participating in the meeting are able to communicate as a group, without requiring the director's physical presence at the meeting. The matrix on the number of board and board committee meetings held in the year and the attendance of directors during these meetings and position held by directors is as follows:

	Board of Directors			Audit, Risk and Compliance Committee			Nomination Committee			Remuneration Committee		
	Number of meetings ⁽¹⁾			Number of meetings ⁽¹⁾			Number of meetings ⁽¹⁾			Number of meetings ⁽¹⁾		
	Position	Held	Attended	Position	Held	Attended	Position	Held	Attended	Position	Held	Attended
Executive Director												
Richard Ong Chui Chat	M	9	9	-	-	-	-	-	-	-	-	-
A David Toms ⁽²⁾	M	2	2	-	-	-	-	-	-	-	-	-
Non-executive Director												
Milan Jerkovic ⁽³⁾	C	9	9	M	4	4	M	1	1	M	1	1
Martin David Purvis ⁽⁴⁾	M	9	8	-	-	-	-	-	-	M	1	1
Michael George Gibson ⁽⁵⁾	M	1	1	M	1	1	-	-	-	-	-	-
Chua Yong Hai	M	9	9	M	5	5	C	1	1	C	2	2
Han Eng Juan	M	9	9	C	5	5	M	1	1	M	2	2

Denotes:

C – Chairman as at 31 December 2007; no change as at 25 February 2008

M – Member as at 31 December 2007; no change as at 25 February 2008

⁽¹⁾ Number of meetings held/attended during the financial year from date 1 January 2007 (or from/to date of appointment/resignation of Director/Committee membership where applicable) to 31 December 2007.

⁽²⁾ Resigned on 24 May 2007.

⁽³⁾ Resigned as a member of the Audit and Remuneration Committees on 29 October 2007

⁽⁴⁾ Appointed as a member of the Remuneration Committee on 29 October 2007. Change of status from Executive to Non-executive director on 31 August 2007.

⁽⁵⁾ Appointed as director and member of the Audit, Risk and Compliance Committee on 9 November 2007.

Corporate Governance

All directors and key executives reporting to the CEO of the company have been given formal letters of appointment outlining key terms and conditions of their appointment. New directors to the Board are provided with an orientation of the Group's activities including briefings by key executives and visits to the Group's operations. Copies of relevant policies and procedures, operating budgets and corporate governance practices (including dealing in the Company's securities) are provided to the directors upon commencement. In future the Company Secretary will bring to directors', attention, information on any seminars that may be of relevance or use to them.

There should be a strong and independent element on the Board, which is able to exercise objective judgement on corporate affairs independently, in particular, from management. No individual or small group of individuals should be allowed to dominate the Boards' decision making.

(Principle 2)

Board Members

Details of board members, their experience, expertise, qualifications, term in office and independence status are set-out in the start to the annual report. Currently the Board consists of six directors of which Dr Chua Yong Hai and Mr Han Eng Juan are considered independent within the SGX's definition.

The Board believes the current structure is appropriate at this stage of the Company's activities. As a group, the directors bring with them a broad range of industry knowledge, expertise and international experience in areas such as geology, mining engineering, marketing, financing legal and accounting. Board structure and composition will be reviewed as and when the Company's strategic directions and activities change. The Company will only recommend the appointment of additional directors to the Board where it believes the expertise and value added outweighs the additional cost.

The non-executive directors help to provide advice and develop proposals on strategy. Non-executive directors also review the performance of management in meeting agreed goals and objectives, and monitor the reporting of performance. They meet on their own from time to time without the presence of management.

There should be a clear division of responsibilities at the top of the Company – the working of the Board and the executive responsibility of the Company's business - which will ensure a balance of power and authority, such that no one individual represents a considerable concentration of power.

(Principle 3)

The roles of Chairman and CEO are held by Mr Milan Jerkovic and Mr Richard Ong respectively. Mr Jerkovic is a non-executive director responsible for leading the board and facilitating its effectiveness. The CEO, Mr Richard Ong, is an executive director responsible for the business direction and operational decisions of the Group. The Chairman and the CEO are not related. The Board adopted a formal charter in February 2008 and this includes the division of responsibilities between Chairman and CEO.

The Chairman ensures that board meetings are held as and when necessary. He leads the Board to ensure its effectiveness and approves the agenda of each board meeting in consultation with the other directors and the Company Secretary. The Chairman reviews most board papers and ensures that board members are provided with accurate, timely and clear information. Management staff who have prepared the papers, or who can provide additional insight into the matters to be discussed, are invited to present the paper or attend at the relevant time during the board meeting.

There should be a formal and transparent process for the appointment of new directors to the Board.

(Principle 4)

Nomination Committee

The Nomination Committee comprises the following non-executive and independent directors;

Dr Chua Yong Hai (Chairman)
Mr Han Eng Juan
Mr Milan Jerkovic

The Nomination Committee was formed on the 20 September 2006. The Committee held one meeting during the year. The Nomination Committee has a written charter that has been endorsed by the Board, which sets out the duties and responsibilities of the committee. The Nomination Committee is, inter alia, responsible for making recommendations to the Board on all board appointments.

Corporate Governance

The Company does not comply with SGX guideline 4.1 in that the Committee does not comprise three independent directors. Mr Jerkovic is a non-executive director and CEO of the Company's major shareholder Straits Resources Limited, and for this reason is not considered independent. Dr Chua Yong Hai and Mr Han Eng Juan are considered independent and make up the majority of the committees members. The Chairman, Dr Chua Yong Hai does not have any relationship with a substantial shareholder of the Company (defined as holding greater 5% of the company issued capital). The Board is satisfied that the structure of the Committee is appropriate at this stage of the Company's activities.

In its search, nomination and selection process for new directors, the Nomination Committee identifies the key attributes that an incoming director should have, based on the experience and skills of the existing Board, and the requirements for the Group.

After endorsement by the Board of the key attributes, the Nomination Committee would search for an appropriate person through personal and professional contacts and if required, executive search firms.

The Nomination Committee is responsible for making recommendations to the Board on the re-nomination of directors at regular intervals and at least once every three years for each director, as required by the Articles of Association of the Company. The director's contribution and performance are taken into consideration when assessing re-nomination for the Board. The Chairman of the Board will also provide feedback on the appointment or nomination of new directors or resignation of existing directors, following the outcome of an annual performance evaluation of individual directors.

The Nomination Committee is also responsible for determining annually the independence of directors. There has been no change to the independence status of the directors. Details of independent status are summarised at the beginning of the director's report.

The Nomination Committee is satisfied that sufficient time and attention are being given by the directors to the affairs of the Group, notwithstanding that some of the directors have multiple board representations, and there is presently no need to implement internal guidelines to address their competing time commitments.

There should be a formal assessment process of the effectiveness of the Board as a whole and the contribution by each director to the effectiveness of the Board.

(Principle 5)

The Nomination Committee is responsible for deciding how the Board's performance is to be evaluated and propose objective performance criteria, subject to the approval of the Board, regarding how the Board has enhanced long-term shareholders value. This would include assessment of the Company's share price performance against relevant share market indices and peers, returns on equity and assets. The board will also implement a process to be carried out by the nominating committee for assessing the effectiveness of the Board as a whole and for assessing the contribution by each individual director to the effectiveness of the Board. Each member of the Nominating Committee must abstain from voting on any resolutions in respect of the assessment of his performance or re-nomination as director.

The Nomination Committee has adopted a written charter outlining its duties, responsibilities and director appraisal. The Board implemented an appraisal process where each director separately reviewed its size, composition, information, effectiveness, contributions, accountability and standards of conduct of the Board. The reviews were summarised and the Board undertook a self-assessment of its performance on an overall basis. The Board considered its overall performance in 2007 as generally acceptable to consistently good in different aspects and discussed in detail several aspects which needed further improvement.

In order to fulfil their responsibilities, board members should be provided with complete, adequate and timely information prior any board meetings and on an on-going basis.

(Principle 6)

All directors receive a set of board papers prior to each board meeting. This is generally issued to them at least three days prior to the meeting in sufficient time to enable the directors to obtain further explanations, where necessary, in order to be briefed properly and prepare for the meeting. The board papers include, among others, the following documents and details:

- performance of the groups operating divisions;
- health, safety and environmental;
- community relations;
- exploration activities;
- group management accounts and treasury reporting;
- minutes of the previous board and committee meetings;
- contract reporting;
- business development and marketing.

Corporate Governance

Key matters requiring decision are reserved for resolution at board meeting rather than by circulation to facilitate discussion. In months where there is no scheduled board meeting, the directors receive a set of management reports, similar to the standard board package outlined above (less board minutes for example).

Management accounts are prepared and distributed to the directors each month. They include discussion and analysis about the Company's results, key performance indicators, Profit and Loss, Cash Flow and Balance Sheet statements.

The Board has separate and independent access to the Company's senior management, including the CEO, and other key management, as well as the Group's external auditors. Queries by individual directors on circulated papers are directed to management who will respond accordingly.

All directors have separate and independent access to the advice and services of the Company Secretary. The Company Secretary has a clearly defined set of responsibilities. The Company Secretary attends all meetings of the Board and ensures that board procedures are followed and that applicable rules and regulations are complied with. Under the Articles of Association of the Company, the decision to appoint or remove the Company Secretary can only be taken by the Board as a whole.

Independent Advice

A director of the Company is entitled to seek independent professional advice (including but not limited to legal, accounting and financial advice) at the Company's expense on any matter connected with the discharge of his or her responsibilities. This is formalised in the Company's Board Charter.

(B) Remuneration Matters

There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.

(Principle 7)

Remuneration Committee

The Remuneration Committee comprises Martin Purvis, Chua Yong Hai and Han Eng Juan. The Chairman of the Remuneration Committee is Dr Chua Yong Hai. We do not comply with Principle 7.1 in that the committee does not consist entirely of independent directors. Mr Purvis is a non-executive director, but is not considered independent by virtue of his position as Chief Operating Officer of Straits Resources Limited, our major shareholder. The directors are satisfied that the current committee structure with a majority of independent directors is satisfactory (and that there is no conflict of interest), at this stage of the Company's activities.

The Remuneration Committee is responsible for setting cash and long-term incentive compensation for our executive officers and other key employees and administering our Straits Employee Share Option Plan and our Straits Executive Share Acquisition Plan. As part of its responsibilities, the Remuneration Committee will review annually the remuneration of each of our directors, executive officers and other employees who are related to our Substantial Shareholders and will make recommendations, in consultation with the Chairman of the Board, to the entire Board for approval. Our annual report will disclose the remuneration of our directors, our top five key executive officers as well as of employees who are immediate family members of a director or our chief executive officer and whose annual remuneration exceeds S\$150,000.

In the event that any member of our Remuneration Committee is interested in a decision to be made by the Remuneration Committee, he must abstain from participating in the decision-making process.

The Remuneration Committee reports to the Board of directors and provides recommendations in terms of compensation and incentive plan arrangements for directors and senior executives, having regard to market conditions and the performance of the individuals and the consolidated entity. There is a particular emphasis on performance of the Company in the current year and incentives for future years. The Remuneration Committee seeks advice from external sources (such as labour market surveys) and from internal recommendations provided by management in formulating its recommendations to the Board.

The Remuneration Committee held two meetings during the year.

Corporate Governance

The level of remuneration should be appropriate to attract, retain and motivate the directors needed to run the Company successfully but companies should avoid paying more than is necessary for this purpose. A significant portion of executive director's remuneration should be structured so as to link rewards to corporate and individual performance.

(Principle 8)

Each company should provide clear disclosure of its remuneration policy, level and mix of remuneration, and the procedure for setting remuneration in the Company's annual report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key executives and performance.

(Principle 9)

Principles used to determine the nature and amount of remuneration

The objective of the Company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aims to align executive reward with achievement of strategic objectives and the creation of value for shareholders.

The Company has a Remuneration Committee that reports to the Board of Directors and provides recommendations in terms of compensation and incentive plan arrangements for directors and senior executives, having regard to market conditions and the performance of the individuals and the consolidated entity. There is a particular emphasis on performance of the Company in the current year and incentives for future years. In future years this would include benchmarking the Company's performance against peer company's in the resources industry. Benchmarking indicators would include share price performance, total shareholder return and earnings per share growth.

Compensation for directors and executives are set at levels to attract and retain a strong team to manage and oversee the Company's activities. This has been particularly important in the current competitive labour environment for skills and experience in the resources industry. The framework provides a mix of fixed cash and short term rewards (bonuses), and longer-term incentives through participation in the Company's equity programs. As executives gain seniority with the Group, the balance of this mix shifts to a higher proportion of "at risk" rewards and long-term incentives.

Executive Pay

Remuneration packages are based around a combination of the following;

- cash salary;
- benefits;
- short-term incentive (cash bonus);
- long-term incentive through participation in the Company's option and share acquisition plans.

The service contracts for executive directors are for fixed appointment periods which are not excessively long and they do not contain onerous removal clauses. The Remuneration Committee is responsible for reviewing the compensation commitments, if any, that the directors' contracts of service entail in the event of early termination.

The level of short-term incentive (cash bonus) for executives is determined after completion of the full-year audited accounts. This review is performed in late February and the bonus (if any) is paid in March.

Corporate Governance

Cash salary and benefits

Senior executives undergo a performance appraisal from the Chief Executive Officer, and these results are reported to the Remuneration Committee and the Board of Directors. When approving the review of a senior executive's package (including cash bonus), the Board takes into consideration the performance of the individual and the Company during the year, comparisons with industry surveys and cost of living adjustments. The Board believes the structure of each executive's cash package (excluding equity participation) is at the right levels to maintain and keep what the Board believes is a talented and capable senior executive team.

Benefits principally include expatriate living allowances, motor vehicle and flight allowances.

Option and share acquisition plans

The Board uses its discretion when deciding on the allocation of shares, options and bonus payments. The allocation of shares to executives during 2007 was based on meaningful allotment that will incentivise and align the executive's interests with those of other shareholders. Shares issued under the Executive Share Acquisition Plan do not have vesting periods. If the share price in the Company does not increase then the executive will not benefit. This program was utilised successfully for a number of years by Straits Resources Limited in Australia, prior to the Company's listing on the Singapore Exchange. There has been an allocation of shares and options over a period of years now and the Board believes that encourages the executives to have an appropriate balance of short-term and long-term outlooks on the Company's performance.

Directors and Non-executive directors

Fees and payments to directors and non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. The Board reviews non-executive directors' fees and payments annually. The Chairman is not present at any discussions relating to determination of his own remuneration. Share options are currently not available to non-executive directors.

Non-executive directors are remunerated by way of director's fees and a special award of options approved by shareholders. Non-executive directors are not eligible to receive retirement benefits. From September 2007, non-executive directors who are also executives of Straits Resources Limited (the Company major shareholder), do not receive directors' fees. This is a policy of Straits Resources Limited.

Corporate Governance

The remuneration of directors and key executives is set-out below. Unless stated otherwise all executives were employed in the Group for the full year.

Disclosure on Remuneration 2007

Name	Position	Cash (A)	Fees	Bonus (B)	Benefits in kind (C)	Equity (D)	Total 2007
Directors							
S\$750,000 to below S\$1,000,000							
David Toms (E)	Fmr Chief Executive Officer	90%	0%	0%	10%	0%	100%
S\$500,000 to below S\$750,000							
Richard Ong	Chief Executive Officer	95%	0%	0%	0%	0%	100%
Below S\$250,000							
Milan Jerkovic	Chairman	0%	100%	0%	0%	0%	100%
Chua Yong Hai	Deputy Chairman	0%	100%	0%	0%	0%	100%
Martin Purvis (F)	Non-Executive Director	100%	0%	0%	0%	0%	100%
Michael Gibson	Non-Executive Director	0%	0%	0%	0%	0%	0%
Han Eng Juan	Independent Director	0%	100%	0%	0%	0%	100%

Key Management Personnel

S\$500,000 to below S\$750,000

David Lim	General Manager Mining	79%	0%	0%	1%	20%	100%
James Carter	Chief Financial Officer	69%	0%	0%	12%	19%	100%
Hui Mun Leong	General Manager Engineering & Business Development	76%	0%	0%	4%	20%	100%
James Dracopoulos (G)	Fmr Chief Financial Officer	100%	0%	0%	0%	0%	100%

S\$250,000 to below S\$500,000

Carl Memmott (H)	General Manager	90%	0%	0%	10%	0%	100%
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Denotes:

- (A) Includes expatriate country allowances, contributions to the Central Provident Fund and leave payouts (where applicable).
- (B) Includes short term performance bonus and service bonus (where applicable) assessment of 2007 performance bonuses for the CEO and Key Management Personnel was considered and approved after the finalisation of the 2007 audited accounts.
- (C) Includes, housing, car and annual airfares allowances.
- (D) The fair value of shares issued under the Executive Share Acquisition Plan in 2007.

