ANNUAL
REPORT
2018

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Tong Kooi Ong
Executive Chairman and Chief Executive Officer

Tong Ian
Executive Director, Operations and Building Materials Distribution

Koh Wan Kai
Executive Director, Paper Manufacturing
(Resigned as Executive Director on 8 March 2019)

Khoo Hsien Ming Kevin
Executive Director, Investments and Power Generation
(Resigned as Executive Director on 8 March 2019)

Gary Ho Kuat Foong
Lead Independent Director

Ng Shin Ein
Independent Director

Kalimullah Bin Masheerul Hassan
Independent Director

Ong Pang Liang
Independent Director
(Resigned on 8 March 2019)

Garson David Lee
Independent Director

Chan Lay Hoon
Non-Executive, Non-Independent Director
(Appointed on 8 March 2019)

COMPANY SECRETARY

Song Ruoh Jin

AUDIT AND RISK MANAGEMENT COMMITTEE

Gary Ho Kuat Foong *(Chairman)*
Ng Shin Ein
Ong Pang Liang (Resigned on 8 March 2019)
Kalimullah Bin Masheerul Hassan
Garson David Lee
Chan Lay Hoon (Appointed on 8 March 2019)

NOMINATING COMMITTEE

Kalimullah Bin Masheerul Hassan (Chairman)
Gary Ho Kuat Foong
Ong Pang Liang (Resigned on 8 March 2019)
Ng Shin Ein

REMUNERATION COMMITTEE

Ng Shin Ein (Chairman)
Kalimullah Bin Masheerul Hassan
Ong Pang Liang (Resigned on 8 March 2019)
Garson David Lee

REGISTERED OFFICE

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#13-10 Great World City West Lobby
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SHARE REGISTRAR

M & C Services Private Limited
112 Robinson Road #05-01
Singapore 068902

INDEPENDENT AUDITOR

Nexia TS Public Accounting Corporation
Public Accountants and Chartered Accountants
100 Beach Road
#30-00 Shaw Tower
Singapore 189702
Director-in-charge: Meriana Ang Mei Ling
(Appointed since 31 December 2018)

BANKERS

CIMB Bank Berhad
Malayan Banking Berhad
United Overseas Bank Limited
DBS Bank Limited
The Bank of East Asia, Limited

CHAIRMAN AND CEO'S STATEMENT

Dear Fellow Shareholders,

Our vision for Avarga is one that is specific and measurable. We aspire to be an effective investment vehicle, by building value. Our role is to find opportunities, where we have the capabilities to add value. We will also monetise when it is the right option.

We have raised capital from shareholders and debts from banks for our new investments and we will return capital, when we have no better use, in the form of dividends as we now propose. The objective being to maximise returns on equity, subject to reasonable prudence.

I will focus on the above for my Annual Report statement this year.

Specifically, how have we done since 2012 when I took over management and became the single largest shareholder? And what might you expect from this Company in the years ahead?

Pre-tax profit for UPP Holdings (before it was renamed to Avarga last year) was $0.3 million in 2007, a loss of $0.2 million in 2008, $0.1 million in 2009, $1.6 million in 2010 and a loss of $0.4 million in 2011, or averaging $0.3 million in pre-tax profit a year during the 5 years period. Its business was solely the paper manufacturing plant in Selangor, Malaysia.

In terms of balance sheet, total equity was $119.1 million at the end of 2011. Average return on equity from 2007 to 2011 was a mere 0.2%. The paper manufacturing plant was hardly profitable for a $100.0 million investment.

But there was net cash of $20.7 million at the end of 2011. This allowed us to restructure and reposition the Company, to look for new investments to grow it.

Understanding 2012 to 2018

Tables 1 and 2 (refer to pages 7 to 10), in my view, represent the best way to illustrate the financial performance of your Company since 2012. What we did, how much we invested, what returns were generated, where the cash was employed and the outlook for future cash flows and profits of the Company.

It is not the typical presentation of financial statements, but reformatted, using the same information as in the Annual Reports. I think you will find it easier to understand.

To become a successful investment vehicle, to find and invest into profitable new opportunities, the first thing we needed was to raise cash. As the saying goes, "no cash, no talk".

In 2012, we did a share placement and raised $40.3 million. Another $13.3 million was raised from the conversion of warrants. Consequently, our net cash holdings went up from $20.7 million to $75.7 million within a year, between end-2011 and end-2012.

Power Plant (Myanmar)

That cash allowed us the opportunity to invest into the 50MW independent power plant in Yangon, Myanmar. We were the first fully foreign-owned independent power plant under Myanmar's Foreign Investment Law, and we were able to negotiate on favourable terms given the power shortage in the country and our ability to fund the project quickly with cash in hand.

It is a 30-year concession, sales are priced in US dollars and payments are made into our Singapore bank account in US dollars. Gas is provided for and guaranteed by the Government of Myanmar and the efficiency of operations is guaranteed by our technology partner, Myan Shwe Pyi Tractors Ltd, the local Caterpillar distributor in Myanmar with technical assistance from Caterpillar.

We do not have the technical capability but we could value add. It would not have been possible without our cash, our relationships and our management abilities.

As seen from Table 1, we invested $14.6 million in 2013 and $44.1 million in 2014, or a total of $58.7 million. This is reflected by the fall in cash holdings to $40.8 million by end of 2014 (or by some $34.9 million). The reduction in cash holdings is less than the amount invested as the Company was able to generate excess cash flows from operations by some $16.4 million during the 2 years, 2013 and 2014, plus an additional $4.1 million from the conversion of warrants and $6.5 million from the sale of corporate bond holdings.

CHAIRMAN AND CEO'S STATEMENT

The next question is what returns were generated from the Myanmar power plant.

In terms of accounting profit after tax, it generated $6.3 million in 2014, $7.8 million in 2015, $8.1 million in 2016, $6.9 million in 2017 and $5.7 million in 2018. The average was $7.0 million after tax, or an after tax ROI of 11.9% for a US dollar investments, albeit with Myanmar risk.

However, actual cash flows yearly have little relationships to accounting profits as reported in the Annual Report. This is because under SFRS(I) INT 12 Service Concession Arrangements, this asset is treated as service concession receivable. The accounting treatment basically averages out the profits for the entire 30 years concession, by applying the estimated sales and profit margins (based on forecasts) over the entire 30 years and discounting the cash flows over the 30 years by an appropriate discount rate (based on judgement). The principle is that it reflects the economic consideration of the transaction.

Total accounting profits from 2014 to 2018 was $34.8 million. Actual cash flows are substantially higher. In fact, as of writing, we have basically recovered all our investments into this project, in terms of cash flows. How can you know this? Take the after tax profits of the Group for the 2 years, 2015 and 2016 of $26.3 million. Total cash used for dividends, new investments and capex for the same 2 years, is $20.8 million. Yet cash holdings went up by another $16.4 million. In other words, actual ROI in cash is significantly better than 12% after tax.

In the interest of transparency, for 2019, the power plant will continue to be profitable despite the fact that it will generate almost no cash. The generators will undergo scheduled major overhauls, as per our contractual agreement with the equipment vendors, where the costs are approximately equivalent to the year's net cash.

Paper Manufacturing (Malaysia)

Since 2012, a primary area of focus was to turn around the paper manufacturing business, as it has over $100.0 million of asset value in the accounts of Avarga.

Pre-tax profit for the paper business has improved from $1.4 million in 2011 to $3.8 million in 2012 and 2013, $4.9 million in 2014, $6.4 million in 2015, $7.9 million in 2016, $8.3 million in 2017 and $10.3 million in 2018.

The stronger performance is mainly attributed to greater efficiency. For 2018, margins expanded partly due to the fall in waste paper prices, as China began imposing import quotas on waste paper.

During the period 2012 to 2018, total additional investments into the paper manufacturing business, for upgrades to increase production or to lower costs, was $13.0 million. And in 2017, we decided to buy out the 7.2% of minority shareholders at a cost of $4.9 million. We now fully own the business.

This investment is now generating a decent after tax ROI of over 7%. In terms of cash flows, it is slightly better due to the relatively high depreciation that we have to recognise yearly.

Wholesale Distribution of Building Materials (Canada and USA)

For Avarga, from net cash of $57.2 million at the beginning of 2017, we ended 2018 with net debt of $36.0 million, excluding Taiga's revolving credit and subordinated notes. That is, we used about $93.2 million during the 2 years, 2017 and 2018.

In 2017, we employed $119.8 million cash, of which $102.1 million were Taiga-related. The rest was to pay dividends, capex and buy out the minorities at the paper manufacturing company. About $57.2 million came from internal cash, $5.9 million from bank borrowings and $10.0 million from a placement of new shares. The remaining was funded by cash flow from operations during the year.

In 2018, Avarga used another $82.8 million, of which Taiga invested cash of $55.1 million into a US company that does similar business as Taiga. Taiga is the largest independent wholesale distributor of building materials in Canada. It has operations from the east coast of Canada at Prince Edward Island to the west coast, at Vancouver Island. The acquired company, Exterior Wood, gives Taiga access to all of the Pacific west coast of the USA. It is synergistic and its business operation is similar to Taiga's, fulfilling a key expansion strategy.

CHAIRMAN AND CEO'S **STATEMENT**

Distribution businesses are like pipelines. It is about how efficient you manage that pipeline, how much you can put through the pipeline and what is the mix of products that determines your profitability. Taiga carries a very diverse and complete range of building products given its size. Such distribution rights with manufacturers take years to develop. And this has the potential of expanding the business opportunities at Exterior Wood.

How will Taiga fund this acquisition? Taiga used to pay 14% interest on its Loan Notes outstanding of C$128.8 million, or an annual cash payment of C$18.0 million yearly. As the notes were redeemed at the end of 2017, this cash flow will be directed towards repaying the loan taken to acquire Exterior Wood, which was acquired at an EV/EBITDA of 6 times.

Avarga's Financials for 2012 to 2018

Table 2 summarises the above into a consolidated effect for Avarga.

1. From 2012 to 2018, we used $287.6 million cash, of which $37.6 million went to shareholders in the form of dividends, $58.7 million for the power plant, $87.1 million to acquire Taiga and Taiga itself invested $83.0 million into acquiring Exterior Wood and the redemption of its own notes.

2. To fund the above, $67.7 million came from shareholders, in the form of share placements and conversion of warrants. Net of dividends, shareholders contributed $30.1 million.

3. Another $20.7 million came from the Company's cash and $36.0 million from bank borrowings.

4. The balance of $154.8 million cash came from operating activities.

In other words, using the $20.7 million net cash that was available from the beginning of 2012 and drawing on additional net cash from shareholders of $30.1 million plus using bank borrowings of $36.0 million, or for a total cash investment of $87.1 million, your Company has expanded from a paper manufacturing business that was hardly profitable to now also owning a 50MW power plant and a wholesale building material distribution business in Canada and USA (with revenue of over $1.5 billion).

Annual revenue has jumped from $51.0 million in 2011 to $1,573 million in 2018. Pre-tax profit has improved from a loss of $0.4 million in 2011 to $31.1 million in 2018. EBITDA increased from $5.4 million in 2012 to $58.2 million by 2018. Cash flow from operating activities are now at $56.7 million, as compared to $3.7 million in 2012.

Critically, net excess cash from operations, after meeting contractual financial obligations, is now in excess of $50.0 million a year.

Dividends

The Company has declared a final dividend of 3 cents per share for 2018 and an interim special dividend of 1.5 cents per share for 2019. The entire 4.5 cents per share will be paid in May 2019, assuming shareholders approve in the coming AGM.

This dividend amounts to $42.6 million cash to be paid to shareholders. Why are we paying out this bumper dividend?

1. As indicated in the section above, we have grown your Company from a paper manufacturing business to include a power plant and a wholesale building material distributor in Canada and USA. Revenues, profits, EBITDA and operating cash flows have all grown tremendously in the last 6 years. In the process, we have relied on net cash from shareholders of $30.1 million since 2012. With this dividend of $42.6 million, we would have repaid back all shareholders' contribution and more.

2. The special interim 1.5 cents for 2019 or a total dividend of $14.2 million came about from the sale of our Tuas property for $18.6 million, which we had no use of.

3. Total net debt of Avarga is $136.2 million with a net gearing ratio of 64.8% as at 31 December 2018. However, excluding Taiga's revolving credit facilities of $64.7 million and finance lease obligations of $23.0 million, our group net debt is substantially lower at $48.5 million, with a net gearing of 23.1%. We believe we are operating prudently. Using some debts to maximise ROE can be positive, if we have confidence in future cash flows.

4. In terms of the effect on profits, the impact will be marginal given the current low interest rate environment.

5. We have put aside safety margins in terms of cash resources at each of the operating companies.

6. Our cash flows are significantly stronger than indicated by our pre-tax profit, as explained in the analysis above and with reference to Table 1.

7. We have not found an attractive new significant investment, other than Taiga over the last 2 years. And Taiga can raise its own cash for its own investments given its strong operating cash flows. We considered expanding our paper business and built up our cash for that purpose, but it failed to materialise.

8. As an investment company, we need to have discipline. To return excess capital when we do not need it and to raise capital when we do, instead of hoarding cash. This is especially when we have managed to issue new shares each time, when necessary. Shareholders should decide what to do with their own cash.

The year ahead (2019)

The risk for 2019 is a global economic slowdown and geo-political uncertainties.

Wealth disparity, negative real wage growth and job displacements will cause a rise in tension amongst the classes. And the fact that we are in the later stage of this economic cycle means there is not much excess capacity and therefore, profit margin contraction is the norm.

Given the above, it is normal for entrepreneurs and managers to be cautious in making new investments. It is why economic cycles are inevitable, in response to and necessitated by human behaviour.

For us at Avarga, as rational managers and as custodian of your Company, we are guided similarly. We see rising risks, less opportunities, lower returns on potential investments and the need to stay cautious. This explains why we decided to return excess money to you, with the large proposed dividends.

For Avarga, there is the risk of a slowdown in the housing market that may affect Taiga's sales and profitability, especially in Canada. Historically though, when new housing starts fall, the renovation markets pick up. Further, Taiga's size and diversity of products and geographic coverage tends to have mitigating effects.

You might ask why then did Taiga acquire Exterior Wood in the USA. This strategy to expand to the pacific west coast of the USA has been in the making for years and it is not often the right opportunities turn up. In this case, it came about with the recent passing of the owner. The valuation was decent. The business model was similar, and we could add on products into the distribution channel. The housing market in the USA is also likely to remain robust, offsetting the slower Canadian market. This opportunity turned up at a time when Taiga can afford to take on some debts with the savings from the interest on the loan notes, which were converted into ordinary shares at the end of 2017.

There is also the risk of higher waste paper prices that may negatively impact profit margins at our paper manufacturing division. Waste paper prices have been kept low by the imposition of quotas for imports into China. But as capacities are added and China sourced more imports of the finished product, demand for waste paper elsewhere should rise, which may raise our cost.

And the ongoing overhauls of the generators at our power plant comes with some risks, although very minimal. This is because any failures or under-performance of the power plant would be compensated by the vendor.

Finally, at the group level, we are taking some debts and a rise in interest rates could have negative impact on our profits. That said, our gearing remains low and our view is that interest rates are not likely to rise in 2019.

Barring unexpected surprises in our operations and on the external front, we expect a fairly similar financial performance for 2019 in comparison to 2018. Cash flows from operations could be lower by the overhauls for the power plants. A major focus will be on integrating the new acquisition in USA to Taiga, to create more synergistic gains in sales, product offerings and profit margins.

CHAIRMAN AND CEO'S **STATEMENT**

Our Pay for Performance Remuneration Framework

Last year, I wrote a lengthy explanation about the business of Taiga and its compensation framework which is a key pillar in driving its profitability.

This year, I like to explain the structure of Avarga's compensation and why it is not only comprehensive, transparent and quantitative but it is also in line with an investment holding company that promotes performance and risk management, aligning to the interest of shareholders.

In most companies, shareholders are told that it is the Board that is fully cognisant of the efforts of management and therefore, they alone should determine how management should be paid. We sometimes see loss-making companies making hefty pay and bonuses to management. Or companies paying out more bonuses than their profits. Frankly, I think it is more a cop out than a justification, when insiders say they know what is best for insiders.

Senior managements' pay must have clarity, be transparent and be fully justifiable and aligned to the interest of shareholders. It should go further. There should be a clear approved framework from the beginning of each year, stating the targets, the formula to calculate pay and bonuses, and how these financial variables are determined. And taking into account the agreed risk parameters, what is the required profit and cash flow return objectives. It should not be left to arbitrary year end judgements. How hard one works is a subjective judgement. I have never heard of a manager who admits to his bosses that he is lazy or not capable. Yet clearly, many are.

Our framework at Avarga is as follows. At the beginning of each fiscal year (usually February), the remuneration committee discusses and then recommends for the board's approval the following:

1. The risk assessment matrix for the coming fiscal year. The committee and the Board discuss with management the risk parameters for each of our operating business entities, and quantify with a score out of 20. These parameters are outlook for earnings sustainability, performance risks, country risk and currency risk.
2. Naturally, as we have been doing this since 2014, the scoring is also relative to the past.
3. We have an agreed table for the required rate of return for each risk profile. The required rate of return for each of the business entity is therefore established objectively, approved by the Board of Directors, right at the beginning of each fiscal year.
4. Multiplying this required rate of return for each of the business entities with the percentages of total capital employed for each business entity yields the overall weighted required rate of return for the Company.
5. To this is added the prevailing risk-free rate of the market. What Avarga will be able to earn assuming we put all our capital into risk-free assets like Government securities.
6. And finally, the required rate of return is topped up with a gearing multiplier, since a higher company gearing will raise our overall risk profile. This is to encourage management to use debts prudently.
7. For 2018, management compensation is based on exceeding a hurdle rate of 8.52% for the $258.1 million of capital employed.

I have chosen to share the above with shareholders in the interest of greater transparency and to explain how we have aligned management with shareholders' interests.

Each of my statements in the yearly Annual Reports are a continuation of the one before. I have opted for as much clarity on our performance and the outlook as possible. We are a relatively small company and consequently, we do not attract much attention from analysts and fund managers. I hope statements like this allows you to make better informed decisions.

God bless,

TONG KOOI ONG
Chairman of the Board and CEO

"Someone is sitting in the shade today because someone planted a tree a long time ago."
Warren Buffet

CHAIRMAN AND CEO'S STATEMENT

Table 1: Avarga's restated income and cash flow statement

	For the Financial Year Ended 31 December (S$ million)						
	2018	2017	2016	2015	2014	2013	2012
Revenue	1,572.7	1,455.2	63.3	61.1	116.9	48.1	50.0
Gross profit	145.7	132.4	18.7	17.5	15.5	8.1	8.1
EBITDA (before exceptional items)	58.2	61.3	14.1	12.1	10.7	4.4	5.4
Significant non-cash items:							
Fair value adjustments for Taiga acquisition	–	(9.5)	–	–	–	–	–
Depreciation	(8.0)	(7.0)	(2.6)	(2.6)	(2.9)	(3.2)	(3.1)
Amortisation of intangibles	(4.8)	(4.3)	–	–	–	–	–
Amortisation of deferred gain	0.4	0.4	–	–	–	–	–
Forex (losses)/gains	(6.1)	(3.9)	1.1	3.4	1.7	0.0	(0.2)
Gain on extinguishment of Taiga notes	–	2.4	–	–	–	–	–
Gain on disposal of Kajang land	–	1.2	–	–	–	–	–
Cash items:							
Net interest expense	(8.6)	(15.5)	0.5	0.4	0.2	0.3	0.3
	(27.1)	(36.2)	(1.0)	1.2	(1.0)	(2.9)	(3.0)
Pre-tax profit	**31.1**	**25.1**	**13.1**	**13.3**	**9.7**	**1.5**	**2.4**
Net cash generated from operating activities (after tax)	**56.7**	**56.5**	**18.4**	**18.8**	**14.0**	**2.4**	**3.7**
Less committted cash payments:							
Interest expense to finance the acquisition of Taiga and Taiga subordinated notes interest	(1.5)	(9.7)	–	–	–	–	–
Repayment of Taiga finance lease obligations	(2.5)	(2.0)	–	–	–	–	–
Sub-total	(4.0)	(11.7)	–	–	–	–	–
Net excess cash from operations	**52.7**	**44.8**	**18.4**	**18.8**	**14.0**	**2.4**	**3.7**

CHAIRMAN AND CEO'S STATEMENT

Table 1: Avarga's restated income and cash flow statement (Continued)

	For the Financial Year Ended 31 December (S$ million)						
	2018	2017	2016	2015	2014	2013	2012
Use of Cash: How we used the cash?							
Capex – PPE (net)	(5.2)	(2.8)	(1.1)	(1.1)	(0.2)	(0.8)	(1.8)
Acquisition of non-controlling interests in UPP Pulp & Paper	–	(4.9)	–	–	–	–	–
Acquisition of Taiga shares	–	(20.5)	–	–	–	–	–
Acquisition of Taiga subordinated notes (later converted to shares)	–	(57.3)	–	–	–	–	–
Acquisition of Exterior Wood by Taiga	(55.1)	–	–	–	–	–	–
Acquisition of additional Taiga stake via Kublai	(9.3)	–	–	–	–	–	–
Investment in Myanmar Power Plant	–	–	–	–	(44.1)	(14.6)	–
Investment into Archisen	(0.5)	–	–	–	–	–	–
Investment in Classic Scenic	–	–	(2.8)	–	–	–	–
Share buyback: Avarga treasury shares	(0.6)	–	–	–	–	–	–
Share buyback: Taiga treasury shares	(1.7)	–	–	–	–	–	–
Changes in Taiga revolving credit facility (RCF)	(1.9)	(8.4)	–	–	–	–	–
Redemption of outstanding Taiga 14% notes	–	(15.9)	–	–	–	–	–
Dividends to Avarga shareholders	(8.8)	(8.8)	(12.6)	(4.2)	(1.3)	(1.3)	(0.6)
Others	0.3	(1.2)	0.4	0.6	0.3	0.1	0.1
Sub-total	**(82.8)**	**(119.8)**	**(16.1)**	**(4.7)**	**(45.3)**	**(16.6)**	**(2.3)**
(Deficit)/surplus	**(30.1)**	**(75.0)**	**2.3**	**14.1**	**(31.3)**	**(14.2)**	**1.4**

CHAIRMAN AND CEO'S STATEMENT

Table 1: Avarga's restated income and cash flow statement (Continued)

	For the Financial Year Ended 31 December (S$ million)						
	2018	2017	2016	2015	2014	2013	2012
Source of Cash: How we financed it?							
Sale of Kajang land	–	1.9	–	–	–	–	–
Share placements – 2012 & 2017	–	10.0	–	–	–	–	40.3
Proceeds from conversion of warrants – 2012 to 2013	–	–	–	–	–	4.1	13.3
Sale of corporate bonds	–	–	–	–	3.5	3.0	–
Use of cash & borrowings (change in net cash/debt)	30.1	63.1	–	–	27.8	7.1	–
Increase in cash at bank	–	–	(2.3)	(14.1)	–	–	(55.0)
Sub-total	**30.1**	**75.0**	**(2.3)**	**(14.1)**	**31.3**	**14.2**	**(1.4)**
Change in net debt (bank borrowings, excluding Taiga notes & RCF)	**(30.1)**	**(63.1)**	**2.3**	**14.1**	**(27.8)**	**(7.1)**	**55.0**
Reconciliation with our net cash/debt balances:							
Net cash/debt at beginning (cash less borrowings, excluding Taiga RCF & notes)	(5.9)	57.2	54.9	40.8	68.6	75.7	20.7
Net cash/debt at end (cash less borrowings, excluding Taiga RCF & notes)	**(36.0)**	**(5.9)**	**57.2**	**54.9**	**40.8**	**68.6**	**75.7**
Change in net cash/ debt, excluding Taiga RCF & notes	**(30.1)**	**(63.1)**	**2.3**	**14.1**	**(27.8)**	**(7.1)**	**55.0**

CHAIRMAN AND CEO'S STATEMENT

Table 2: Summary of Avarga's performance and cash flows from 2012 to 2018

From 2012 to 2018, we have generated cumulative:

	S$ million	S$ million
Revenue		3,367.3
Gross profit		346.0
EBITDA (before exceptional items)		166.2
Pre-tax profit		96.2
Net cash from operating activities		**170.5**
Net excess cash from operating activities		**154.8**
What did we use it for?		
Capex – PPE (net)		(13.0)
Investment in Myanmar Power Plant		(58.7)
Acquisition of non-controlling interests in UPP Pulp & Paper		(4.9)
Acquisition of Taiga		(87.1)
– Taiga ordinary shares	(20.5)	
– Taiga subordinated notes (later converted to shares)	(57.3)	
– additional Taiga stake via Kublai Canada	(9.3)	
Investing activities made by Taiga		(83.0)
– redemption of outstanding Taiga 14% notes	(15.9)	
– acquisition of Exterior Wood by Taiga	(55.1)	
– share buyback: Taiga treasury shares	(1.7)	
– changes in Taiga RCF	(10.3)	
Portfolio investments		
– stake in Archisen		(0.5)
– stake in Classic Scenic		(2.8)
Share buyback: Avarga treasury shares		(0.6)
Dividends to Avarga shareholders		(37.6)
Others		0.6
Subtotal		**(287.6)**
Deficit		**(132.8)**
How did we finance this?		
Sale of Kajang land		1.9
Share placements – 2012 & 2017		50.3
Proceeds from conversion of warrants – 2012 to 2013		17.4
Sale of corporate bonds		6.5
Use of cash & borrowings (net change in cash/debt)		56.7
Sub-total		**132.8**

BOARD OF DIRECTORS

TONG KOOI ONG

Executive Chairman, Chief Executive Officer
Appointed to the Board on 15 March 2012

Mr. Tong is an entrepreneur and an analyst.

He has business interests in media, property development, digital technologies and other businesses in Singapore, Malaysia and Canada.

He is on the board of M+S Pte Ltd, a joint venture between Khazanah Nasional Berhad and Temasek Holdings (Private) Ltd. He is a director of Taiga Building Products Ltd., a wholesale distributor of building products, listed on the Toronto Stock Exchange and Non-Executive Chairman of 3Cnergy Limited, listed on the Singapore Exchange.