The model inputs for the grant of shares to key executives under the shareholder approved Executive Share Acquisition scheme were:

	S\$1.25 shares issued August 2007
Exercise price (5 day VWAP before the offer date)	\$1.25
Grant date	27 August 2007
Expiry date	27 August 2010
Expected volatility of company's shares	60%
Expected dividend yield	1.45%
Risk-free interest rate	2.21%

- (E) Resigned 24 May 2007
(F) Re-designated as a Non-executive director from 31 August 2007
(G) Resigned 31 March 2007
(H) Resigned 30 April 2007

Corporate Governance

Disclosure on Remuneration 2006

Name	Position	Cash (A)	Fees	Bonus (B)	Benefits in kind (C)	Equity (D)	Total 2006 (E)
Directors (F)							
Below S\$250,000							
David Toms	Chief Executive Officer	83%	0%	0%	0%	17%	100%
Richard Ong	Chief Operating Officer	84%	0%	0%	0%	16%	100%
Milan Jerkovic	Chairman	0%	100%	0%	0%	0%	100%
Martin Purvis	Executive Director	76%	0%	0%	0%	24%	100%
Chua Yong Hai	Deputy Chairman	0%	100%	0%	0%	0%	100%
Han Eng Juan	Independent Director	0%	100%	0%	0%	0%	100%

Key Management Personnel

S\$500,000 to below S\$750,000

David Lim	Operations Manager Indonesia	76%	0%	21%	1%	2%	100%
Ron Heeks	Technical Services Manager Indonesia	52%	0%	8%	38%	2%	100%

S\$250,000 to below S\$500,000

James Dracopoulos	Chief Financial Officer	88%	0%	8%	2%	2%	100%
Carl Memmott	General Manager	71%	0%	11%	15%	3%	100%

Below S\$250,000

James Carter	Financial Controller (commenced 4 September 2006)	66%	0%	19%	10%	5%	100%
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Denotes:

- (A) Includes expatriate country allowances, contributions to the Central Provident Fund and leave payouts (where applicable).
- (B) Includes short term performance bonus and service bonus (where applicable).
- (C) Includes, housing, car and annual airfares allowances.
- (D) The fair value of shares issued under the Executive Share Acquisition Plan in November 2006 just prior to the Company's Initial Public Offering.
- (E) Comparatives for 2005 (the year before the Company listed on the SGX are not applicable).
- (F) Apart from Mr Ong, all directors were appointed on 20 September 2006.

There are no immediate family members of any director (including the CEO) whose remuneration exceeded S\$150,000 during the year.

Corporate Governance

(C) ACCOUNTABILITY AND AUDIT

The Board should present a balanced and understandable assessment of the Company's performance, position and prospects.

(Principle 10)

The Board is responsible for providing a balanced and understandable assessment of the Group's performance, position and prospects when presenting interim and other price sensitive public reports and reports to regulators (if required).

Management provides to members of the Board for their endorsement, annual operating and capital budgets, longer term scenario planning and key performance indicator targets for management.

The Board should establish an Audit Committee with written terms of reference, which clearly set out its authority and duties.

(Principle 11)

Audit, Risk and Compliance Committee

The Audit, Risk and Compliance Committee (Audit Committee) comprises the following Directors;

Mr Han Eng Juan (Chairman)
Dr Chua Yong Hai
Mr Michael George Gibson

The Committee comprises all non-executive directors. Han Eng Juan and Chua Yong Hai are independent directors. Details of the qualifications and experience of the Audit Committee members is detailed on page 7 of the annual report. The Board considers that in appointing the Audit Committee, all members are suitably qualified to perform the roles and responsibilities of the Audit Committee.

The Committee held five meetings during the year. Some of these meetings were also attended by the Chief Financial Officer. External auditors were also present at the relevant times during this meeting. The Committee also met once with the external auditors without any management being present.

The Board has adopted a written Audit, Risk and Compliance Committee charter. The roles and responsibilities of the Committee as outlined in the charter include:

- review the annual audit plans of our external and internal auditors;
- review the external and internal auditors' findings on their evaluation of our system of internal controls, including accounting controls;
- review the significant financial reporting issues and judgments so as to ensure the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance;
- review the scope and results of the audit and its cost-effectiveness, and the independence and objectivity of the external auditors;
- review the adequacy of our internal controls and the effectiveness of our internal audit function;
- review the quarterly, half-year and full-year balance sheets and profit and loss accounts of our Company;
- review the assistance given by our officers to the Audit Committee, external auditors and internal auditors, where applicable;
- review interested person transactions;
- make recommendations to the Board on the appointment, reappointment and removal of our external auditors, and approving the remuneration and terms of engagement of the external auditor;
- meet with the external auditors, and with the internal auditors, without the presence of the Company's management, at least annually; and
- review the independence of the external auditors annually.

Corporate Governance

Apart from duties listed above, our Audit, Risk and Compliance Committee will commission and review the findings of internal investigations into any suspected fraud or irregularity, or failure of internal controls or infringement of any Singapore law, rule or regulation which has or is likely to have a material impact on our operating results and/or financial position.

The Audit Committee is satisfied with the independence and objectivity of the external auditors and recommends to the board the nomination of the external auditors for re-appointment. The Audit Committee has conducted an annual review of all non-audit services provided by the auditors and is satisfied that the nature and extent of such services do not affect the independence of the external auditors.

There is no formal procedure in place whereby staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

Employees are encouraged though to report such matters to senior management. The Audit Committee is currently assessing the need for a formal written procedure (such as a "Whistle Blowing Procedure") to ensure that such issues are independently investigated and addressed.

The Board should ensure that the management maintains a sound system of internal controls to safeguard the shareholders investments and the Company's assets.

(Principle 12)

The Board (through the Audit, Risk and Compliance Committee) is responsible for reviewing the adequacy of the Group's internal controls and the effectiveness of the internal audit function.

The Company committed to undertaking a formal risk management review and this was completed early 2007. The Company does not have a single specific risk management policy, but rather, financial and operating risks are addressed through individual approved policies and procedures covering financial, contract management, safety and environmental activities of the Company. In addition to financial audits, the Company's operations in Indonesia are also subjected to annual external safety and environmental audits to Australian standards. The Company engages an insurance brokering firm as part of the Company's annual assessment of the coverage for insured assets and risks. The results of all the various audits and insurances are reported to Board at least annually.

The Board believes that it has a thorough understanding of the Company's key risks and is managing them appropriately.

Subject to the foregoing, the Audit, Risk and Compliance Committee has reviewed the adequacy of the Group's internal controls, and which review is ongoing. The Board has also reviewed and is satisfied with the adequacy of the Groups' internal controls established by management.

A summary of non-audit fees paid by the Group in 2007 and 2006 is set out below;

	2007 US\$'000	2006 US\$'000
Auditors remuneration paid/payable	391	393
Other fees paid/payable *	183	40

* Mainly relates to due diligence expenditure incurred as part of the Group's acquisition of the Jembayan coal operation.

Corporate Governance

The Company should establish an internal audit function that is independent of the activities it audits.

(Principle 13)

In 2007 the Board appointed an external firm, Ethos Advisory Pte Ltd, to carry out the Group's internal audit function. The internal auditor reports primarily to the Chairman of the Audit Committee. The internal audit was conducted over the period October/November 2007. Prior to the Company's listing, the size and complexity of the Group's operations did not warrant the appointment of a full-time internal auditor. Internal control memoranda were also prepared by the Company's external auditors as part the listing process. The Audit Committee is responsible for approving the internal audit plan and ensuring that it is adequately resourced. The internal auditor has adopted the Standards for the Professional Practice of Internal Auditing set by the Institute of Internal Auditors.

(D) COMMUNICATION WITH SHAREHOLDERS

Companies should engage in regular, effective and fair communication with shareholders.

(Principle 14)

Shareholder Communication Strategy

All information disclosed to the Singapore Exchange is posted on the Company's website as soon as it is disclosed to the exchange. When analysts are briefed on aspects of the Group's operations, the material used in the presentation is released to the Singapore Exchange and posted on the Company's website www.straitsasia.com. Procedures are in place to determine where price sensitive information has been inadvertently disclosed, and if so, this information is released to the Singapore Exchange. Company presentations and briefing are released to the Singapore Exchange before the relevant presentation or briefing has been given. Shareholders and other persons interested in the Company's activities are able to subscribe to company news through the Company website.

The external auditors attend the Annual General Meeting and are available to respond to questions about the conduct of the audit and content of the independent audit report.

Companies should encourage greater shareholder participation at Annual General Meetings and allow shareholders the opportunity to communicate their views on various matters affecting the Company.

(Principle 15)

The Group believes in encouraging shareholder participation at general meetings. A shareholder who is entitled to vote may either vote in person or absentia through the appointment of one or more proxies (who can be named individuals nominated by the shareholder to attend the meeting or the Chairman of the meeting as the shareholder may select). The Articles of Association allow for the Board at its sole discretion to approve and implement, subject to security measures as may be deemed necessary or expedient, such voting methods to allow members who are unable to vote in person at any general meeting the option to vote in absentia, including but not limited to voting by mail, electronic mail or facsimile. At this point in time the Board has not made a decision in regard to these alternative voting methods. They will assess this requirement in the future, based on appropriate security measures being in place on a cost effective basis, and when the Board views that this is of sufficient interest to the Company's shareholders.

At the Company's Annual General Meeting, the Board (through the Chairman), presents an overview on the progress and performance of the Group. The Board encourages shareholder participation through a question and answer session, as well as the opportunity to meet with the directors personally after the meeting closes. Our external auditors will be invited to attend the meeting, and will be available to answer shareholders questions about the conduct of the audit and preparation and content of the auditors report.

Separate resolutions are proposed for substantially separate issues at the meeting.

Corporate Governance

The Chairman of the Audit, Nomination and Remuneration Committees, or members of the respective Committees standing in for them, are present at each Annual General Meeting, and other general meetings held by the Company, if any, to address shareholders queries. Senior management are also present at general meetings to respond, if necessary, to operational questions from shareholders that may be raised.

The Company's Articles of Association presently provide that a member may appoint not more than two proxies to attend at a general meeting. The Board has not considered at this point in time in changing this provision.

In accordance with Singapore Companies Act, minutes of general meetings are available to be inspected by any member without charge at the Company's premises. Minutes will include any substantial comments or queries from shareholders and responses from the Board and management.

Securities Trading Policy

A formal Securities Trading Policy was adopted by the Board in December 2006. The policy prohibits directors and certain officers (defined as Senior Management), from dealing in the Company's securities during closed or embargo periods, which are defined as two weeks before the date of announcement of results for each of the first three quarters of the Group's financial year, and one month before the date of announcement of the full year financial results. This is a restriction over and above the requirement to not trade in the Company's securities when in possession of inside information.

A copy of the Securities Trading Policy is available from the corporate governance section of the Company's website.

Risk Assessment and Management

The Company does not have a separate risk management committee. Given the current size of the Company and Board, the directors believe there are no efficiencies in forming a separate committee and the Board has formed an Audit, Risk and Compliance Committee to cover risk matters.

The Company does not have a single specific risk management policy, but rather, financial and operating risks are addressed through individual approved policies and procedures covering financial, contract management, safety and environmental activities of the Company. In addition to financial audits, the Company's operations in Indonesia are also subjected to annual external safety and environmental audits to Australian standards. The Company engages an insurance brokering firm as part of the Company's annual assessment of the coverage for insured assets and risks. The results of all the various audits and insurances are reported to the Board at least annually.

During 2007 the Company commissioned an external expert to conduct a risk assessment of the Company activities. This process completed in 2007.

The integrity of Straits Asia Resources' financial reporting relies upon a sound system of risk management and control. At the end of 2006, we had committed to developing an internal audit function, and an external party was appointed as the internal auditor in 2007.

The Board believes that it has a thorough understanding of the Company's key risks and is managing them appropriately. An extensive overview of potential risks facing the operations of our business was disclosed in our IPO offering document, a copy of which is available for download from our website at www.straitsasia.com.

Corporate Governance

Interested Person Transactions

The Company has established procedures to ensure that all transactions with interested persons are reported on a timely basis to the Audit Committee and that the transactions are carried out on normal commercial terms. The Company's disclosure in respect of interested person transactions for the financial year ended 31 December 2007 is as follows:

Full year ended 31 December 2007

Name of interested person	Aggregate value of all interested person transactions during the period under review (excluding transactions less than \$100,000 and transactions conducted under the shareholders mandate pursuant to rule 920)	Aggregate value of all interested person shareholders mandate pursuant 920 (excluding transactions less than \$100,000) transactions conducted under the to rule
Straits Resources Limited	US\$1,273,471	US\$101,523,797

Transactions conducted under the shareholders mandate have been previously disclosed and approved at the Company's Annual General Meeting held in May 2007.

Corporate Directory

Board of Directors	<p>Milan Jerkovic Richard Ong Chui Chat Martin David Purvis Michael George Gibson Chua Yong Hai Han Eng Juan</p>
Company Secretaries	<p>James Carter Ng Lai Ying</p>
Registered & Head Office	<p>15 Hoe Chiang Road #26-01 Tower Fifteen Singapore 089316</p> <p>Telephone: (65) 6327 4111 Facsimile: (65) 6327 4222</p> <p>Website: www.straitsasia.com</p>
Share Register	<p>Boardroom Corporate & Advisory Services Pte. Ltd. [Formerly known as Lim Associates (Pte) Ltd] 3 Church Street, #08-01 Samsung Hub, Singapore 049483</p>
Auditors	<p>PricewaterhouseCoopers 8 Cross Street PWC Building Singapore 0484245</p> <p>Audit Partner: Tham Tuck Seng Year of appointment: 2000</p>

Financial Report

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Directors' Report

For the year ended 31 December 2007

The directors present their report to the members together with the audited financial statements of the Group for the financial year ended 31 December 2007 and the balance sheet of the Company as at 31 December 2007.

Directors

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

Mr Milan Jerkovic	Chairman
Dr Chua Yong Hai	Deputy Chairman and Independent Director
Mr Richard Ong Chui Chat	Chief Executive Officer
Mr Martin David Purvis	Non Executive Director
Mr Michael George Gibson	Non Executive Director (Appointed 9 November 2007)
Mr Han Eng Juan	Independent Director

Arrangements to enable directors to acquire shares and debentures

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

Directors' interests in shares and debentures

- (a) According to the Register of Directors' Shareholdings, none of the directors holding office at the end of the financial year had any interest in the shares or debentures of the Company or its related corporations, except as follows:

	Holdings registered in name of director or nominee		Holdings in which a director is deemed to have an interest	
	At 31.12.2007	At 1.1.2007 or date of appointment, if later	At 31.12.2007	At 1.1.2007 or date of appointment, if later
Company				
<u>(No of Ordinary shares)</u>				
Mr Richard Ong Chui Chat	2,700,000	750,000	810,000	210,000
Mr Martin David Purvis	375,000	375,000	–	–
Dr Chua Yong Hai	–	–	100,000	178,000
Ultimate holding corporation				
– Straits Resources Limited				
<u>(No of Ordinary shares)</u>				
Mr Milan Jerkovic	3,251,064	2,250,000	953,603	925,411
Mr Richard Ong Chui Chat	1,781,047	4,369,281	–	–
Mr Martin David Purvis	920,865	705,438	110,000	–

- (b) The directors' interest in the ordinary shares of the Company as at 21 January 2008 were the same as those at 31 December 2007.

Directors' Report

For the year ended 31 December 2007

Directors' contractual benefits

Except as disclosed in the financial statements, since the end of the previous financial year, no director has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest, except that Mr Milan Jerkovic, Mr Martin David Purvis and Mr Michael George Gibson have employment relationships with Straits Resources Limited, and have received remuneration in that capacity. Mr Richard Ong Chui Chat receives director's fees for his role as a director on the Straits Resources Limited board.

Employee Share Option Plan

The Company's Employee Share Option Plan ("Option Plan") for key management personnel and employees of the Group was approved by members of the Company at the Annual General Meeting on 30 April 2007. The Option Plan complies with the relevant rules set out in the Listing Manual. In order to remain an attractive and competitive employer, it is essential that we adopt incentive plans which will enable us to reward our employees without inflating the total remuneration costs of our Group. The Option Plan gives us the flexibility to build a variable component into the remuneration package of all deserving employees and through the grant of options. As at the date of this annual report, no options have been granted under the Option Plan.

The objective of the Option Plan is to provide employees of our Company and its subsidiaries with the opportunity of participating in the equity of our Company so as to provide an incentive for employees to achieve greater success and profitability for our Company and to maximize the long term performance of our Company.

The aggregate number of new Shares granted under the Option Plan shall be limited to 5% of the issued share capital of the Company from time to time. The restriction on the size of the Option Plan shall not be amended without the prior approval of the Shareholders of the Company and provided that the aggregate number of new Shares granted under the Option Plan on any date, when added to the number of new Shares issued and issuable in respect of:

- (a) all Options granted under the Plan, and
- (b) all awards granted under any other share option, share incentive, performance share or restricted share plan implemented by the Company and for the time being in force, shall not exceed fifteen percent (15%) of the issued share capital of the Company on the day preceding that date.

Only full or part time employees (excluding any Director of our Company) of our Group are eligible to participate in the Option Plan ("Eligible Employees"). Notwithstanding the above, Controlling Shareholders and their Associates are not eligible to participate in the Option Plan.