He has interests in the media companies that publish *The Edge Singapore, The Edge Malaysia. The Edge Financial Daily,* TheEdgeSingapore.com and TheEdgeMarkets.com.

He also has interests in the property portals EdgeProp.sg and EdgeProp.my.

Mr. Tong holds a Bachelor of Arts in Business Administration and a Master of Arts in Economics and Finance from Simon Fraser University, Canada. In 2002, he was bestowed his Doctor of Laws (Honoris Causa) from the same university.

TONG IAN

Executive Director, Operations and Building Materials Distribution
Appointed to the Board on 7 March 2017

Mr. Tong Ian joined the Group in 2012. He is also the Chairman of Taiga Building Products Ltd., which became a subsidiary corporation of the Group in 2017, and oversees the Group's interests in that company.

Mr. Tong Ian is a director of The Edge Media Group Pte Ltd that publishes *The Edge Singapore, The Edge Malaysia, The Edge Financial Daily*, TheEdgeSingapore.com and TheEdgeMarkets.com.

He is also a director of The Edge Property Pte Ltd which owns the property portals EdgeProp.sg and EdgeProp.my.

Mr. Tong Ian holds a Bachelor of Arts in Sociology from Trinity Western University and a Masters in Management from Sauder School of Business, University of British Columbia, Canada.

KOH WAN KAI

Executive Director, Paper Manufacturing
Appointed to the Board on 1 April 2009
(Resigned as Executive Director on 8 March 2019 and remains as key management personnel)

Mr. Koh joined the Company on 1 April 2008. He is currently responsible for the paper manufacturing operations of the Group. He started his career in an international accounting firm as an auditor and business consultant. He has more than 30 years experience in managerial positions spanning various industries. Prior to joining the Company, he was the Chief Financial Officer of SGX listed Rowsley Ltd. (now known as Thomson Medical Group Limited). Mr. Koh holds a Bachelor of Accountancy from the National University of Singapore. He is a Fellow member of the Institute of Singapore Chartered Accountants.

BOARD OF DIRECTORS

KHOO HSIEN MING, KEVIN

Executive Director, Investments and Power Generation
Appointed to the Board on 1 September 2015
(Resigned as Executive Director on 8 March 2019 and remains as key management personnel)

Mr. Khoo joined the Group in 2012. He is responsible for identifying and evaluating new investment opportunities, as well as strategic planning for the Group. He is also the Managing Director of UPP Power (Myanmar) Limited with responsibility for the Group's power plant operations in Myanmar.

Prior to joining the Group, Mr. Khoo was the Group Editor-in-Chief of The Edge Communications Sdn Bhd, Malaysia's leading business and financial media company.

Mr. Khoo has extensive management and operations experience in Malaysia, especially in the equities research, media and banking sectors. He started his career in Standard Chartered Bank Malaysia and later moved on to equities research in PhileoAllied Securities Sdn. Bhd. and Asia Analytica Sdn. Bhd..

Mr. Khoo holds a Bachelor of Commerce degree from the University of Melbourne.

GARY HO KUAT FOONG

Independent Director
Appointed to the Board on 31 October 2006

Mr. Ho has over 25 years of experience in corporate management and finance having been a Director of both publicly listed and private companies in Singapore, Malaysia and Australia.

Mr. Ho also serves on the board of directors of Thomson Medical Group Limited (f.k.a. Rowsley Ltd.) and Secura Group Limited, both listed companies on the Singapore Exchange and TMC Life Sciences Berhad, listed on the stock exchange in Malaysia.

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

ONG PANG LIANG

Independent Director
Appointed to the Board on 1 August 2010
(Resigned on 8 March 2019)

Mr. Ong joined the Company in 2010 from Rowsley Ltd. (now known as Thomson Medical Group Limited), where he was the Chief Financial Officer. He relinquished his Finance Director role in the Company on 20 April 2012 and remained as Non-Executive Director. He was re-designated to Independent Director on 1 January 2016.

Mr. Ong also sits on the boards of Thomson Medical Group Limited (f.k.a. Rowsley Ltd.) and Secura Group Limited, both listed companies on the Singapore Exchange.

He has over 25 years of experience in banking and finance. His career in various international banks covered management responsibilities in currency trading, treasury operations and corporate banking. He was a Managing Director at Bank of America where he spent 15 years, and held positions of Head of Foreign Exchange in Singapore and General Manager of Bank of America Shanghai PRC.

Mr. Ong holds a degree in Business Administration from the National University of Singapore.

BOARD OF DIRECTORS

NG SHIN EIN

Independent Director
Appointed to the Board on 20 April 2013

Ms. Ng Shin Ein was appointed to the Board on 20 April 2013 and was last re-elected as a Director on 29 April 2016. Ms. Ng brings with her a rare blend of legal, business, financial and diplomatic experience.

Ms. Ng is the co-founder of Gryphus Capital, a pan Asian private equity investment firm. She invests actively and leads a network of family offices and other private equity firms to provide strategic capital for companies. For these investments, she engages with portfolio companies, focusing on strategy and business development.

Prior to this, Ms. Ng spent a number of years at the Singapore Exchange where she was responsible for developing Singapore's capital market and bringing foreign companies to list in Singapore. Additionally, she was part of the Singapore Exchange's IPO Approval Committee, where she contributed industry perspectives and also acted as a conduit between the marketplace and regulators.

Ms. Ng Shin Ein was admitted as an advocate and solicitor of the Singapore Supreme Court in 1998 and practiced as a corporate lawyer in Messrs Lee & Lee. Whilst at Messrs Lee & Lee, she advised clients on joint ventures, mergers and acquisitions and fundraising exercises.

Ms. Ng serves on the boards of Starhub Limited, Yanlord Land Limited and other companies listed on the mainboard of the Singapore Exchange. She was also appointed the youngest ever director of Fairprice, Singapore's largest supermarket operator.

Apart from corporate boards, Ms. Ng serves as Singapore's Non-Resident Ambassador to the Republic of Hungary. She is also on the Board of Governors of the Singapore International Foundation.

KALIMULLAH BIN MASHEERUL HASSAN

Independent Director
Appointed to the Board on 20 April 2013

Dato' Seri Kalimullah Hassan, a Malaysian, age 61, is a former journalist and went into business in 1995.

He has served on various Malaysian Government agencies, including as Chairman of the National News Agency, Bernama. He has also served on the boards of various public listed and Government-owned companies.

Kalimullah started his own boutique financial services company and investment bank, ECM Libra Financial Services Group Berhad, with two partners, and served as its Chief Executive Officer (from 2002 to 2004) and (from 2006 to 2010). The three partners also set up an education foundation to help under-privileged children. The Foundation has won the Prime Minister's Award for Corporate Social Responsibility twice since its inception in 2004. Dato' Seri Kalimullah stepped down as CEO of ECM Libra in 2010 to manage the foundation and focus on charity.

He was re-appointed as Executive Chairman of ECM Libra Financial Group Berhad in June 2018 and remains as Chairman of the ECM Libra Foundation. He is a director of the University Malaysia Specialist Hospital and also a member of the Board of Governors of his alma mater, the Methodist Boys School (Penang) and a member of the Board of Trustees of the Government-owned Tunku Abdul Rahman Foundation. He is a founding shareholder in long-haul budget airline AirAsia X and a director and substantial shareholder in the international budget hotel group, Tune Hotels.

BOARD OF DIRECTORS

GARSON DAVID LEE

Independent Director
Appointed to the Board on 7 March 2017

Mr. Lee is a Chartered Accountant with over 45 years of business and professional public practice experience in Canada.

Upon graduating from the University of British Columbia, he joined Price Waterhouse & Company ("**PwC**") where he successfully completed his articles and obtained his Chartered Accountant degree.

Mr. Lee left PwC to join Macmillan Bloedel Limited, which was Canada's largest forest products company. He managed the company's Internal Audit Division and after 10 years, left to enter the public accounting field. He has 35 years of public practice experience as a Partner and retired in 2015. His firm was ranked among the top 30 Chartered Accounting firms in Canada. His clients included Taiga Building Products Ltd., one of the largest independent wholesale distributor of building products in Canada.

He is also the Managing Director of several private corporations which provide management, consulting and other professional services. He was also appointed as a Director of Vancouver Bullion & Currency Exchange Limited ("**VBCE**") in February 2018.

Mr. Lee holds a Bachelor of Commerce degree from the University of British Columbia. He also holds a Chartered Professional Accountant (CPA) and a Chartered Accountant (CA) degree. He is a member of the Chartered Professional Accountants of British Columbia and the Chartered Professional Accountants of Alberta.

CHAN LAY HOON

Non-Executive, Non-Independent Director
Appointed to the Board on 8 March 2019

Ms. Chan is the Executive Chairman of RSP Architects Planners & Engineers Pte Ltd, a leading architectural and engineering practices in Singapore. She also serves on the board of McLaren Group Limited, a British sports technology company and its two Asian subsidiaries – McLaren Automotive Asia Pte Ltd and McLaren Applied Technologies Pte Ltd. She is a director of Project 92 Limited which owns the Salford City Football Club.

Ms. Chan was the Executive Chairman of Thomson Medical Pte Ltd from 2010 to 2015. From 2015 to 2017, she was the Chairman and Executive President of Spanish football club – Valencia Club de Futbol S.A.D.. She also served on the board of Thomson Medical Group, a public listed company on Singapore Exchange as its Deputy Chairman from 2015 till January 2019.

Ms. Chan is a board member of Singapore Olympic Foundation.

She holds a Bachelor of Accountancy degree from the National University of Singapore and is a member of the Institute of Singapore Chartered Accountants.

TAIGA BUILDING PRODUCTS LTD.
DIRECTORS

TONG IAN
Chairman and Director
Appointed to the Board on 20 July 2012

Information on Mr. Tong Ian is found in the Board of Directors section of this Report.

TONG KOOI ONG
Director
Appointed to the Board on 20 May 2005

Information on Mr. Tong Kooi Ong is found in the Board of Directors section of this Report.

PETER BUECKING
Director
Appointed to the Board on 7 November 2006

From 2003 until 2006, Mr. Buecking was Group President of Societe Internationale de Telecommunications Aeronautics ("**SITA**") headquartered in Geneva, Switzerland. At SITA, Mr. Buecking was responsible for overall group results and strategy. He was also the Chairman of the Executive Committee. Prior to joining SITA, he was Managing Partner of Oneworld Management Company ("**Oneworld**"). Oneworld is a global alliance of leading airline brands. During an 18 years career with Cathay Pacific Airways from 1982 to 2000, Mr. Buecking held several senior management positions including Vice President Canada, Vice President USA and Latin America, General Manager and Director, Asian Frequent Flyer (Singapore) Pty Ltd, General Manager In-flight Services and Director, Marketing and Sales.

DOUGLAS J. MORRIS
Director
Appointed to the Board on 16 July 2009

Mr. Morris joined Taiga in 1978 and since then has established Taiga's distribution presence in Eastern Canada. He initiated Taiga's 1996 acquisition of distribution centres in Ontario and Quebec, and established the Oakville commodity trading division and Dynamic Forest Products. He was also involved in taking Taiga public. Prior to joining Taiga, Mr. Morris managed MacMillan Bloedel Ltd.'s building materials distribution centre in Toronto, Ontario. Mr. Morris holds a Bachelor of Science and Economics from Clarkson University in Potsdam, New York. Mr. Morris held the position of Executive Vice President of Major Accounts and Supply Management of Taiga from March 1, 2007 to March 2009. He was appointed to Taiga's Board on July 16, 2009. Mr. Morris also provided consulting services to Taiga until March 31, 2015.

BRIAN FLAGEL
Director
Appointed to the Board on 17 November 2010

Mr. Flagel is President of Custom Consulting. Mr. Flagel retired from public service in Canada as Executive Director, Canada Border Services Agency ("**CBSA**"). He held several executive positions in CBSA where he was responsible for operational service delivery, international trade movements, strategic planning, professional standards and facility planning. He was Director, Canada Border Services, Vancouver International Airport for several years, and was Director, Global Trade Services, FedEx, Europe, Middle East and Africa Division from 1995 to1998. Mr. Flagel received a Bachelor of Arts from the University of Manitoba.

TAIGA BUILDING PRODUCTS LTD.
DIRECTORS

OTTO-HANS NOWAK

Director

Appointed to the Board on 8 August 2013

Mr. Nowak is a lawyer regulated by the law society of British Columbia and he is qualified to practice the laws of British Columbia and the laws of Canada applicable in that Province. He is also a legal and business consultant advising on wealth management and wealth transfer planning with special emphasis on holistic global estate planning. He also advises on Canadian domestic tax planning, international tax planning and international wealth transfer, estate and asset preservation planning.

Prior to immigrating to Canada in 1971, Mr. Nowak was a captain and F-104 Starfighter Pilot in the West German Air Force. He attended the University of British Columbia and received the degrees of Bachelor of Commerce and Bachelor of Laws. He worked as a lawyer since 1978 with the law firm of Ladner Downs in Vancouver and for several years in Hong Kong (from 1989 to 1993) and became partner in 1983. In 2000, Ladner Downs was one of the five founding law firms of the national Canadian law firm Borden Ladner Downs ("**BLG**"). Mr. Nowak continued to work for BLG as tax partner until his mandatory retirement at age 65 under the partnership agreement and then as senior counsel until November 2017 when he relocated to Hong Kong to work in a family office and to continue his private client practice.

In 2019 Mr. Nowak will commence working with the Hong Kong law firm of Tiang & Partners as senior adviser with the title of "Senior Consultant" and as registered foreign lawyer with the law society of Hong Kong.

CAM WHITE

Director

Appointed to the Board on 20 July 2012

Mr. White retired from his role as the President and Chief Executive Officer of Taiga on March 31, 2015. He began his career at Taiga in 1973. Mr. White held various positions with Taiga over the years, including Prairie Manager, Vice President of Western Operations, Executive Vice President, Sales and Operations and Chief Operating Officer. Mr. White was appointed President and CEO of Taiga effective April 1, 2010. He was appointed to the Taiga Board on July 20, 2012. Mr. White also provides consulting services to Taiga.

KEY MANAGEMENT PERSONNEL

EDWARD LEE ENG CHEW

Executive Vice President (Corporate and Legal Service)
Avarga (M) Sdn. Bhd.

Mr. Lee is responsible for the corporate and legal affairs of the Group. Prior to joining Avarga Malaysia (f.k.a UPP Capital), Mr. Lee was the Head of the Legal Department of Sunrise Berhad, a Malaysian property developer listed on Bursa Malaysia. Mr. Lee has extensive legal expertise in property, media, and financial services sectors. He holds a Bachelor of Economics (Accounting) and Bachelor of Laws from Monash University, Melbourne.

TAI LAI YEEN

Group Finance Manager
Avarga Limited

Ms. Tai is responsible for accounting, finance, taxation as well as internal control functions of the Group. Prior to joining the Group in December 2010, Ms. Tai was an Assurance Manager of an international firm of certified public accountants and she has extensive experience in the accounting and auditing profession. Ms. Tai holds a degree in Accountancy from the University of Putra Malaysia. She is a chartered accountant with the Institute of Singapore Chartered Accountants and member of The Institute of Internal Auditors Singapore.

TRENT BALOG

President and Chief Executive Officer
Taiga Building Products Ltd.

Mr. Balog began his career working for Weldwood of Canada in Edmonton, starting in the warehouse and ending up with a distribution sales position working out of Saskatoon and covering North Eastern Saskatchewan. He then moved to Calgary, taking a sales supervisor job with McMillan Bloedel. He was promoted to National Accounts Manager for M&B before moving to Taiga in 1994.

At Taiga, Mr. Balog has worked in a number of different roles including pressure treated wood sales manager, Vice President – Western Canadian Operations and prior to his current role, he was Chief Operating Officer.

GRANT SALI

Chief Procurement Officer and
Executive VP Supply Management
Taiga Building Products Ltd.

Mr. Sali's first job in the industry was with Weldwood of Canada, where he started in the warehouse and furthered his career as a salesman in their distribution and mill divisions. In 1982 he accepted a position as the sales manager at Trendwood in Edmonton. He came back to British Columbia in 1988 to work for Crestbrook Forest Industries Ltd as a sales manager out of their Cranbrook office.

He was hired by Taiga in 1990 to establish the distribution centre in Kelowna. In 2001, he was promoted to Langley's branch manager and became a VP in 2007 with responsibility for Allied Products, Envirofor and the USA. Prior to his most recent appointment, he was EVP Supply Management.

RUSSELL PERMANN

Chief Operating Officer and Executive VP Operations
Taiga Building Products Ltd.

Mr. Permann spent 8 years at Jaeger Building Systems Inc. When he left Jaeger, he was their VP of Sales for North America. He joined Taiga in 2008 as General Manager, Engineered Wood Products and gradually took on greater responsibilities including overseeing our business in the Prairies, and the USA and managing the Envirofor plants. Prior to his most recent appointment, he was EVP of Operations.

Mr. Permann has a Bachelor of Arts in Political Science from Queens University and an MBA from Athabasca University.

MARK SCHNEIDEREIT-HSU

Chief Financial Officer, VP Finance & Administration and
Corporate Secretary
Taiga Building Products Ltd.

Mr. Schneidereit-Hsu joined Taiga in 2005 as a Financial and Risk Analyst. In 2007 he was promoted to Manager, Corporate Planning, responsible for treasury, strategic planning, real estate, insurance and human resource. Mr. Schneidereit-Hsu was appointed as the Chief Financial Officer of Taiga effective June 1, 2013. Prior to joining Taiga, Mr. Schneidereit-Hsu worked in international development in the Middle East and managed a care home with Communitas Supportive Care Society.

He holds a Bachelor of Arts in International Relations from the University of British Columbia and an MBA from McGill University. He is also a Chartered Professional Accountant (CPA, CMA).

REPORT ON CORPORATE GOVERNANCE

Avarga Limited ("**Avarga**" or the "**Company**") is committed to high standards of corporate governance within the Avarga group of companies (the "**Group**") and adopts the corporate governance practices contained in the Code of Corporate Governance 2012 (the "**Code**"). In areas where the Group's practice deviates from the Code, the rationale for these deviations are provided. We believe that good corporate governance establishes and maintains an ethical environment within the Group, which serves the interests of all shareholders.

BOARD MATTERS

Principle 1: Board's Conduct of Its Affairs

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

The Board's role includes:

(1) providing entrepreneurial leadership, setting strategic objectives, and seeking to ensure that the necessary financial and human resources are in place for the Company to meet its objectives;

(2) overseeing the establishing of a framework of prudent and effective controls which enables risks to be assessed and managed, including safeguarding of shareholders' interests and the Group's assets;

(3) reviewing management performance;

(4) identifying the key stakeholder groups and recognising that their perceptions affect the Company's reputation;

(5) setting the Company's values and standards (including ethical standards) and ensuring that obligations to shareholders and other stakeholders are understood and met; and

(6) considering sustainability issues, e.g. environmental and social factors, as part of its strategic formulation.

The Directors discharge their duties and responsibilities at all times as fiduciaries in the interests of the Company.

The Company has formulated guidelines setting forth matters reserved for the Board's decision. The matters reserved for the Board's decision are as follows:

(a) material acquisitions and disposals of assets/investments;

(b) corporate or financial restructuring;

(c) financial/funding arrangements;

(d) material capital expenditures;

(e) share issuances;

(f) dividend payments to shareholders; and

(g) other transactions of a material nature requiring announcement under the Listing Manual ("**Listing Manual**") of the Singapore Exchange Securities Trading Limited ("**SGX-ST**").

REPORT ON
CORPORATE GOVERNANCE

Management was also given clear directions on matters (including setting thresholds for certain operational matters relating to subsidiaries) that require the Board's approval.

In accordance with Rule 210(5)(e) of the Listing Manual, and the Code, the Board has, without abdicating its responsibility, established three (3) board committees (the "**Board Committees**") namely, the Audit and Risk Management Committee ("**ARMC**"), the Nominating Committee ("**NC**") and the Remuneration Committee ("**RC**"), each of which has been delegated with specific authority. Each Board Committee is chaired by an Independent Director and has its own written terms of reference to address their respective areas of focus and which sets out the authority and duties of the respective Board Committee.

During the financial year ended 31 December 2018 ("**FY2018**"), the Board conducted regular scheduled meetings on a quarterly basis to coincide with the announcement of the Group's quarterly and full year financial results and to keep abreast of significant business activities and overall business environment.

Apart from board meetings, important or urgent matters concerning the Group are also presented for the Board's decision by way of written resolutions, fax, electronic mail and telephone conferencing. The Company's Constitution (the "**Constitution**") provides for meetings to be held via telephone, radio, conference television or similar communication equipment or any other form of audio or audio-visual communication by which all persons participating in the meeting are able to hear and be heard by all other participants, for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Details of the number of Board meetings held in the year and attendance of each Board member at those meetings and meetings of the various Board Committees are provided on page 48 of this Annual Report.

Upon the appointment of any new Director, the Company will provide a formal letter to the Director, setting out the Director's duties and obligations. The Company will conduct briefings to ensure that any incoming and/or new Directors become familiar with the Group's business and governance practices.

The Company has adopted a policy which welcomes Directors to request for further explanations, briefings or informal discussions on any aspect of the Company's operations or businesses from the Management. The Directors also sit on the boards of other listed companies, and are therefore not only well aware of their duties and responsibilities, but how to discharge such duties. All Board members are also encouraged to attend regular training, at the Group's expense, particularly on relevant new laws, regulations and changing commercial risks from time to time. Changes to regulations and accounting standards are monitored closely by the Management. To keep pace with regulatory changes, where these changes have an important bearing on Avarga's or the Directors' disclosure obligations, Directors are briefed either during Board meetings or at specially-convened sessions conducted by professionals. In particular, Directors are encouraged to attend relevant courses conducted by the Singapore Institute of Directors ("**SID**"), the SGX-ST and consultants.

During FY2018, Mr. Tong Ian attended a course titled "AC Pit-Stop: The AC's Role in Crisis Management" conducted by the SID.

REPORT ON CORPORATE GOVERNANCE

Principle 2: Board Composition and Guidance

Avarga is headed by an effective Board to lead, control and direct Avarga and the Board has a pivotal role in charting the strategic course and direction of the Group. As at 31 December 2018, the Board comprised nine (9) Directors, namely, Mr. Tong Kooi Ong, Mr. Koh Wan Kai, Mr. Khoo Hsien Ming Kevin, Mr. Gary Ho Kuat Foong, Ms. Ng Shin Ein, Dato' Seri Kalimullah Bin Masheerul Hassan, Mr. Ong Pang Liang, Mr. Tong Ian and Mr. Garson David Lee. It is chaired by Mr. Tong Kooi Ong who is also the Chief Executive Officer ("**CEO**") of the Group. He is responsible for the leadership and objective functioning of the Board.

As at 31 December 2018, the Board comprised the following members:

Mr. Tong Kooi Ong	Executive Chairman and Chief Executive Officer
Mr. Koh Wan Kai	Executive Director, Paper Manufacturing
Mr. Khoo Hsien Ming Kevin	Executive Director, Investments and Power Generation
Mr. Tong Ian	Executive Director, Operations and Building Materials Distribution
Mr. Gary Ho Kuat Foong	Lead Independent Director
Ms. Ng Shin Ein	Independent Director
Dato' Seri Kalimullah Bin Masheerul Hassan	Independent Director
Mr. Ong Pang Liang	Independent Director
Mr. Garson David Lee	Independent Director

As at 8 March 2019, Mr. Ong Pang Liang has resigned as Independent Director, Ms. Chan Lay Hoon has been appointed as Non-Executive, Non-Independent Director, and Mr. Koh Wan Kai and Mr. Khoo Hsien Ming Kevin have resigned as Executive Directors. Mr. Koh Wan Kai and Mr. Khoo Hsien Ming Kevin remain as the President, Paper Manufacturing and President, Investments and Power Generation respectively, continue to be key management personnel of the Group, and their executive roles and responsibilities remain unchanged.

The Chairman of the Board and the CEO is the same person. The Independent Directors make up more than half (1/2) of the Board. Mr. Gary Ho Kuat Foong is the Lead Independent Director. All directors are required to disclose to the Board in a timely manner any relationships or appointment which would impair their independence.

The Board (taking into account the views of the NC) reviews whether the individual Independent Directors are independent in character and judgment with reference to the guidelines set out by the Code. In accordance with the guidelines set out by the Code, the Board also considers whether any of the Independent Directors have any relationships or circumstances which could interfere, or be reasonably perceived to interfere, with the exercise of the respective director's independent business judgment with a view to the best interests of the Company.

The Board noted that the Independent Directors had none of the relationships set out in Rule 210(5)(d) of the Listing Manual or Guideline 2.3 of the Code, and that there were no relationships or circumstances relevant to the Board's determination of the independence of the Independent Directors in accordance with the guidelines of the Code.

REPORT ON
CORPORATE GOVERNANCE

Notwithstanding the above, the Board noted that before joining the Company as an Independent Director on 7 March 2017, Mr. Garson David Lee had been a partner of the firm that was the external auditor of Taiga Building Products Ltd. ("**Taiga**"), which is now a subsidiary of the Company, but Mr. Lee had retired from that firm in 2015. Also, earlier, Mr. Lee had been the client contact partner for Taiga but had ceased to be so for several years prior to his retirement, and for several years up to 2008, Mr. Lee was involved in the audit of Taiga. In particular, under Guideline 2.3(d)(i) of the Code, the relationships or circumstances which may appear relevant to the Board's determination would include a director who, in the current or immediate past financial year, is or was, a partner in any organization from which the company or any of its subsidiaries received material services including auditing services, The Board noted that Mr. Lee had ceased to be a partner of the firm that was the external auditor of Taiga in 2015, which is before the current or immediate past financial year.

Mr. Gary Ho Kuat Foong has served on the Board for more than nine (9) years from the date of his first appointment. The Board has rigorously reviewed Mr Ho's independence and, after taking into consideration the views of the NC, considers Mr. Ho to be independent in accordance with the guidelines of the Code. The Board also took into consideration that Mr. Ho has, throughout his appointment, continued to demonstrate strong independence in character and judgement in the discharge of his responsibilities as a Director.

Taking into account the views of the NC, the Board has determined that the Independent Directors are independent.

The Board is of the view that the current Board size facilitates effective decision-making and is appropriate, taking into consideration the nature and scope of the Group's operation, the requirements of the business and the need to avoid undue disruptions from changes to the composition of the Board and Board Committees.