The Option Plan shall be administered by the Remuneration Committee in its absolute discretion with such powers and duties as are conferred on it by the Board.

The Remuneration Committee may in its absolute discretion offer options to Eligible Employees during the period which the Option Plan is in force, which is 10 years from the date it was adopted by our Shareholders, provided that in the event that an announcement on any matter of any exceptional nature involving unpublished price sensitive information is made, options may only be granted on or after the second market day from the date on which such announcement is made.

No options have been granted to controlling shareholders of the Company or their associates.

No participant under the scheme has received 5% or more of the total number of options available under the scheme.

Directors' Report

For the year ended 31 December 2007

Employee Share Acquisition Plan

In addition to the Straits Employee Share Option Plan, the members approved the Straits Executive Share Acquisition Plan (the "Share Plan") at the Annual General Meeting held on 30 April 2007. The Share Plan gives us the flexibility to build a variable component into the remuneration package of all deserving executives. A summary of the rules of the Share Plan is set out as follows.

The purpose of the Share Plan is to attract, retain, motivate and reward key executive employees. The Share Plan provides full time executive employees of our Group (other than Directors of our Company) ("Eligible Participants") with an opportunity to acquire an ownership interest in the Company, thereby aligning their interests with those of other Shareholders as a means of encouraging them to ensure that our Company's performance increases shareholder value through long term growth.

All full time employees of our Group with executive responsibilities (excluding Directors of our Company) are eligible to participate in the Share Plan. Controlling Shareholders or their Associates are not eligible to participate in the Share Plan.

The Share Plan shall be administered by the Remuneration Committee with such discretion, powers and duties as are conferred to it by the Board. A member of the Remuneration Committee shall not be involved in the deliberations of the Remuneration Committee in respect of an award of shares ("Award") to him.

The aggregate number of new Shares granted under the Share Plan shall be limited to 5% of the issued share capital of the Company from time to time. The restriction on the size of the Share Plan shall not be amended without the prior approval of the Shareholders of the Company and provided that the aggregate number of Shares over which the Remuneration Committee may issue under the Share Plan on any date, when added to the number of Shares issued and issuable in respect of all Shares granted under the Share Plan and all awards granted under any other share option, share incentive, performance share or restricted share plan implemented by the Company and for the time being in force, shall not exceed fifteen (15) per cent of the issued share capital of the Company on the day preceding that date.

The acquisition of shares under the Share Plan by an Eligible Participant who has accepted an Award ("Participant") will be exclusively and fully funded by an interest free loan advanced to him by our Company, which will be applied directly towards payment of the subscription price of the Plan Shares to be acquired. Until such time as a loan under the Share Plan is repaid in full, the Company will retain all dividends payable in respect of the Plan Shares acquired by the Participant, which dividends shall be applied in reduction of the loan. Notwithstanding, a Participant may elect to repay a loan in full and have the relevant Shares fully vested in their name at any time while a loan balance exists and prior to termination of his employment.

No shares have been granted to controlling shareholders of the Company or their associates.

No participant under the scheme has received 5% or more of the total number of shares available under the scheme. A total of 600,000 shares have been issued to Eligible Participants of the plan since the commencement of the scheme, and for the financial year under review.

Directors' Report

For the year ended 31 December 2007

Audit Committee

The members of the Audit Committee at the end of the financial year were as follows:

Mr Han Eng Juan (Chairman)
Dr Chua Yong Hai
Mr Michael George Gibson

The committee is comprised of all non executive directors. Mr Han Eng Juan and Dr Chua Yong Hai are independent directors. Mr Michael George Gibson is an executive officer of Straits Resources Limited, and is not classified as an independent director.

The Audit Committee carried out its functions in accordance with Section 201B(5) of the Singapore Companies Act. In performing those functions, the Committee reviewed:

- The scope and results of internal audit procedures with the internal auditor;
- the audit plan of the Company's independent auditor and their report on the weaknesses of internal accounting controls arising from their statutory audit;
- the assistance given by the Company's management to the independent auditors; and
- the balance sheet of the Company and the consolidated financial statements of the Group for the financial year ended 31 December 2007 before their submission to the Board of Directors, as well as the independent auditor's report on the balance sheet of the Company and the consolidated financial statements of the Group.

The Audit Committee has recommended to the Board that the independent auditor, PricewaterhouseCoopers, be nominated for re-appointment at the forthcoming Annual General Meeting of the Company.

Independent Auditor

The independent auditor, PricewaterhouseCoopers, has expressed its willingness to accept re-appointment.

On behalf of the Directors

Richard Ong Chui Chat
Director
25 February 2008

Milan Jerkovic
Director

Statement By Directors

For the year ended 31 December 2007

Statement by Directors

In the Directors' opinion:

- (i) the balance sheet of the Company and the consolidated financial statements of the Group as set out on pages 52 to 98 are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the results of the business, changes in equity and cash flows of the Group for the financial year then ended; and
- (ii) 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 Directors

Richard Ong Chui Chat
Director
25 February 2008

Milan Jerkovic
Director

Independent Auditor's Report

For the year ended 31 December 2007

Independent Auditor's Report to the Members of Straits Asia Resources Limited

We have audited the accompanying financial statements of Straits Asia Resources Limited (the "Company") and its subsidiaries (the "Group") set out on pages 52 to 98, which comprise the balance sheets of the Company and of the Group as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement of the Group for the financial year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The Company's directors are 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 designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to 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 directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion

- (a) the balance sheet of the Company and the consolidated financial statements of the Group are properly drawn up in accordance with the provisions of the Act and the Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007, and the results, changes in equity and cash flows of the Group for the financial year ended on that date; and
- (b) the accounting and other records required by the Act to be kept by the Company and by those subsidiaries incorporated in Singapore of which we are the auditor, have been properly kept in accordance with the provisions of the Act.

PricewaterhouseCoopers
Certified Public Accountants

Singapore
25 February 2008

Consolidated Income Statement

For the year ended 31 December 2007

		Group	
	Note	2007 US\$'000	2006 US\$'000
Revenue from continuing operations			
Revenue	5	250,960	278,862
Cost of sales	7	(193,652)	(214,732)
Gross profit		57,308	64,130
Other revenue	5	2,339	3,176
Other gains – net	6	1,515	299
Expenses			
– Marketing and distribution	7	(1,489)	(1,597)
– Finance	9	(876)	(81)
– Administrative, corporate and technical support	7	(20,062)	(7,814)
Profit before income tax		38,735	58,113
Income tax expense	10	(10,172)	(9,960)
Net Profit		28,563	48,153
Attributable to equity holders of the Company		28,563	48,153
Earnings per share for profit attributable to the equity holders of the Company (US cents per share)			
– Basic	11	3.00	5.22
– Diluted	11	3.00	5.22

The accompanying notes form an integral part of these financial statements.

Balance Sheet

As at 31 December 2007

	Note	Group		Company	
		2007 US\$'000	2006 US\$'000	2007 US\$'000	2006 US\$'000
ASSETS					
Current assets					
Cash and cash equivalents	12	35,717	23,066	5,024	3,961
Trade and other receivables	13	90,379	34,507	298,741	1,195
Inventories	14	3,669	2,016	–	–
		129,765	59,589	303,765	5,156
Non current assets					
Receivables	15	255	384	–	–
Property, plant and equipment	16	46,989	14,856	573	35
Exploration and evaluation expenditure	17(a)	102,935	782	101,264	–
Mine properties	17(b)	142,199	19,621	–	–
Intangible assets	18	297,829	–	87,000	–
Deferred income tax	19	1,595	770	–	–
Available for sale financial assets	20	1,925	520	–	–
Investments in subsidiaries	37	–	–	42,211	42,211
		593,727	36,933	231,048	42,246
Total assets		723,492	96,522	534,813	47,402
LIABILITIES					
Current liabilities					
Trade and other payables	21	124,792	35,806	13,013	998
Current income tax liabilities	22	3,384	2,557	106	–
Borrowings	23	220,277	2,550	220,000	–
Provisions for other liabilities and charges	24	865	493	246	65
		349,318	41,406	233,365	1,063
Non current liabilities					
Borrowings	25	183	1,500	–	–
Provisions for other liabilities and charges	26	2,376	1,643	–	–
Deferred income tax liabilities	27	67,443	3,471	18,000	–
		70,002	6,614	18,000	–
Total liabilities		419,320	48,020	251,365	1,063
Net assets		304,172	48,502	283,448	46,339
EQUITY					
Capital and reserves attributable to the Company's equity holders					
Share capital	28	276,236	33,058	276,236	33,058
Other reserves	29	(20,477)	(20,979)	502	–
Retained earnings		48,413	36,423	6,710	13,281
Total equity		304,172	48,502	283,448	46,339

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Note	Attributable to equity holders of the Company			Total US\$'000
		Share capital US\$'000	Other reserves US\$'000	Retained earnings US\$'000	
Balance at 1 January 2007		33,058	(20,979)	36,423	48,502
Profit for the year		–	–	28,563	28,563
Total recognised gains - Profit for the year		–	–	28,563	28,563
Issue of shares	28	246,708	–	–	246,708
Share issue expenses	28	(2,503)	–	–	(2,503)
Executive Share Acquisition Plan ("ExSAP") loan	28	(1,027)	–	–	(1,027)
Share based payments	29	–	502	–	502
Dividends	30	–	–	(16,573)	(16,573)
Balance at 31 December 2007		276,236	(20,477)	48,413	304,172
Balance at 1 January 2006		33,058	(13,227)	9,770	29,601
Profit for year		–	–	48,153	48,153
Total recognised gains - Profit for the year		–	–	48,153	48,153
Adjustment arising from restructuring exercise #	29	–	(7,752)	–	(7,752)
Dividends	30	–	–	(21,500)	(21,500)
Balance at 31 December 2006		33,058	(20,979)	36,423	48,502

The adjustment arising from the restructuring exercise represents the excess of cash consideration paid over the subsidiaries capital acquired and accounted for using the pooling of interest method.

The accompanying notes form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Note	Group	
		2007 US\$'000	2006 US\$'000
Cash flows from operating activities			
Receipts from customers		265,663	294,973
Payments to suppliers and employees		(223,851)	(237,114)
		41,812	57,859
Interest received		684	212
Interest paid		(876)	(308)
Income taxes paid		(8,729)	(11,237)
Net cash provided by operating activities	41	32,891	46,526
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired	38	(296,065)	(3,907)
Purchases of property, plant and equipment		(15,976)	(9,740)
Purchases of mine properties		(11,979)	(8,473)
Payments for exploration expense		(889)	(658)
Acquisition of subsidiaries pursuant to restructuring exercise		–	(7,752)
Purchases of shares and other securities		(1,175)	(520)
Net cash used in investing activities		(326,084)	(31,050)
Cash flows from financing activities			
Proceeds from issues of shares to employees		981	–
Proceeds from share placement		102,215	–
Expenses on share placement		(2,503)	–
Proceeds from borrowings		234,600	5,000
Repayment of borrowings		(18,650)	–
Loans from related parties		–	8,388
Loans (to)/ from non related parties		(60)	5,200
Repayment of loan from a non related party		–	(950)
Dividends paid to equity holders of the Company		(16,573)	(21,500)
Net cash provided by/(used) in financing activities		300,010	(3,862)
Net increase in cash and cash equivalents		6,817	11,614
Cash and cash equivalents at beginning of financial year		22,318	10,704
Cash and cash equivalents at end of financial year	12	29,135	22,318

The accompanying notes form an integral part of these financial statements.

Notes to the financial statements

For the year ended 31 December 2007

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Notes to the financial statements

For the year ended 31 December 2007

1 General Information

Straits Asia Resources Limited is incorporated and domiciled in Singapore. The address of its registered office during the financial period 1 January 2007 to 31 December 2007 was at 80 Robinson Road, #22 04, Singapore 068898. The present address of its registered office is at 15 Hoe Chiang Road, #26 01 Tower Fifteen, Singapore 089316.

The Company was listed on the Singapore Exchange on 3 November 2006.

The principal activity of the Company is that of investment holding. The Group is principally engaged in the business of mining, exploration, marketing and trading of commodities as well as provide marine engineering services.

The Company's immediate holding corporation is Straits Bulk and Industrial Pty Ltd, a company incorporated in Australia.

The Company's ultimate holding corporation is Straits Resources Limited, a company incorporated in Australia. The address of Straits Resources Limited is Level 1, 35 Ventnor Avenue, West Perth, Western Australia, 6005.

The Group acquired the control of PT Metalindo Bumi Raya, PT Karbon Mahakam and PT Separi Energy, a mining exploration group operating in Indonesia (note 38) during the financial year.

2 Summary of significant accounting policies

(a) Basis of preparation

These financial statements have been prepared in accordance with Singapore Financial Reporting Standards ("FRS"). The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with FRS requires management to exercise its judgment in the process of applying the Group's accounting policies. It also requires the use of certain critical accounting estimates and assumptions. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

Interpretations and amendments to published standards effective in 2007

On 1 January 2007, the Group adopted the new or amended FRS and Interpretations to FRS ("INT FRS") that are mandatory for application from that date. Changes to the Group's accounting policies have been made as required, in accordance with the relevant transitional provisions in the respective FRS and INT FRS.

The following are the new or amended FRS and INT FRS that are relevant to the Group:

Amendments to FRS 1	Presentation of Financial Statements – Capital Disclosures
FRS 107	Financial Instruments: Disclosures
INT FRS 110	Interim Financial Reporting and Impairment

The adoption of the above FRS or INT FRS did not result in any substantial changes to the Group's accounting policies nor any significant impact on these financial statements. FRS 107 and the complementary amended FRS 1 introduce new disclosures relating to financial instruments and capital respectively.

Notes to the financial statements

For the year ended 31 December 2007

2 Summary of significant accounting policies (continued)

(b) Group accounting

(i) Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanied by a shareholding giving rise to the majority of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Acquisition of entities that are under common control have been consolidated using the pooling-of-interest method.

The purchase method of accounting is used to account for the acquisition of other subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the dates 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. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Subsidiaries are consolidated from the date on which control is transferred to the Group to the date on which that control ceases.

In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated but are considered as impairment indicator of the asset transferred. Accounting policies of subsidiaries has been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests are that part of the net results of operations and of net assets of a subsidiary attributable to interests which are not owned directly or indirectly by the Group. They are measured at the minorities' share of the fair value of the subsidiaries' identifiable assets and liabilities at the date of acquisition by the Group and the minorities' share of changes in equity since the date of acquisition, except when minorities' share of the losses in a subsidiary exceeds its interest in the equity of that subsidiary. In such cases, the excess and further losses applicable to the minorities are attributed to the equity holders of the Company, unless the minorities have a binding obligation to, and are able to, make good the losses. When that subsidiary subsequently reports profits, the profits applicable to the minority interest are attributed to the equity holders of the Company until the minorities' share of losses previously absorbed by the equity holders of the Company are fully recovered.

Changes in the Group's ownership interest in a subsidiary after control is obtained that do not result in a loss of control are accounted for by adjusting the carrying amount of minority interest to reflect the change in the Group's interest in the subsidiary's net assets. The difference between the amount of adjustment to minority interest and the fair value of the consideration paid or received, if any, is brought to equity.

Please refer to the paragraph "investments in subsidiaries" for accounting on investments in subsidiaries in the separate financial statements of the Company.

Notes to the financial statements

For the year ended 31 December 2007

2 Summary of significant accounting policies (continued)

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in United States Dollar which is also the functional currency of the Company.

(ii) Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates at the dates of the transactions. Currency translation differences from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the balance date are recognised in the income statement, unless they arise from borrowings in foreign currencies, other currency instruments designated and qualifying as net investment hedges and net investment for foreign operations. Those currency translation differences are recognised in the currency translation reserve in the consolidated financial statements and transferred to the income statement as part of the gain or loss on disposal of the foreign operation.

Changes in the fair value of monetary securities denominated in foreign currencies classified as available-for-sale are analyzed into currency translation differences on the amortised cost of the securities, and other changes. Currency translation differences on the amortised cost are recognised in the income statement, and other changes are recognised in fair value reserve within equity.

Non monetary items measured at fair values in foreign currencies are translated using the exchange rates at the date when the fair values are determined.

(iii) Translation of Group entities' financial statements

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing exchange rates at the date of the balance sheet;
- Income and expenses are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated using the exchange rates at the dates of the transactions); and
- All resulting currency translation are recognised in the currency translation reserve.

Goodwill and fair value adjustments arising on the acquisition of foreign operations on or after 1 January 2005 are treated as assets and liabilities of the foreign operations and translated at the closing rates at the date of the balance sheet. For acquisitions prior to 1 January 2005, the exchange rates at the dates of acquisition are used.