The Board comprises Directors who as a group provide an appropriate balance and diversity of skills, experience, gender and knowledge of the Group. They also provide core competencies such as accounting or finance, business or management experience, industry knowledge, strategic planning experience and customer-based experience or knowledge. A brief description of the background of each director is presented in the "**Board of Directors**" section of this Annual Report.

The role of the Non-Executive Directors (including the Independent Directors) includes constructively challenging and helping develop proposals on strategy, and helping to review the performance of Management in meeting the agreed goals and objectives and monitoring the reporting of performance.

Non-Executive Directors are encouraged to meet regularly without the presence of Management. The Non-Executive Directors have such meetings at least once a year.

REPORT ON CORPORATE GOVERNANCE

Principle 3: Chairman and Chief Executive Officer

Mr. Tong Kooi Ong, the Chairman of the Board, is also the CEO. For FY2018, the role of the Chairman is not separate from that of the CEO as the Board believes that there is an appropriate balance of power, adequate accountability and capacity of the Board for independent decision making as reflected in the internal controls established with the Group. As the Chairman of the Board, Mr. Tong's role includes:

(a) leading the Board to ensure its effectiveness on all aspects of its role;

(b) setting the agenda and ensuring that adequate time is available for discussion of all agenda items, in particular strategic issues;

(c) promoting a culture of openness and debate at the Board;

(d) ensuring that the directors receive complete, adequate and timely information;

(e) encouraging constructive relations within the Board and between the Board and Management;

(f) facilitating the effective contribution of non-executive directors in particular; and

(g) promoting high standards of corporate governance.

As the Chairman of the Board, Mr. Tong also oversees the workings of the Board, ensuring that the Board is able to perform its duties and that there is a flow of information between the Board and the Management.

As the CEO, Mr. Tong is assisted by the Management in the daily operations and administration of the Group's business activities and in the effective implementation of the Group's strategies. Mr. Tong also reviews most of the board papers before they are presented to the Board.

The Management staff who have prepared the papers, or who may provide additional insights, are invited to present the papers or attend the Board meetings.

Mr. Gary Ho Kuat Foong is the Lead Independent Director. The Lead Independent Director's role is to be available to shareholders when they have concerns, and for which contact through normal channels of the Chairman or the CEO has failed to resolve or is inappropriate. All the Independent Directors including the Lead Independent Director, meet at least annually without the presence of the other executive and non-independent Directors.

As all members of the ARMC, NC and RC are Independent Directors, the Board believes that there are sufficient and independent elements and adequate safeguards without undue influence, from the Chairman and the CEO, to allow for effective Board oversight.

Principle 4: Board Membership

As at 31 December 2018, the NC comprised four (4) Directors, all of whom, including the Chairman, are Independent and Non-Executive Directors. Mr. Gary Ho Kuat Foong, the Lead Independent Director, is a member of the NC.

As at 31 December 2018, the NC members were as follows:

Dato' Seri Kalimullah Bin Masheerul Hassan	(Chairman)
Mr. Gary Ho Kuat Foong	(Member)
Mr. Ong Pang Liang	(Member)
Ms. Ng Shin Ein	(Member)

The NC has written terms of reference endorsed by the Board that sets out its duties and responsibilities. The NC's key responsibilities are as follows:–

(a) developing and maintaining a formal and transparent process for the appointment and re-appointment of Directors to the Board and all things incidental, including:

  (i) making recommendations to the Board on all appointments to the Board;

  (ii) re-nominating Directors at regular intervals; and

  (iii) determining annually, and as and when circumstances require, whether or not a Director is independent;

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

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

(d) reviewing of the development and succession plans for senior management; and

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

Potential new Board members may be recommended from time to time via contacts. When considering a new Board member, the NC reviews the curriculum vitae of the potential candidate and considers his/her experience and likely contribution to the Board and whether the candidate has sufficient time available to commit to his/her responsibilities as director. Where practicable, meetings with the potential candidate will be conducted before the NC makes its recommendation to the Board. The Board then makes the final determination for the appointment.

Important issues to be considered as part of the process for the selection, appointment and re-appointment of directors include composition and progressive renewal of the Board and each director's competencies, commitment, contribution and performance (e.g. attendance, preparedness, participation and candour) including, if applicable, as an Independent Director.

REPORT ON CORPORATE GOVERNANCE

New Directors are at present appointed by way of a Board resolution after the NC approves their appointment. Existing Directors who retire by rotation are at present re-appointed by way of a shareholders' resolution after the NC approves their re-appointment. Under the Company's Constitution, all Directors, save for the Managing Director, are required to submit themselves for re-nomination and re-appointment at regular intervals and at least once every three (3) years. Pursuant to Rule 720(5) of the Listing Manual, an issuer must have all directors submit themselves for re-nomination and re-appointment at least once every three years. Under Transitional Practice Note 3, if a director has not been subject to re-nomination and re-appointment at least once every three years for any reason prior to 1 January 2019, he will have to submit himself for re-nomination and re-appointment to the Board by 31 December 2021. Accordingly, Mr. Tong Kooi Ong will submit himself for re-nomination and re-appointment at an Annual General Meeting of the Company before 31 December 2021.

The NC has also reviewed the independence of the Directors with reference to the guidelines set out in the Code, and has determined Mr. Gary Ho Kuat Foong, Ms. Ng Shin Ein, Dato' Seri Kalimullah Bin Masheerul Hassan and Mr. Ong Pang Liang to be independent. All directors are required to disclose to the NC whether they have any relationships with the Company, its related corporations, its 10% shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgment with a view to the best interests of the Company. Consideration and assessment of the independence of each Independent Director is carried out during a meeting of the NC, whereby the Directors are given an opportunity to raise any feedback during the meeting or to the Chairman of the NC.

The NC has also determined that the Directors have been adequately carrying out their duties as directors, notwithstanding the number of listed company board representations and other principal commitments of each Director. The NC took into consideration various factors, such as the respective Director's record of attendance at the Company's Board and Board Committee meetings. It was noted that for FY2018, the Directors attended all of the Board and Board Committee meetings applicable to them.

The Board believes that each Director has to personally determine the demands of his or her competing directorships and obligations and assess how much time is available to serve on the Board effectively, and this determination would be based on various factors and not only the number of listed company board representations that the Director has. Further, the NC from time to time assesses the independence of each Director, the performance of the Board as a whole, and the contribution of each Director to the effectiveness of the Board. For FY2018, the NC was satisfied that the Directors who have multiple board representations have devoted sufficient time and attention to the affairs of the Group to discharge their duties as Directors of the Company. Each Director has control over their time, and there was a high rate of attendance at Board and Board Committee meetings. Accordingly, the NC and the Board have not set a maximum number of board representations a Director may hold, and have not prescribed or adopted guidelines to address competing time commitments of directors on multiple boards.

No alternate directors have been appointed by the Board.

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

The information on each Director's academic and professional qualifications, shareholdings, directorship and other principal commitments is presented in the "**Board of Directors**" and "**Directors' Statement**" sections of this Annual Report.

Principle 5: Board Performance

The NC is responsible for, *inter alia*, assessing the effectiveness of the Board as a whole and its board committees, and the contribution by the Chairman and each Director to the effectiveness of the Board. The NC has established processes for evaluating the effectiveness of the Board as a whole and the Board Committees, and the contribution by each individual Director to the effectiveness of the Board.

In respect of evaluating the effectiveness of the Board as a whole and the Board Committees, each Board member is required to complete a Board appraisal assessment form (the "**Board Assessment Form**") on a yearly basis. Each member of the NC, ARMC and RC is further required to complete additional sections in the Board Assessment Form for the appraisal and assessment of each respective committee. On the basis of returns submitted, a consolidated report will be presented to the NC for consideration and adoption.

In evaluating the performance of the Board and the Board Committees, the NC considers a set of objective performance criteria. Such objective performance criteria for the board evaluation are in respect of various aspects including board size and composition, board processes, board information and accountability and board performance in relation to discharging its principal functions and responsibilities for financial targets.

In respect of evaluating the contribution by the Chairman and each Director to the effectiveness of the Board, each Board member is required to complete an assessment form on each of the individual Directors ("**Individual Director Assessment Form**") on a yearly basis. On the basis of returns submitted, a consolidated report will be presented to the NC for consideration and adoption.

In evaluating the performance of the individual Directors, the NC considers a set of objective performance criteria. Such objective performance criteria are in respect of various aspects including contribution at meetings, commitment of time, maintenance of independence (for independent directors), knowledge, analytical skills and relevant experience, and preparedness for meetings.

Principle 6: Access to Information

The Management provides the Board members with complete, adequate and timely information prior to Board meetings and on an ongoing basis. Board members also have separate and independent access to the Management to enable them to make informed decisions to discharge their duties and responsibilities. Detailed Board papers are prepared for each meeting of the Board and are normally circulated in advance of each meeting. The Board papers include sufficient information from the Management on financial, business and corporate issues to enable the Directors to be properly briefed on issues to be considered at Board meetings. In respect of budgets, where there is a material variance between the projections and actual results, the Management will disclose and explain this to the Board.

Directors are also entitled to request from Management and are provided with such additional information by the Management as needed to make informed decisions.

The Company Secretary attends all Board meetings and is responsible to ensure that established procedures and all relevant statutes and regulations which are applicable to the Company are complied with. The appointment and removal of the Company Secretary is a matter for the Board as a whole to decide. All Directors have separate, direct and independent access to the advice and services of the Company Secretary.

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

REPORT ON CORPORATE GOVERNANCE

REMUNERATION MATTERS

Principle 7: Procedures for Developing Remuneration Policies

As at 31 December 2018, the RC comprised four (4) Directors, all of whom, including the Chairman, are Independent Directors. All the members of the RC are Independent and Non-Executive Directors. As at 31 December 2018, the RC members were as follows:

Ms. Ng Shin Ein	(Chairman)
Dato' Seri Kalimullah Bin Masheerul Hassan	(Member)
Mr. Ong Pang Liang	(Member)
Mr. Garson David Lee	(Member)

The RC has its terms of reference defining its role which include the following:

(a) ensuring a formal and transparent procedure for developing policy on key management personnel remuneration and fixing the remuneration packages of individual Directors;

(b) reviewing and recommending to the Board a general framework of remuneration for the Board and key management personnel, and also reviewing and recommending to the Board the specific remuneration packages for each Director as well as for the key management personnel;

(c) reviewing the Company's obligations arising in the event of termination of the executive directors and key management personnel's contracts of service to ensure that such contracts of service contain fair and reasonable termination clauses which are not overly generous;

(d) considering whether Directors and key management personnel should be eligible for benefits under long-term incentive schemes, including share schemes;

(e) considering the use of contractual provisions to allow the Company to reclaim incentive components of remunerations from executive directors and key management personnel in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the Company;

(f) preparing a remuneration report annually providing clear disclosure of the Company's remuneration policy (including the link between remuneration paid to directors and key management personnel, and performance), level and mix of remuneration, and the procedure for setting remuneration, for recommendation to the Board;

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

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

If necessary, the RC will seek expert advice from external remuneration consultants in determining the Group's remuneration policy above. The remuneration policy recommended by the RC is submitted for approval by the Board.

The RC reviews the reasonableness of the termination clauses of the contracts of service of executive directors and key management personnel. Where necessary, the RC obtains advice from external remuneration consultants for the Group's benchmarking of such contracts.

No remuneration consultants have been appointed for FY2018.

Having reviewed and considered the remuneration of the executive directors and the key management personnel, including the variable and discretionary component, which is moderate, the RC is of the view that there is no requirement to institute contractual provisions to allow the Company to reclaim incentive components of their remuneration paid in prior years in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss.

In addition, the executive directors owe fiduciary duties to the Company. The Company should be able to avail itself of remedies against the executive directors in the event of such breach of fiduciary duties.

Principle 8: Level and Mix of Remuneration

In setting remuneration packages, the aim of the RC is to ensure that the level and structure of remuneration is aligned with the long-term interest and risk policies of the Company, and is appropriate to attract, retain and motivate (a) the Directors to provide good stewardship of the Company, and (b) key management personnel to successfully manage the Company. The RC takes into account the performance of the Group, as well as individual Directors and key management personnel, aligning their interests with those of shareholders to maximise long-term shareholder value. Directors are paid Director's fees, determined by the Board based on the effort, time spent and responsibilities of the Directors. The RC aims to ensure that there is a formal and transparent procedure for developing a policy on executive remuneration and fixing the remuneration packages of individual Directors. The RC also aims to ensure that non-executive Directors are not overcompensated to the extent that their independence may be compromised. Directors' fees for Directors are subject to the approval of shareholders at the Annual General Meeting ("**AGM**").

The RC has approved a variable bonus system known as the Pay for Performance Remuneration Framework, for the executive directors and key management personnel, which takes into account a risk assessment matrix, and broad key performance indicators relating to the Group, such as the profit, rate of return and gearing. These performance conditions reflect the core values of the Group. More details on the Pay for Performance Remuneration Framework are set out in the "**Chairman and CEO's Statement**" section of this Annual Report. The Company currently has an employee share option scheme known as the Avarga Group Employees' Share Option Scheme 2018, which is intended to be a long-term incentive scheme.

REPORT ON CORPORATE GOVERNANCE

Principle 9: Disclosure on Remuneration

The remuneration of Directors and key management personnel (who are not Directors or the CEO) of the Group for FY2018 is set out below:

(a) Directors	Fees (S$)	Salary (S$)	Bonus (S$)	Benefits (S$)	Total (S$)
Mr. Tong Kooi Ong	–	500,000	303,000	30,889	833,889
Mr. Koh Wan Kai	–	249,600	124,800	5,114	379,514
Mr. Khoo Hsien Ming Kevin	–	187,473	96,327	–	283,800
Mr. Tong Ian	41,509	172,500	115,000	–	329,009
Mr. Gary Ho Kuat Foong	70,000	–	–	–	70,000
Ms. Ng Shin Ein	70,000	–	–	–	70,000
Dato' Seri Kalimullah Bin Masheerul Hassan	70,000	–	–	–	70,000
Mr. Ong Pang Liang	67,000	–	–	–	67,000
Mr. Garson David Lee	64,000	–	–	–	64,000

(b) Key Management Personnel of the Group	Salary (%)	Bonus (%)	Benefits (%)	Total (%)
Remuneration in the band below S$250,000				
Mr. Edward Lee Eng Chew	81	19	–	100
Ms. Tai Lai Yeen	57	43	–	100
Remuneration in the band above S$250,000 to S$500,000				
Mr. Mark Schneidreit-Hsu	39	61	–	100
Remuneration in the band above S$750,000 to S$1,000,000				
Mr. Russ Permann	26	74	–	100
Mr. Grant Sali	24	76	–	100
Remuneration in the band above S$1,000,000 to S$1,250,000				
Mr. Trent Balog	22	78	–	100

The RC has considered the disclosure of the remuneration of the key management personnel and have decided to disclose these in bands of S$250,000 given the competitive environment the Group operates in and that the disclosure of the exact remuneration may facilitate the solicitation of the key management personnel.

Total remuneration paid to the key management personnel (who are not Directors or the CEO) for FY2018 was approximately S$3,647,000.

The RC met once during the year to decide on Directors' fees, review the remuneration packages of the Executive Directors, assess the performance of senior management and determine their compensation packages (including bonus awards) for FY2018. The RC's recommendations covered all aspects of remuneration, including but not limited to Directors' fees, salaries, allowances, bonuses, options and benefits in kind.

The remuneration of employees who are immediate family members of a Director or the CEO, and whose remuneration exceeded S$50,000 during FY2018 is set out below:

Between S$300,000 to S$350,000

Name	Designation	Relationship
Tong Ian	Executive Director, Operations & Building Materials Distribution	Son of Mr. Tong Kooi Ong (Executive Chairman, Chief Executive Officer)

The Group's remuneration framework comprises fixed pay and short-term and long-term incentives and is aimed to be aligned with the long-term interest and risk policies of the Group. The Group subscribes to linking remuneration to the performance of the Group, as well as individual Directors and key management personnel, based on an annual appraisal of employees and using indicators such as competencies, key result areas, performance rating, and potential of the employees. Long-term incentive schemes are put in place to motivate and reward employees and align their interests with those of shareholders to maximise long-term shareholder value. Industry practices and norms are also taken into consideration. The RC has approved a variable bonus system known as the Pay for Performance Remuneration Framework, for the executive directors and key management personnel, which takes into account a risk assessment matrix, and broad key performance indicators relating to the Group, such as the profit, rate of return and gearing. These performance conditions reflect the core values of the Group. More details on the Pay for Performance Remuneration Framework are set out in the "**Chairman and CEO's Statement**" section of this Annual Report. For FY2018, the Board is of the view that the performance conditions were generally met.

The Company currently has an employee share option scheme known as the Avarga Group Employees' Share Option Scheme 2018 ("**Avarga Group ESOS 2018**"), which is intended to be a long-term incentive scheme. The Avarga Group ESOS 2018 was approved by the Company's shareholders at an Extraordinary General Meeting held on 27 April 2018. The Avarga Group ESOS 2018 is administered by the RC.

The Avarga Group ESOS 2018 provides an opportunity for employees of the Group who have contributed significantly to the growth and performance of the Group, as well as executive Directors who satisfy the eligibility criteria as set out in the rules of the Avarga Group ESOS 2018 ("**ESOS Rules**"), to participate in the equity of the Company so as to motivate them to greater dedication, loyalty and higher standards of performance, and to give recognition to past contributions and services. Additionally, the Avarga Group ESOS 2018 will help the Group to attract and retain the services of appropriate, qualified and experienced employees who would be able to contribute to the Group's business and operations.

Under the Avarga Group ESOS 2018, any Executive Director or confirmed employee of the Group selected by the RC to participate in the Avarga Group ESOS 2018 in accordance with the ESOS Rules who have, among other things, been in the employment of the Group for a period of at least 12 months, or such shorter period as the RC may determine, shall be eligible to participate. Controlling shareholders and their associates are also eligible to participate in the Avarga Group ESOS 2018. Under the Avarga Group ESOS 2018, the number of shares comprised in options offered to a participant shall be determined at the absolute discretion of the RC, who shall take into account, where applicable, criteria such as the bonus earned by the participant in any particular year, rank, past performance, years of service and potential contribution of the participant.

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The aggregate number of shares over which the RC may offer to grant options on any date, when added to:

(a) the aggregate number of new shares issued and issuable in respect of all other share-based incentive schemes of the Company (if any); and

(b) the number of treasury shares and subsidiary holdings delivered in respect of the options granted under all other share-based incentive schemes of the Company (if any),

shall not exceed 15% of the total issued shares (excluding treasury shares and subsidiary holdings) of the Company on the date immediately preceding the date of grant.

The aggregate number of shares over which the RC may offer to grant options to the controlling shareholders and their associates under the Avarga Group ESOS 2018, shall not exceed 25% of the shares available under the Avarga Group ESOS 2018, provided always that the number of shares available to each controlling shareholder or each of his associates shall not exceed 10% of the shares available under the Avarga Group ESOS 2018.

Subject to any adjustment pursuant to the ESOS Rules, the exercise price for each share in respect of which an option is exercisable shall be fixed by the RC at the market price as determined in accordance with the ESOS Rules.

The exercise price of the options is determined by the RC at the average of the closing prices of the Company's ordinary shares as quoted on the Singapore Exchange for five market days immediately preceding the date of the grant. For the avoidance of doubt, the exercise price shall not be at a discount to the market price. Options granted shall only be exercisable, in whole or in part (provided that an option may be exercised in part only in respect of 100 shares or any multiple thereof), at any time, by an option holder during the exercise period.

Options granted shall be exercisable during a period commencing after the fourth anniversary of the date of grant of the option and expiring on the tenth anniversary of the date of grant of the option, subject to the following:

(a) Up to 25% only of the shares in respect of which that option is granted may be exercised during the period commencing from the date falling immediately after the fourth anniversary of the date of grant of that option and ending on the fifth anniversary of the date of grant of that option;

(b) Up to 25% only of the shares in respect of which that option is granted may be exercised during the period commencing from the date falling immediately after the fifth anniversary of the date of grant of that option and ending on the sixth anniversary of the date of grant of that option;

(c) Up to 25% only of the shares in respect of which that option is granted may be exercised during the period commencing from the date falling immediately after the sixth anniversary of the date of grant of that option and ending on the seventh anniversary of the date of grant of that option;

(d) Up to 25% only of the shares in respect of which that option is granted may be exercised during the period commencing from the date falling immediately after the seventh anniversary of the date of grant of that option and ending on the tenth anniversary of the date of grant of that option;

provided always that all options shall be exercised by the tenth anniversary of the relevant date of grant, failing which all unexercised options shall immediately lapse and become null and void and a grantee shall have no claim against the Company.

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A feature of the Avarga Group ESOS 2018 is that options may be exercised after a participant ceases to be employed by the Group (other than arising from misconduct on the part of the option holder (as determined by the RC in its absolute discretion)). This is because it is the Company's intention to use options to pay a portion of a participant's earned bonus entitlement instead of making such payment in cash, and the participant would in effect have paid for the option upon its grant since such option represents the consideration he receives for that part of his earned bonus entitlement.

In FY2018, no options were granted under the Avarga Group ESOS 2018. No options have been granted under the Avarga Group ESOS 2018 to date.

ACCOUNTABILITY AND AUDIT

Principle 10: Accountability

The Board undertakes the responsibility of, *inter alia*, (a) approving annual budget and business plan, (b) setting overall strategies and supervision of the Group's business and affairs, and (c) reviewing the financial performance of the Group.

Management reports the operational and financial performance of the Group to the Board by keeping the Board informed and updated with the provision of financial and management reports, on a quarterly basis and as the Board may require from time to time to enable the Board to make a balanced and informed assessment of the Group's prospects.

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

Principle 11: Risk Management and Internal Controls

The Board determines the Group's levels of risk tolerance and risk policies, and oversees Management in the design, implementation and monitoring of the risk management and internal control systems.

The Board also reviews the adequacy and effectiveness of the Group's internal controls (including financial, operational, compliance and information technology controls) and risk management systems annually. Such review is carried out internally.

For the financial year under review, the Board is of the view that the Group's internal controls (including financial, operational, compliance and information technology controls, and risk management systems) maintained by the Management that were in place throughout the financial year and up to the date of this Annual Report were adequate and effective, and provide reasonable, but not absolute, assurance against material financial misstatements or losses, and include the safeguarding of assets, the maintenance of proper accounting records, the reliability of financial information, compliance with appropriate legislation, regulation and best practices, and the identification and containment of business risk.

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Based on the internal controls established and maintained by the Group, work performed by the internal and external auditors and reviews performed by Management, the Board and the ARMC are of the opinion that the Group's internal controls (including financial, operational, compliance and information technology controls) and risk management systems, were adequate and effective as at 31 December 2018.

The Board, together with the ARMC and the Management, will continue to enhance and improve the existing internal control framework to identify and address critical and significant risks relating to financial, operational, compliance and information technology. The system of internal controls established by the Group provides reasonable, but not absolute, assurance that the Group's assets and investments are safeguarded. The likelihood of achieving the internal control objectives is affected by limitations inherent in all internal control and risk management systems. The Board notes that no system of internal controls and risk management can provide absolute assurance in this regard, or absolute assurance against the occurrence of material errors, poor judgments in decision-making, human errors, losses, fraud or other irregularities.

The Board has received assurance from the CEO and the Chief Operating Officer: (a) that the financial records have been properly maintained, (b) that the financial statements give a true and fair view of the Group's operations and affairs; and (c) regarding the effectiveness of the Group's risk management and internal control systems.

The ARMC has been tasked to assist the Board in carrying out its responsibility of overseeing the Group's risk management framework and policies adequately.

Principle 12: Audit and Risk Management Committee

As at 31 December 2018, the ARMC comprised five (5) Directors, all of whom including the Chairman, are Independent Directors. All the members of the ARMC are Non-Executive and Independent Directors. The Chairman and two (2) of its members have recent and relevant accounting or related financial management expertise and two (2) of them are a Chartered Accountant of Singapore (CA (Singapore)).

As at 31 December 2018, the ARMC members were as follows:

Mr. Gary Ho Kuat Foong	(Chairman)
Ms. Ng Shin Ein	(Member)
Mr. Ong Pang Liang	(Member)
Mr. Garson David Lee	(Member)
Dato' Seri Kalimullah Bin Masheerul Hassan	(Member)

The ARMC has written terms of reference defining its role which include the following:

(a) review the scope and results of audit of the external audit and the independence (annually), its cost effectiveness and the objectivity of the external auditors;

(b) where the auditors also supply a substantial volume of non-audit services to the Company, the Committee shall keep the nature and extent of such services under review, seeking to maintain objectivity;

(c) meet with the external auditors and internal auditors without the presence of the Company's Management at least once a year:

- discuss problems and concerns, if any, arising from the internal and external audits, and any matters which the auditors may wish to discuss; and
- review the assistance given by Management to the auditors;

(d) determine the Company's levels of risk tolerance and risk policies, and oversee Management in the design, implementation and monitoring of the risk management and internal control systems;

(e) review, comment and report to the Board at least annually, the adequacy and effectiveness of the Company's risk management and internal controls system;

(f) ensure that the internal audit function is adequately resourced (staffed with persons with the relevant qualifications and experience), independent of the activities it audits and has appropriate standing within the Company;

(g) review, at least annually, the adequacy and effectiveness of the internal audit function;

(h) review with the external auditors:

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

(i) to ensure co-ordination where more than one audit firm is involved;

(j) to review the quarterly and annual financial statements before submission to the Board for approval, focusing in particular, on:

- changes in accounting policies and practices;
- major risk areas;
- significant adjustments resulting from the audit;
- the going concern statement;
- compliance with accounting standards; and
- compliance with stock exchange and statutory/regulatory/requirements;

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(k) review the significant financial reporting issues and judgements so as to ensure the integrity of the financial statements of the Company and any announcements relating to the Company's financial performance;

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

(m) review the policy and arrangements by which staff of the Company and any other persons may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters;

(n) review interested person transactions, if any, as defined under the requirements of the Listing Manual;

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

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

(q) make recommendations to the Board on the proposals to the shareholders on the appointment, re-appointment and removal of the external auditors, and approve the remuneration and terms of engagement of the external auditors; and

(r) disclose the following information in the Company's annual report:–

- names of the members of the ARMC;
- details of the ARMC's activities;
- number of ARMC meetings held in that year; and
- the attendance of individual directors at such meetings.

The ARMC has the authority to conduct or authorise investigations into any matter within its terms of reference, full access to and cooperation of the Management, and full discretion to invite any Director or executive officer to attend its meetings, and reasonable resources to enable it to discharge its function properly. Management is invited to attend all meetings of the ARMC.

The ARMC also conducted a review of the Group's interested person transactions.

In performing its functions, the ARMC met with the external auditors and the internal auditors at least annually, each without the presence of Management. The external auditor has unrestricted access to the ARMC. Reasonable resources were made available to the ARMC to enable it to discharge its functions properly.

The external auditors periodically provide briefings to members of the ARMC in relation to updates on changes in accounting standards and treatment, and their corresponding impact on financial statements, if any.

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The statement of the external auditors of the Company about their reporting responsibilities for the financial statements is set out in the "**Independent Auditor's Report**" which is found in this Annual Report. During the year under review, the remuneration paid or payable to the Group's external auditors, Nexia TS (including as auditor of subsidiary corporations by the network of member firms of Nexia International), is set out below.

Service Category	Fees Paid/Payable (S$'000)
Audit Service	97
Non-Audit Service	13
Total Fees	**110**

The ARMC, having reviewed all non-audit services provided by the external auditors of the Group, Nexia TS Public Accounting Corporation ("**Nexia TS**"), is satisfied that the nature and extent of such services would not prejudice the independence and objectivity of the external auditors and recommends to the Board, the nomination of the external auditors for re-appointment.

The external auditor of Taiga, a significant subsidiary of the Company, is Dale Matheson Carr-Hilton LaBonte, LLP ("**DMCL**"). During the year under review, the remuneration paid or payable to DMCL is set out below.

Service Category	Fees Paid/Payable (S$'000)
Audit Service	327
Non-Audit Service	109
Total Fees	**436**

The Group's external auditors, Nexia TS, is an accounting firm registered with the Accounting and Corporate Regulatory Authority. Having regard to Nexia TS's other auditing engagements, the size and complexity of the Group and the number and experience of supervisory and professional staff assigned to the audit, the ARMC is satisfied that Nexia TS and the audit engagement partner assigned to the audit have adequate resources and experience to meet its audit obligations. In this connection, the Group confirms that it is in compliance with Rules 712 and 715 of the Listing Manual.

The Group has introduced a whistle-blowing framework, where employees of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting and other matters. The ARMC has ensured that arrangements are in place for concerns to be raised and independently investigated, and for appropriate follow-up action to be taken. Details of the whistle-blowing policies and arrangement were made available to all employees. The Group's whistle-blowing policy can be retrieved from its website. The Group seeks to continuously improve on and increase the effectiveness of its whistle-blowing measures.

None of the members nor the Chairman of the ARMC are former partners or directors of the Group's auditing firm.

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Principle 13: Internal Audit

The Group recognises the importance of the internal audit function as an integral part of an effective system of good corporate governance. The Group has established and maintains on an ongoing basis, an effective internal audit function that is adequately resourced and independent of the activities it audits. The internal audit function is independent of Management. The internal auditor has a direct and primary reporting line to the Chairman of the ARMC, with administrative reporting to the CEO and Executive Director.

The internal audit function assists the ARMC and the Board in monitoring risks and internal controls of the Group. The internal audit function is carried out by persons with the relevant qualifications and experience, is adequately resourced and has appropriate standing within the Company. The internal audit schedules and scope of internal audit work each year are determined in consultation with, but independent of, Management and are submitted to the ARMC for approval.

Where outsourced internal audit services are required to supplement the internal audit work for the financial year, the appointment of the internal audit firm to perform such services is approved by the ARMC. For FY2018, no internal audit firm was appointed by the Group to perform internal audit services. The internal audit function of the Group was carried out in house by the finance manager of UPP Pulp & Paper (M) Sdn. Bhd. for the Group's operations in Malaysia, and by the manager of Internal Audit & Process Control of Taiga for Taiga's operations. The internal audit charter ensures the internal audit department has full access to all documents, records, properties and personnel of the Group.

The Group's internal auditors for FY2018 are guided by the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors in carrying out their internal audit.

The ARMC reviews the adequacy and effectiveness of the internal audit function of the Company at least annually during a meeting of the ARMC. For FY2018, the ARMC is of the view that the internal audit function is independent, effective and adequately resourced.

SHAREHOLDER RIGHTS AND RESPONSIBILITIES

Principle 14: Shareholder Rights
Principle 15: Communication with Shareholders
Principle 16: Conduct of Shareholder Meetings

The Group is committed to providing shareholders with adequate, timely and sufficient information pertaining to changes in the Group's business which could have a material impact on the share price or value.

The AGM is the principal forum for dialogue with shareholders. The Board welcomes questions and comments relating to the Group's business or performance from shareholders at AGMs. Shareholders are given an opportunity to air their views and direct questions to the Board on matters affecting the Group. The Chairman of the Board and the respective Chairman of the ARMC, NC and RC, all other Directors, Management and representatives of the external audit firm are normally present at the AGM to address questions from shareholders. Shareholders will be informed of the procedures, including voting procedures that govern general meetings of shareholders. All resolutions are put to vote by poll and where a resolution has been put to vote, the Company will make an announcement of the detailed results showing the number of votes cast for and against each resolution and the respective percentages.

REPORT ON CORPORATE GOVERNANCE

Electronic poll voting has not been adopted by the Company for the time being as the turnout of the shareholders is still considerably small and it is not cost effective to do so. The Company has not amended its Constitution to provide for absentia voting methods as this is likely to require the elaborate and costly implementation of a system to manage issues of security and authentication of shareholder identity, the need for which does not presently arise. Minutes of general meetings are prepared and available to shareholders upon their request in accordance with applicable laws.

The Company also encourages active shareholder participation at its general meetings. Notices of meetings are published in the major newspaper together with explanatory notes or a circular on items of special business, at least fourteen (14) clear days before the meeting. Reports or circulars of the general meetings are despatched to all shareholders by post or by electronic transmission in accordance with the Companies Act, the Listing Manual, and the Company's Constitution.

The Board is aware of its obligations to shareholders and has devised investor relations policies to provide regular, effective and fair communication and convey pertinent information to shareholders. In line with continuous disclosure obligations of the Company pursuant to the Listing Manual, the Board's policy is that all shareholders should be equally and timely informed of all major developments and events that impact the Group. Information is communicated to shareholders through public announcements via SGXNET, news releases where appropriate and annual reports/circulars that are sent to all shareholders and notices of general meeting are advertised. The Group does not practice selective disclosure of material information. Material information is excluded from briefings with investors or analysts, unless it has been publicly released via SGXNET before, or concurrently with, such meetings. Where there is inadvertent disclosure made to a selected group, the Group makes the same disclosure publicly to all others as soon as practicable.

For FY2018, the Company has paid an interim dividend of 0.50 cents per share and will be paying an additional final dividend of 3.00 cents per share, if approved by the members of the Company at the forthcoming Annual General Meeting. The Company will also be paying a one-tier tax-exempt interim special dividend of 1.5 cents per share for the financial year ending 31 December 2019. The Company has stated that barring unforeseen circumstances and subject to compliance with the Companies Act, the Company will endeavour to continue to pay a final dividend of 1 cent per share annually for each of FY2016, FY2017 and FY2018, and will review its dividend policy for the financial years thereafter.

CODE OF BUSINESS CONDUCT

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

DEALING IN SECURITIES

In line with Rule 1207(19) of the Listing Manual, the Group has issued a policy on share dealings by the Company and the Directors and key officers of the Group, setting out the implications of insider trading and recommendations of the best practices set out in Rule 1207(19). The Group adopts a code of conduct to provide guidance to its Directors and officers with regard to dealing by the Company and its Directors and officers in the Company's shares, which includes an annual declaration by the Company's Directors and officers with regard to securities trading and disclosure by the Company's Directors and officers when they deal in the Company's shares. In addition, the policy also states that an officer should not deal in the Company's securities on short-term considerations.

REPORT ON CORPORATE GOVERNANCE

The Group also issues periodic circulars to its Directors, officers and employees reminding them that there must be no dealings in the Company's shares during the period commencing two (2) weeks before the announcement of the Group's quarterly financial results, as the case may be, and if they are in possession of unpublished material and price-sensitive information. In the case of the Group's full year financial results announcement, the applicable period is one (1) month before the announcement of financial results.

CORPORATE INFORMATION

Particulars of Directors as at 31 December 2018

Name of Directors	Board Committee as Chairman or Member	Directorship: Date first appointed Date last re-elected	Board appointment	Directorship in other listed companies in Singapore (present)	Directorship in other listed companies in Singapore (held over preceding 3 years)
Mr. Tong Kooi Ong	–	15 March 2012	Executive Chairman	3Cnergy Ltd	–
Mr. Koh Wan Kai	–	25 April 2014 28 April 2017	Executive	–	–
Mr. Khoo Hsien Ming Kevin	–	1 September 2015 27 April 2018	Executive	–	–
Mr. Tong Ian	–	7 March 2017 28 April 2017	Executive	–	–
Mr. Gary Ho Kuat Foong	Chairman: Audit and Risk Management Committee Member: Nominating Committee	31 October 2006 27 April 2018	Lead Independent	Thomson Medical Group Limited Secura Group Limited	–
Ms. Ng Shin Ein	Chairman: Remuneration Committee Member: Audit and Risk Management Committee Nominating Committee	20 April 2013 29 April 2016	Independent	Yanlord Land Group Limited Starhub Limited	Eu Yan Sang International Ltd Sabana Real Estate Investment Management Pte Ltd
Dato' Seri Kalimullah Bin Masheerul Hassan	Chairman: Nominating Committee Member: Audit and Risk Management Committee Remuneration Committee	20 April 2013 29 April 2016	Independent	–	–
Mr. Ong Pang Liang	Member: Audit and Risk Management Committee Remuneration Committee Nominating Committee	1 August 2010 27 April 2018	Independent	Secura Group Limited Thomson Medical Group Limited	–
Mr. Garson David Lee	Member: Audit and Risk Management Committee Remuneration Committee	7 March 2017 28 April 2017	Independent	–	–

REPORT ON CORPORATE GOVERNANCE

Directors standing for re-election at the Annual General Meeting

The following information relating to Ms. Ng Shin Ein, Dato' Seri Kalimullah Bin Masheerul Hassan and Ms. Chan Lay Hoon, each of whom is standing for re-election as a Director at the Annual General Meeting of the Company on 26 April 2019, is provided pursuant to Rule 720(6) of the Listing Manual.

Name of Director	Ms. Ng Shin Ein	Dato' Seri Kalimullah Bin Masheerul Hassan	Ms. Chan Lay Hoon
Date of Appointment	20 April 2013	20 April 2013	8 March 2019
Date of last re-appointment (if applicable)	29 April 2016	29 April 2016	N.A.
Age	45	61	54
Country of principal residence	Singapore	Malaysia	Singapore
The Board's comments on this appointment (including rationale, selection criteria, and the search and nomination process)	The Nominating Committee noted that in accordance with the Company's Constitution, Ms. Ng Shin Ein shall be required to retire at this Annual General Meeting. Ms. Ng Shin Ein agreed to retire and stand for re-election. The Nominating Committee approved the re-election and re-nomination of Ms. Ng Shin Ein.	The Nominating Committee noted that in accordance with the Company's Constitution, Dato' Seri Kalimullah Bin Masheerul Hassan shall be required to retire at this Annual General Meeting. Dato' Seri Kalimullah Bin Masheerul Hassan agreed to retire and stand for re-election. The Nominating Committee approved the re-election and re-nomination of Dato' Seri Kalimullah Bin Masheerul Hassan.	The Board has considered the Nominating Committee's recommendation and assessment of Ms. Chan Lay Hoon's qualification, expertise and experience, and is satisfied that her appointment will be beneficial to the Board and to the Company.
Whether the appointment is executive, and if so, the area of responsibility	Non-Executive, Independent Director	Non-Executive, Independent Director	Non-Executive, Non-Independent Director
Job Title	Independent Director, Chairman of the Remuneration Committee, Member of the Audit and Risk Management Committee and Member of the Nominating Committee	Independent Director, Chairman of the Nominating Committee, Member of the Audit and Risk Management Committee and Member of the Remuneration Committee	Non-Executive, Non-Independent Director and Member of the Audit and Risk Management Committee

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CORPORATE GOVERNANCE

Name of Director	Ms. Ng Shin Ein	Dato' Seri Kalimullah Bin Masheerul Hassan	Ms. Chan Lay Hoon
Working experience and occupation(s) during the past 10 years	1. Co-Founder – Gryphus Capital Partners Pte Ltd 2. Board of Governors – Singapore International Foundation 3. Board Member – Middle East Institute, National University of Singapore 4. Singapore's Non-Resident Ambassador to The Republic of Hungary	1. Executive Chairman – ECM Libra Financial Group Berhad 2. Chairman – ECM Libra Foundation 3. Board of Trustees – Yayasan Tunku Abdul Rahman 4. Chairman – AirAsia X Berhad	1. Executive Chairman – RSP Architects Planners & Engineers Pte Ltd 2 Board Member – McLaren Group Limited 3. Deputy Chairman – Thomson Medical Group Limited from 2015 to January 2019 4. Chairman and Executive President – Valencia Club de Futbol S.A.D. from 2015 to 2017 5. Executive Chairman – Thomson Medical Pte Ltd from 2010 to 2015
Any relationship (including immediate family relationships) with any existing director, existing executive officer, the Company and/or substantial shareholder of the Company or of any of its principal subsidiaries	No	No	No
Conflict of interest (including any competing business)	No	No	No
Undertaking (in the format set out in Appendix 7.7) under Rule 720(1) has been submitted to the Company	Yes	Yes	Yes

REPORT ON
CORPORATE GOVERNANCE

Name of Director	Ms. Ng Shin Ein	Dato' Seri Kalimullah Bin Masheerul Hassan	Ms. Chan Lay Hoon
Other Principal Commitments including Directorships - Past (for the last 5 years) and Present	**Past directorships:** 1. Working Capital Partners Ltd 2. NTUC Fairprice Cooperative Limited 3. Sabana Real Estate Investment Management Pte Ltd 4. Eu Yan Sang International Ltd **Present directorships:** 1. Blue Ocean Associates Pte Ltd 2. Yanlord Land Group Limited 3. First Resources Ltd 4. Starhub Limited	**Past directorships:** 1. Selat PD Sdn Bhd 2. Rantau Prasarana Sdn Bhd 3. New Metro Ventures Limited 4. PT Graha Sahari Multitalenta **Present directorships:** 1. ECM Libra Partners Sdn Bhd 2. ECM Libra Holdings Sdn Bhd 3. Tune Hotels.Com Limited (Labuan) 4. Tune Hotels Sdn Bhd 5. Tulus Tenaga Sdn Bhd 6. Maples Venture Capital Limited 7. Positive Carry Ltd 8. UM Specialist Centre Sdn Bhd 9. KMH Inv Holdings Sdn Bhd 10. Noblemen Holdings Sdn Bhd 11. Alternate Director – Epsom College Malaysia Sdn. Bhd 12. Aero Ventures Sdn Bhd – In member's Voluntary Liquidation 13. Old Rangoon Arts Sdn Bhd – Striking off 14. Palma Indigo Sdn Bhd – In member's Voluntary Liquidation 15. Elan Couture Sdn Bhd – Striking off	**Past directorships:** 1 J.S. Corporate Service Pte Ltd 2. Sasteria Pte Ltd 3. Sasteria (M) Pte Ltd 4. Catpital Private Limited 5. Valencia Club de Futbol (Asia) Pte Ltd 6. Mint Capital Limited 7. Valencia Club de Futbol S.A.D. 8. Fundacion Valencia Club De Futbol de la C.V. 9. Thomson Medical Group Limited 10. Thomson Medical Pte Ltd **Present directorships:** 1. RSP Holdings Pte Ltd 2. RSP Architects Planners & Engineers Pte Ltd 3. McLaren Group Limited 4. McLaren Automotive Asia Pte Ltd 5. McLaren Applied Technologies Pte Ltd 6. Project 92 Limited 7. Singapore Olympic Foundation
Disclosure on the following matters concerning the Director:			

REPORT ON
CORPORATE GOVERNANCE

Name of Director	Ms. Ng Shin Ein	Dato' Seri Kalimullah Bin Masheerul Hassan	Ms. Chan Lay Hoon
(a) Whether at any time during the last 10 years, an application or a petition under any bankruptcy law of any jurisdiction was filed against him or against a partnership of which he was a partner at the time when he was a partner or at any time within 2 years from the date he ceased to be a partner?	No	No	No
(b) Whether at any time during the last 10 years, an application or a petition under any law of any jurisdiction was filed against an entity (not being a partnership) of which he was a director or an equivalent person or a key executive, at the time when he was a director or an equivalent person or a key executive of that entity or at any time within 2 years from the date he ceased to be a director or an equivalent person or a key executive of that entity, for the winding up or dissolution of that entity or, where that entity is the trustee of a business trust, that business trust, on the ground of insolvency?	No	No	No
(c) Whether there is any unsatisfied judgment against him?	No	No	No

REPORT ON CORPORATE GOVERNANCE

Name of Director	Ms. Ng Shin Ein	Dato' Seri Kalimullah Bin Masheerul Hassan	Ms. Chan Lay Hoon
(d) Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving fraud or dishonesty which is punishable with imprisonment, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such purpose?	No	No	No
(e) Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such breach?	No	No	No

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CORPORATE GOVERNANCE

Name of Director	Ms. Ng Shin Ein	Dato' Seri Kalimullah Bin Masheerul Hassan	Ms. Chan Lay Hoon
(f) Whether at any time during the last 10 years, judgment has been entered against him in any civil proceedings in Singapore or elsewhere involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or a finding of fraud, misrepresentation or dishonesty on his part, or he has been the subject of any civil proceedings (including any pending civil proceedings of which he is aware) involving an allegation of fraud, misrepresentation or dishonesty on his part?	No	No	No
(g) Whether he has ever been convicted in Singapore or elsewhere of any offence in connection with the formation or management of any entity or business trust?	No	No	No
(h) Whether he has ever been disqualified from acting as a director or an equivalent person of any entity (including the trustee of a business trust), or from taking part directly or indirectly in the management of any entity or business trust?	No	No	No
(i) Whether he has ever been the subject of any order, judgment or ruling of any court, tribunal or governmental body, permanently or temporarily enjoining him from engaging in any type of business practice or activity?	No	No	No

Name of Director	Ms. Ng Shin Ein	Dato' Seri Kalimullah Bin Masheerul Hassan	Ms. Chan Lay Hoon
(j) Whether he has ever, to his knowledge, been concerned with the management or conduct, in Singapore or elsewhere, of the affairs of:–			
(i) any corporation which has been investigated for a breach of any law or regulatory requirement governing corporations in Singapore or elsewhere; or	No	No	No
(ii) any entity (not being a corporation) which has been investigated for a breach of any law or regulatory requirement governing such entities in Singapore or elsewhere; or	No	No	No
(iii) any business trust which has been investigated for a breach of any law or regulatory requirement governing business trusts in Singapore or elsewhere; or	No	No	No

REPORT ON
CORPORATE GOVERNANCE

Name of Director	Ms. Ng Shin Ein	Dato' Seri Kalimullah Bin Masheerul Hassan	Ms. Chan Lay Hoon
(iv) any entity or business trust which has been investigated for a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, in connection with any matter occurring or arising during that period when he was so concerned with the entity or business trust?	No	No	No
(k) Whether he has been the subject of any current or past investigation or disciplinary proceedings, or has been reprimanded or issued any warning,by the Monetary Authority of Singapore or any other regulatory authority, exchange, professional body or government agency, whether in Singapore or elsewhere?	No	No	No

REPORT ON CORPORATE GOVERNANCE

Name of Director	Ms. Ng Shin Ein	Dato' Seri Kalimullah Bin Masheerul Hassan	Ms. Chan Lay Hoon
(Applicable to appointment of director only) **Any prior experience as a Director of an issuer listed on the Exchange?** **If Yes, please provide details of prior experience.** **If No, please state if the Director has attended or will be attending training on the roles and responsibilities of a Director of a listed issuer as prescribed by the Exchange.** **Please provide details of relevant experience and the Nominating Committee's reasons for not requiring the Director to undergo training as prescribed by the Exchange (if applicable)**	N.A.	N.A.	Yes. Ms. Chan Lay Hoon was a director of Thomson Medical Group Limited from 1 Dec 2015 to 31 Jan 2019.

The information on each Director's academic and professional qualifications, working experience, shareholdings, directorship and other principal commitments is presented in the "**Board of Directors**" and "**Directors' Statement**" sections of this Annual Report.

REPORT ON CORPORATE GOVERNANCE

Attendance at Board and Committee Meetings for the financial year ended 31 December 2018

Directors	Board		Audit and Risk Management Committee		Nominating Committee		Remunerating Committee	
	No. of meetings	Attendance	No. of meetings	Attendance	No. of meetings	Attendance	No. of meetings	Attendance
Mr. Tong Kooi Ong	4	4	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Mr. Koh Wan Kai	4	4	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Mr. Khoo Hsien Ming Kevin	4	4	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Mr. Tong Ian	4	4	NA.	N.A.	N.A.	N.A.	N.A.	N.A.
Mr. Gary Ho Kuat Foong	4	4	4	4	2	2	N.A.	N.A.
Ms. Ng Shin Ein	4	4	4	4	2	2	1	1
Dato' Seri Kalimullah Bin Masheerul Hassan	4	4	4	4	2	2	1	1
Mr. Ong Pang Liang	4	4	4	4	2	2	1	1
Mr. Garson David Lee	4	4	4	4	N.A.	N.A.	1	1

INTERESTED PERSON TRANSACTIONS POLICY

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

The Group has not obtained a general mandate from shareholders for Interested Person Transactions.

Interested person transactions carried out during the financial year which fall under Chapter 9 of the Listing Manual are as follows:

Name of Interested Person	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than S$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920 of the Listing Manual)	Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 of the Listing Manual (excluding transactions less than $100,000)
Genghis S.à.r.l	C$27,709,209.50	Not applicable

UPDATE ON USE OF PROCEEDS

Bonus Share Warrants

As announced on 13 February 2017, the Company issued and allotted 836,667,121 free bonus warrants to shareholders on the basis of one (1) warrant for every one (1) existing ordinary share pursuant to a bonus warrants issue approved at the extraordinary general meeting held on 31 January 2017. The bonus warrants carried the right to subscribe for one (1) new share at the exercise price of S$0.37 for each new share and were listed and quoted on the SGX-ST on 16 February 2017.

As announced on 5 October 2016, the bonus warrants were issued in registered form and constituted by a deed poll setting out the terms and conditions of the Warrants (the "**Deed Poll**"). Each bonus warrant, subject to the terms and conditions in the Deed Poll, carry the right to subscribe for one (1) new share at the exercise price during the period commencing on and including the date six (6) months from the date of listing of the bonus warrants on the Official List of Singapore Exchange Securities Trading Limited and expiring at 5.00 p.m. on the market day immediately preceding the third (3rd) anniversary of the date of issue of the bonus warrants, unless such date is a date on which the register of members of the Company is closed or is not a market day, in which event the bonus warrants shall expire on the date prior to the closure of the register of members of the Company or on the immediately preceding market day, as the case may be (the "**Exercise Period**").

Assuming that all the bonus warrants issued are exercised within the Exercise Period, the gross proceeds arising from the full exercise of 836,667,121 bonus warrants would be S$309,566,834. The estimated net proceeds from the exercise of the Bonus Warrants, after deducting estimated expenses of the Proposed Bonus Warrants Issue, will amount to approximately S$309,466,834. Such proceeds may, at the discretion of the Directors, be applied towards potential acquisitions, joint ventures, strategic alliances and/or working capital requirements of the Company and its subsidiaries.

As and when any significant amount of such proceeds is deployed, the Company will make the necessary announcements and subsequently provide a status report on the use of such proceeds in the Company's annual report. Pending the deployment of such proceeds for the uses identified above, such proceeds may be placed as deposits with financial institutions or invested in short-term money market or debt instruments or for any other purposes on a short-term basis as the Directors may deem fit.

CORPORATE SOCIAL RESPONSIBILITY

The Group's Corporate Social Responsibility ("**CSR**") efforts are largely focused on Myanmar, where we see room to help improve living and education standards.

Our CSR efforts are currently centred on two schools in Myanmar. Our primary focus is on a government primary school near our power plant, No. 16 Basic Education Primary School, Insein township.

We started in 2015 by replacing two-thirds of the school's old furniture with new desks and chairs to accommodate some 200 pupils per session. In 2016, we took a major step further to improve conditions for the school. We spent US$50,000 to construct a new 900 sq ft air-conditioned multi-media hall, and equipped it with 31 sets of new computers, accessories, desks and chairs. We hope to equip the pupils with better computer and literacy skills, and a bigger desire to learn.

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CORPORATE GOVERNANCE

The multi-media hall has become the pride of the school and the community. With this, the school also has one of the most advanced facilities among government primary schools, despite being located in one of the economically poorer townships in Yangon.

In 2018, we constructed a school hall and meal area measuring 1,800 sq ft for the school. We also donated a set of uniforms, books and a school bag for each of the school's 830 students.

In 2017, we identified another government school that was in need of funds for repair, No.149 Basic Education Post-Primary School in Kanyatgyi Village, Kanma Township, Magway Region, located some 400 miles from Yangon. In 2018, we completed the construction of a new 2,700 sq ft school building and donated a set of uniforms, books and a school bag for each of the school's 203 students.

Going forward, the Group will continue to identify more CSR projects in Myanmar.

SUSTAINABILITY REPORT

The Company is working towards the issuance of its sustainability report for FY2018 by 31 May 2019 and such report will be made available to shareholders on the SGXNET and the Company's website in due course.

DIRECTORS' STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

The directors present their statement to the members together with the audited financial statements of the Group for the financial year ended 31 December 2018 and the balance sheet of the Company as at 31 December 2018.