Notes to the financial statements

For the year ended 31 December 2007

2 Summary of significant accounting policies (continued)

(d) Revenue recognition

Revenue for the Group comprises the fair value of the consideration received or receivable for the sale of goods and rendering of management and agency services in the ordinary course of the Group's activities. Revenue is presented, net of value-added tax, rebates and discounts, and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue and related cost can be reliably measured, it is probable that future economic benefits will flow to the entity and when the specific criteria for each of the Group's activities are met as follows:

(i) Sale of goods

Revenue from these sales is recognised when a Group entity has delivered the products specified by its customers, the customers have accepted the products in accordance with the sales contract and the collectibility of the related receivable is reasonably assured.

(ii) Rendering of services

Revenue from management, agency and logistic services is recognised over the period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be performed.

(iii) Interest income

Interest income is recognised using the effective interest method.

(iv) Dividend income

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

(e) Borrowing costs

Borrowing costs are recognised in the income statement using the effective interest method except for those costs that are directly attributable to borrowings acquired specifically for the construction of property, plant and equipment.

(f) Cash and cash equivalents

For the purpose of presentation in the consolidated cash flow statement, cash and cash equivalents includes cash on hand, deposits with financial institutions, and bank overdrafts.

(g) Income taxes

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantially enacted by the balance sheet date.

Deferred income tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and affects neither accounting nor taxable profit or loss at the time of the transaction.

A deferred income tax liability is recognised on temporary differences arising on investments in subsidiaries, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.

Notes to the financial statements

For the year ended 31 December 2007

2 Summary of significant accounting policies (continued)

(g) Income taxes (continued)

Deferred income tax is measured:

- (i) at the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantially enacted by the balance sheet date; and
- (ii) based on the tax consequence that would follow from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred income tax are recognised as income or expenses in the income statement, except to the extent that the tax arises from a business combination or a transaction which is recognised directly in equity. Deferred tax arising from a business combination is adjusted against goodwill on acquisition.

(h) Operating leases

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. Payments made under operating leases (net of any incentives received from the lessor) are recognised in the income statement on a straight line basis over the period of the lease.

(i) Inventories

Raw materials and stores, work in progress and finished goods are carried at the lower of cost and net realizable value. Cost is determined using the weighted average costs method. The cost of raw materials and stores, work in progress and finished goods comprises direct materials, direct labor and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(j) Financial assets

(1) Classification

The Group classifies its financial assets in the following categories: loans and receivables and available for sale. The classification depends on the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets except for those maturing later than 12 months after the balance sheet date which are presented as non current assets. Loans and receivables are presented as "trade and other receivables" on the balance sheet.

(ii) Financial assets, available for sale

Available for sale financial assets, comprising investment in unquoted equity securities, are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Notes to the financial statements

For the year ended 31 December 2007

2 Summary of significant accounting policies (continued)

(j) Financial assets (continued)

(2) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on the trade-date the date on which the Group commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from those financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. On disposal of a financial asset, the difference between the carrying amount and the sale proceeds is recognised in the income statement. Any amount in the fair value reserve relating to that asset is transferred to the income statement.

(3) Initial measurement

Financial assets are initially recognised at fair value plus transaction costs.

(4) Subsequent measurement

Loans and receivables are carried at amortised cost using the effective interest method.

Unrealised gains and losses arising from changes in the fair value of financial assets classified as available for sale are recognised in the fair value reserve within equity. When investments classified as available for sale are sold or impaired, the accumulated fair value adjustments in the fair value reserve within equity are included in the income statement.

(5) Impairment

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired and recognises an allowance for impairment when such evidence exists.

(i) Loans and receivables

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or significant delay in payments are objective evidence that these financial assets are impaired.

The carrying amount of these assets is reduced through the use of an impairment allowance account which is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When the asset becomes uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised against the same line item in the income statement.

The allowance for impairment loss account is reduced through the income statement in a subsequent period when the amount of impairment loss decreases and the related decrease can be objectively measured. The carrying amount of the asset previously impaired is increased to the extent that the new carrying amount does not exceed the amortised cost had no impairment been recognised in prior periods.

(ii) Financial assets, available for sale

Significant or prolonged declines in the fair value of the security below its cost and the disappearance of an active trading market for the security are objective evidence that the security is impaired.

The cumulative loss that was recognised in the fair value reserve is transferred to the income statement. The cumulative loss is measured as the difference between the acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any impairment loss previously recognised in the income statement on debt securities. The impairment losses recognised in the income statement on equity securities are not reversed through the income statement.

Notes to the financial statements

For the year ended 31 December 2007

2 Summary of significant accounting policies (continued)

(k) Fair value estimation of financial assets and liabilities

The fair values of financial instruments traded in active markets (such as exchange-traded and over-the-counter securities and derivatives) are based on quoted market prices at the balance sheet date. The quoted market prices used for financial assets are the current bid prices; the appropriate quoted market prices for financial liabilities are the current asking prices.

The fair value of financial instruments that are not traded in an active market are determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Where appropriate, quoted market prices or dealer quotes for similar instruments are used. Valuation techniques, such as discounted cash flow analyses, are also used to determine fair values of the financial instruments.

The fair values of current financial assets and liabilities carried at amortised cost approximate their carrying amounts.

(l) Property, plant and equipment

All items of property, plant and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance expense is recognised in the income statement when incurred.

Depreciation on mine property is calculated on a unit-of-production basis so as to write-off the cost of each asset in proportion to the depletion of the proved and probable mineral reserves.

The accumulated costs of the construction of buildings and plant and the installation of machinery are capitalised as construction in progress. These costs are reclassified to property, plant and equipment when the construction or installation is complete. Depreciation is charged from the date when assets are available for use.

Depreciation on other property, plant and equipment is calculated using the straight line method to allocate their depreciable amounts over their estimated useful lives as follows:

	Useful lives
– Buildings	3 – 10 years
– Plant and equipment	3 – 5 years
– Motor vehicles	5 years

The residual values, estimated useful lives and depreciation method of property, plant and equipment are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are recognised in the income statement when the changes arise.

On disposal of an item of property, plant and equipment, the difference between the disposal proceeds and its carrying amount is recognised in the income statement.

Notes to the financial statements

For the year ended 31 December 2007

2 Summary of significant accounting policies (continued)

(m) Exploration and evaluation expenditure

Exploration and evaluation expenditure are capitalised in the balance sheet, in respect of each area of interest, for which the rights of tenure are current and where:

- Such costs are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; or
- Exploration and/or evaluation activities in the area have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area are continuing.

Exploration expenditure incurred that does not satisfy the policy stated above is expensed in the period in which it is incurred for each area of interest. Exploration expenditure that has been capitalised which no longer satisfies the policy stated above is written off in the period in which that decision is made.

Development expenditure is capitalised and incorporates costs in developing an area of interest prior to the commencement of operations in the respective area. Amortisation is provided in respect of deferred exploration and development expenditure from the commencement of mining activities, on a unit-of-production basis over the life of the mine, as proved and probable reserves are produced. Reserve and life of mine estimates are reviewed on a regular basis, and amortisation rates are adjusted where necessary.

The net carrying value of each area of interest is reviewed regularly and, to the extent to which this value exceeds its recoverable value, that excess is provided for or written off in the year in which this is determined.

(n) Mine properties

Mine properties represent the acquisition costs and/or accumulation of mining rights, deferred exploration and development expenditure in respect of areas of interest in which mining has commenced.

When further development expenditure is incurred in respect of a mine property after the commencement of production, such expenditure is carried forward as part of the mine property only when substantial future economic benefits are thereby established, otherwise such expenditure is classified as part of the cost of production.

Amortisation is provided on a unit-of-production basis so as to write-off the cost in proportion to the depletion of the proved and probable mineral reserves. Reserves and life of mine estimates are reviewed on an annual basis, and amortisation rates are adjusted accordingly where necessary.

(o) Deferred mining expenditure

Certain mining costs, principally those that relate to the stripping of waste and which relate to future economically recoverable coal to be mined, have been capitalised and included in mine properties as deferred mining. These costs are deferred or taken to the cost of production as the case may be, so that each tonne of coal mined bears the average costs of waste removal per tonne of coal, as determined by the waste to coal ratio derived from the current pit design and incurs the associated variable contract mining costs specific to the production area from which that coal is mined. The waste to coal ratio and the remaining life of the mine are regularly assessed by the Directors and senior management to ensure the carrying value and rate of deferral is appropriate.

Notes to the financial statements

For the year ended 31 December 2007

2 Summary of significant accounting policies (continued)

(p) Intangible assets

(i) Goodwill on acquisitions

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net identifiable net assets and contingent liabilities of the acquired subsidiaries at the date of acquisition.

(ii) Offtake rights

Acquired offtake rights for the mining operation are initially recognised at cost and are subsequently carried at cost less accumulated amortisation. Amortisation is calculated using the production basis so as to write down the cost in proportion to the depletion of the proved and probable reserves, limited by the estimated useful lives and period of the contractual right and the life of the mine which range between 5 to 15 years.

The amortisation period and amortisation method of intangible assets other than goodwill are reviewed at least at each balance sheet date. The effect of any revision are recognised in the income statement when the change arises.

(q) Provisions

Provisions for asset dismantlement and removal or restoration are recognised when the Group has a legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are not recognised for future operating losses.

Provision for restoration and rehabilitation

The Group has obligations to dismantle, remove, restore and rehabilitate certain items of property, plant and equipment. The Group recognises the estimated costs of dismantlement, removal or restoration of items of property, plant and equipment arising from the acquisition or use of assets. The provisions are estimated based on the best estimate of the expenditure required to settle the obligation, taking into consideration time value.

The estimated costs are discounted using the pre-tax discount rate that reflects the time value of money. As the value of the provisions represent the discounted value of the present obligation to restore, dismantle and rehabilitate, the increase in the provisions due to the passage of time are recognised in the income statement as a borrowing cost.

Changes in estimated timing or amount of the expenditure or discount rate which affect the discounted cost are adjusted against the cost of the related property, plant and equipment unless the decrease in the liability exceeds the carrying amount of the asset or the asset has reached the end of its useful life, in such cases, the excess of the decrease over the carrying of the asset or the changes in the liability is recognised in profit or loss immediately.

(r) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid at the reporting date. The amounts are unsecured and are usually paid within 30 days of recognition. Trade payables are initially recognised at fair value, and subsequently carried at amortised cost, using the effective interest method.

(s) Borrowings

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

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

Notes to the financial statements

For the year ended 31 December 2007

2 Summary of significant accounting policies (continued)

(t) Employee benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) Termination benefits

Liabilities for termination benefits are recognised when a detailed plan for the terminations has been developed without possibility of withdrawal.

Liabilities for termination benefits expected to be settled within 12 months are measured at the amounts expected to be paid when they are settled. Amounts expected to be settled more than 12 months from the reporting date are measured at the estimated cash outflows, discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible the estimated future payments, where the effect of discounting is material.

(iii) Defined contribution plans

Defined contribution plans are post employment benefit plans under which the Group pays fixed contributions into separate entities such as the Central Provident Fund on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The Group's contributions are recognised as employee compensation expense when they are due, unless they can be capitalised as an asset.

(iv) Employee Share Acquisition (ExSAP)

Share-based payment benefits are provided to employees via the Employee Share Acquisition Plan. The Group operates an equity-settled, share-based compensation plan by allowing participants to purchase shares in the Company at a price approved by the Board of Directors by way of a Company provided interest free loan. A holding lock is placed over the shares in the Company until the loan is repaid in full. The fair value of the employee services received in exchange for the grant of Employee Share Acquisition Plan is recognised as an expense in the income statement with a corresponding increase in the share-based payment reserve. When the loan under the Employee Share Acquisition Plan is fully repaid, the proceeds received (net of transaction costs) and the related balance previously recognised in the share-based payment reserve are credited to the share capital account when the ordinary shares are paid up.

(u) Share Capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issuance of new ordinary shares and deducted against the share capital account.

(v) Dividends to Company's shareholders

Dividends to Company's shareholders are recognised when the dividends are approved for payment.

(w) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the net profit after income tax attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Notes to the financial statements

For the year ended 31 December 2007

2 Summary of significant accounting policies (continued)

(w) Earnings per share (continued)

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(x) Impairment of non financial assets

(i) Goodwill

Goodwill is tested for impairment annually and whenever there is indication that the goodwill may be impaired.

For the purpose of impairment testing of goodwill, goodwill is allocated to each of the Group's cash-generating-units ("CGU") expected to benefit from synergies arising from the business combination.

An impairment loss is recognised when the carrying amount of a CGU, including the goodwill, exceeds the recoverable amount of the CGU. Recoverable amount of a CGU is the higher of the CGU's fair value less cost to sell and value-in-use.

The total impairment loss of a CGU is allocated first to reduce the carrying amount of goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU.

An impairment loss is recognised in the income statement and is not reversed in a subsequent period.

(ii) Intangible asset

Property, plant and equipment

Investments in subsidiaries

Property, plant and equipment, mining rights, deferred mining expenditure, deferred exploration and development expenditure, exploration and evaluation expenditure, offtake rights and investments in subsidiaries are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

For the purpose of impairment testing, the recoverable amount (i.e. the higher of the fair value less cost to sell and the value in use) is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the cash generating unit ("CGU") to which the asset belongs.

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

The difference between the carrying amount and recoverable amount is recognised as an impairment loss in the income statement.

An impairment loss for an asset is reversed if, and 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. The carrying amount of an asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated depreciation) had no impairment loss been recognised for the asset in prior years.

A reversal of impairment loss for an asset is recognised in the income statement.

(y) Segment reporting

A business segment is a distinguishable component of the Group engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is a distinguishable component of the Group engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

Notes to the financial statements

For the year ended 31 December 2007

2 Summary of significant accounting policies (continued)

(z) Investments in subsidiaries

Investments in subsidiaries are carried at cost less accumulated impairment losses in the Company's balance sheet. On disposal of investments in subsidiaries, the difference between disposal proceeds and the carrying amount of the investment is recognised in the income statement.

(aa) Rounding of amounts

The Board has determined that the financial reports of the Group are more clearly presented when rounded to the nearest thousand dollars. Amounts reported in the financial statements have been rounded on this basis as permitted by paragraph 48 of FRS 1.

3 Effects on financial statements on adoption of new or revised FRS

Certain new accounting standards and FRS interpretations have been published that are mandatory for accounting periods beginning on or after 1 January 2007. The Group's assessment of those standards and interpretations that are relevant to the Group is set out below:

FRS 107, Financial Instruments: Disclosures; and a complementary amendment to FRS 1, Presentation of Financial Statements – Capital Disclosures

FRS 107 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces FRS 32, Financial Instruments: Disclosure and Presentation. The amendment to FRS 1 introduces disclosures about the level of an entity's capital and how it manages capital.

The Group had adopted FRS 107 and the amendment to FRS 1 from 1 January 2007.

4 Critical accounting estimates and judgments

Estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. At the date of the financial statements, it is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the asset or liability affected.

(i) Estimation for the provision for rehabilitation and dismantling

Provision for rehabilitation and dismantling of property, plant and equipment is estimated taking into consideration facts and circumstances available at the balance sheet date. This estimate is based on the expenditure required to undertake the rehabilitation and dismantling, taking into consideration time value.

(ii) Impairment of property, plant and equipment, exploration and evaluation expenditure, intangible assets and mine properties

The Group reviews for impairment property, plant and equipment, exploration and evaluation expenditure, intangible assets and mine properties in accordance with the accounting policy. The recoverable amount of these assets has been determined based on the higher of the assets' fair values less costs to sell and value in use. These calculations require the use of estimates and judgments.

(iii) Income taxes

Judgment is required in determining the provision for income taxes. The Group recognises liabilities for anticipated tax based on estimates of taxes 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 year in which such determination is made.

Notes to the financial statements

For the year ended 31 December 2007

4 Critical accounting estimates and judgments (continued)

(iv) Estimation of environmental clean up costs and the timing of such expenditure

Provision for environmental clean up costs and the timing of such expenditure is estimated taking into consideration the available facts and circumstances at balance sheet date. Please refer to note 2(q) for further details.

(v) Recoverability of deferred tax assets

Estimation is required in regard to the recognition, timing, and recoverability of deferred tax assets, taking into consideration the available facts and circumstances at balance sheet date. Please refer to note 2(g) for further details.

(vi) Determination of coal reserves

Judgment is required in determining the Group's coal reserves taking into account various assumptions regarding mining costs and the price of the particular reserve concerned. The Group's coal reserves are sensitive to the cost and revenue assumptions used due to the geological structure of the deposits, which means that, all other factors remaining the same, if the cost assumption is higher or the price assumption is lower, the Group estimates lower reserves, and if the cost assumption is lower or the price assumption is higher, the Group estimates more reserves.

(vii) Deferred mining expenditure

Certain mining costs, principally those that relate to the stripping of waste and which relate to future economically recoverable coal to be mined, are capitalised and included in mine properties as deferred mining. These costs are deferred or taken to the costs of production. The waste to coal ratio and the remaining life of the mine are regularly assessed by the Directors and senior management to ensure the carrying value and rate of deferral is appropriate taking into consideration the available facts and circumstances from time to time.