In the opinion of the directors,

(a) the balance sheet of the Company and the consolidated financial statements of the Group as set out on pages 62 to 160 are drawn up so as to give a true and fair view of the financial position of the Company and of the Group as at 31 December 2018 and the financial performance, changes in equity and cash flows of the Group for the financial year covered by the consolidated financial statements; and

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

Directors

The directors of the Company in office at the date of this statement are as follows:

Tong Kooi Ong	(Executive Chairman and Chief Executive Officer)
Tong Ian	(Executive Director)
Gary Ho Kuat Foong	
Ng Shin Ein	
Kalimullah Bin Masheerul Hassan	
Garson David Lee	
Chan Lay Hoon	(Appointed on 8 March 2019)

Arrangements to enable directors to acquire shares and debentures

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, other than as disclosed under "Share options" in this statement.

Directors' interests in shares or debentures

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 director is deemed to have an interest	
	At 31.12.2018	At 1.1.2018	At 31.12.2018	At 1.1.2018
Company				
(No. of ordinary shares)				
Tong Kooi Ong	–	–	295,364,000	221,925,000
Tong Ian	–	–	2,800,000	2,800,000
Ng Shin Ein	671,400	521,400	–	–
Kalimullah Bin Masheerul Hassan	–	–	30,000,000	30,000,000
Garson David Lee	–	–	1,300,000	1,300,000
Ong Pang Liang				
(Resigned on 8 March 2019)	5,000,000	5,000,000	–	–

DIRECTORS' STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Directors' interests in shares or debentures (Continued)

Mr Tong Kooi Ong, who by virtue of his interest of not less than 20% of the issued capital of the Company, is deemed to have an interest in the whole of the share capital of the Company's wholly owned subsidiary corporations and in the shares held by the Company in the following subsidiary corporations that are not wholly owned by the Group:

	At 31.12.2018	At 1.1.2018
Taiga Building Products Ltd.		
– No. of ordinary shares	115,563,638	116,823,109
UPP-MSP Engineering Limited		
– No. of ordinary shares	50,000	50,000

The directors' interests in the ordinary shares of the Company as at 21 January 2019 were the same as those as at 31 December 2018.

Share options

Avarga Group Employees' Share Option Scheme 2018

The Avarga Group Employees' Share Option Scheme 2018 (the "**Option Scheme**") for executive directors and confirmed employees of the Group (the "**Participant**") was approved by members of the Company at an Extraordinary General Meeting on 27 April 2018. The Option Scheme is administered by the Remuneration Committee ("**RC**").

The purpose of the Option Scheme is to provide an opportunity for employees of the Group who have contributed significantly to the growth and performance of the Group, as well as executive directors who satisfy the eligibility criteria as set out in the rules of the Option Scheme ("**Option Scheme Rules**"), to participate in the equity of the Company so as to motivate them to greater dedication, loyalty and higher standards of performance, and to give recognition to past contributions and services. Additionally, the Option Scheme will help the Group to attract and retain the services of appropriate, qualified and experienced employees who would be able to contribute to the Group's business and operations.

Under the Option Scheme, any Executive Director or confirmed employee of the Group selected by the RC to participate in the Option Scheme in accordance with the Option Scheme Rules who have, among other things, been in the employment of the Group for a period of at least 12 months, or such shorter period as the RC may determine, shall be eligible to participate in the Option Scheme. Controlling shareholders and their associates are also eligible to participate in the Option Scheme. Under the Option Scheme, the number of shares comprised in options offered to a participant shall be determined at the absolute discretion of the RC, who shall take into account, where applicable, criteria such as the bonus earned by the participant in any particular year, rank, past performance, years of service and potential contribution of the participant.

The aggregate number of shares over which the RC may offer to grant options on any date, when added to:

(a) the aggregate number of new shares issued and issuable in respect of all other share-based incentive schemes of the Company (if any); and

(b) the number of treasury shares and subsidiary holdings delivered in respect of the options granted under all other share-based incentive schemes of the Company (if any),

shall not exceed 15% of the issued share shares (excluding treasury shares and subsidiary holdings) of the Company on the date immediately preceding the date of grant.

Share options (Continued)

Avarga Group Employees' Share Option Scheme 2018 (Continued)

The aggregate number of shares over which the RC may offer to grant options to the controlling shareholders and their associates under the Option Scheme, shall not exceed 25% of the shares available under the Option Scheme, provided always that the number of shares available to each controlling shareholder or each of his associates shall not exceed 10% of the shares available under the Option Scheme.

Subject to any adjustment pursuant to the Option Scheme Rules, the exercise price for each share in respect of which an option is exercisable shall be fixed by the RC at the market price as determined in accordance with the Option Scheme Rules.

The exercise price of the options is determined by the RC at the average of the closing prices of the Company's ordinary shares as quoted on the Singapore Exchange for five market days immediately preceding the date of the grant. For the avoidance of doubt, the exercise price shall not be at a discount to the market price. Options granted shall only be exercisable, in whole or in part (provided that an Option may be exercised in part only in respect of 100 shares or any multiple thereof), at any time, by an Option holder during the exercise period. Options granted shall be exercisable during a period commencing after the fourth anniversary of the date of grant of the option and expiring on the tenth anniversary of the date of grant of the option, subject to the following:

(a) Up to 25% only of the shares in respect of which that option is granted may be exercised during the period commencing from the date falling immediately after the fourth anniversary of the date of grant of that option and ending on the fifth anniversary of the date of grant of that option;

(b) Up to 25% only of the Shares in respect of which that option is granted may be exercised during the period commencing from the date falling immediately after the fifth anniversary of the date of grant of that option and ending on the sixth anniversary of the date of grant of that option;

(c) Up to 25% only of the shares in respect of which that option is granted may be exercised during the period commencing from the date falling immediately after the sixth anniversary of the date of grant of that option and ending on the seventh anniversary of the date of grant of that option;

(d) Up to 25% only of the shares in respect of which that option is granted may be exercised during the period commencing from the date falling immediately after the seventh anniversary of the date of grant of that option and ending on the tenth anniversary of the date of grant of that option;

provided always that all options shall be exercised by the tenth anniversary of the relevant date of grant, failing which all unexercised options shall immediately lapse and become null and void and a grantee shall have no claim against the Company.

A feature of the Option Scheme is that Options may be exercised after a Participant ceases to be employed by the Group (other than arising from misconduct on the part of the Option Holder (as determined by the Committee in its absolute discretion)). This is because it is the Company's intention to use Options to pay a portion of a Participant's earned bonus entitlement instead of making such payment in cash, and the Participant would in effect have paid for the Option upon its grant since such Option represents the consideration he receives for that part of his earned bonus entitlement.

DIRECTORS' STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Share options (Continued)

Avarga Group Employees' Share Option Scheme 2018 (Continued)

There were no options granted during the financial year, including options to controlling shareholders of the Company or their associates (as defined in the Listing manual of Singapore Exchange Securities Trading Limited), to subscribe for unissued shares of the Company.

No shares have been issued during the financial year by virtue of the exercise of options to take up unissued shares of the Company or its subsidiary corporations.

There were no unissued shares of the Company or its subsidiary corporations under options at the end of the financial year.

Audit and Risk Management Committee ("ARMC")

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

Gary Ho Kuat Foong (Chairman)
Ng Shin Ein
Kalimullah Bin Masheerul Hassan
Garson David Lee
Ong Pang Liang (Resigned on 8 March 2019)

All members of the ARMC are independent and non-executive directors.

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

- the scope and the results of internal audit procedures with the internal auditor;
- the audit plan of the Company's independent auditor and any recommendations on internal accounting controls arising from the statutory audit;
- the assistance given by the Company's management to the independent auditor; and
- the balance sheet of the Company and the consolidated financial statements of the Group for the financial year ended 31 December 2018 before their submission to the Board of Directors.

The ARMC has recommended to the Board that the independent auditor, Nexia TS Public Accounting Corporation, be nominated for re-appointment at the forthcoming Annual General Meeting of the Company.

Independent Auditor

The independent auditor, Nexia TS Public Accounting Corporation, has expressed its willingness to accept re-appointment.

On behalf of the directors

Tong Kooi Ong
Director

Tong Ian
Director

22 March 2019

INDEPENDENT
AUDITOR'S REPORT

TO THE MEMBERS OF AVARGA LIMITED (FORMERLY KNOWN AS UPP HOLDINGS LIMITED)

Report on the Audit of the Financial Statements

Our Opinion

We have audited the accompanying financial statements of Avarga Limited (formerly known as UPP Holdings Limited) (the "**Company**") and its subsidiary corporations (the "**Group**"), which comprise the consolidated balance sheet of the Group and the balance sheet of the Company as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 62 to 160.

In our opinion, the accompanying consolidated financial statements of the Group and the balance sheet of the Company are properly drawn up in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "**Act**") and Singapore Financial Reporting Standards (International) ("**SFRS(I)s**") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2018 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the financial year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("**SSAs**"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority ("**ACRA**") *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* ("**ACRA Code**") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the matter
Business acquisition – Purchase Price Allocation (Refer to Note 39 to the financial statements)	
On 31 July 2018, the Group, through its partially-owned subsidiary corporation, Taiga Building Products USA Ltd (a wholly-owned subsidiary corporation of Taiga Building Products Ltd.), acquired 100% interest in Exterior Wood, Inc. ("**EWI**"), a company incorporated in the United States. SFRS(I) 3 *Business Combinations* requires the Group to recognise EWI's identifiable assets, liabilities and contingent liabilities assumed at their fair values at the acquisition date. Any difference between the cost of the business combination and the Group's interest in the net fair values of the identifiable assets, liabilities and contingent liabilities assumed at the acquisition date is recorded either as goodwill or a gain on bargain purchase. Significant judgement is applied in the identification of any intangible assets acquired and contingent liabilities assumed in the transactions. Significant assumptions and estimates are also used in the determination of the fair values of the identified assets acquired and liabilities assumed in the transactions.	We have discussed with management and their external specialists on the purchase price allocation ("**PPA**"), and engaged our internal valuation specialists to assist in the audit of the PPA, including the following: • Identification and valuation of intangible assets acquired. We assessed whether the intangible assets identified were within expectations for the industry and that the useful lives assigned to the identified intangible assets, having regard to the expected use of these assets are appropriate. • Determination of the fair values of the identified assets acquired and liabilities assumed. We assessed the reasonableness of the management's key assumptions applied in the PPA exercises in arriving at the fair values of the assets acquired and liabilities assumed. .

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF AVARGA LIMITED (FORMERLY KNOWN AS UPP HOLDINGS LIMITED)

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the matter
Impairment of non-financial assets – Goodwill (Refer to Note 14(a) to the financial statements)	
As at 31 December 2018, goodwill recognised in the consolidated balance sheet in relation to the acquisition of Taiga Building Products Ltd. on 31 January 2017 and Exterior Wood, Inc. on 31 July 2018 amounting to $21.2 million and $10.7 million respectively. SFRS(I) 1-36 *Impairment of Assets requires* goodwill to be tested for impairment annually and whenever there is indication that goodwill may be impaired. In performing the impairment assessment of the carrying amount of goodwill, the recoverable amounts of cash-generating-units ("**CGU**") in which goodwill has been attributable to, are determined using value-in-use calculation and fair value less cost to disposal. The assessment process involved significant management estimate and was based on assumptions that are affected by future market and economic conditions.	We have discussed with management and with the assistance of our internal valuation specialists, we have carried out the following procedures: • Critically evaluated whether the methodology used by management to determine the recoverable amount of goodwill complies with SFRS(I) 1-36 *Impairment of Assets* and assessed the appropriateness of the inclusion of all relevant assets and liabilities in the CGU. • Analysed the projected cash flows used in the value-in-use calculation to determine whether they are reasonable and that assumptions used are supportable taking into consideration each CGU's current and past performances, management's future plan and expectation of market developments, as well as our understanding of the business climate for the building products industry. • Evaluated the reasonableness and reviewed the appropriateness of key assumptions used by management such as the estimated gross margin, growth rate and discount rate, by benchmarking and comparing against historical data, peer information and other market data. Particularly for discount rate, recalculation and benchmarking of discount rate applied was performed with involvement of our internal valuation specialist. • Evaluated management's sensitivity analysis of the recoverable amounts and assessed the impact to the recoverable amounts when reasonable possible changes to the key assumptions are made.

INDEPENDENT
AUDITOR'S REPORT

TO THE MEMBERS OF AVARGA LIMITED (FORMERLY KNOWN AS UPP HOLDINGS LIMITED)

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and SFRS(I)s, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

INDEPENDENT
AUDITOR'S REPORT

TO THE MEMBERS OF AVARGA LIMITED (FORMERLY KNOWN AS UPP HOLDINGS LIMITED)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF AVARGA LIMITED (FORMERLY KNOWN AS UPP HOLDINGS LIMITED)

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement director on the audit resulting in this independent auditor's report is Meriana Ang Mei Ling.

Nexia TS Public Accounting Corporation
Public Accountants and Chartered Accountants

Singapore
22 March 2019

BALANCE **SHEETS**

AS AT 31 DECEMBER 2018

		Group			Company		
		31 December		1 January	31 December		1 January
	Note	2018	2017	2017	2018	2017	2017
		$'000	$'000	$'000	$'000	$'000	$'000
			(Restated)				
ASSETS							
Current assets							
Cash and cash equivalents	4	22,372	38,701	57,184	2,596	25,100	51,473
Trade and other receivables	5	109,537	130,831	13,163	145,605	91,919	53,646
Service concession receivables	6	16,232	15,910	17,219	–	–	–
Inventories	7	157,955	138,171	5,282	–	–	–
Derivative financial instruments	16	56	–	–	–	–	–
		306,152	323,613	92,848	148,201	117,019	105,119
Assets held-for-sale	13	7,742	7,742	8,494	–	–	–
		313,894	331,355	101,342	148,201	117,019	105,119
Non-current assets							
Property, plant and equipment	8	99,692	92,069	47,195	423	8	77
Financial asset, available-for-sale	9	–	3,267	3,458	–	–	–
Investments in subsidiary corporations	12	–	–	–	35,126	20,533	15,694
Other receivables	5	–	–	–	12,788	16,713	22,609
Service concession receivables	6	24,622	28,608	38,109	–	–	–
Financial asset, at FVPL	11	500	–	–	500	–	–
Financial asset, at FVOCI	10	2,158	–	–	–	–	–
Intangible assets	14	71,062	49,663	–	–	–	–
Deferred income tax assets	23	270	184	–	–	–	–
		198,304	173,791	88,762	48,837	37,254	38,380
Total assets		512,198	505,146	190,104	197,038	154,273	143,499

The accompanying notes form an integral part of these financial statements

BALANCE SHEETS

AS AT 31 DECEMBER 2018

	Note	Group 31 December 2018 $'000	Group 31 December 2017 $'000 (Restated)	Group 1 January 2017 $'000	Company 31 December 2018 $'000	Company 31 December 2017 $'000	Company 1 January 2017 $'000
LIABILITIES							
Current liabilities							
Trade and other payables	15	65,855	84,179	5,677	1,685	1,626	911
Derivative financial instruments	16	–	38	–	–	–	–
Revolving credit facility	17	64,680	58,280	–	–	–	–
Bank borrowings	18	29,739	34,086	–	–	–	–
Finance lease liabilities	19	2,498	2,490	–	–	–	–
Current income tax liabilities		4,430	4,649	–	–	–	–
		167,202	183,722	5,677	1,685	1,626	911
Non-current liabilities							
Bank borrowings	18	28,621	10,500	–	–	–	–
Finance lease liabilities	19	20,487	23,834	–	–	–	–
Deferred gain	20	2,724	3,303	–	–	–	–
Provisions	21	669	838	–	–	–	–
Subordinated notes	22	12,525	13,313	–	–	–	–
Deferred income tax liabilities	23	21,828	9,915	685	–	–	–
		86,854	61,703	685	–	–	–
Total liabilities		254,056	245,425	6,362	1,685	1,626	911
NET ASSETS		258,142	259,721	183,742	195,353	152,647	142,588
EQUITY							
Capital and reserves attributable to equity holders of the Company							
Share capital	24	169,582	150,519	140,578	169,582	150,519	140,578
Treasury shares	24	(628)	–	–	(628)	–	–
Retained profits		62,467	60,070	55,168	26,325	2,054	1,936
Other reserves	25	(21,309)	(14,756)	(16,949)	74	74	74
		210,112	195,833	178,797	195,353	152,647	142,588
Non-controlling interests	12	48,030	63,888	4,945	–	–	–
Total equity		258,142	259,721	183,742	195,353	152,647	142,588

The accompanying notes form an integral part of these financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Note	Group 2018 $'000	Group 2017 $'000 (Restated)
Revenue	27	1,572,677	1,455,163
Cost of sales		(1,426,950)	(1,322,745)
Gross profit		145,727	132,418
Other (losses)/gains, net			
– Interest income – bank deposits		377	141
– (Loss allowance)/reversal of impairment of trade receiveables, net	37(i)	(1,500)	143
– Others	28	(4,832)	(204)
Expenses			
– Distribution		(28,150)	(23,484)
– Selling and administrative		(71,522)	(68,244)
– Finance	31	(8,973)	(15,622)
Profit before income tax		31,127	25,148
Income tax expense	32	(11,032)	(10,238)
Net profit		20,095	14,910
Other comprehensive (loss)/income:			
Items that may be reclassified subsequently to profit or loss:			
Financial asset, available-for-sale			
– Fair value changes – equity investments	9	–	(191)
Currency translation differences arising from consolidation			
– Gains/(losses)		1,047	(2,795)
Items that will not be reclassified subsequently to profit or loss:			
Financial asset, at FVOCI			
– Fair value changes – equity investments	10	(1,109)	–
Currency translation differences arising from consolidation			
– (Losses)/gains		(495)	143
Other comprehensive loss, net of tax		(557)	(2,843)
Total comprehensive income		19,538	12,067
Profit attributable to:			
Equity holders of the Company		11,163	13,668
Non-controlling interests		8,932	1,242
		20,095	14,910
Total comprehensive income attributable to:			
Equity holders of the Company		11,101	10,682
Non-controlling interests		8,437	1,385
		19,538	12,067
Earnings per share for profit attributable to equity holders of the Company (cents per share)			
– Basic	33	1.25	1.58
– Diluted	33	1.25	1.58

The accompanying notes form an integral part of these financial statements

CONSOLIDATED STATEMENT OF
CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

		← Attributable to equity holders of the Company →								
	Note	**Share capital $'000**	**Treasury shares $'000**	**Retained profits[1] $'000**	**Capital reserve $'000**	**Currency translation reserve $'000**	**Fair value reserve $'000**	**Total other reserves $'000**	**Non-controlling interests $'000**	**Total equity $'000**
2018										
Beginning of financial year		150,519	–	60,070	5,891	(21,093)	446	(14,756)	63,888	259,721
Profit for the financial year		–	–	11,163	–	–	–	–	8,932	20,095
Other comprehensive income/ (loss) for the financial year		–	–	–	–	1,047	(1,109)	(62)	(495)	(557)
Total comprehensive income/ (loss) for the financial year		–	–	11,163	–	1,047	(1,109)	(62)	8,437	19,538
Shares issued for acquisition of non-controlling interests without a change in control	24	19,094	–	–	–	–	–	–	–	19,094
Share issuance expense	24	(31)	–	–	–	–	–	–	–	(31)
Acquisition of non-controlling interests without a change in control	12	–	–	–	(5,518)	–	–	(5,518)	(23,584)	(29,102)
Effect of subsidiary corporation's treasury shares transactions	12	–	–	–	(973)	–	–	(973)	(711)	(1,684)
Purchase of treasury shares	24	–	(628)	–	–	–	–	–	–	(628)
Dividend relating to 2017 paid	26	–	–	(4,383)	–	–	–	–	–	(4,383)
Dividend relating to 2018 paid	26	–	–	(4,383)	–	–	–	–	–	(4,383)
Total transactions with owners, recognised directly in equity		19,063	(628)	(8,766)	(6,491)	–	–	(6,491)	(24,295)	(21,117)
End of financial year		169,582	(628)	62,467	(600)	(20,046)	(663)	(21,309)	48,030	258,142

The accompanying notes form an integral part of these financial statements

CONSOLIDATED STATEMENT OF
CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Note	Attributable to equity holders of the Company							
		Share capital $'000	Retained profits[1] $'000	Capital reserve $'000	Currency translation reserve $'000	Fair value reserve $'000	Total other reserves $'000	Non-controlling interests $'000	Total equity $'000
2017 (Restated)									
Beginning of financial year		140,578	55,168	712	(18,298)	637	(16,949)	4,945	183,742
Profit for the financial year, as reported		–	16,340	–	–	–	–	4,024	20,364
Effect of prior year adjustments	40		(2,672)	–	–	–	–	(2,782)	(5,454)
Profit for the financial year, as restated		–	13,668	–	–	–	–	1,242	14,910
Other comprehensive (loss)/income for the financial year		–	–	–	(2,795)	(191)	(2,986)	143	(2,843)
Total comprehensive income/(loss) for the financial year, as restated		–	13,668	–	(2,795)	(191)	(2,986)	1,385	12,067
Share placement	24	10,000	–	–	–	–	–	–	10,000
Share placement expenses	24	(59)	–	–	–	–	–	–	(59)
Acquisition of a subsidiary corporation	39	–	–	–	–	–	–	(1,744)	(1,744)
Acquisition of non-controlling interests without a change in control	12	–	–	35	–	–	35	(4,897)	(4,862)
Deemed disposal of non-controlling interests without a change in control	12	–	–	5,144	–	–	5,144	64,199	69,343
Dividend relating to 2016 paid	26	–	(4,383)	–	–	–	–	–	(4,383)
Dividend relating to 2017 paid	26	–	(4,383)	–	–	–	–	–	(4,383)
Total transactions with owners, recognised directly in equity		9,941	(8,766)	5,179	–	–	5,179	57,558	63,912
End of financial year		150,519	60,070	5,891	(21,093)	446	(14,756)	63,888	259,721

(1) Retained profits of the Group are distributable.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Note	Group 2018 $'000	Group 2017 $'000 (Restated)
Cash flows from operating activities			
Net profit		20,095	14,910
Adjustments for:			
– Income tax expense	32	11,032	10,238
– Depreciation of property, plant and equipment	29	8,030	6,963
– Amortisation of intangible assets	29	4,845	4,252
– Amortisation of deferred gain	28	(398)	(374)
– (Gain)/loss on disposal of property, plant and equipment	28	(157)	61
– Gain on disposal of asset held-for-sale	28	–	(1,161)
– Gain on extinguishment of subordinated notes	28	–	(2,420)
– Provisions		(124)	(4)
– Loss allowance/(reversal of impairment) of trade receivables		1,500	(143)
– Net fair value gain on derivatives		(94)	(5)
– Finance income	27	(4,854)	(5,892)
– Dividend income from listed equity security	28	(139)	(194)
– Interest income		(377)	(141)
– Interest expense	31	8,973	15,622
– Unrealised currency translation losses		4,019	5,658
Operating cash flow before working capital changes		52,351	47,370
Change in working capital, net of effects from acquisition of subsidiary corporation:			
– Trade and other receivables and service concession receivables		37,367	637
– Inventories		1,657	12,154
– Trade and other payables		(23,781)	9,459
Cash generated from operations		67,594	69,620
Interest received		377	141
Interest paid		(6,823)	(6,454)
Income tax paid		(4,452)	(6,828)
Net cash provided by operating activities		56,696	56,479
Cash flows from investing activities			
Additions to property, plant and equipment		(5,411)	(3,546)
Disposal of property, plant and equipment		210	758
Disposal of asset held-for-sale		–	1,896
Purchase of financial asset, at FVPL	11	(500)	–
Net cash outflow on acquisition of a subsidiary corporation	39	(55,103)	(20,477)
Dividend income from listed equity security		139	194
Acquisition of subordinated notes		–	(57,302)
Net cash used in investing activities		(60,665)	(78,477)

The accompanying notes form an integral part of these financial statements

CONSOLIDATED STATEMENT OF **CASH FLOWS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Note	Group 2018 $'000	Group 2017 $'000 (Restated)
Cash flows from financing activities			
Acquisition of non-controlling interests	12	(9,253)	(4,862)
Proceeds from shares placement	24	–	10,000
Share issue expenses	24	(31)	(59)
Purchase of treasury shares	24	(628)	–
Purchase of treasury shares by a subsidiary corporation	12	(1,684)	–
Repayment of obligations under finance leases		(2,440)	(2,007)
Changes in revolving credit facility		(1,903)	(8,427)
Proceeds from bank borrowings		41,266	55,000
Repayment of bank borrowings		(27,099)	(11,770)
Redemption of subordinated notes		–	(15,905)
Interest paid		(1,540)	(9,649)
Dividends paid to equity holders of the Company	26	(8,766)	(8,766)
Net cash (used in)/generated from financing activities		(12,078)	3,555
Net decrease in cash and cash equivalents		(16,047)	(18,443)
Cash and cash equivalents			
Beginning of financial year		38,701	57,184
Effects of currency translation on cash and cash equivalents		(282)	(40)
End of financial year	4	22,372	38,701

Reconciliation of liabilities arising from financing activities

	1 January 2018 $'000	Cash flows $'000	Non-cash changes: Acquisition (Note 39) $'000	Non-cash changes: Equity conversion $'000	Non-cash changes: Other $'000	Non-cash changes: Foreign exchange movement $'000	31 December 2018 $'000
Finance lease liabilities	26,324	(2,440)	–	–	611	(1,510)	22,985
Bank borrowings	44,586	14,167	–	–	–	(393)	58,360
Subordinated notes	13,313	–	–	–	–	(788)	12,525
Revolving credit facility	58,280	(1,903)	6,876	–	(342)	1,769	64,680

	1 January 2017 $'000	Cash flows $'000	Non-cash changes: Acquisition (Note 39) $'000	Non-cash changes: Equity conversion $'000	Non-cash changes: Other $'000	Non-cash changes: Foreign exchange movement $'000	31 December 2017 $'000
Finance lease liabilities	–	(2,007)	28,015	–	777	(461)	26,324
Bank borrowings	–	43,230	1,397	–	–	(41)	44,586
Subordinated notes	–	(15,905)	160,456	(127,652)	(2,420)	(1,166)	13,313
Revolving credit facility	–	(8,427)	66,707	–	–	–	58,280

The accompanying notes form an integral part of these financial statements

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1 GENERAL INFORMATION

Avarga Limited (formerly known as UPP Holdings Limited) (the "**Company**") is listed on the Singapore Exchange Securities Trading Limited ("**SGX-ST**") and incorporated and domiciled in Singapore. The address of its registered office is 1 Kim Seng Promenade, #13-10 Great World City West Lobby, Singapore 237994.