(viii) Capitalisation and impairment of exploration and evaluation costs

Exploration and evaluation expenditure are capitalised in the balance sheet, in respect of areas of interest for which the rights of tenure are current and where such costs are expected to be recouped or exploration and/or evaluation activities in the area have not yet reached a stage which permits a reasonable assessment of the existence of economically recoverable reserves. The carrying value of each area of interest is reviewed regularly taking into consideration the available facts and circumstances, and to the extent to which the capitalised value exceeds its recoverable value, the excess is provided for or written off in the year in which this is determined.

5 Revenue

	Group	
	2007 US\$'000	2006 US\$'000
Sales revenue		
Sale of goods	250,960	278,862
Other Revenue		
Management Fees	1,244	1,699
Logistics Services	156	562
Agency Fees	732	834
Sundry Income	207	81
	2,339	3,176
	253,299	282,038

Notes to the financial statements

For the year ended 31 December 2007

6 Other gains – net

	Group	
	2007 US\$'000	2006 US\$'000
Foreign exchange gains (net)	831	73
Interest Income – bank deposits	684	226
	1,515	299

7 Expenses by nature

	Group	
	2007 US\$'000	2006 US\$'000
Purchases of commodities	102,132	136,077
Amortisation of mine properties (note 17(b))	1,934	1,850
Depreciation of plant and equipment (note 16)	2,914	1,597
Write-off plant equipment	3,247	–
Total amortisation, depreciation and impairment	8,095	3,447
Contract costs	63,146	67,740
Equipment rental	10,968	1,535
Allowance for impairment of receivables	644	(35)
Bad debts	372	–
Rental on operating leases	363	611
Value added tax	1,082	612
Employee benefits (note 8)	13,797	7,190
Agency fee	1,363	1,123
Management fee	1,500	1,790
Other expenses	11,001	3,428
Changes in inventories of finished goods	740	625
Total cost of sales, marketing and distribution, administrative, corporate and technical support expenses	215,203	224,143

Notes to the financial statements

For the year ended 31 December 2007

8 Employee benefits

	Group	
	2007	2006
	US\$'000	US\$'000
Wages and salaries	9,850	7,158
Share-based payments	991	–
Employers' contribution to defined contribution plans including Central Provident Fund	118	32
Other staff benefits	2,838	–
	13,797	7,190

9 Finance expenses

	Group	
	2007	2006
	US\$'000	US\$'000
Bank charges and interest – borrowings	876	81

10 Income taxes

	Group	
	2007	2006
	US\$'000	US\$'000
(a) Income tax expense		
Tax expense attributable to profit is made up of:		
Current income tax	6,365	7,656
Deferred income tax	2,778	2,143
Underprovision in prior financial years:		
Current income tax	602	161
Deferred income tax	427	–
	10,172	9,960
Deferred income tax (credit)/charge included in income tax expense comprises:		
Increase in deferred tax assets (note 19)	(18)	(94)
Increase in deferred tax liabilities (note 27)	3,223	2,237
	3,205	2,143
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
The tax expense on profit differs from the amount that would arise using the Singapore Standard rate of income tax is as explained as below:		
Profit before tax	38,735	58,113
Tax calculated at tax rate of 18% (2006: 20%)	6,972	11,623
Effects of		
Non deductible expenses	177	633
Income subject to tax incentive	(1,634)	(4,747)
Deferred mining expenditure	3,223	2,236
Sundry items	27	(228)
Different tax rates in other countries	420	282
Utilisation of previously unrecognised capital allowance	(42)	–
Under provision in prior years	1,029	161
Tax charge	10,172	9,960

On 15 February 2007, the Singapore Second Minister for Finance announced a reduction in the corporate tax rate from 20% to 18% and various tax incentives for the year of assessment 2008 and onwards.

Notes to the financial statements

For the year ended 31 December 2007

11 Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

	Group	
	2007	2006
Net profit attributable to equity holders of the company (US\$'000)	28,563	48,153
Weighted average number of ordinary shares outstanding for basic earnings per share	950,793,670	920,765,220
Basic earnings per share (US cents)	3.00	5.22

Diluted earnings per share are the same as basic earnings per share as the dilution effect is minimal as at 31 December 2007 and 2006.

12 Current assets – Cash and cash equivalents

	Group		Company	
	2007 US\$'000	2006 US\$'000	2007 US\$'000	2006 US\$'000
Cash at bank and on hand	29,135	22,318	731	3,961
Fixed deposits with financial institutions	6,582	748	4,293	–
	35,717	23,066	5,024	3,961

For the purpose of presenting the consolidated cash flow statement, the consolidated cash and cash equivalents comprise the following:

	Group		Company	
	2007 US\$'000	2006 US\$'000	2007 US\$'000	2006 US\$'000
Cash and bank balances (as above)	35,717	23,066	5,024	3,961
Restricted cash – deposits pledged with a bank for banking facilities	(6,582)	(748)	(4,293)	–
	29,135	22,318	731	3,961
Indonesian Rupiah	388	139	–	–
Singapore Dollar	827	57	310	–
United States Dollar	34,486	22,838	4,714	3,961
Australian Dollar	16	32	–	–
	35,717	23,066	5,024	3,961

The fixed deposits mainly have maturity dates within 3 months (2006: 3 months) with an average effective interest rate of 1.0% – 4.9% (2006: 3.0%) per annum.

Please refer to note 38 for the aggregate effects of the acquisition of subsidiaries on the cashflows of the Group.

Notes to the financial statements

For the year ended 31 December 2007

13 Current assets – Trade and other receivables

	Group		Company	
	2007 US\$'000	2006 US\$'000	2007 US\$'000	2006 US\$'000
Trade receivables				
Related corporation	708	5,391	–	–
Third parties	78,702	21,237	–	–
	79,410	26,628	–	–
Less: Allowance for impairment of receivables	(150)	(211)	–	–
Trade receivables - net	79,260	26,417	–	–
Other receivables				
Immediate holding corporation	–	–	199	681
Related corporation	–	–	4	–
Subsidiaries	–	–	293,659	108
Third parties	5,739	6,928	333	61
	5,739	6,928	294,195	850
Advance non-related party	–	182	–	–
Prepayments	5,380	980	4,546	345
	90,379	34,507	298,741	1,195

(a) Neither past due and/or impaired

Bank deposits that are neither past due nor impaired are mainly deposits with banks with high credit-ratings assigned by international credit-rating agencies. Trade receivables that are neither past due nor impaired are substantially companies with a good collection track record with the Group.

(b) Past due and/or impaired

There is no other class of financial assets that is past due and/or impaired except for trade receivables.

Financial assets that are neither past due nor impaired are trade receivables with companies with a good collection track record with the Group.

Where financial assets are past due but not impaired, the Group has assessed that the credit qualities of these amounts have not changed and the amounts are still considered recoverable.

The age analysis of trade receivables past due but not impaired is as follows:

	Group	
	2007 US\$'000	2006 US\$'000
Past due		
0 to 30 days	21,210	1,392
31 to 60 days	6,727	2,217
Over 61 days	9,854	1,745
	37,791	5,354

There are no amounts past due for the Company at 31 December 2007.

The impaired trade receivables arise mainly from services performed to a customer in which the amount is under dispute. Management had made a provision for the amount deemed unrecoverable.

Notes to the financial statements

For the year ended 31 December 2007

13 Current assets – Trade and other receivables (continued)

(b) Past due and/or impaired (continued)

The carrying amount of trade receivable individually determined to be impaired and the movements in the allowance for impairment of receivables are as follows:

	Group	
	2007 US\$'000	2006 US\$'000
Beginning of financial year	211	257
Allowance made	668	(35)
Allowance utilised	(705)	(11)
Unused amount reversed	(24)	–
End of financial year	150	211

The Company's other receivables due from subsidiaries are interest free and repayable on demand. The Company has not made any allowance as the directors are of the view that these receivables are recoverable.

(c) Fair value and credit risk

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. The Group does not hold any collateral as security. Refer to note 34 for more information on the risk management policy of the Group.

14 Current assets – Inventories

	Group		Company	
	2007 US\$'000	2006 US\$'000	2007 US\$'000	2006 US\$'000
ROM stockpile – at cost	1,009	–	–	–
Port stockpile – at cost	2,660	2,016	–	–
	3,669	2,016	–	–

15 Non-current assets – Receivables

	Group		Company	
	2007 US\$'000	2006 US\$'000	2007 US\$'000	2006 US\$'000
Trade receivables	–	16	–	–
Receivable from ultimate holding corporation	–	136	–	–
Other receivables	255	232	–	–
	255	384	–	–

The amounts receivable are interest free and are not expected to be repaid within 12 months from the balance sheet dates and are denominated in United States Dollar. The carrying amounts approximate their fair values.

Notes to the financial statements

For the year ended 31 December 2007

16 Non-current assets – Property, plant and equipment

Group	Construction in progress US\$'000	Freehold buildings US\$'000	Plant and equipment US\$'000	Motor vehicles US\$'000	Total US\$'000
Year ended 31 December 2007					
Opening net book amount	7,201	520	6,345	790	14,856
Acquisition of subsidiaries – fair value (Note 38)	34	8,284	13,676	340	22,334
Additions	14,126	83	1,211	556	15,976
Transfer (to)/from other classes	(4,002)	11	3,991	–	–
Depreciation charge	–	–	(2,622)	(292)	(2,914)
Disposals	(3,247)	–	(16)	–	(3,263)
	14,112	8,898	22,585	1,394	46,989
At 31 December 2007					
Cost	14,112	11,494	28,659	2,582	56,847
Accumulated depreciation	–	(2,596)	(6,074)	(1,188)	(9,858)
Net book amount	14,112	8,898	22,585	1,394	46,989
At 1 January 2006					
Cost	653	2,856	6,099	963	10,571
Accumulated depreciation	–	(2,264)	(2,446)	(637)	(5,347)
Net book amount	653	592	3,653	326	5,224
Year ended 31 December 2006					
Opening net book amount	653	592	3,653	326	5,224
Additions	8,670	260	1,576	723	11,229
Transfer (to)/from other classes	(2,122)	–	2,122	–	–
Depreciation charge	–	(332)	(1,006)	(259)	(1,597)
At 31 December 2006	7,201	520	6,345	790	14,856
At 31 December 2006					
Cost	7,201	3,116	9,797	1,686	21,800
Accumulated depreciation	–	(2,596)	(3,452)	(896)	(6,944)
Net book amount	7,201	520	6,345	790	14,856

Notes to the financial statements

For the year ended 31 December 2007

16 Non-current assets – Property, plant and equipment (continued)

Company	Plant and equipment US\$'000	Motor vehicles US\$'000	Total US\$'000
Year ended 31 December 2007			
Opening net book amount	35	–	35
Additions	362	215	577
Depreciation charge	(19)	(20)	(39)
Closing net book amount	378	195	573
At 31 December 2007			
Cost	401	215	616
Accumulated depreciation	(23)	(20)	(43)
Net book amount	378	195	573
Year ended 31 December 2006			
Opening net book amount	–	–	–
Additions	39	–	39
Depreciation charge	(4)	–	(4)
Closing net book amount	35	–	35
At 31 December 2006			
Cost	39	–	39
Accumulated depreciation	(4)	–	(4)
Net book amount	35	–	35

Notes to the financial statements

For the year ended 31 December 2007

17 Non-current assets – Exploration and evaluation expenditure and mine properties

(a) Exploration and evaluation expenditure

	Group		Company	
	2007 US\$'000	2006 US\$'000	2007 US\$'000	2006 US\$'000
Beginning of financial year	782	124	–	–
Expenditure incurred	889	658	–	–
Acquisition of subsidiaries (note 38)	101,264	–	101,264	–
End of financial year	102,935	782	101,264	–

(b) Mine properties

Group	Mining right US\$'000	Deferred mining expenditure US\$'000	Deferred exploration and development expenditure US\$'000	Total US\$'000
Year ended 31 December 2007				
Cost				
Beginning of financial year	17,679	13,613	13,305	44,597
Expenditure during the year	–	11,829	150	11,979
Acquisition of subsidiaries (note 38)	107,244	–	6,068	113,312
End of financial year	124,923	25,442	19,523	169,888
Accumulated amortisation				
Beginning of financial year	(14,142)	(1,645)	(9,189)	(24,976)
Amortisation for the year	(534)	(550)	(850)	(1,934)
Acquisition of subsidiaries (note 38)	–	–	(779)	(779)
End of financial year	(14,676)	(2,195)	(10,818)	(27,689)
Net book value				
At 31 December 2007	110,247	23,247	8,705	142,199
Year ended 31 December 2006				
Cost				
Beginning of financial year	17,679	5,283	12,574	35,536
Expenditure during the year	–	8,330	731	9,061
End of financial year	17,679	13,613	13,305	44,597
Accumulated amortisation				
Beginning of financial year	(13,579)	(1,057)	(8,490)	(23,126)
Amortisation for the year	(563)	(588)	(699)	(1,850)
End of financial year	(14,142)	(1,645)	(9,189)	(24,976)
Net book value				
At 31 December 2006	3,537	11,968	4,116	19,621

Notes to the financial statements

For the year ended 31 December 2007

18 Non current assets – Intangible assets

Group	Offtake rights US\$'000	Goodwill US\$'000	Total US\$'000
Year ended 31 December 2007			
Beginning of financial year	–	–	–
Acquisition of subsidiaries (note 38)	192,829	105,000	297,829
End of financial year	192,829	105,000	297,829
At 31 December 2007			
Cost	192,829	105,000	297,829
Net book amount	192,829	105,000	297,829
Company		Goodwill US\$'000	Total US\$'000
Year ended 31 December 2007			
Beginning of financial year		–	–
Acquisition of subsidiaries (note 38)		87,000	87,000
End of financial year		87,000	87,000
At 31 December 2007			
Cost		87,000	87,000
Net book amount		87,000	87,000

As part of the business combinations disclosed under note 38, the Group purchased intangible assets in the form of coal offtake rights for exclusive right to acquire a specified volume of production over a number of years.

19 Non current assets – Deferred income tax

	Group		Company	
	2007 US\$'000	2006 US\$'000	2007 US\$'000	2006 US\$'000
Deferred tax assets to be recovered after one year	1,595	770	–	–
	1,595	770	–	–

Movement in deferred tax assets account is as follows:

Group	Provisions US\$'000	Other US\$'000	Total US\$'000
Year ended 31 December 2007			
Beginning of financial year	693	77	770
Tax charged to the income statement	268	177	445
Acquisition of subsidiaries (note 38)	–	467	467
Others	339	1	340
Underprovision in respect of prior years	(577)	150	(427)
End of financial year	723	872	1,595
Year ended 31 December 2006			
Beginning of financial year	599	77	676
Tax charged to the income statement	94	–	94
End of financial year	693	77	770

Notes to the financial statements

For the year ended 31 December 2007

20 Non-current assets – Available-for-sale financial assets

	Group		Company	
	2007 US\$'000	2006 US\$'000	2007 US\$'000	2006 US\$'000
Unquoted equity investment	1,925	520	–	–

Fair value of unquoted equity investment was not measured as it was not practicable to determine with sufficient reliability the fair value of this investment. The Group has measured this investment at cost.

On 11 April 2006, Straits Energy Trading Pte Ltd, a subsidiary of the Company, acquired 10% equity interest in Xanadu Mines Ltd for a consideration of AUD685,000.

21 Current liabilities – Trade and other payables

	Group		Company	
	2007 US\$'000	2006 US\$'000	2007 US\$'000	2006 US\$'000
Trade payables	94,087	32,122	–	–
Other payables				
Immediate holding corporation	–	–	149	149
Ultimate holding corporation	–	–	204	319
Subsidiaries	–	–	8,039	–
Third parties	4,594	355	4,594	356
Accrued expenses	26,111	3,329	27	174
	124,792	35,806	13,013	998

The carrying amounts of current trade and other payables approximate their fair value. Trade and other payables are denominated in United States Dollar.

22 Current liabilities – Current income tax liabilities

	Group		Company	
	2007 US\$'000	2006 US\$'000	2007 US\$'000	2006 US\$'000
Beginning of financial year	2,557	5,977	–	–
Income tax paid	(8,729)	(11,237)	–	–
Provision for current year	6,365	7,656	106	–
Acquisition of subsidiaries (note 38)	3,107	–	–	–
Others	(518)	–	–	–
Under provision in respect of prior years	602	161	–	–
End of financial year	3,384	2,557	106	–

Notes to the financial statements

For the year ended 31 December 2007

23 Current liabilities – Borrowings

	Group		Company	
	2007 US\$'000	2006 US\$'000	2007 US\$'000	2006 US\$'000
Secured				
Secured borrowings	220,277	2,550	220,000	–

The carrying amounts of current borrowings approximate their fair values and are denominated in United States Dollar.

The average effective interest rate of the total borrowings at balance sheet date were 6.2% (2006: 7.7%), and repayable within one year.

Total borrowings include secured liabilities of \$220,000,000 (2006: \$4,050,000) for the Group and Company respectively. The \$220,000,000 is part of a 364-day secured bridge facility agreement first drawn on the 19 December 2007 and is secured by a charge of certain bank accounts of the Company and a subsidiary, and share charges and pledges by certain subsidiaries within the Group.

In 2006, bank borrowings of the Group were secured by a mortgage over receivables with net book value of \$6,328,200; a corporate guarantee from a subsidiary; and an assignment of a service contract.

Assets pledged as security

The bank loan for the Group and Company is secured by a charge over certain bank accounts of the Company and a subsidiary, and share charges and pledges by certain subsidiaries within the Group.

The loan is also secured by a negative pledge that imposes certain covenants on the Group. The negative pledge states that the Group will not provide any security over its assets, and will ensure that the following is not entered into:

- i) sale, assignment, transfer or disposal of any of the Group's assets, and
- ii) sale, assignment, transfer or disposal of any of the Group's receivables.

The carrying amounts of assets pledged as security for the current borrowings are:

	Group		Company	
	2007 US\$'000	2006 US\$'000	2007 US\$'000	2006 US\$'000
Cash and cash equivalents	12,771	–	–	–
Total current assets pledged as security	12,771	–	–	–

Notes to the financial statements

For the year ended 31 December 2007

24 Current liabilities – Provisions for other liabilities and charges

	Group		Company	
	2007 US\$'000	2006 US\$'000	2007 US\$'000	2006 US\$'000
Provision for employee benefits	758	405	163	–
Other provisions	107	88	83	65
	865	493	246	65

Movements in provisions

Movements in each class of provision are as follows:

Group	Provision for employee benefits US\$'000	Other provisions US\$'000	Total US\$'000
Year ended 31 December 2007			
Beginning of financial year	405	88	493
Provisions made	470	38	508
Provisions utilised	(117)	(19)	(136)
End of financial year	758	107	865

Year ended 31 December 2006

Beginning of financial year	245	–	245
Provisions made	288	88	376
Provisions utilised	(128)	–	(128)
End of financial year	405	88	493

Company	Provision for employee benefits US\$'000	Other provisions US\$'000	Total US\$'000
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Year ended 31 December 2007

Beginning of financial year	–	–	–
Provisions made	163	83	246
End of financial year	163	83	246

Company	Other provisions US\$'000	Total US\$'000
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Year ended 31 December 2006

Beginning of financial year	–	–
Provisions made	65	65
End of financial year	65	65

Notes to the financial statements

For the year ended 31 December 2007

25 Non-current liabilities – Borrowings

	Group		Company	
	2007 US\$'000	2006 US\$'000	2007 US\$'000	2006 US\$'000
Secured				
Borrowings	183	1,500	–	–

There were no non-current borrowings at 31 December 2007. The non-current borrowings in 2006 have a maturity of 19 months from the end of the financial year.

In 2006, bank borrowings of the Group were secured by a mortgage over receivables with net book value of \$6,328,200; a corporate guarantee from a subsidiary; and an assignment of a service contract.

The carrying amounts of the non-current borrowings approximate their fair values.

The total bank borrowings are denominated in United States Dollar.

The average effective interest rate of the total borrowings at balance sheet date were nil (2006:7.7%).

26 Non current liabilities – Provisions for other liabilities and charges

	Group		Company	
	2007 US\$'000	2006 US\$'000	2007 US\$'000	2006 US\$'000
Provision for employee benefits	638	465	–	–
Provision for rehabilitation and dismantling	1,738	1,178	–	–
	2,376	1,643	–	–

(a) Provision for employee benefits

Provision for employee benefits represents the amounts provided for termination benefits required by Indonesian law.

These amounts are not expected to become due in the next 12 months from balance sheet date.

(b) Provision for rehabilitation and dismantling

Provision for rehabilitation and dismantling represent the expected cost to dismantle, remove, restore and rehabilitate certain items of property, plant and equipment. This provision was recognised based on the best estimate of the present value of the expenditure required to settle the obligation at the balance sheet date. This amount represents those that are expected to be settled more than 12 months from the balance sheet date.

Notes to the financial statements

For the year ended 31 December 2007

26 Non current liabilities – Provisions for other liabilities and charges (continued)

(c) Movements in provisions

Movements in each class of provision areas follows:

Group	Provision for employee benefits US\$'000	Provision for rehabilitation and dismantling US\$'000	Total US\$'000
Year ended 31 December 2007			
Beginning of financial year	465	1,178	1,643
Provisions made	180	560	740
Provisions utilised	(7)	–	(7)
End of financial year	638	1,738	2,376
Year ended 31 December 2006			
Beginning of financial year	342	1,407	1,749
Provisions made	123	228	351
Provisions utilised	–	(457)	(457)
End of financial year	465	1,178	1,643

27 Non current liabilities – Deferred income tax liabilities

	Group		Company	
	2007 US\$'000	2006 US\$'000	2007 US\$'000	2006 US\$'000
Deferred tax liabilities to be recovered after one year	67,443	3,471	18,000	–

Movement in deferred tax liabilities account is as follows:

Group	Accelerated Tax Depreciation			Other US\$'000	Total US\$'000
	Mine Properties US\$'000	Intangible Assets US\$'000	Exploration Expenditure US\$'000		
Year ended 31 December 2007					
Beginning of financial year	3,385	–	–	86	3,471
Tax charged to the income statement	3,223	–	–	–	3,223
Acquisition of subsidiaries (note 38)	24,749	18,000	18,000	–	60,749
End of financial year	31,357	18,000	18,000	86	67,443

Group	Accelerated Tax Depreciation		Other US\$'000	Total US\$'000
	Mine Properties US\$'000	Intangible Assets US\$'000		
Year ended 31 December 2006				
Beginning of financial year	1,148	–	86	1,234
Tax charged to the income statement	2,237	–	–	2,237
End of financial year	3,385	18,000	86	3,471

Notes to the financial statements

For the year ended 31 December 2007

27 Non current liabilities – Deferred income tax liabilities (continued)

Company	Accelerated tax depreciation exploration expenditure US\$'000	Total US\$'000
Year ended 31 December 2007		
Beginning of financial year	–	–
Acquisition of subsidiaries (note 38)	18,000	18,000
End of financial year	18,000	18,000

28 Share capital

Group and Company	Issued share capital No. of Shares	Share capital US\$'000	Share premium US\$'000	Total share capital and share premium US\$'000
2007				
Beginning of financial year	920,765,220	33,058	–	33,058
Share placement (i)	94,485,000	102,215	–	102,215
Share issue for acquisition of subsidiaries (ii)	75,086,394	144,000	–	144,000
Share issue for ExSAP (iii)	600,000	493	–	493
ExSAP loans (iii)	–	(1,027)	–	(1,027)
Share issue expenses (i)	–	(2,503)	–	(2,503)
End of financial year	1,090,936,614	276,236	–	276,236
2006				
Beginning of financial year	30,692,174	21,024	12,034	33,058
Effect of the Companies (Amendment) Act 2005 (iv)	–	12,034	(12,034)	–
Share issue (v)	890,073,046	–	–	–
End of financial year	920,765,220	33,058	–	33,058

- (i) In October 2007, the Company issued 94,485,000 ordinary shares (share placement) at approximately \$1.08 (S\$1.60) each with gross placement proceeds of \$102,215,010 net share issue expenses of approximately \$2,503,000 to provide funds for the expansion of the Group's operations. The newly issued shares rank pari passu in all respects with the previously issued shares.
- (ii) In December 2007, the Company issued 75,086,394 ordinary shares to Pacific Communications Corp and Vital Century Investment Limited for completion of the acquisition of the thermal coal mining business in East Kalimantan for net proceeds of \$144,000,000.
- (iii) The Executive Share Acquisition Plan ("ExSAP") was approved at the Annual General Meeting held on 30 April 2007. The purpose of the plan is to attract, retain, motivate and reward key executive employees. The plan operates by allowing participants to purchase shares in the company at market price by way of a company provided interest free loan. A holding lock is placed over the shares in the company until the loan is repaid in full. Upon repayment, the company will recognise the increase in share capital amount.
- (iv) Under the Singapore Companies (Amendment) Act 2005 that came into effect on 30 January 2006, the concepts of par value and authorized share capital were abolished and the amount in the share premium account as at 30 January 2006 became part of the Company's share capital.
- (v) In September 2006, as part of the Company's restructuring for its initial public offering, the Company conducted a 1 for 20 share split to increase the number of shares on issue to 920,765,220.

All issued ordinary shares are fully paid.

Notes to the financial statements

For the year ended 31 December 2007

29 Other reserves

	Group		Company	
	2007 US\$'000	2006 US\$'000	2007 US\$'000	2006 US\$'000
Composition				
Share based payments reserve (a)	502	–	502	–
Capital reserve (b)	(13,526)	(13,526)	–	–
General reserve (c)	299	299	–	–
Merger reserve (d)	(7,752)	(7,752)	–	–
	(20,477)	(20,979)	502	–
(a) Share based payments reserve				
Beginning of financial year	–	–	–	–
Share-based payments expense	502	–	502	–
End of the financial year	502	–	502	–

Share based compensation under ExSAP is recognised when the fair value of the employee services received in exchange for the grant of Employee Share Acquisition Plan is recognised. 600,000 shares were granted during the year with weighted average fair value of \$492,800. These shares have a total market value of \$999,600 based on the closing price as quoted on Singapore Stock Exchange on 24 October 2007.

	Group		Company	
	2007 US\$'000	2006 US\$'000	2007 US\$'000	2006 US\$'000
(b) Capital reserve				
Beginning and end of financial year	(13,526)	(13,526)	–	–

(c) General reserve

The revised Indonesian Limited Company Law No. 40/2007 dated 16 August 2007 requires Indonesian companies to set up a general reserve amounting to 20% of the Company's issued and paid up share capital.

PT Bahari Cakrawala Sebuku ("PTBCS"), a subsidiary in the Group has appropriated an amount to the value of 20% of issued and paid up capital from retained earnings to a general reserve in compliance with this law during the financial year ended 31 December 2004. On 13 June 2006, the shareholders of the Company approved the appropriation. This reserve is non distributable.

(d) Merger reserve

Merger reserve arising from the restructuring exercise represents the excess of cash consideration paid over the subsidiaries capital acquired and accounted for using the pooling of interest method.

30 Dividends

	2007 US\$'000	2006 US\$'000
Final exempt (one-tier) dividend of 0.8 cents per share for financial year 2006	7,366	–
Interim exempt (one-tier) dividend paid in respect of the current financial year of 1.00 cents (2006: 2.33 cents) per share	9,207	21,500
	16,573	21,500

At the Annual General Meeting on 30 April 2008, a final exempt (one-tier) dividend of US\$0.75cents per share amounting to a total of \$8,182,025 will be recommended. These financial statements do not reflect this dividend which will be accounted for in shareholders' equity as an appropriation of retained earnings in the financial year ending 31 December 2008.

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For the year ended 31 December 2007

31 Contingencies

(a) Contingent liabilities

An action for land compensation of Rp 3.5 billion (approximately US\$0.42 million) has been raised against PT BCS in the Supreme Court of Indonesia. This action is an appeal of the decisions of the provincial high court and regional court which both found in favor of PT BCS. No amount has been recognised in the financial statements as management is confident that the appeal will not succeed.

(b) Contingent payment

In respect of the acquisition of PT Metalindo Bumi Raya and PT Karbon Mahakam on 19 December 2007 (Note 38 (a)), the Group will pay an additional amount of \$111 million if certain additional conditions are fulfilled. These additional conditions include obtaining relevant Indonesian Government approvals to re-classify certain areas to be within the mining concessions, and obtaining relevant regulatory approvals to commence mining activities within that area. At the date of these financial statements, the Group is unable to state when and if this payment will be made.

(c) Contingent receivable

In respect of the acquisition of PT Separi Energy on 24 December 2007 (Note 38 (b)), there maybe a contingent receivable arising from a net working capital adjustment based on the Completion Accounts Statement prepared at completion date.

32 Commitments

Operating leases

The Group leases office space and office equipment from non-related parties under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future minimum lease payables under non-cancellable operating leases contracted for at the balance sheet date but not recognised as liabilities, are as follows:

	Group		Company	
	2007 US\$'000	2006 US\$'000	2007 US\$'000	2006 US\$'000
Not later than one year	517	175	326	–
Between one and five years	644	98	597	–
	1,161	273	923	–

33 Financial instruments

	Group		Company	
	2007 US\$'000	2006 US\$'000	2007 US\$'000	2006 US\$'000
Financial assets				
Cash and cash equivalents (note 12)	35,717	23,066	5,024	3,961
Trade and other receivables (notes 13 and 15)	90,634	34,891	298,741	1,195
Available-for-sale financial assets (note 20)	1,925	520	–	–
Financial liabilities				
Amortised cost				
Trade and other payables (note 21)	124,792	35,806	13,013	998
Borrowings (notes 23 and 25)	220,460	4,050	220,000	–

Notes to the financial statements

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34 Financial risk management

Financial risk factors

The Group's operations are exposed to market risk (including currency risk, price risk and interest rate risk, credit risk and liquidity risk). Market risk arises from the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Group's overall risk management programme focuses on understanding the key drivers of the business that are influenced by these risks, and seeks to minimize potential adverse effects on the Group's financial performance. Currently, the Group does not use any derivative financial instruments to manage any of its main financial instrument risks. This is not to say that the Group may not use derivative financial instruments in the future to hedge certain risk exposures. Any use of derivative financial instruments for financial hedging must be approved by the board.

(a) Market risk

(i) Currency risk

The Group operates in Asia with dominant operations in Singapore and Indonesia. Entities in the Group regularly transact in their respective functional currency, which is the United States Dollar ("USD"). Currency risk arises when transactions are denominated in foreign currencies. The Group's currency exposure based on the information provided to key management is mainly in cash and cash equivalents which is disclosed in note 12.

(ii) Price risk

Commodity price risk is the risk of financial loss resulting from movements in the price of the Group's commodity inputs and outputs. The Group is exposed to commodity price risk arising from revenue derived from sales of coal, as well as to the impact of crude oil prices on the cost of fuel consumed in the production of coal.

The coal price risk is managed through contractual arrangements negotiated with customers. Currently, derivative instruments such as forward sales contracts are not used. World coal prices are experiencing historical highs, and combined with the Group's low cost operations, a conscious decision to allow full exposure to market prices has been taken.

Fuel is a major component of the Group's operating costs. The Group's exposure to changes in fuel prices is ultimately based on reference to a USD Mean of Platts Singapore ("MOPS") Gas Oil assessment price. This benchmark reference is used to determine diesel fuel prices in Indonesia, which are primarily passed through to the Group by our contractors through rise and fall adjustment clauses in our contracts. Historically, as sources of energy generation, there is a positive correlation between coal and oil prices, and this has served as a natural hedge to the Group's exposure to changing fuel prices.

There are no financial instruments on the balance sheet that are affected by commodity price fluctuations.

(iii) Interest rate risk

The Group's main interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The Group's and Company's borrowings at variable rates are denominated in USD. If the USD interest rates increase/decrease by 0.50% (2006:0.10%) with all other variables including tax rate being held constant, the profit after tax will be lower/higher by US\$24,400 (2006: US\$4,000) as a result of higher/lower interest expense on these borrowings.

It should be noted that the Group's borrowings of US\$220,000,000 were drawn down on the 19 of December 2007 to primarily fund the acquisition of the Jembayan Coal operation, and it is more prudent to view the Group's interest rate exposure on a forward-looking basis.

Notes to the financial statements

For the year ended 31 December 2007

34 Financial risk management (continued)

Financial risk factors (continued)

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, and deposits with banks and financial institutions, as well as credit exposures to trade customers, including outstanding receivables and committed transactions. The Group only deals with banks and financial institutions of good repute and standing. For trade customers, credit control assesses and monitors the credit quality of each trade customer, taking into account its financial position, past experience and other relevant factors.

Credit exposure to an individual counterparty is restricted by credit limits that are approved by the management based on ongoing credit evaluation. The counterparty's payment profile and credit exposure are continuously monitored at the entity level by the respective management and at the Group level by the management. The Group's and Company's trade receivables comprise 22 debtors (2006: 21 debtors) and nil debtors (2006: nil debtors) respectively that individually represented 5 – 10% of trade receivables.

The Group does not have any significant credit risk exposure to any single counterparty or group of counterparties. However the majority of the Group's customers belong to the power generation sector across various countries.

The age analysis of trade receivables past due but not impaired is disclosed in note 13 (a). The carrying amount of trade receivables individually determined to be impaired and the movement in the related allowance for impairment are disclosed in note 13 (a).

The carrying amount of financial assets recorded in the financial statements, grossed up for any allowances for impairment, represents the group's maximum exposure to credit risk. The Group and Company do not hold any collateral.

The credit risk for trade receivables based on the information provided to key management is as follows:

	Group	
	2007	2006
	US\$'000	US\$'000
By types of customers		
Non-related parties		
Multi national companies	16,638	19,718
Other companies	62,064	1,519
Related parties	708	5,391
	79,410	26,628

(c) Liquidity risk

Prudent liquidity risk management implies maintaining at all times sufficient cash, liquid investments and committed credit facilities to meet the Group's commitments as they arise.

Liquidity risk management covers daily, short term, and long term needs. The appropriate levels of liquidity are determined by both the nature of the Group's business and its risk profile.