The principal activities of the Company are the trading of paper products, investment holding and providing management services. The principal activities of the subsidiary corporations are stated in Note 12 to the financial statements.

With effect from 27 April 2018, the name of the Company was changed from UPP Holdings Limited to Avarga Limited.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

The financial statements are presented in Singapore Dollar ("**$**") and all values in the tables are rounded to the nearest thousand ($'000) as indicated.

The preparation of financial statements in conformity with SFRS(I) requires management to exercise its judgement 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 judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

2.2 Adoption of SFRS(I)

As required by the listing requirements of Singapore Exchange, the Group has adopted SFRS(I) on 1 January 2018. These financial statements for the financial year ended 31 December 2018 are the first set of financial statements the Group prepared in accordance with SFRS(I). The Group's previously issued financial statements for periods up to and including the financial year ended 31 December 2017 were prepared in accordance with Singapore Financial Reporting Standards ("**SFRS**").

In adopting SFRS(I) on 1 January 2018, the Group is required to apply all of the specific transition requirements in SFRS(I) 1 *First-time Adoption of SFRS(I)*.

Under SFRS(I) 1, these financial statements are required to be prepared using accounting policies that comply with SFRS(I) effective as at 31 December 2018. The same accounting policies are applied throughout all periods presented in these financial statements, subject to the mandatory exceptions and optional exemptions under SFRS(I) 1.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Adoption of SFRS(I) (Continued)

The Group's opening balance sheet has been prepared as at 1 January 2017, which is the Group's date of transition to SFRS(I).

There were no material adjustments to the Group's and the Company's statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows arising from the transition from SFRS to SFRS(I), except for the following:

A. Adoption of SFRS(I) 9

SFRS(I) 9 *Financial Instruments* sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. It also introduces a new 'expected credit loss' model and a new general hedge accounting model. The Group adopted SFRS(I) 9 from 1 January 2018.

(i) Short-term exemption on adoption of SFRS(I) 9

In accordance with the exemption in SFRS(I) 1, the Group elected not to restate information for 2017. Accordingly, the information presented for 2017 is presented, as previously reported, under FRS 39 *Financial Instruments: Recognition and Measurement*. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of SFRS(I) 9 are recognised in retained profits and reserves as at 1 January 2018. Arising from this election, the Group is exempted from providing disclosures required by SFRS(I) 7 *Financial Instruments: Disclosures* for the comparative period to the extent that these disclosures relate to items within the scope of SFRS(I) 9. Instead, disclosures under SFRS 107 *Financial Instruments: Disclosures* relating to items within the scope of SFRS 39 are provided for the comparative period.

(ii) Classification of financial assets and financial liabilities

For an explanation of how the Group classifies and measures financial assets and related gains and losses under SFRS(I) 9, see Note 2.11. The adoption of SFRS(I) 9 has not had a significant effect on the Group's accounting policies for financial liabilities.

Trade and other receivables, service concession receivables and cash and cash equivalents that were classified as loans and receivables under SFRS 39 are now classified at amortised cost. No adjustment in the allowance for impairment was recognised in opening retained profits of the Group and of the Company at 1 January 2018 respectively on transition to SFRS(I) 9.

The investment in listed equity security that was classified as available-for-sale financial asset under SFRS 39 of which the Group intends to hold for long-term appreciation, is designated at 1 January 2018 as measured at fair value through other comprehensive income ("FVOCI").

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Adoption of SFRS(I) (Continued)

B. Adoption of SFRS(I) 15

In accordance with the requirement of SFRS(I) 1, the Group adopted all of the requirements of SFRS(I) 15 *Revenue from Contracts with Customers* as of 1 January 2018. SFRS(I) 15 utilises a methodical framework for entities to follow in order to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The change did not impact the cumulated revenue recognised or the related assets and liabilities on the transition date.

The adoption of SFRS(I) 15 resulted in no impact to the opening retained profits nor to the opening balance of accumulated other comprehensive income on 1 January 2018.

The accounting policies for revenue recognition under SFRS(I) 15 is as disclosed on Note 2.3 to the financial statements.

2.3 Revenue recognition

(i) Wholesale of building products

The Group distributes building products to supply yards, building product retailers and industrial manufacturers. Sales are recognised when control of the products has transferred to the Group's customers, being when the products are shipped to the customer in instances where the customer arranges for shipment or upon delivery for instances in which the Group arranges for shipment. The customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Once products are delivered to the Group's customers, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales order, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied. A portion of the Group's sales take place on a consignment basis, where the Group will deliver inventory to customer locations that has not yet been purchased. The revenue from these sales is recognised when the customer purchases the inventory.

The Group's products are sold with volume discounts based on aggregate sales over set periods. Revenue from these sales is recognised based on the price agreed upon for each order, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A liability is recognised for expected volume discounts payable to customers in relation to sales made until the end of the reporting period.

No element of financing is deemed present as the sales are made with credit terms standard for the market. The Group's obligation to provide a refund for faulty products under the standard warranty terms is recognised as a provision. Historically, the Group's annual returns for products sold have been negligible.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Revenue recognition (Continued)

(ii) Trading of paper products

The Group manufactures and sells a range of paper products. Sales are recognised when control of the products has transferred to its customer, being when the products are delivered to the customers, the customers has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customers' acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customers, and either the customers has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

The sales are made with credit terms standard of the market. However, the customer has a right to return the goods to the Group due to quality issues. Therefore, a provision will be made for the low grade products. Accumulated experience is used to estimate such returns at the time of sale at a portfolio level (expected value method). Because the number of products returned has not been significant for years, it is not probable that a significant reversal in the cumulative revenue recognised will occur. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date. The asset is measured by reference to the former carrying amount of the product. The costs to recover the products are not material, because the customer usually returns the product in a saleable condition.

The Group does not operate any customer loyalty programme.

(iii) Construction revenue

Please refer to the paragraph "Service concession arrangement" for the accounting policy for revenue from construction contracts (Note 2.9(b)).

(iv) Operating and maintenance income

Operating and maintenance income relates to the income derived from managing and operation of infrastructure under service concession arrangement.

Operating and maintenance income is recognised in the accounting period in which the services are rendered.

The customer is only invoiced once a month. A contract asset is recognised for the cumulative revenue recognised but not yet invoiced.

(v) Finance income

Finance income from service concession arrangement is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Finance income is accrued on a time basis, by reference to the principal outstanding and at the applicable effective interest rate, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Revenue recognition (Continued)

(vi) Interest income

Interest income is recognised using the effective interest method.

(vii) Dividend income

Dividend income is recognised when the right to receive payment is established, it is probable that the economic benefits associated with the dividend will flow to the Group, and the amount of the dividend can be reliably measured.

2.4 Group accounting

(a) Subsidiary corporations

(i) Consolidation

Subsidiary corporations are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiary corporations are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date on 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 unless the transaction provides evidence of an impairment indicator of the transferred asset. Accounting policies of subsidiary corporations have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests comprise the portion of a subsidiary corporation's net results of operations and its net assets, which is attributable to the interests that are not owned directly or indirectly by the equity holders of the Company. They are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and balance sheet. Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary corporation, even if this results in the non-controlling interests having a deficit balance.

(ii) Acquisitions

The acquisition method of accounting is used to account for business combinations entered into by the Group.

The consideration transferred for the acquisition of a subsidiary corporation or business comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes any contingent consideration arrangement and any pre-existing equity interest in the subsidiary corporation measured at their fair values at the acquisition date.

NOTES TO THE
FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Group accounting (Continued)

(a) Subsidiary corporations (Continued)

(ii) Acquisitions (Continued)

Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree at the date of acquisition either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

The excess of (a) the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the (b) fair value of the identifiable net assets acquired is recorded as goodwill. Please refer to the paragraph "Impairment of non-financial assets – Goodwill" for the subsequent accounting policy on goodwill.

(iii) Disposals

When a change in the Group's ownership interest in a subsidiary corporation results in a loss of control over the subsidiary corporation, the assets and liabilities of the subsidiary corporation including any goodwill are derecognised. Amounts previously recognised in other comprehensive income in respect of that entity are also reclassified to profit or loss or transferred directly to retained earnings if required by a specific Standard.

Any retained equity interest in the entity is remeasured at fair value. The difference between the carrying amount of the retained interest at the date when control is lost and its fair value is recognised in profit or loss.

Please refer to the paragraph "Investments in subsidiary corporations" for the accounting policy on investments in subsidiary corporations in the separate financial statements of the Company.

(b) Transactions with non-controlling interests

Changes in the Group's ownership interest in a subsidiary corporation that do not result in a loss of control over the subsidiary corporation are accounted for as transactions with equity owners of the Company. Any difference between the change in the carrying amounts of the non-controlling interests and the fair value of the consideration paid or received is recognised within equity attributable to the equity holders of the Company.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Property, plant and equipment

(a) *Measurement*

(i) *Land and buildings*

Land and buildings are initially recognised at cost. Freehold land is subsequently carried at cost less accumulated impairment losses. Buildings and leasehold land are subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

(ii) *Other property, plant and equipment*

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

(iii) *Components of costs*

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.

(b) *Depreciation*

Freehold land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line and declining balance methods to allocate their depreciable amounts over their estimated useful lives and annual rates as follows:

Straight-line method	**Useful lives**
Leasehold land	90 to 99 years
Leasehold improvements	Over term of lease
Buildings	50 years
Treating equipment	20 to 25 years
Plant and machinery	3 to 40 years
Computer system and license	3 to 10 years
Furniture, fixtures and office equipment	3 to 10 years
Motor vehicles	5 years

Declining balance method	**Annual rates**
Buildings	4% to 10%
Furniture and office equipment	8% to 30%
Warehouse equipment	10% to 30%

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Property, plant and equipment (Continued)

(b) Depreciation (Continued)

The residual values, estimated useful lives or annual rates 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 profit or loss when the changes arise.

Assets that are not yet available for use are not being depreciated.

Fully depreciated property, plant and equipment are retained in the financial statements until they are no longer in use.

(c) Subsequent expenditure

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 entity and the cost of the item can be measured reliably. All other repair and maintenance expenses are recognised in profit or loss when incurred.

(d) Disposal

On disposal of an item of property, plant and equipment, the difference between the disposal proceeds and its carrying amount is recognised in profit or loss within "Other (losses)/gains, net – Others".

2.6 Intangible assets

(a) Goodwill

Goodwill on acquisitions of subsidiary corporations and businesses, represents the excess of (i) the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over (ii) the fair value of the identifiable net assets acquired. Goodwill on subsidiary corporations are carried at cost less accumulated impairment losses.

Gains and losses on the disposal of subsidiary corporations include the carrying amount of goodwill relating to the entity sold.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Intangible assets (Continued)

(b) Other intangible assets

Other intangible assets from a business acquisition are capitalised at fair value at the date of acquisition. After initial recognition, an intangible asset is carried at cost less accumulated amortisation and any accumulated impairment losses. These costs are amortised to profit or loss on a straight-line basis in accordance with their estimated economic useful lives or periods of contractual rights as follows:

Intangible assets	Useful lives
Customer relationships and brand name	7 to 15 years
Favourable lease terms	Over term of lease

The amortisation period and amortisation method of intangible assets other than goodwill are reviewed at least at each balance sheet date to ensure they are aligned with estimates of the remaining economic useful lives of the associated intangible assets. The effects of any revision are recognised in profit or loss when the changes arise.

2.7 Borrowing costs

Borrowing costs are recognised in profit or loss using the effective interest method.

2.8 Investments in subsidiary corporations

Investments in subsidiary corporations are carried at cost less accumulated impairment losses in the Company's balance sheet. On disposal of such investments, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

2.9 Service concession arrangement

(a) Consideration given by the grantor

A financial asset (receivable under service concession arrangement) is recognised to the extent that the Group has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services rendered and/or the consideration paid and payable by the Group for the right to manage and operate the infrastructure for public service. The Group has an unconditional right to receive cash if the grantor contractually guarantees to pay the Group (a) specified or determinable amounts or (b) the shortfall, if any, between amounts to be paid by the grantor based on the usage of the service and specified or determinable amounts, even if the payment is contingent on the Group ensuring that the infrastructure meets specified quality of efficiency requirements. The financial asset (receivable under service concession arrangement) is accounted for in accordance with the policy set out in Note 2.11 below.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Service concession arrangement (Continued)

(b) Construction of service concession related infrastructure

Revenue and costs relating to construction or upgrade services of the infrastructure under a service concession arrangement is accounted for in accordance with SFRS(I) 15 *Revenue from Contracts with Customers*.

The infrastructure has no alternative use for the Group due to contractual restriction, and the Group has enforceable rights to payment arising from the contractual terms. For these contracts, revenue is recognised over time by reference to the Group's progress towards completing the construction of the infrastructure. The measure of progress is determined based on the proportion of contract costs incurred to date to the estimated total contract costs. Costs incurred that are not related to the contract or that do not contribute towards satisfying a performance obligation are excluded from the measure of progress and instead are expensed as incurred.

(c) Operating services

Revenue relating to operating services is accounted for in accordance with the policy for "Revenue recognition (operating and maintenance income)" as described in Note 2.3(iv) above.

(d) Contractual obligations to restore the infrastructure to a specified level of serviceability

When the Group has contractual obligations that it must fulfil as a condition for operating the infrastructure, that is (a) to maintain the infrastructure to a specified level of serviceability and/or (b) to restore the infrastructure to a specified condition before they are handed over to the grantor at the end of the service concession arrangement, these contractual obligations to maintain or restore the infrastructure are recognised and measured in accordance with the policy set out in Note 2.18 below.

Repair and maintenance and other expenses that are routine in nature are expensed and recognised in profit or loss as incurred.

2.10 Impairment of non-financial assets

(a) Goodwill

Goodwill recognised separately as an intangible asset 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Impairment of non-financial assets (Continued)

(a) Goodwill (Continued)

An impairment loss is recognised when the carrying amount of a CGU, including the goodwill, exceeds the recoverable amount of the CGU. The 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 on goodwill is recognised as an expense and is not reversed in a subsequent period.

(b) Intangible assets
Property, plant and equipment
Investments in subsidiary corporations

Intangible assets, property, plant and equipment and investments in subsidiary corporations 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 inflows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the 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 profit or loss.

An impairment loss for an asset other than goodwill 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 this 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 amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

A reversal of impairment loss for an asset other than goodwill is recognised in profit or loss.

NOTES TO THE
FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial assets

The accounting for financial assets before 1 January 2018 are as follows:

(a) *Classification*

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity 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) *Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the short term. Financial assets designated as at fair value through profit or loss at inception are those that are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are presented as current assets if they are either held for trading or are expected to be realised within 12 months after the balance sheet date.

(ii) *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 expected to be realised 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" (Note 5), "Cash and cash equivalents" (Note 4) and "Service concession receivables" (Note 6) on the balance sheet.

(iii) *Held-to-maturity financial assets*

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. They are presented as non-current assets, except for those maturing within 12 months after the balance sheet date which are presented as current assets.

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

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are presented as non-current assets unless the investment matures or management intends to dispose of the assets within 12 months after the balance sheet date.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial assets (Continued)

(b) *Recognition and derecognition*

Regular way purchases and sales of financial assets are recognised on 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 the 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 profit or loss. Any amount previously recognised in other comprehensive income relating to that asset is reclassified to profit or loss.

(c) *Initial measurement*

Financial assets are initially recognised at fair value plus transaction costs except for financial assets at fair value through profit or loss, which are recognised at fair value. Transaction costs for financial assets at fair value through profit or loss are recognised immediately as expenses.

(d) *Subsequent measurement*

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity financial assets are subsequently carried at amortised cost using the effective interest method.

Changes in the fair values of financial assets at fair value through profit or loss including the effects of currency translation, interest and dividends, are recognised in profit or loss when the changes arise.

Interest and dividend income on available-for-sale financial assets are recognised separately in income. Changes in the fair values of available-for-sale debt securities (i.e. monetary items) denominated in foreign currencies are analysed into currency translation differences on the amortised cost of the securities and other changes; the currency translation differences are recognised in profit or loss and the other changes are recognised in other comprehensive income and accumulated in the fair value reserve. Changes in fair values of available-for-sale equity securities (i.e. non-monetary items) are recognised in other comprehensive income and accumulated in the fair value reserve, together with the related currency translation differences.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial assets (Continued)

(e) *Impairment*

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

(i) *Loans and receivables/Held-to-maturity financial assets*

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 profit or loss.

The impairment allowance is reduced through profit or loss 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) *Available-for-sale financial assets*

In addition to the objective evidence of impairment described in Note 2.11(e)(i), a significant or prolonged decline in the fair value of an equity security below its cost is considered as an indicator that the available-for-sale financial asset is impaired.

If there is objective evidence of impairment, the cumulative loss that had been recognised in other comprehensive income is reclassified from equity to profit or loss. The amount of cumulative loss that is reclassified is measured as the difference between the acquisition cost (net of any principal repayments and amortisation) and current fair value, less any impairment loss on that financial assets previously recognised in profit or loss. The impairment losses recognised as an expense for an equity security are not reversed through profit or loss in subsequent period.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial assets (Continued)

The accounting for financial assets from 1 January 2018 are as follows:

(f) Classification and measurement

The Group classifies its financial assets in the following measurement categories:

- Amortised cost;
- Fair value through other comprehensive income (FVOCI); and
- Fair value through profit or loss (FVPL).

The classification depends on the Group's business model for managing the financial assets as well as the contractual terms of the cash flows of the financial asset.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Group reclassifies debt instruments when and only when its business model for managing those assets changes.

At initial recognition

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

At subsequent measurement

(i) Debt instruments

Debt instruments mainly comprise of cash and cash equivalents, trade and other receivables and service concession receivables.

There are three subsequent measurement categories, depending on the Group's business model for managing the asset and the cash flow characteristics of the asset:

- Amortised cost: Debt instruments that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt instrument that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in interest income using the effective interest rate method.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial assets (Continued)

(f) Classification and measurement (Continued)

At subsequent measurement (Continued)

(i) Debt instruments (Continued)

- FVOCI: Debt instruments that are held for collection of contractual cash flows and for sale, and where the assets' cash flows represent solely payments of principal and interest, are classified as FVOCI. Movements in fair values are recognised in Other Comprehensive Income (OCI) and accumulated in fair value reserve, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in profit and loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and presented in "Other (losses)/gains, net – Others". Interest income from these financial assets is recognised using the effective interest rate method and presented in "interest income".

- FVPL: Debt instruments that are held for trading as well as those that do not meet the criteria for classification as amortised cost or FVOCI are classified as FVPL. Movement in fair values and interest income is recognised in profit or loss in the period in which it arises and presented in "Other (losses)/gains, net – Others".

(ii) Equity investments

The Group subsequently measures all its equity investments at their fair values. Equity investments are classified as FVPL with movements in their fair values recognised in profit or loss in the period in which the changes arise and presented in "Other (losses)/gains, net – Others", except for those equity securities which are not held for trading. The Group has elected to recognise changes in fair value of equity securities not held for trading in other comprehensive income as these are strategic investments and the Group considers this to be more relevant. Movements in fair values of investments classified as FVOCI are presented as "fair value changes" in Other Comprehensive Income. Dividends from equity investments are recognised in profit or loss as "dividend income".

(g) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt financial assets carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by the SFRS(I) 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. Note 37(i) to the financial statements provides further disclosure on the impairment policy.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial assets (Continued)

(h) *Recognition and derecognition*

Regular way purchases and sales of financial assets are recognised on 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 the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

On disposal of a debt instrument, the difference between the carrying amount and the sale proceeds is recognised in profit or loss. Any amount previously recognised in other comprehensive income relating to that asset is reclassified to profit or loss.

On disposal of an equity investment, the difference between the carrying amount and sales proceed is recognised in profit or loss if there was no election made to recognise fair value changes in other comprehensive income. If there was an election made, any difference between the carrying amount and sales proceed amount would be recognised in other comprehensive income and transferred to retained profits along with the amount previously recognised in other comprehensive income relating to that asset.

2.12 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.13 Borrowings

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, in which case they are presented as non-current liabilities.

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 value is recognised in profit or loss over the period of the borrowings using the effective interest method.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. They are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). Otherwise, they are presented as non-current liabilities.

Trade and other payables are initially recognised at fair value, and subsequently carried at amortised cost using the effective interest method.

2.15 Leases

When the Group is the lessee

The Group leases buildings and operating equipment under finance leases and certain properties under operating leases from non-related parties.

(i) Lessee – Finance leases

Leases where the Group assumes substantially all risks and rewards incidental to ownership of the leased assets are classified as finance leases.

The leased assets and the corresponding lease liabilities (net of finance charges) under finance leases are recognised on the balance sheet as plant and equipment and borrowings respectively, at the inception of the leases based on the lower of the fair value of the leased assets and the present value of the minimum lease payments.

Each lease payment is apportioned between the finance expense and the reduction of the outstanding lease liability. The finance expense is recognised in profit or loss on a basis that reflects a constant periodic rate of interest on the finance lease liability.

(ii) Lessee – Operating leases

Leases where substantially all risks and rewards incidental to ownership are retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are recognised in profit or loss on a straight-line basis over the period of the lease.

Contingent rents are recognised as an expense in profit or loss when incurred.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Inventories

Inventories are carried at the lower of cost and net realisable value, except for production consumables which are recorded at the lower of cost and replacement cost which approximates net realisable value.

Cost of raw materials is determined using the weighted average method and includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and an appropriate proportion of manufacturing overheads (based on normal operating capacity) but excludes borrowing costs.

Where necessary, damaged, obsolete and slow moving items are written-down to net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and applicable variable selling expenses.

2.17 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 substantively 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 subsidiary corporations, 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.

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 substantively enacted by the balance sheet date; and

(ii) based on the tax consequence that will 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.

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FINANCIAL STATEMENTS

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Income taxes (Continued)

Current and deferred income taxes are recognised as income or expense in profit or loss, 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.

The Group accounts for investment tax credits (for example, investment and reinvestment allowance) similar to accounting for other tax credits where deferred tax asset is recognised for unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax credit can be utilised.

2.18 Provisions

Provisions for warranty and legal claims are recognised when the Group has a present 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 the amount has been reliably estimated. Provisions are not recognised for future operating losses.

A provision for future potential warranty costs is calculated using historical trends and future expectations of future claims. Adjustments to the warranty provision are included in cost of sales. Actual future warranty costs may differ from those estimates.

Other provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised in the statement of comprehensive income as finance expenses.

Changes in the estimated timing or amount of the expenditure or discount rate are recognised in profit or loss when the changes arise.

2.19 Employee compensation

Employee benefits are recognised as an expense, unless the cost qualifies to be capitalised as an asset.

(a) *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 in Singapore and Employee Provident Fund in Malaysia 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Employee compensation (Continued)

(b) *Share-based compensation*

The Group operates an equity-settled, share-based compensation plan. The value of the employee services received in exchange for the grant of options is recognised as an expense with a corresponding increase in the share option reserve over the vesting period. The total amount to be recognised over the vesting period is determined by reference to the fair value of the options granted on grant date. Non-market vesting conditions are included in the estimation of the number of shares under options that are expected to become exercisable on the vesting date.

At each balance sheet date, the Group revises its estimates of the number of shares under options that are expected to become exercisable on the vesting date and recognises the impact of the revision of the estimates in profit or loss, with a corresponding adjustment to the share option reserve over the remaining vesting period.

When the options are exercised, the proceeds received (net of transaction costs) and the related balance previously recognised in the share option reserve are credited to share capital account, when new ordinary shares are issued, or to the "Treasury shares" account, when treasury shares are re-issued to the employees.

(c) *Profit sharing and bonus plan*

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision when it is contractually obliged to pay or when there is a past practice that has created a constructive obligation to pay.

(d) *Short-term compensated absences*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employee up to the balance sheet date.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Financial guarantees

The Company has issued corporate guarantees to banks for bank borrowings of its subsidiary corporations. These guarantees are financial guarantees as they require the Company to reimburse the banks if the subsidiary corporations fail to make principal or interest payments when due in accordance with the terms of their borrowings. Intra-Group transactions are eliminated on consolidation.

Financial guarantees contracts are initially measured at fair value plus transaction costs and subsequently measured at the higher of:

(a) premium received on initial recognition less the cumulative amount of income recognised in accordance with the principles of SFRS(I) 15; and

(b) the amount of expected loss computed using the impairment methodology under SFRS(I) 9.

Prior to 1 January 2018, financial guarantees were subsequently measured at the higher of (a) and the expected amounts payable to the banks in the event it is probable that the Company will reimburse the banks.

2.21 Deferred gain

Deferred gains on sale and leaseback transactions are amortised over the lease terms of the buildings, which are being accounted for as finance leases. Amortisation is included in "Other (losses)/gains, net – Others".

2.22 Earnings per share

The Group presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by weighted-average number of ordinary shares outstanding during the year, adjusted for own shares held.

Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Currency translation

(a) *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 ("**functional currency**"). The financial statements are presented in Singapore Dollar ("**$**"), which is the functional currency of the Company.

(b) *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 exchange differences resulting 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 sheet date are recognised in profit or loss. Monetary items include primarily financial assets (other than equity investments), contract assets and financial liabilities. However, in the consolidated financial statements, currency translation differences arising from borrowings in foreign currencies and other currency instruments designated and qualifying as net investment hedges and net investment in foreign operations, are recognised in other comprehensive income and accumulated in the currency translation reserve.

When a foreign operation is disposed of or any loan forming part of the net investment of the foreign operation is repaid, a proportionate share of the accumulated currency translation differences is reclassified to profit or loss, as part of the gain or loss on disposal.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of comprehensive income within "Finance expenses". All other foreign exchange gains and losses impacting profit or loss are presented in the statement of comprehensive income within "Other (losses)/gains, net – Others".

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.

(c) *Translation of Group's 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:

(i) Assets and liabilities are translated at the closing exchange rates at the balance sheet date;

(ii) 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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Currency translation (Continued)

(c) Translation of Group's entities financial statements (Continued)

(iii) All resulting currency translation differences are recognised in other comprehensive income and accumulated in the currency translation reserve. These currency translation differences are reclassified to profit or loss on disposal or partial disposal with loss of control of the foreign operation.

Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operations and translated at the closing rates at the reporting date.

2.24 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision-maker to make decisions about resources to be allocated to the segment and assess its performance.

2.25 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents include cash on hand and deposits with financial institutions which are subject to an insignificant risk of change in value. For cash subjected to restriction, assessment is made on the economic substance of the restriction and whether they meet the definition of cash and cash equivalents.

2.26 Share capital and treasury shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

When any entity within the Group purchases the Company's ordinary shares ("**treasury shares**"), the carrying amount which includes the consideration paid and any directly attributable transaction cost is presented as a component within equity attributable to the Company's equity holders, until they are cancelled, sold or reissued.

When treasury shares are subsequently cancelled, the cost of treasury shares are deducted against the share capital account if the shares are purchased out of capital of the Company, or against the retained profits of the Company if the shares are purchased out of earnings of the Company.

When treasury shares are subsequently sold or reissued pursuant to an employee share option scheme, the cost of treasury shares is reversed from the treasury share account and the realised gain or loss on sale or reissue, net of any directly attributable incremental transaction costs and related income tax, is recognised in the capital reserve.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.27 Dividends to Company's shareholders

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

2.28 Government grants

Grants from the government are recognised as a receivable at their fair value when there is reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

Government grants receivable are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Government grants relating to expenses are shown separately as other income.

Government grants relating to assets are deducted against the carrying amount of the assets.

2.29 Non-current assets held-for-sale

Non-current assets are classified as assets held-for-sale and carried at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use. The assets are not depreciated or amortised while they are classified as held-for-sale. Any impairment loss on initial classification and subsequent measurement is recognised as an expense. Any subsequent increase in fair value less costs to sell (not exceeding the accumulated impairment loss that has been previously recognised) is recognised in profit or loss.

3 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

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

3.1 Critical accounting estimates and assumptions

(a) Valuation of goodwill, intangible assets and tangible assets/liabilities through business combination

Business combination is accounted for by applying the acquisition method. Purchase price allocation exercise requires a significant amount of management estimation, particularly in relation to the identification and valuation of intangible assets and assignment of their useful lives. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The fair value of such assets and liabilities are estimated by management and independent professional valuer where significant, or using the discounted cash flow method, which requires the Group to make an estimate of the expected future cash flows of the acquired business and choosing a suitable discount rate. The Group completed the acquisition of Taiga Building Products Ltd. ("**Taiga**") and Exterior Wood, Inc. ("**EWI**") in January 2017 and July 2018 respectively. The information about acquisition of Taiga and EWI are disclosed in Note 39 to the financial statements.

3 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

3.1 Critical accounting estimates and assumptions (Continued)

(b) *Estimated impairment goodwill*

In performing the impairment assessment of the carrying amount of goodwill, as disclosed in Note 14(a) to the financial statements, the recoverable amounts of the cash-generating units ("**CGUs**") in which goodwill has be attributable to, are determined in using fair value less cost of disposal or value-in-use calculation.

Significant judgements are used to estimate the pre-tax discount rate, gross margin and growth rate applied in computing the recoverable amounts of different CGUs. Specific estimates are disclosed in Note 14(a) to the financial statements.

The Group has assessed that any reasonably possible change in the key assumptions used in the fair value less cost to disposal and value-in-use calculation would not result in the carrying amount of the CGU to exceed its recoverable amount.

(c) *Carrying amount of service concession receivables*

The service concession receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method. The effective interest method uses a set of estimated future cash flows through the expected life of the financial asset using all of the financial asset's contractual terms, rather than contractual cash flows.

Estimation is exercised in preparing and forecasting the future cash flows and may have an impact to the financial statements. The Group is required to reflect the actual cash and revised estimated cash flows whenever circumstances require the Group to revise its cash flow estimates and an adjustment to the carrying amount of the financial asset.

The assumptions used and estimates made can materially affect the carrying amount of the service concession receivables. The carrying amount of the Group's receivables arising from service concession arrangement at the end of the reporting period is disclosed in Note 6 to the financial statements.

If the actual cash flows differ by 10% from management estimates, the carrying amount of the service concession receivables will be increased/decreased by $319,000 (2017: $972,000) and correspondingly to profit or loss.

3 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

3.1 Critical accounting estimates and assumptions (Continued)

(d) Useful lives of property, plant and equipment

The estimated useful lives and recoverable amounts of property, plant and equipment are based on judgement and the best currently available information. Useful life is defined as the period over which an asset is expected to be available for use by the Group. An asset's useful life may be different than its physical life and the estimate of the useful life involves a significant degree of management judgement. The carrying amount and estimated useful life are reviewed annually by management, taking into considerations of physical, economic and commercial conditions. The carrying amount of the Group's property, plant and equipment at the end of the reporting period is disclosed in Note 8 to the financial statements. Changes in the expected level of usage and technological developments could impact the economic useful life and the residual value of the asset, therefore future depreciation charges could be revised.

If the actual useful lives of the property, plant and equipment differ by 10% from management estimates, the carrying amount of the property, plant and equipment will be an $803,000 (2017: $696,000) higher or lower.

(e) Impairment of trade receivables

As at 31 December 2018, the Group's trade receivables amounted to $104,868,000 (2017: $127,823,000) (Note 5), arising from the Group's different revenue segments – wholesale of building products, trading of paper products and power plant operations.

Based on the Group's historical credit loss experience, trade receivables exhibited significantly different loss patterns for each revenue segment. Management has determined the expected loss rates by grouping the receivables according to the category of internal credit rating of each segment. A loss allowance of $2,452,000 (2017: allowance for impairment of $870,000) (Note 5) for trade receivables was recognised as at 31 December 2018.

The Group's and the Company's credit risk exposure for trade receivables are set out in Note 37(i).

3 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

3.1 Critical accounting estimates and assumptions (Continued)

(f) *Current and deferred income tax*

The Group calculates current and deferred tax provisions for each of the jurisdictions in which it operates. Actual amounts of income tax expense are not final until tax returns are filed and accepted by the relevant authorities and ultimately until they are statute barred from reassessment. This occurs subsequent to the issuance of financial statements. Therefore, results in subsequent periods will be affected by the amount that estimates differ from the final tax filings, resolution of uncertain tax positions, open years or tax disputes that may arise.

The Group is required must make estimates and assumptions when assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the balance sheet. The Group also evaluates the recoverability of deferred tax assets based on an assessment of the likelihood of using the underlying future tax deductions against future taxable income before they expire. Deferred tax liabilities arising from temporary differences on investments in subsidiaries are recognised unless the reversal of the temporary differences is not expected to occur in the foreseeable future and can be controlled. Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates. These estimates and judgements are subject to risk and uncertainty and could result in an adjustment to the deferred tax provision and a corresponding credit or charge to profit or loss. New information may become available that causes the Group to change its judgement and estimates regarding the adequacy of provisions related to income and other taxes. Any changes will be recorded prospectively in the period that such determinations are made.

The Group's and the Company's unrecognised tax losses and capital allowances are set out in Note 23 to the financial statements.

(g) *Valuation of inventories*

Inventories are carried at the lower of cost and net realisable value, except for production consumables which are recorded at the lower of cost and replacement cost which approximates net realisable value. The Group reviews the ageing analysis of inventories at each balance sheet date, and obsolete and slow moving inventory items identified that are no longer suitable for sale are write-down. The net realisable value for such inventories are estimated based primarily on the latest product prices and current market conditions. The carrying amount of the Group's inventories is disclosed in Note 7 to the financial statements. If the net realisable value of the inventories were lower by 1%, the carrying amount of inventories will be decreased by $1,580,000 (2017: $1,382,000).

4 CASH AND CASH EQUIVALENTS

	Group			Company		
	31 December		1 January	31 December		1 January
	2018	2017	2017	2018	2017	2017
	$'000	$'000	$'000	$'000	$'000	$'000
Cash at bank and on hand	10,222	14,024	52,666	2,571	5,094	49,209
Short-term bank deposits	12,150	24,677	4,518	25	20,006	2,264
	22,372	38,701	57,184	2,596	25,100	51,473

Previously, the Group reflected the revolving credit facility of Taiga Building Products Ltd. and its subsidiary corporations ("**Taiga**") (Note 17) as part of cash and cash equivalents as it forms an integral part of Taiga's cash management and fluctuates directly as a result of cash flows from operating, investing and financing activities. In response to an agenda decision issued by the IFRS Interpretations Committee, Taiga has revised this presentation and now includes cash flows resulting from changes in the revolving credit facility balance within financing activities. The Group has reflected the same presentation with Taiga and comparative information has also been adjusted accordingly.

Cash and cash equivalents denominated in foreign currency other than the functional currencies of the Group's entities at balance sheet date are as follows:

	Group			Company		
	31 December		1 January	31 December		1 January
	2018	2017	2017	2018	2017	2017
	$'000	$'000	$'000	$'000	$'000	$'000
United States Dollar	5,388	7,423	49,498	1,915	4,546	48,758

Acquisition of subsidiary corporations

Please refer to Note 39 to the financial statements for the effects of acquisition of subsidiary corporations on the cash flows of the Group.

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5 TRADE AND OTHER RECEIVABLES

	Group			Company		
	31 December		1 January	31 December		1 January
	2018	2017	2017	2018	2017	2017
	$'000	$'000	$'000	$'000	$'000	$'000
Current trade and other receivables						
Trade receivables						
– non-related parties	104,868	127,823	12,441	17	176	113
Less: Loss allowance (Note 37(i))	(2,452)	(870)	(230)	–	–	–
Trade receivables – net	102,416	126,953	12,211	17	176	113
Non-trade amounts due from subsidiary corporations (Note 37(ix))	–	–	–	64,281	15,697	48,947
Loan to subsidiary corporations	–	–	–	81,236	75,952	4,522
Deposits	225	341	479	35	35	35
Prepayments	3,093	2,512	165	23	24	22
Other receivables						
– non-related parties	3,803	1,025	308	13	35	7
	7,121	3,878	952	145,588	91,743	53,533
	109,537	130,831	13,163	145,605	91,919	53,646
Non-current other receivables						
Loan to a subsidiary corporation	–	–	–	12,788	16,713	22,609
	109,537	130,831	13,163	158,393	108,632	76,255

Trade receivables of $91,098,000 (2017: $112,975,000) of the Group are pledged as security for the revolving credit facility of the Group (Note 17).

Trade receivables are non-interest bearing and are generally on 30 to 120 days' terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

The non-trade amounts due from subsidiary corporations are unsecured, interest-free and are repayable on demand.

Total current and non-current loan to a subsidiary corporation by the Company amounted to $17,050,000 (2017: $20,891,000) are unsecured, bears interest at 8% per annum and repayable in 8 equal annual instalments commencing on 28 February 2015. The remaining current portion of loan to subsidiary corporations by the Company are unsecured, bears interest at 11% per annum and repayable on demand except for $51,848,000 (2017: $Nil) are unsecured, interest-free and are repayable on demand.

5 TRADE AND OTHER RECEIVABLES (CONTINUED)

The fair value of the non-current loan to a subsidiary corporation is as follows:

	Company		
	31 December		1 January
	2018	2017	2017
	$'000	$'000	$'000
Loan to a subsidiary corporation	12,788	16,713	22,609

The fair value is determined from the cash flow analysis, discounted at effective interest rate of 8% (2017: 8%) which the management is of the opinion that is similar to the market interest rate for an instrument bearing the same risk profile and characteristics at the end of the reporting period. The fair value is within Level 2 of the fair value hierarchy.

Trade and other receivables denominated in foreign currencies other than the functional currencies of the Group's entities at balance sheet date are as follows:

	Group			Company		
	31 December		1 January	31 December		1 January
	2018	2017	2017	2018	2017	2017
	$'000	$'000	$'000	$'000	$'000	$'000
United States Dollar	1,826	5,249	533	15,097	22,204	37,518
Canadian Dollar	–	–	–	86,621	78,897	–

6 SERVICE CONCESSION RECEIVABLES

	Group		
	31 December		1 January
	2018	2017	2017
	$'000	$'000	$'000
Current portion	16,232	15,910	17,219
Non-current portion	24,622	28,608	38,109
	40,854	44,518	55,328

During the financial year, the Group recognised finance income of $4,854,000 (2017: $5,892,000) as revenue from service concession arrangement (Note 27). The effective interest rate applied is 12% (2017: 12%) per annum.

The fair value of the non-current portion of service concession receivables approximates its carrying value.

The service concession receivables are denominated in the functional currency of the subsidiary corporation, i.e. United States Dollar.

6 SERVICE CONCESSION RECEIVABLES (CONTINUED)

Service concession arrangement

In 2014, the Group through its subsidiary corporation has entered into a service concession arrangement with Electric Power Generation Enterprise ("**EPGE**"), a governmental body of the Republic of the Union of Myanmar (the grantor) to provide electricity generated by it to EPGE on a take or pay and Build-Operate-Transfer ("**BOT**") basis.

Under the service concession arrangement, the Group is responsible for the construction of the gas-fired electricity generating power plant (the "**plant**") in Ywama (Yangon), Myanmar. Upon completion of the construction, the Group is responsible for operating the plant and sale of electrical energy generated by it to EPGE, the off-taker. The concession period for the plant is 30 years. During the concession period, the Group receives guaranteed minimum annual payments from EPGE. These guaranteed minimum annual payments are recognised as financial receivables to the extent that the Group has contractual rights under the concession arrangements. The financial receivables are measured on initial recognition at their fair value.

The service concession agreement contains a renewal option. Subject to the terms and conditions of the service concession arrangement, the Group and EPGE have the right to terminate the agreement. At the end of the concession period, the title to the plant will be transferred to EPGE.

The counterparty of the above service concession arrangement is a governmental body in the Republic of the Union of Myanmar. Management is of the view that the associated credit risk is not significant.

7 INVENTORIES

	Group		
	31 December		1 January
	2018	2017	2017
	$'000	$'000	$'000
Building products:			
– Allied building products	27,719	26,513	–
– Lumber products	94,673	78,357	–
– Panel products	26,088	25,827	–
Paper products:			
– Finished goods	5,545	4,075	2,870
– Raw materials	2,050	2,181	1,768
Work-in-progress	7	13	8
Production consumables	1,873	1,205	636
	157,955	138,171	5,282

The cost of inventories recognised as an expense and included in "cost of sales" amounted to $25,932,000 (2017: $30,213,000). The Group has recognised a write-down on its slow-moving inventories amounting to $2,235,000 (2017: $1,170,000) (Note 29).

Inventories of $149,784,000 (2017: $131,302,000) of the Group are pledged as security for the revolving credit facility of the Group (Note 17).

8 PROPERTY, PLANT AND EQUIPMENT

	Freehold Land $'000	Leasehold Land, Buildings and Leasehold improvements $'000	Treating Equipment, Warehouse Equipment and Plant and Machinery $'000	Furniture, Fixtures and Office Equipment $'000	Motor Vehicles $'000	Computer System and License $'000	Total $'000
Group							
2018							
Cost							
Beginning of financial year	9,625	49,290	63,897	2,458	1,593	5,263	132,126
Acquisition of a subsidiary corporation (Note 39)	–	5,826	5,022	382	–	–	11,230
Additions	–	1,551	1,772	495	549	1,173	5,540
Disposals	–	(80)	(326)	(245)	(519)	–	(1,170)
Written off	–	–	(94)	(2)	–	–	(96)
Currency translation differences	(35)	(1,130)	511	(2)	(1)	(331)	(988)
End of financial year	9,590	55,457	70,782	3,086	1,622	6,105	146,642
Accumulated depreciation							
Beginning of financial year	–	7,929	28,679	1,400	1,258	791	40,057
Charge for the financial year (Note 29)	–	3,097	3,444	348	145	996	8,030
Disposals	–	(80)	(312)	(203)	(519)	–	(1,114)
Written off	–	–	(94)	(2)	–	–	(96)
Currency translation differences	–	241	(104)	17	(1)	(80)	73
End of financial year	–	11,187	31,613	1,560	883	1,707	46,950
Net Book Value							
End of financial year	9,590	44,270	39,169	1,526	739	4,398	99,692

8 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Freehold Land $'000	Leasehold Land, Buildings and Leasehold improvements $'000	Treating Equipment, Warehouse Equipment and Plant and Machinery $'000	Furniture, Fixtures and Office Equipment $'000	Motor Vehicles $'000	Computer System and License $'000	Total $'000
Group							
2017							
Cost							
Beginning of financial year	3,668	16,355	56,736	1,353	1,584	–	79,696
Acquisition of a subsidiary corporation (Note 39)	6,108	32,475	4,034	687	–	4,573	47,877
Additions	–	888	2,082	505	202	831	4,508
Disposals	–	(113)	(321)	(61)	(222)	–	(717)
Written off	–	–	–	(51)	–	–	(51)
Currency translation differences	(151)	(315)	1,366	25	29	(141)	813
End of financial year	9,625	49,290	63,897	2,458	1,593	5,263	132,126
Accumulated depreciation							
Beginning of financial year	–	4,960	25,100	1,157	1,284	–	32,501
Charge for the financial year (Note 29)	–	2,830	2,901	270	176	786	6,963
Disposals	–	(10)	(8)	(10)	(222)	–	(250)
Written off	–	–	–	(51)	–	–	(51)
Currency translation differences	–	149	686	34	20	5	894
End of financial year	–	7,929	28,679	1,400	1,258	791	40,057
Net Book Value							
End of financial year	9,625	41,361	35,218	1,058	335	4,472	92,069

8 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Furniture, Fixtures, and Office Equipment $'000	Motor Vehicles $'000	Total $'000
Company			
2018			
Cost			
Beginning of financial year	71	430	501
Additions	6	435	441
Disposals	–	(430)	(430)
Written off	(3)	–	(3)
End of financial year	74	435	509
Accumulated depreciation			
Beginning of financial year	63	430	493
Charge for the financial year	12	14	26
Disposals	–	(430)	(430)
Written off	(3)	–	(3)
End of financial year	72	14	86
Net book value			
End of financial year	2	421	423
2017			
Cost			
Beginning of financial year	64	430	494
Additions	12	–	12
Written off	(5)	–	(5)
End of financial year	71	430	501
Accumulated depreciation			
Beginning of financial year	59	358	417
Charge for the financial year	9	72	81
Written off	(5)	–	(5)
End of financial year	63	430	493
Net book value			
End of financial year	8	–	8

8 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The computer system and license include costs associated with upgrading projects that relate to the computer system placed into service in February 2011. As of 31 December 2018, the development costs of the upgrading projects that are not ready for use were $427,000 (2017: $693,000). No depreciation has been recognised on the components that are not ready for use.

Included within additions in the consolidated financial statements are treating equipment, warehouse equipment and plant and machinery acquired under finance leases amounting to $561,000 (2017: $985,000).

The net book value of leasehold land, buildings and improvements, treating equipment, warehouse equipment and plant and machinery held under finance leases are $17,267,000 (2017: $20,290,000) and $1,184,000 (2017: $1,452,000) (Note 19) respectively at the balance sheet date. Title of leased assets remains with the lessor.

Included in treating equipment, warehouse equipment and plant and machinery is the balance of the construction fund that was recognised on the acquisition of Exterior Wood, Inc., which at 31 December 2018 was $2,245,000. This amount, plus other construction-in-progress of $3,055,000, is not yet subject to depreciation.

Bank borrowings of $28,860,000 (2017: $1,086,000) (Note 18) are secured partially by the freehold land and leasehold buildings of one of the Group's subsidiary corporations with net book value of $1,060,000 (2017: $1,127,000) and $1,346,000 (2017: $1,517,000) respectively.

9 FINANCIAL ASSET, AVAILABLE-FOR-SALE

	Group	
	2018	**2017**
	$'000	**$'000**
Listed equity security – Malaysia		
Beginning of financial year	3,267	3,458
Reclassification at 1 January 2018* (Note 10)	(3,267)	–
Fair value losses recognised in other comprehensive income	–	(191)
End of financial year	–	3,267

* See Note 2.2 for details of reclassification as at 1 January 2018 on adoption of SFRS(I) 9.

Financial asset, available-for-sale is denominated in the foreign currency other than the functional currency of the subsidiary corporation, i.e. Malaysian Ringgit.

10 FINANCIAL ASSET, AT FVOCI

	Group	
	2018	2017
	$'000	$'000
Listed equity security – Classic Scenic Berhad (Malaysia)		
Beginning of financial year	–	–
Reclassification at 1 January 2018* (Note 9)	3,267	–
Fair value losses	(1,109)	–
End of financial year	2,158	–

* See Note 2.2 for details of reclassification as at 1 January 2018 on adoption of SFRS(I) 9.

Financial asset, at FVOCI is denominated in the foreign currency other than the functional currency of the subsidiary corporation, i.e. Malaysian Ringgit.

The Group has elected to measure this equity security at FVOCI due to the Group's intention to hold this equity instrument for long-term appreciation.

The Group recognised dividend income of $139,000 (2017: $194,000) from the listed equity security during the financial year (Note 28).

11 FINANCIAL ASSET, AT FVPL

	Group and Company	
	2018	2017
	$'000	$'000
Unlisted equity security – Singapore		
Beginning of financial year	–	–
Additions	500	–
End of financial year	500	–

The Group has classified this equity security at FVPL upon initial recognition and assessed the fair value at the balance sheet date to be approximate the initial cost of investment in view that the investment was recently made during the financial year.

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

12 INVESTMENTS IN SUBSIDIARY CORPORATIONS

	Company 2018 $'000	Company 2017 $'000
Equity investments at cost		
Beginning of financial year	20,533	15,694
Additions	14,593	4,839
End of financial year	35,126	20,533

The Group has the following subsidiary corporations as at 31 December 2018 and 2017 and 1 January 2017:

Name of companies	Country of business/ incorporation	Principal activities	Proportion of ordinary shares held by the Group 31 December 2018 %	Proportion of ordinary shares held by the Group 31 December 2017 %	Proportion of ordinary shares held by the Group 1 January 2017 %	Proportion of ordinary shares held by non-controlling interests 31 December 2018 %	Proportion of ordinary shares held by non-controlling interests 31 December 2017 %	Proportion of ordinary shares held by non-controlling interests 1 January 2017 %
Held by the Company								
(1)UPP Industries Pte. Ltd.	Singapore	Investment holding, rental and management of property	100	100	100	–	–	–
(1)UPP Greentech Pte. Ltd.	Singapore	Investment holding	100	100	100	–	–	–
(1)Avarga Investment Pte. Ltd. (Formerly known as UPP Investment Pte. Ltd.)	Singapore	Investment holding	100	100	100	–	–	–
(3)Avarga Canada Limited (Formerly known as UPP Investments Canada Limited)	Canada	Investment holding	–	*	100	–	–	–
(3)(5)UPP Investments Luxembourg S.à.r.l.	Luxembourg	Investment holding	100	100	–	–	–	–
(3)(8)Kublai Canada Limited	Canada	Investment holding	100	–	–	–	–	–

12 INVESTMENTS IN SUBSIDIARY CORPORATIONS (CONTINUED)

Name of companies	Country of business/ incorporation	Principal activities	Proportion of ordinary shares held by the Group			Proportion of ordinary shares held by non-controlling interests		
			31 December 2018 %	31 December 2017 %	1 January 2017 %	31 December 2018 %	31 December 2017 %	1 January 2017 %
Held through subsidiary corporations								
[2]Avarga (M) Sdn. Bhd. (Formerly known as UPP Capital (M) Sdn. Bhd.)	Malaysia	Investment holding	100	100	100	–	–	–
[2]UPP Pulp & Paper (M) Sdn. Bhd.	Malaysia	Manufacture and sale of paper products and trading in recycled fibre	100	100	92.8	–	–	7.2
[2]UPP Recycled Fibre (M) Sdn. Bhd.	Malaysia	Dormant	100	100	92.8	–	–	7.2
[3]UPP-MSP Engineering Limited**	Myanmar	Dormant	75	75	75	25	25	25
[3]UPP Power (Myanmar) Limited	Myanmar	Design, operate and maintain power plants for electricity generation and sell the electricity produced to the Myanmar Government	100	100	100	–	–	–
[3]Avarga Canada Limited (Formerly known as UPP Investments Canada Limited)	Canada	Investment holding	100	*100	–	–	–	–
[4][6][7]Taiga Building Products Ltd. and its subsidiary corporations	Canada	Independent wholesale distributor of building products	65.5	49.0	–	34.5	51.0	–

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

12 INVESTMENTS IN SUBSIDIARY CORPORATIONS (CONTINUED)

* The Company has transferred its entire shareholdings in Avarga Canada Limited (formerly known as UPP Investments Canada Limited) to UPP Investments Luxembourg S.à.r.l., another wholly-owned subsidiary corporation of the Company in February 2017.

** On 12 March 2019, the subsidiary corporation was wound up voluntarily pursuant to Section 346 of the Myanmar Companies Act.

(1) Audited by Nexia TS Public Accounting Corporation, Singapore, a member firm of Nexia International.

(2) Audited by SSY Partners Chartered Accountants, Malaysia, a member firm of Nexia International.

(3) Reviewed by Nexia TS Public Accounting Corporation for consolidation purposes.

(4) Audited by Dale Matheson Carr-Hilton Labonte, LLP, Vancouver, an independent member firm associated with Moore Stephens International Limited.

(5) Incorporated on 20 January 2017.

(6) Acquired during the financial year ended 31 December 2017. The Group's shareholding has decreased from 58.34% as at acquisition date to 49.0% as at financial year ended 31 December 2017 as a result of the completion of the Exchange Offer (Note 22). Subsequently, the Group further acquired 15.9% of the issued shares of Taiga and Taiga reacquired some of its ownership interests during the financial year. Thus resulted in the increase in the Group's shareholding in Taiga to 65.5% as at 31 December 2018.

(7) Deemed to be a subsidiary corporation as the Group has de facto control over Taiga Building Products Ltd. and its subsidiary corporations as at 31 December 2017.

(8) Acquired during the financial year ended 31 December 2018.

Carrying value of non-controlling interests

	31 December 2018 $'000	31 December 2017 $'000 (Restated)	1 January 2017 $'000
Taiga Building Products Ltd. and its subsidiary corporations	48,021	63,877	–
Other subsidiary corporations with immaterial non-controlling interests	9	11	4,945
Total	48,030	63,888	4,945

Summarised financial information of a subsidiary corporation with material non-controlling interests

Set out below are the summarised financial information for a subsidiary corporation that has non-controlling interests that are material to the Group. This is presented before inter-company eliminations.