The table below analyses the maturity profile of the Group's and Company's financial liabilities based on contractual undiscounted cash flows.

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For the year ended 31 December 2007

34 Financial risk management (continued)

Financial risk factors (continued)

(c) Liquidity risk (continued)

	Less than 1 year US\$'000	Between 1 and 2 years US\$'000
At 31 December 2007		
Group		
Trade and other payables	124,792	–
Borrowings	220,277	183
	345,069	183
Company		
Trade and other payables	13,013	–
Borrowings	220,000	–
	233,013	–
At 31 December 2006		
Group		
Trade and other payables	35,806	–
Borrowings	2,550	1,500
	38,356	1,500
Company		
Trade and other payables	998	–

(d) Capital risk

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure so as to maximize shareholder value. The capital structure of the Group consists of debt, which includes the borrowings, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings.

The Group reviews the capital structure on a semi-annual basis. As a part of this review, the Group considers the cost of capital and the risks associated with each class of capital. Based on recommendations from the Group, the Group will balance its overall capital structure through the payment of dividends, new share issues, new debt, refinancing or repayment existing debt.

The gearing ratio is calculated as net debt divided by the total book value of capital. Net debt is calculated as borrowings plus trade and other payables less cash and cash equivalents. Total capital is calculated as equity plus net debt.

The Group also evaluates its debt levels by measuring income gearing levels, or the level of interest expenses relative to the Group's net earnings. The level of gearing is also restricted in bank covenants as part of the Group's US\$230,000,000 acquisition bridge facility. These covenants include minimum ratios such as cashflow available for debt service.

Notes to the financial statements

For the year ended 31 December 2007

34 Financial risk management (continued)

Financial risk factors (continued)

(d) Capital risk (continued)

The Group and the Company are in compliance with all externally imposed capital requirements for the financial years ended 31 December 2006 and 2007.

	Group		Company	
	2007 US\$'000	2006 US\$'000	2007 US\$'000	2006 US\$'000
Net debt	309,535	16,790	227,989	(2,963)
Total equity	304,172	48,502	283,448	46,339
Total capital	613,707	65,292	511,437	43,376
Gearing ratio	50%	26%	45%	–%

35 Segment information

(a) Description of segments

Primary reporting format - business segments

The Group is organized into the following divisions by product:

- Coal Mining: Exploration, development, mining and marketing of coal;
- Commodity Trading: Trading of gold, copper and other minerals;

Other operations of the Group mainly comprise of management services and investment holding, neither of which constitutes a separately reportable segment.

Unallocated costs represent corporate and technical support expenses. Segment assets consist primarily of property, plant and equipment, mine properties, exploration and evaluation expenditure, inventories, receivables and cash and cash equivalents, but exclude deferred income tax assets. Segment liabilities comprise operating liabilities and exclude items such as tax liabilities. Capital expenditure comprises additions to property, plant and equipment and mine properties.

Secondary reporting format - geographic segments

The Group's two business segments operate principally in the geographical region of Asia. The pricing of the Group's products is governed principally by international market pricing, example: Sebuk coal is benchmarked to the Newcastle Barlow Junker Index (BJI) and adjusted for transport charges and relative calorific value. Hence the Group is not materially subject to risk and return arising in differing economic environments in Asia.

Notes to the financial statements

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35 Segment information (continued)

(b) Primary reporting format – business segments

	Coal US\$'000	Other Commodities US\$'000	Other and Unallocated US\$'000	Total US\$'000
2007				
Segment revenue				
Sales to external customers	135,301	102,225	13,434	250,960
Total sales revenue	135,301	102,225	13,434	250,960
Other revenue/income	–	887	2,967	3,854
Total segment revenue/income	135,301	103,112	16,401	254,814
Segment result				
Unallocated revenue less unallocated expenses	51,412	1,117	(12,918)	39,611
Profit before income tax	–	–	(876)	(876)
Income tax expense	51,412	1,117	(13,794)	38,735
Income tax expense	–	–	(10,172)	(10,172)
Profit for the year	51,412	1,117	(23,966)	28,563
Segment assets and liabilities				
Segment assets				
Unallocated assets	683,573	10,466	25,933	719,972
Total assets	–	–	3,520	3,520
Total assets	683,573	10,466	29,453	723,492
Segment liabilities				
Unallocated liabilities	340,972	5,707	1,814	348,493
Total liabilities	–	–	70,827	70,827
Total liabilities	340,972	5,707	72,641	419,320
Acquisitions of property, plant and equipment, intangibles and other non current segment assets	274,697	1,018	50,369	326,084
Depreciation and amortisation expense	3,693	65	1,090	4,848
2006				
Segment revenue				
Sales to external customers	134,982	138,852	5,028	278,862
Total sales revenue	134,982	138,852	5,028	278,862
Other revenue/income	–	1,396	2,079	3,475
Total segment revenue/income	134,982	140,248	7,107	282,337
Segment result				
Unallocated revenue less unallocated expenses	55,796	3,381	(983)	58,194
Profit before income tax	–	–	(81)	(81)
Income tax expense	55,796	3,381	(1,064)	58,113
Income tax expense	–	–	(9,960)	(9,960)
Profit for the year	55,796	3,381	(11,024)	48,153
Segment assets and liabilities				
Segment assets				
Unallocated assets	55,513	25,336	14,383	95,232
Total assets	–	–	1,290	1,290
Total assets	55,513	25,336	15,673	96,522
Segment liabilities				
Unallocated liabilities	23,284	15,683	3,025	41,992
Total liabilities	–	–	6,028	6,028
Total liabilities	23,284	15,683	9,053	48,020
Acquisitions of property, plant and equipment, intangibles and other non current segment assets	10,565	107	10,539	21,211
Depreciation and amortisation expense	2,641	51	200	2,892

Notes to the financial statements

For the year ended 31 December 2007

36 Related party transactions

(a) Key management personnel compensation

	Group	
	2007	2006
	US\$'000	US\$'000
Salaries and other short term employee benefits	3,223	1,677

Included in the above is total compensation to directors of the Company amounting to US\$1,324,000 (2006: US\$353,000)

In addition to the information disclosed elsewhere in the financial statements, the following transactions took place between the Group and related parties at terms agreed between the parties:

(b) Transactions with related parties

	Group	
	2007	2006
	US\$'000	US\$'000
Purchases of goods		
Commodity purchases from related corporations	101,804	136,057
Other transactions		
Dividends paid to immediate holding corporation	10,005	21,500
Management fees paid to ultimate holding corporation	1,920	1,790
Commodities and services sold/rendered to related corporations	2,828	3,103

37 Investments in subsidiaries

	Company	
	2007	2006
	US\$'000	US\$'000
Equity investments at cost		
Beginning of financial year	42,211	34,459
Acquisition during the financial year	–	7,752
End of financial year	42,211	42,211

Details of acquisitions are included in note 38.

Details of significant subsidiaries are included in note 39.

Notes to the financial statements

For the year ended 31 December 2007

38 Business combination

Business Combinations in financial year 2007

(a) For acquisition of PT Metalindo Bumi Raya and PT Karbon Mahakam (the Sebuk Northern Leases acquisition)

(i) Summary of acquisition

On 19 December 2007, the Group acquired 100% of the issued share capital of PT Metalindo Bumi Raya, PT Karbon Mahakam and offtake rights for a cash consideration (inclusive of transaction costs of approximately \$129,000) of approximately \$28,129,000.

(ii) Purchase consideration

	2007 US\$'000
Outflow of cash to acquire subsidiary, net of cash acquired:	
Cash consideration paid	28,129
Less: Cash and cash equivalents	(5)
Net cash outflow on acquisition	<u>28,124</u>

(iii) Assets and liabilities acquired

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount US\$'000	Fair value US\$'000
Cash and cash equivalents	5	5
Trade and other receivables	22	22
Mine properties	298	17,955
Property, plant and equipment	134	134
Intangible assets - offtake rights	-	14,093
Current income tax liabilities	(5)	(5)
Deferred tax liabilities	-	(4,075)
Net identifiable assets acquired	<u>454</u>	<u>28,129</u>

The coal offtake rights held by the acquirees grant the Group the exclusive right to acquire a specified volume of production over a number of years. The coal offtake rights were valued at approximately \$14,093,000 and were recognised as intangible assets at acquisition.

The acquired subsidiaries did not generate any revenue or incurred expenses for the period from 20 December 2007 to 31 December 2007. The subsidiary's assets and liabilities at 31 December 2007 were \$458,000 and \$4,080,000 respectively. If the acquisition had occurred on 1 January 2007, the Group total profit would have been lower by \$436,000.

(iv) Contingent payment

Please refer to note 31(b) in relation to the contingent payment arising from this acquisition.

Notes to the financial statements

For the year ended 31 December 2007

38 Business combination (continued)

Business Combinations in financial year 2007 (continued)

(b) For acquisition of PT Separi Energy (the Jembayan coal operation acquisition)

(i) Summary of acquisition

On 24 December 2007, the Group acquired 100% of the issued share capital of PT Separi Energy and offtake rights for a cash consideration (inclusive of transaction costs of approximately \$3,781,000) of approximately \$422,781,000.

(ii) Purchase consideration (refer to (iii) below):

	2007 US\$'000
Cash paid	278,781
Fair value of shares issued	144,000
Total purchase consideration	<u>422,781</u>
Fair value of net identifiable assets acquired (refer to (iv) below)	317,781
Goodwill	<u>105,000</u>

On 24 December 2007, the Company transferred 75,086,394 shares to satisfy the consideration payable in shares amounting which had a total market value of \$144,000,000 based on the closing share price as quoted on the Singapore Exchange on 24 December 2007.

(iii) Cash consideration

	2007 US\$'000
Outflow of cash to acquire subsidiary, net of cash acquired:	
Cash consideration	278,781
Less: Cash and cash equivalents	(10,840)
Net cash outflow on acquisition	<u>267,941</u>

(iv) Assets and liabilities acquired

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount US\$'000	Fair value US\$'000
Identifiable assets and liabilities		
Cash and cash equivalents	10,840	10,840
Trade and other receivables	59,758	59,758
Inventories	2,526	2,526
Property, plant and equipment	22,200	22,200
Deferred tax assets	467	467
Mine properties	4,991	94,578
Intangible assets – offtake rights	–	178,736
Exploration expenditure	–	101,264
Trade and other payables	(92,246)	(92,246)
Current income tax liabilities	(3,102)	(3,102)
Provision for other liabilities and charges	(566)	(566)
Deferred tax liabilities	–	(56,674)
Net identifiable assets acquired	<u>4,868</u>	<u>317,781</u>

Notes to the financial statements

For the year ended 31 December 2007

38 Business combination (continued)

Business Combinations in financial year 2007 (continued)

(b) For acquisition of PT Separi Energy (the Jembayan coal operation acquisition) (continued)

(iv) Assets and liabilities acquired (continued)

The coal offtake rights held by the acquirees grant the Group the exclusive right to acquire a specified volume of production over a number of years. The coal offtake rights and exploration and expenditure were valued at approximately \$280,000,000 and the coal offtake rights were recognised as intangible assets at acquisition.

The revenue and net profit generated from the acquired subsidiaries from 25 December 2007 to 31 December 2007 were immaterial and were not included in the profit and loss of the Group.

The subsidiary's assets and liabilities at 31 December 2007 were \$100,782,000 and \$116,588,000 respectively. If the acquisition had occurred on 1 January 2007, the impact to Group revenue would have been \$180,902,000 and total profit would have been \$2,439,000.

(v) Contingent receivable

Please refer to note 31(c) in relation to the contingent receivable arising from this acquisition.

- (c) The accounting for the above business acquisition is determined provisionally as the acquisition occurs near financial year end. Preliminary purchase price allocation of the acquisition and the allocation of goodwill to the cash-generating units are currently being assessed and is expected to be finalised within 12 months from the date of acquisition. The goodwill was attributable to the synergies expected to arise after the acquisition. There is no impairment of the goodwill because the acquisition occurs near financial year end.

Business Combinations in financial year 2006

(a) Summary of acquisition

On 30 June 2006 the Group acquired 100% of the issued shares in Straits Marine Infrastructure Pte Ltd which operates a marine engineering business situated in Indonesia which provides services to a number of international companies.

(b) Purchase consideration

	2006 US\$'000
Outflow of cash to acquire subsidiary, net of cash acquired:	
Cash consideration paid	5,166
Less: Cash and cash equivalents	(1,259)
Net cash outflow on acquisition	<u>3,907</u>

(c) Assets and liabilities acquired

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount US\$'000	Fair value US\$'000
Cash and cash equivalents	1,259	1,259
Receivables, property, plant and equipment	5,750	4,947
Payables and provisions	(1,005)	(1,005)
Non-current non-interest bearing liabilities	(35)	(35)
Net identifiable assets acquired	<u>5,969</u>	<u>5,166</u>

The acquired subsidiaries contributed revenue of \$5,030,000 and net profit of \$180,000 to the Group for the period from 1 July 2006 to 31 December 2006. The subsidiary's assets and liabilities at 31 December 2006 were \$7,664,000 and \$7,407,000 respectively. If the acquisition had occurred on 1 January 2006, the impact to Group revenue would have been \$9,658,000 and total profit would have been \$325,000.

Notes to the financial statements

For the year ended 31 December 2007

39 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2(b):

Name of entity	Country of Incorporation	Principal activities	Equity holding	
			2007 %	2006 %
Straits Global Trading Pte Ltd (a)	Singapore	Trading	100	100
Straits Energy Trading Pte Ltd (b)	Singapore	Dormant	100	100
Straits Asia Energy Pte Ltd (a)**	Singapore	Exploration of energy resources	100	100
Reyka Wahana Digdjaya Pte Ltd (b)	Singapore	Dormant	100	100
PT Bahari Cakrawala Sebuku (c)	Indonesia	Coal mining	100	100
PT Straits Consultancy Services (c) *	Indonesia	Management services	100	100
Sebuku Investments Limited (b)	Isle of Man	Investment holdings	100	100
PT Reyka Wahana Digdjaya (b) **	Indonesia	Investment holdings	100	100
PT Indo Straits (c)	Indonesia	Marine Engineering	100	100
Straits Marine Infrastructure Pte Ltd (a)	Singapore	Marine Engineering	100	100
Straits Asia Engineering Pte Ltd (a)****	Singapore	Dormant	100	100
PT Borneo Citrapertiwi Nusantara (c)	Indonesia	Investment holdings	100	100
PT Bumiborneo Pertiwi Nusantara (c)	Indonesia	Investment holdings	100	100
PT Separi Energy (c)	Indonesia	Investment holdings	100	–
PT Jembayan Muarabara (c)	Indonesia	Coal mining	100	–
PT Kemilau Rindang Abadi (c)	Indonesia	Coal mining	100	–
PT Arzara Baraindo Energitama (c)	Indonesia	Coal mining	100	–
PT Karbon Mahakam (c)	Indonesia	Coal mining	100	–
PT Metalindo Bumi Raya (c)	Indonesia	Coal mining	100	–
PT Bumi Borneo Metalindo (c)	Indonesia	Dormant	100	–
PT Kuda Perdana Pertiwi (b)	Indonesia	Dormant	100	–

(a) Audited by PricewaterhouseCoopers, Singapore

(b) Not required to be audited under the law of the country of incorporation

(c) Audited by PricewaterhouseCoopers, Indonesia

* Include 0.01% indirect interest

** Include 10% indirect interest

*** formerly known as Straits Gold Holdings Pte Ltd

**** formerly known as Arapa Leasing Pte Ltd

Notes to the financial statements

For the year ended 31 December 2007

40 Reclassification

	As previously reported US\$'000	Effect of reclassification US\$'000	As adjusted US\$'000
Group			
Cash and cash equivalents	22,318	748	23,066
Trade and other receivables - current	35,466	(959)	34,507
Provisions for other liabilities and charges - non-current	(1,854)	211	(1,643)
Company			
Trade and other receivables - current	1,087	108	1,195
Trade and other receivables - non-current	143	(143)	-
Property, plant and equipment	-	35	35
Trade and other payables - current	(1,063)	65	(998)
Provisions for other liabilities and charges - current	-	(65)	(65)

Certain reclassifications have been made to the prior year's financial statements to enhance comparability with the current year's financial statements. As a result, certain line items have been amended on the face of the balance sheet.

41 Reconciliation of profit after income tax to net cash inflow from operating activities

	Group	
	2007 US\$'000	2006 US\$'000
Profit for the year	28,563	48,153
Depreciation and amortisation	4,848	2,859
Unrealised exchange gain	(292)	-
Write off of assets	3,247	-
Non-cash employee benefits expense - share-based payments	371	-
Increase in receivables	(3,062)	(13,293)
Decrease in inventories	873	625
Increase in deferred tax assets	(18)	(94)
(Increase)/decrease in trade/other creditors	(3,100)	9,108
Decrease in current tax liabilities	(1,762)	(3,420)
Increase in deferred tax liabilities	3,223	2,237
Increase in other provisions	-	351
Net cash inflow from operating activities	32,891	46,526

Notes to the financial statements

For the year ended 31 December 2007

42 Comparatives

Certain comparatives have been reclassified to conform with the current year's presentation.

43 New or revised accounting standards and interpretations

Certain new standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods and which the Group has not early adopted. The Group's assessment of the impact of adopting those standards, amendments and interpretations that are relevant to the Group is set out below:

- (a) FRS 108 Operating Segments (effective for annual periods beginning on or after 1 January 2009).

FRS 108 supersedes FRS 14 Segment Reporting and requires the Group to report the financial performance of its operating segments based on the information used internally by management for evaluating segment performance and deciding on allocation of resources. Such information may be different from the information included in the financial statements, and the basis of its preparation and reconciliation to the amounts recognised in the financial statements shall be disclosed.

The Group will apply FRS 108 from 1 January 2009 and provide comparative information that conforms to the requirements of FRS 108. The Group expects the new operating segments to be significantly different from business segments currently disclosed and expects more information to be disclosed under FRS 108.

- (b) Revised FRS 23 Borrowing Costs (effective for annual periods beginning on or after 1 January 2009).

The revised standard removes the option to recognise immediately as an expense borrowing costs that are attributable to qualifying assets, except for those borrowing costs on qualifying assets that are measured at fair value or inventories that are manufactured or produced in large quantities on a repetitive basis.

The Group will apply the revised FRS 23 from 1 January 2009 as the Group has been capitalising the relevant borrowing costs, the revised standard is not expected to have any impact to the Group.

44 Authorisation of Financial Statements

These financial statements were authorized for issue in accordance with a resolution of the Board of Directors of Straits Asia Resources Limited on 25 February 2008.

Shareholders Information

As at 18 March 2007

Share capital

No. of shares on issue	1,090,936,614
Class of shares	Ordinary shares
Voting rights	1 vote per ordinary share

Distribution of shareholdings

SHAREHOLDINGS	NUMBER OF SHAREHOLDERS	%	NO. OF SHARES	%
1 – 999	10	0.53	890	0.00
1,000 – 10,000	1,542	82.46	5,581,763	0.51
10,001 – 1,000,000	304	16.26	16,013,000	1.47
1,000,001 and above	14	0.75	1,069,340,961	98.02
TOTAL	1,870	100	1,090,936,614	100

Twenty largest shareholders

	NO. OF SHARES	%
1 STRAITS BULK AND INDUSTRIAL PTY LTD	555,829,220	50.95
2 DBS NOMINEES PTE LTD	150,253,228	13.77
3 DBSN SERVICES PTE LTD	89,518,993	8.21
4 CITIBANK NOMINEES SINGAPORE PTE LTD	71,423,327	6.55
5 HSBC (SINGAPORE) NOMINEES PTE LTD	70,107,848	6.43
6 AMEX NOMINEES (S) PTE LTD	43,329,213	3.97
7 UNITED OVERSEAS BANK NOMINEES PTE LTD	21,674,188	1.99
8 RAFFLES NOMINEES PTE LTD	21,564,121	1.98
9 PACIFIC COMMUNICATIONS CORP LIMITED	18,030,652	1.65
10 MORGAN STANLEY ASIA (SINGAPORE) SECURITIES PTE LTD	15,876,602	1.46
11 PHILLIP SECURITIES PTE LTD	3,849,890	0.35
12 MERRILL LYNCH (SINGAPORE) PTE LTD	3,819,323	0.35
13 DB NOMINEES (SINGAPORE) PTE LTD	2,768,288	0.25
14 CIMB-GK SECURITIES PTE. LTD.	1,296,068	0.12
15 ONG CHUI CHAT	950,000	0.09
16 LEW YOON LEN	810,000	0.07
17 ROYAL BANK OF CANADA (ASIA) LIMITED	765,000	0.07
18 SENG-CHANG LI HWA	540,000	0.05
19 CHUA LEW KEE	430,000	0.04
20 ONG CHOON TOH	350,000	0.03
TOTAL	1,073,185,961	98.38

Substantial Shareholders

	NO. OF ORDINARY SHARES DIRECT INTEREST DEEMED INTEREST
Straits Resources Limited ⁽¹⁾	555,829,220
Capital Group ⁽²⁾	65,301,000
Fidelity International ⁽³⁾	54,630,000

(1) Held through Straits Bulk and Industrial Pty Ltd.

(2) Held through managed accounts on behalf of the Capital Group of Companies, Inc.

(3) Held through FMR LLC on behalf of the managed accounts of its direct and indirect subsidiaries & FIL Ltd, on behalf of the managed accounts of its direct and indirect subsidiaries.

37.67% of the Company's shares are held in the hands of the public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of the Singapore Exchange Securities Trading Limited.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of **STRAITS ASIA RESOURCES LIMITED** ("the Company") will be held at SGX Auditorium, Level 2 SGX Centre 1, 2 Shenton Way, Singapore 068804 on Wednesday, 30 April 2008 at 11.30 a.m. 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 the Audited Accounts of the Company for the year ended 31 December 2007 together with the Auditors' Report thereon. **(Resolution 1)**
2. To declare a final dividend of US0.75 cents per share (equivalent to approximately Singapore 1.05 cents per share), tax exempt for the year ended 31 December 2007 (2006: US0.80 cents). **(Resolution 2)**
3. To re-elect the following Directors retiring pursuant to Articles 94 and 100 of the Company's Articles of Association:

Mr Han Eng Juan	[Retiring under Article 94]	(Resolution 3)
Mr Martin David Purvis	[Retiring under Article 94]	(Resolution 4)
Mr Michael George Gibson	[Retiring under Article 100]	(Resolution 5)

Mr Han Eng Juan will, upon re-election as a Director of the Company, remain as Chairman of the Audit, Risk and Compliance Committee and as a member of the Nomination Committee and Remuneration Committee and will be considered independent.

Mr Martin David Purvis will, upon re-election as a Director of the Company, remain a member of the Remuneration Committee and will be considered non-independent.

Mr Michael George Gibson will, upon re-election as a Director of the Company, remain a member of the Audit, Risk and Compliance Committee and will be considered non-independent.

4. To approve the payment of directors' fees of up to S\$400,000 payable by the Company for the year ending 31 December 2008. **(Resolution 6)**
5. To re-appoint Messrs PricewaterhouseCoopers as the Company's Auditors and to authorise the Directors to fix their remuneration. **(Resolution 7)**
6. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

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

7. **Authority to allot and issue shares up to 50 per centum (50%) of issued shares in the capital of the Company**
That pursuant to Section 161 of the Companies Act, Cap. 50 (the "CA") and Rule 806 of the Listing Manual (the "Listing Manual") of the Singapore Exchange Securities Trading Limited (the "SGX-ST"), the Directors of the Company be and are hereby authorised and empowered to:
 - (a) allot and issue shares in the capital of the Company whether by way of rights, bonus or otherwise; and/or
 - (b) make or grant offers, agreements or options (collectively, "Instruments") that may or will require shares to be allotted and issued including but not limited to the creation and issue of (as well as adjustments to) options, warrants, debentures or other instruments convertible into shares; and/or
 - (c) allot and issue shares pursuant to any Instrument made or granted by the Directors while this Resolution was in force (notwithstanding that the authority conferred by this Resolution for the allotment and issue of shares may have ceased to be in force),

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, provided that the aggregate number of shares to be issued (including shares

to be issued pursuant to Instruments made or granted under this Resolution) shall not exceed fifty per centum (50%) of the issued shares in the capital of the Company excluding treasury shares, of which the aggregate number of shares to be issued other than on a pro rata basis to existing shareholders of the Company shall not exceed twenty per centum (20%) of the issued shares in the capital of the Company excluding treasury shares.

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

In exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual for the time being in force (unless such compliance has been waived by the SGX-ST) and the Articles of Association of the Company.

[See Explanatory Note (i)] **(Resolution 8)**

8. Authority to offer and grant options under the Rules of the Straits Employee Share Option Plan (the "Option Plan")

That pursuant to Section 161 of the CA, the Directors of the Company be authorised and empowered to offer and grant options under the rules of the Option Plan and to 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 granted under the Option Plan, and that such shares may be issued notwithstanding this authority has ceased to be in force so long as the shares are issued pursuant to an offer or grant of options made while this authority was in force, provided always that the aggregate number of shares to be issued under this Option Plan and all other share option, share incentive, performance share or restricted share plans implemented by the Company shall not exceed fifteen per centum. (15%) of the issued shares in the capital of the Company excluding treasury shares for the time being.

[See Explanatory Notes (ii) and (iv)] **(Resolution 9)**

9. Authority to allot and issue shares under the Rules of the Straits Executive Share Acquisition Plan (the "Acquisition Plan")

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 Acquisition Plan, provided always that the aggregate number of shares to be issued pursuant to the Acquisition Plan and all other share option, share incentive, performance share or restricted share plans implemented by the Company shall not exceed fifteen per centum. (15%) of the issued shares in the capital of the Company excluding treasury shares for the time being.

[See Explanatory Notes (iii) and (iv)] **(Resolution 10)**

10. Renewal of Shareholders' Mandate for Interested Person Transactions

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

- (a) approval be given for the renewal of the mandate for the Company and its subsidiaries, or any of them to enter into any of the transactions falling within the types of Interested Person Transactions as set out in the Company's addendum to shareholders dated 14 April 2008 being an addendum to the Annual Report of the Company for the financial year ended 31 December 2007 (the "Addendum") with any party who falls within the class of Interested Persons described in the Addendum, provided that such transactions are carried out in the normal course of business, at arm's length and on commercial terms and in accordance with the guidelines of the Company for Interested Person Transactions as set out in the Addendum (the "Shareholders' Mandate");
- (b) the Shareholders' Mandate shall, unless revoked or varied by the Company in a general meeting, continue in force until the conclusion of the next Annual General Meeting or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier; and
- (c) authority be given to the Directors to complete and do all such acts and things (including executing all such documents as may be required) as they may consider necessary, desirable or expedient to give effect to the Shareholders' Mandate.

[See Explanatory Note (v)] **(Resolution 11)**

11. Authority to allot and issue 1,500,000 ordinary shares to Executive Director as part of his remuneration

That authority be and is hereby given to the Directors to allot and issue up to 1,500,000 ordinary shares in the capital of the Company to Mr. Richard Ong Chui Chat (the Chief Executive Officer and an Executive Director of the Company) in accordance with the terms as set out in the Addendum and that any Director or Company Secretary be authorised to do all things necessary or appropriate to give effect to this Resolution as he may deem fit.

(Resolution 12)

12. Authority to offer and grant share options to Independent Directors as part of the directors' fees to Independent Directors

That authority be and is hereby given to the Directors to offer and grant share options in accordance with the terms set out in the Addendum and to allot and issue an aggregate number of up to 250,000 ordinary shares in the capital of the Company pursuant to the exercise of the share options to Dr. Chua Yong Hai and Mr. Han Eng Juan (together, the "Independent Directors") as follows:

- (a) 150,000 ordinary shares to Dr. Chua Yong Hai; and
- (b) 100,000 ordinary shares to Mr. Han Eng Juan,

and that any Director or Company Secretary be authorised to do all things necessary or appropriate to give effect to this Resolution as he may deem fit.

(Resolution 13)

By Order of the Board

James Carter
Secretary
Singapore
14 April 2008

Explanatory Notes:

- (i) The Ordinary Resolution 8 in item 7 above, if passed, will empower the Directors of the Company to issue shares, make or grant Instruments convertible into shares and to issue shares pursuant to such Instruments, up to a number not exceeding, in total, fifty per centum (50%) of the issued shares in the capital of the Company excluding treasury shares, of which up to twenty per centum (20%) of the issued shares in the capital of the Company excluding treasury shares may be issued other than on a pro-rata basis to existing shareholders of the Company.

For the purpose of determining the aggregate number of shares that may be issued, the total number of issued shares excluding treasury shares is based on the issued shares in the capital of the Company at the time this Ordinary Resolution is passed after adjusting for new shares arising from the conversion or exercise of Instruments or any convertible securities, the exercise of share options or the vesting of share awards outstanding or subsisting at the time when this Ordinary Resolution is passed and any subsequent bonus issue, consolidation or subdivision of shares.

- (ii) The Ordinary Resolution 9 in item 8 above, if passed, will empower the Directors of the Company to issue shares in the capital of the Company pursuant to the exercise of options granted or to be granted under the Option Plan and all other share option, share incentive, performance share or restricted share plans implemented by the Company, up to a number not exceeding in total fifteen per centum (15%) of the issued shares in the capital of the Company from time to time.
- (iii) The Ordinary Resolution 10 in item 9 above, if passed, will empower the Directors of the Company to issue shares in the Company pursuant to the Acquisition Plan and all other share option, share incentive, performance share or restricted share plans implemented by the Company, up to a number not exceeding in total fifteen per centum (15%) of the issued shares in the capital of the Company from time to time.
- (iv) With effect from 3 December 2007, Rule 845(1) of the Listing Manual provides that the aggregate number of shares available under all schemes must not exceed fifteen per centum (15%) of the total number of issued shares excluding treasury shares from time to time. The Ordinary Resolutions 9 and 10 proposed above, if passed, will enable the terms of the Option Plan and the Acquisition Plan to comply with Rule 845(1).
- (v) The Ordinary Resolution 11 in item 10 proposed above, if passed, will authorise the Interested Person Transactions as described in the Addendum and recurring in the year and will empower the Directors to do all acts necessary to give effect to the Shareholders' Mandate.

Notes:

- 1. A Member entitled to attend and vote at the Annual General Meeting (the "Meeting") is entitled to appoint one (1) or two (2) proxies to attend and vote in his/her stead. A proxy need not be a Member of the Company.
- 2. The instrument appointing a proxy must be deposited at the Registered Office of the Company at 15 Hoe Chiang Road, #26-01 Tower Fifteen, Singapore 089316 not less than 48 hours before the time appointed for holding the Meeting.

STRAITS ASIA RESOURCES LIMITED
(Company Registration No. 199504024R)
(Incorporated in Singapore with limited liability)

IMPORTANT:

1. For investors who have used their CPF monies to buy Straits Asia Resources Limited's shares, this Report is forwarded to them at the request of the CPF Approved Nominees and is sent solely FOR INFORMATION ONLY.
2. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.
3. CPF investors who wish to attend the Meeting as an observer must submit their requests through their CPF Approved Nominees within the time frame specified. If they also wish to vote, they must submit their voting instructions to the CPF Approved Nominees within the time frame specified to enable them to vote on their behalf.

PROXY FORM

(Please see notes overleaf before completing this Form)

I/We, _____
of _____
being a member/members of Straits Asia Resources Limited (the "Company"), hereby appoint:

Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			
and/or (delete as appropriate)			
Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

or failing the person, or either or both of the persons, referred to above, the Chairman of the Meeting as my/our proxy/proxies to vote for me/us on my/our behalf at the Annual General Meeting (the "Meeting") of the Company to be held on 30 April 2008 at 11.30 a.m. and at any adjournment thereof. I/We direct my/our proxy/proxies to vote for or against the Resolutions proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given or in the event of any other matter arising at the Meeting and at any adjournment thereof, the proxy/proxies will vote or abstain from voting at his/her discretion. The authority herein includes the right to demand or to join in demanding a poll and to vote on a poll.

(Please indicate your vote "For" or "Against" with a tick [✓] within the box provided.)

No.	Resolutions relating to:	For	Against
1	Directors' Report and Audited Accounts for the year ended 31 December 2007		
2	Payment of proposed final dividend		
3	Re-election of Mr Han Eng Juan as a Director		
4	Re-election of Mr Martin David Purvis as a Director		
5	Re-election of Mr Michael George Gibson as a Director		
6	Approval of Directors' fees amounting to S\$400,000		
7	Re-appointment of Messrs PricewaterhouseCoopers as Auditors		
8	Authority to allot and issue new shares		
9	Authority to offer and grant options under the Rules of the Straits Employee Share Option Plan		
10	Authority to allot and issue shares under the Rules of the Straits Executive Share Acquisition Plan		
11	Renewal of Shareholders' Mandate for Interested Person Transactions		
12	Authority to allot and issue 1,500,000 ordinary shares to Executive Director		
13	Authority to offer and grant share options to Independent Directors		

Dated this _____ day of _____ 2008

Signature of Shareholder(s)
or, Common Seal of Corporate Shareholder

Total number of Shares in:	No. of Shares
(a) CDP Register	
(b) Register of Members	

Notes:

1. Please insert the total number of Shares held by you. 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 held by you.
2. A member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint one or two proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.
3. Where a member appoints two proxies, the appointments shall be invalid unless he/she specifies the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy.
4. Completion and return of this instrument appointing a proxy shall not preclude a member from attending and voting at the Meeting. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the meeting in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under the instrument of proxy to the Meeting.
5. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 15 Hoe Chiang Road, #26-01 Tower Fifteen, Singapore 089316 not less than 48 hours before the time appointed for the Meeting.
6. 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. Where the instrument appointing a proxy or proxies is executed by an attorney on behalf of the appointor, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument.
7. 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.