Taiga Building Products Ltd. and its subsidiary corporations

Summarised balance sheet as at 31 December

	2018 $'000	2017 $'000 (Restated)
Current		
Assets	247,417	247,433
Liabilities	(138,770)	(144,864)
Total current net assets	108,647	102,569
Non-current		
Assets	125,681	94,988
Liabilities	(76,638)	(50,520)
Total non-current net assets	49,043	44,468
Net assets	157,690	147,037

12 INVESTMENTS IN SUBSIDIARY CORPORATIONS (CONTINUED)

Summarised statement of comprehensive income for the financial year/period ended 31 December

	2018 $'000	2017 $'000 (Restated)
Revenue	1,506,267	1,389,174
Profit/(loss) before income tax	25,564	(9,504)
Income tax expense	(7,775)	(9,206)
Profit/(loss) after tax – continuing operations	17,789	(18,710)
Other comprehensive income/(loss)	3,568	(861)
Total comprehensive income/(loss)	21,357	(19,571)
Total comprehensive income/(loss) allocated to non-controlling interests	10,478	(10,565)
Dividends paid to non-controlling interests	–	–

Summarised cash flows for the financial year/period ended 31 December

	2018 $'000	2017 $'000 (Restated)
Net cash generated from operating activities	35,120	44,051
Net cash used in investing activities	(59,251)	(1,652)
Net cash generated from/(used in) financing activities	24,132	(42,399)

Transaction with non-controlling interests

For the financial year ended 31 December 2018:

Acquisition of additional interest in a subsidiary corporation

On 28 September 2018, the Company acquired additional 15.9% of the issued shares of Taiga for a purchase consideration of C$27,691,000 (approximately $29,102,000), by a combination of cash in the amount of C$8,804,000 (approximately $9,253,000) and the issuance of 73,439,000 shares at an issue price of $0.26 per share (Note 24). The Group now holds 65.1% of the equity share capital of Taiga. The carrying amount of the non-controlling interests in Taiga on the date of acquisition was $75,104,000. The Group derecognised non-controlling interests of $23,584,000 and recorded a decrease in equity attributable to owners of the Company of $5,518,000. The effect of changes in the ownership interest of Taiga on the equity attributable to owners of the Company during the financial year is summarised as follows:

	2018 $'000
Carrying amount of non-controlling interests acquired	23,584
Consideration transferred to non-controlling interests	(29,102)
Decrease in equity attributable to owners of the Company	(5,518)

12 INVESTMENTS IN SUBSIDIARY CORPORATIONS (CONTINUED)

Transaction with non-controlling interests (Continued)

For the financial year ended 31 December 2018 (Continued)**:**

Deemed acquisition of additional interest in a subsidiary corporation

During the financial year, Taiga acquired 1,259,471 (2017: Nil) shares of its own in the open market for cash consideration of C$1,658,000 (approximately $1,684,000). This resulted in a decrease in non-controlling interests of $711,000 and a decrease in equity attributable to owners of the Company of $973,000. The effect of the Taiga treasury share transaction is summarised as follows:

	2018 **$'000**
Carrying amount of non-controlling interests deemed acquired	711
Consideration transferred to non-controlling interests	(1,684)
Decrease in equity attributable to owners of the Company	(973)

For the financial year ended 31 December 2017:

Acquisition of additional interest in a subsidiary corporation

On 9 March 2017, UPP Industries Pte. Ltd., a wholly-owned subsidiary corporation of the Company acquired the remaining 7.2% of the issued shares of UPP Pulp & Paper (M) Sdn. Bhd. ("**UPP Paper**") for a purchase consideration of $4,862,000. The Group now holds 100% of the equity share capital of UPP Paper. The carrying amount of the non-controlling interests in UPP Paper on the date of acquisition was $4,897,000. The Group derecognised non-controlling interests of $4,897,000 and recorded an increase in equity attributable to owners of the Company of $35,000. The effect of changes in the ownership interest of UPP Paper on the equity attributable to owners of the Company during the financial year is summarised as follows:

	2017 **$'000**
Carrying amount of non-controlling interests acquired	4,897
Consideration transferred to non-controlling interests	(4,862)
Increase in equity attributable to owner of the Company	35

12 INVESTMENTS IN SUBSIDIARY CORPORATIONS (CONTINUED)

Transaction with non-controlling interests (Continued)

For the financial year ended 31 December 2017 (Continued)**:**

Deemed disposal of interest in a subsidiary corporation

On 17 November 2017, the Group through its subsidiary corporation, Taiga, completed an exchange offer (the "**Exchange Offer**"), to purchase any and all of its outstanding 14% unsecured subordinated notes (the "**Existing Notes**") in exchange for new 7% senior notes of Taiga due 5 years from the date of issuance, common shares of Taiga at a rate of 833.33 Common Share for each C$1,000 principal amount of Existing Notes, or any combination of the foregoing at the option of the holder. Following the completion of the Exchange Offer, the Group's equity interest in Taiga decreased from 58.34% to 49.0% as at 31 December 2017. The carrying amount of the non-controlling interests in Taiga on the date of disposal was net assets of $933,000 (representing 41.66% interest). The net assets represent Taiga's financial position before the completion of the Exchange Offer (Note 22). This resulted in an increase in non-controlling interests of $64,199,000 and an increase in equity attributable to owners of the Company of $5,144,000. The effect of changes in the ownership interest in Taiga on the equity attributable to owners of the Company during the financial year is summarised as follows:

	2017 **$'000**
Carrying amount of interests in a subsidiary corporation disposed of	(64,199)
Deemed consideration received from non-controlling interests	69,343
Increase in equity attributable to owners of the Company	5,144

13 ASSETS HELD-FOR-SALE

	Leasehold Land and Building $'000	Plant and Machinery $'000	Furniture, Fixtures and Office Equipment $'000	Motor Vehicles $'000	Total $'000
Group					
2018					
Cost					
Beginning and end of financial year	10,545	–	–	–	10,545
Accumulated depreciation					
Beginning and end of financial year	2,803	–	–	–	2,803
Net book value					
End of financial year	7,742	–	–	–	7,742
2017					
Cost					
Beginning of financial year	11,355	42	9	62	11,468
Disposal	(810)	(42)	(9)	(62)	(923)
End of financial year	10,545	–	–	–	10,545
Accumulated depreciation					
Beginning of financial year	2,889	19	5	61	2,974
Disposal	(86)	(19)	(5)	(61)	(171)
End of financial year	2,803	–	–	–	2,803
Net book value					
End of financial year	7,742	–	–	–	7,742

13 ASSETS HELD-FOR-SALE (CONTINUED)

The details of the Group's assets held-for-sale are as follows:

Location	Descriptions	Tenure
35 Tuas View Crescent Singapore 637608	Office and factory[1]	Leasehold with 30 years lease expiring 1 December 2029 with an option for a further term of 30 years.
3, Persiaran Sungai Chua Pusat Perindustrian Sungai Chua 43000 Kajang, Selangor Malaysia	Office and factory[2]	Leasehold with 99 years commencing from 23 November 2007

[1] The Group has on 20 July 2018 granted an Option to Purchase (the "**Option**") to a prospective buyer to purchase the property at 35 Tuas View Crescent Singapore 637608 at the price of $18,600,000. The Purchaser has exercised the Option on 2 August 2018. The disposal was completed subsequently on 28 January 2019.

[2] The disposal was completed during the financial year 2017 and a gain on disposal of asset held-for-sale amounted to $1,161,000 was recognised in the consolidated statement of comprehensive income (Note 28).

14 INTANGIBLE ASSETS

	Group		
	31 December		1 January
	2018	2017	2017
	$'000	$'000	$'000
Composition			
Goodwill (Note (a))	31,895	22,538	–
Customers relationships and brand name (Note (b))	33,813	20,306	–
Favourable lease terms (Note (c))	5,354	6,819	–
	71,062	49,663	–

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

14 INTANGIBLE ASSETS (CONTINUED)

(a) Goodwill

	Group	
	2018	**2017**
	$'000	**$'000**
Cost		
Beginning of financial year	22,538	–
Acquisition of a subsidiary corporation (Note 39)	10,689	22,919
Currency translation differences	(1,332)	(381)
End of financial year	31,895	22,538
Accumulated impairment		
Beginning and end of financial year	–	–
Net book value		
End of financial year	31,895	22,538

Included in the goodwill as at 31 December 2018 was an amount of $10,689,000 arising from the Group's acquisition of Exterior Wood, Inc. ("**EWI**") on 31 July 2018 as described in Note 39.

On 31 January 2017, the Company through its wholly-owned subsidiary corporation, Avarga Canada Limited (formerly known as UPP Investments Canada Limited) acquired 58.34% interest in Taiga Building Products Ltd. ("**Taiga**"), a public company incorporated in Canada and listed on the Toronto Stock Exchange for a cash consideration of C$18,908,208. The purchase price allocation ("**PPA**") exercise in respect of the acquisition of Taiga has been carried out and finalised on 29 January 2018. A goodwill of $22,919,000 was recognised as at date of acquisition. The goodwill was translated at the prevailing exchange rate which amounted to $21,205,000 as at 31 December 2018.

Impairment test for goodwill

Goodwill is allocated to the Group's cash-generating units ("**CGUs**") identified according to countries of operation and business segments.

Out of the total goodwill of $31,895,000, goodwill allocated to a CGU in the building products for United States amounted to $10,690,000 (2017: $Nil). The Group performed its impairment testing by comparing the carrying value of the CGU against its fair value less cost of disposal. The carrying value of the CGU has been determined by taking the net asset value of its cash generating assets and the goodwill attributable to the CGU. Because the acquisition of EWI took place just five months prior to the balance sheet date, fair value was determined based on the consideration paid after considering the effect of changes in economic circumstance since acquisition. Based on the impairment test, the fair value less cost of disposal of the CGU exceeded its carrying amount. As a result, no provision for allowance of goodwill was provided. There is a material degree of uncertainty with respect to the estimates of the recoverable amount of the CGU's net assets.

14 INTANGIBLE ASSETS (CONTINUED)

(a) Goodwill (Continued)

Impairment test for goodwill (Continued)

The remaining goodwill have been allocated to a CGU in the building products for Canada. The recoverable amount of the CGU was determined based on value-in-use calculation using cash flow projections from financial budgets approved by management covering a five-year period. The pre-tax discount rate applied to the cash flow projections, forecasted growth margin and the forecasted growth rates used to extrapolate cash flow projections beyond the five-year period were 4.9%, 8.8% and 2.0% respectively. Based on the impairment test, the value-in-use of the CGU exceeded its carrying amounts. As a result, no allowance for impairment of goodwill was provided. There is a material degree of uncertainty with respect to the estimates of the recoverable amount of the CGU's net assets.

The Group has assessed that any reasonably possible change in the key assumptions used in the fair value less cost to disposal and value-in-use calculation would not result in the carrying amount of the CGU to exceed its recoverable amount.

(b) Customers relationships and brand name

	Group	
	2018	**2017**
	$'000	**$'000**
Cost		
Beginning of financial year	23,365	–
Acquisition of a subsidiary corporation (Note 39)	18,219	23,760
Currency translation differences	(1,256)	(395)
End of financial year	40,328	23,365
Accumulated amortisation		
Beginning of financial year	3,059	–
Amortisation charge	3,743	3,048
Currency translation differences	(287)	11
End of financial year	6,515	3,059
Net book value		
End of financial year	33,813	20,306

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14 INTANGIBLE ASSETS (CONTINUED)

(c) Favourable lease terms

	Group	
	2018	2017
	$'000	$'000
Cost		
Beginning of financial year	8,027	–
Acquisition of a subsidiary corporation (Note 39)	–	8,163
Currency translation differences	(474)	(136)
End of financial year	7,553	8,027
Accumulated amortisation		
Beginning of financial year	1,208	–
Amortisation charge	1,102	1,204
Currency translation differences	(111)	4
End of financial year	2,199	1,208
Net book value		
End of financial year	5,354	6,819

(d) Amortisation expense included in the statement of comprehensive income is analysed as follows:

	Group	
	2018	2017
	$'000	$'000
Administrative expenses (Note 29)	4,845	4,252

15 TRADE AND OTHER PAYABLES

	Group			Company		
	31 December		1 January	31 December		1 January
	2018	2017	2017	2018	2017	2017
	$'000	$'000	$'000	$'000	$'000	$'000
Trade payables						
– non-related parties	35,691	46,288	3,706	–	–	–
Accrued operating expenses	29,387	37,191	1,684	1,630	1,547	833
Other payables						
– non-related parties	304	225	287	55	79	78
Provisions (Note 21)	473	475	–	–	–	–
	65,855	84,179	5,677	1,685	1,626	911

15 TRADE AND OTHER PAYABLES (CONTINUED)

Trade and other payables denominated in foreign currencies other than the functional currencies of the Group's entities at balance sheet date are as follows:

	Group			Company		
	31 December		1 January	31 December		1 January
	2018	2017	2017	2018	2017	2017
	$'000	$'000	$'000	$'000	$'000	$'000
United States Dollar	5,228	3,119	617	113	142	172
Canadian Dollar	693	693	–	698	693	–

16 DERIVATIVE FINANCIAL INSTRUMENTS

	Group		
	31 December		1 January
	2018	2017	2017
	$'000	$'000	$'000
Financial assets/(liabilities) at fair value through profit or loss which are held for trading			
– Lumber futures contract	56	(38)	–

The Group selectively utilises Chicago Mercantile Exchange Random Length lumber futures contracts. Each contract calls for mill delivery of 110,000 board feet (plus or minus 5,000 board feet) of random length 8-foot to 20-foot nominal 2-inch x 4-inch pieces. The contracts can be settled in cash or by delivery of a commodity.

17 REVOLVING CREDIT FACILITY

	Group		
	31 December		1 January
	2018	2017	2017
	$'000	$'000	$'000
Revolving credit facility	66,140	58,570	–
Financing costs, net of amortisation	(1,460)	(290)	–
	64,680	58,280	–

The Group renewed its senior credit facility with a syndicate of lenders led by JPMorgan Chase Bank on 28 June 2018 (the "**Facility**"). The Facility was increased from C$225 million to C$250 million, with an option to increase the limit by up to C$50 million. The Facility also features an ability to draw on additional term loans in an aggregate amount of approximately C$23 million at favourable rates, which the Group's significant subsidiary corporation, Taiga, utilised for business acquisition referred to in Note 39. The Facility continues to bear interest at variable rates plus variable margins, is secured by a first perfected security interest in all personal property of Taiga and certain of its subsidiary corporations, and will mature on 28 June 2023. Taiga's ability to borrow under the Facility is based upon a defined percentage of accounts receivables and inventories. The terms, conditions, and covenants of the Facility have been met as at 31 December 2018 and 2017.

The Group's revolving credit facility includes an amount of $1,871,000 (2017: $754,000) denominated in the foreign currency other than the functional currency of the subsidiary corporation, i.e. United States Dollar.

The fair value of the revolving credit facility approximates its carrying amount as this liability bears interest at variable market rate.

18 BANK BORROWINGS

	Group		
	31 December		1 January
	2018	2017	2017
	$'000	$'000	$'000
Current	29,739	34,086	–
Non-current	28,621	10,500	–
Total borrowings	58,360	44,586	–

The exposure of the bank borrowings of the Group to interest rate changes and the contractual repricing dates at the balance sheet date are as follows:

	Group		
	31 December		1 January
	2018	2017	2017
	$'000	$'000	$'000
6 months or less	58,360	44,586	–

Security granted

Total borrowings include secured liabilities of $28,860,000 (2017: $1,086,000) for the Group. These borrowings are secured partially by the freehold land and leasehold buildings of one of the Group's subsidiary corporations (Note 8).

Fair value of non-current borrowings

The fair values of the bank borrowings approximate their carrying amounts as these liabilities bear interest at variable financial market rates.

Loan covenants

Some of the Group's loan arrangements are subject to covenant clauses, whereby the Group is required to meet certain key financial ratios.

Bank borrowings denominated in foreign currency other than the functional currencies of the Group's entities at balance sheet date are as follows:

	Group		
	31 December		1 January
	2018	2017	2017
	$'000	$'000	$'000
United States Dollar	28,860	1,086	–

19 FINANCE LEASE LIABILITIES

The Group leases certain buildings and operating equipment from non-related parties under finance leases. Lease payments represent blended payments consisting of principal and interest based on interest rates ranging from 5.6% to 8.4% (2017: 2.5% to 8.4%).

	Group		
	31 December		1 January
	2018	2017	2017
	$'000	$'000	$'000
Minimum lease payments due over the lives of the finance leases:			
– Not later than one year	3,998	4,213	–
– Between one and five years	13,827	14,982	–
– Later than five years	14,063	18,242	–
	31,888	37,437	–
Less: Future finance charges	(8,903)	(11,113)	–
Present value of finance lease liabilities	22,985	26,324	–

The present values of finance lease liabilities are analysed as follows:

	Group		
	31 December		1 January
	2018	2017	2017
	$'000	$'000	$'000
Current			
– Not later than one year	2,498	2,490	–
Non-current			
– Between one and five years	9,411	9,683	–
– Later than five years	11,076	14,151	–
	20,487	23,834	–
Total	22,985	26,324	–

Finance lease liabilities of the Group are effectively secured over the leased assets (Note 8), as the legal title is retained by the lessor and will be transferred to the Group upon full settlement of the finance lease liabilities.

Interest expense related to finance lease liabilities for the financial year ended 31 December 2018 amounted to $1,674,000 (2017: $1,688,000).

The fair value of the finance lease liabilities amounted to $22,953,000 (2017: $26,249,000). This fair value was determined using current borrowing rates for similar debt instruments. The fair value is within Level 2 of the fair value hierarchy.

20 DEFERRED GAIN

The deferred gain relates to proceeds in excess of the net book value of certain buildings sold in the sale and leaseback transactions completed by Taiga prior to the Group's acquisition on 31 January 2017. The deferred gain is amortised over the lease terms of the buildings, which are being accounted for as finance leases. Amortisation for the financial year ended 31 December 2018 amounted to $398,000 (2017: $374,000) is included in "Other (losses)/gains, net – Others" (Note 28).

21 PROVISIONS

The following table summarises the movements in the provisions:

	Lease $'000	Warranty $'000	Other $'000	Total $'000
<u>Group</u>				
2018				
Beginning of financial year	901	382	30	1,313
Provision (utilised)/made	(132)	24	(29)	(137)
Amortisation of discount	42	–	–	42
Currency translation differences	(51)	(24)	(1)	(76)
End of financial year	760	382	–	1,142
Included in trade and other payables (Note 15)	(91)	(382)	–	(473)
Non-current provisions	669	–	–	669
2017				
Beginning of financial year	–	–	–	–
Acquisition of a subsidiary corporation (Note 39)	996	535	604	2,135
Provision utilised	(124)	(143)	(563)	(830)
Amortisation of discount	46	–	–	46
Currency translation differences	(17)	(10)	(11)	(38)
End of financial year	901	382	30	1,313
Included in trade and other payables (Note 15)	(93)	(382)	–	(475)
Non-current provisions	808	–	30	838

<u>Lease Provision</u>
In September 2009, Taiga consolidated its warehouse operations in the Greater Toronto Area by closing a warehouse in Brampton and migrating this operation into its warehouse in Milton. The Brampton warehouse was a leased property, and the land component was accounted for as an operating lease. Taiga recorded a provision relating to this property, being the present value of the unavoidable net costs of exiting the lease. The final transaction to exit the lease was completed on 31 May 2012; however, there is a requirement to make ongoing payments to the lessor relating to this transaction which is reflected in the provision. The present value was determined using a pre-tax discount rate of 5.14%.

21 PROVISIONS (CONTINUED)

Warranty Provision

Provision for warranty is recognised for future potential warranty claims on faulty products which is calculated using historical trends and future expectations of future claims. Adjustments to the warranty provision are included in cost of sales. Actual future warranty costs may differ from those estimates.

22 SUBORDINATED NOTES

Per the Trust Indenture dated 17 November 2017 (the "**Indenture**"), the Group's 7% senior notes ("**Senior Notes**") are unsecured, bear interest at 7% per annum and mature on 17 November 2022. The Senior Notes are not listed on any stock exchange. Interest on the Senior Notes is payable on 17 May and 17 November of each year. The aggregate principal amount of the Senior Notes that may be issued under the Indenture is unlimited. The terms, conditions and covenants of the Indenture have been met during the financial years ended 31 December 2018 and 2017.

The fair values of the Senior Notes are the same as their carrying amounts as the interest rates were determined by management using current borrowing rate for similar debt instruments.

Prior to 1 January 2018

On 31 January 2017, an aggregate of C$128,834,000 principal amount of 14% unsecured subordinated notes ("**Taiga Notes**") were acquired as part of a business combination. Fair value of the Taiga Notes as at date of acquisition was C$148,159,000, approximate to $160,456,000 (Note 39). Upon completion of the sale and purchase of Taiga's common shares, the Group acquired C$46,009,000 principal amount of Taiga Notes, fair value at C$52,910,000, approximate to $57,302,000, represents 35.71% of the total outstanding Taiga Notes.

On 17 November 2017, the Group through its subsidiary corporation, Taiga completed an exchange offer (the "**Exchange Offer**"), to purchase any and all of its outstanding 14% unsecured subordinated notes (the "**Existing Notes**") in exchange for new Senior Notes of Taiga (the "**New Notes**") due 5 years from the date of issuance (the "**Note Option**"), common shares of Taiga ("**Common Shares**") at a rate of 833.33 Common Share for each C$1,000 principal amount of Existing Notes (the "**Share Option**"), or any combination of the Note Option and the Share Option as determined by the holders of the Existing Taiga Notes. As a result of the Exchange Offer, an aggregate of C$113,791,000 principal amount of Existing Notes were exchanged, representing approximately 88.4% of the Existing Notes outstanding. Holders of Existing Notes who participated in the Exchange Offer elected to exchange their Existing Notes for an aggregate of C$12,500,000 principal amount of New Notes and 84,408,831 Common Shares.

On 23 December 2017, all of the remaining 14% Existing Notes in the aggregate principal amount of C$15,043,000 were redeemed for a redemption price of 100% of the principal amount of the Existing Notes, plus accrued and unpaid interest.

Consequently, a gain on extinguishment of subordinated notes of $2,420,000 was recognised by the Group (Note 28) for the financial year ended 31 December 2017.

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22 SUBORDINATED NOTES (CONTINUED)

Prior to 1 January 2018 (Continued)

The Group elected to exchange the Existing Notes owned for Common Shares and following the completion of the Exchange Offer, the Group received 38,339,847 Common Shares, which together with the currently held Taiga shares, represent 49.0% of the enlarged share capital of Taiga. Consequently, the Group's shareholdings in Taiga decreased from 58.34% to 49.0% (Note 12) as at 31 December 2017.

23 DEFERRED INCOME TAXES

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The amounts, determined after appropriate offsetting are shown on the balance sheets as follows:

	Group		
	31 December		1 January
	2018	2017	2017
	$'000	$'000 (Restated)	$'000
Deferred income tax assets			
To be recovered after one year	(270)	(184)	–
Deferred income tax liabilities			
To be settled after one year	21,828	9,915	685
Net deferred income tax liabilities			
To be settled after one year	21,558	9,731	685

Movement in net deferred income tax account is as follows:

	Group	
	2018	2017
	$'000	$'000 (Restated)
Beginning of financial year	9,731	685
Acquisition of a subsidiary corporation (Note 39)	6,730	5,128
Tax charged/(credited) to		
– Profit or loss (Note 32)	5,734	4,582
– Other comprehensive income	218	(584)
Currency translation differences	(855)	(80)
End of financial year	21,558	9,731

23 DEFERRED INCOME TAXES (CONTINUED)

Deferred income tax assets are recognised for capital allowances and investment and reinvestment allowances carried forward to the extent that realisation of the related tax benefits through future taxable profits is probable.

The Group has unrecognised tax losses and capital allowances of approximately $7,622,000 (2017: $6,448,000) and $4,005,000 (2017: $3,910,000) respectively and the Company has unrecognised tax losses of approximately $1,428,000 (2017: $243,000) at the balance sheet date which can be carried forward and used to offset against future taxable income subject to meeting certain statutory requirements by those companies with unrecognised tax losses and capital allowances in their respective countries of incorporation. The tax losses have no expiry date except for the amount of $4,712,000 relating to Avarga (M) Sdn. Bhd., which will expire in 2025. The capital allowances have no expiry date.

The movement in deferred income tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction) is as follows:

Deferred income tax liabilities

	Deferred income from Partnership $'000	Accelerated tax depreciation $'000	Fair value adjustment on acquisition of subsidiary corporations $'000	Total $'000
Group				
2018				
Beginning of financial year	1,803	15,378	9,020	26,201
Acquisition of a subsidiary corporation	–	409	4,473	4,882
Credited/(charged) to				
– Profit or loss	6,094	(823)	(1,352)	3,919
– Other comprehensive income	–	7	211	218
Currency translation differences	(316)	(402)	(620)	(1,338)
End of financial year	7,581	14,569	11,732	33,882
2017 (Restated)				
Beginning of financial year	–	8,497	–	8,497
Acquisition of a subsidiary corporation	–	7,373	7,435	14,808
Credited/(charged) to				
– Profit or loss	1,797	24	1,711	3,532
– Other comprehensive income	–	(584)	–	(584)
Currency translation differences	6	68	(126)	(52)
End of financial year	1,803	15,378	9,020	26,201

23 DEFERRED INCOME TAXES (CONTINUED)

Deferred income tax assets

	Finance lease liabilities $'000	Unutilised investment and reinvestment allowances $'000	Provisions and others $'000	Deferred gain on sale and leaseback $'000	Total $'000
Group					
2018					
Beginning of financial year	(7,026)	(7,682)	(937)	(825)	(16,470)
Acquisition of a subsidiary corporation	–	–	1,848	–	1,848
Charged/(credited) to profit or loss	419	2,258	(1,019)	157	1,815
Currency translation differences	402	4	34	43	483
End of financial year	(6,205)	(5,420)	(74)	(625)	(12,324)
2017					
Beginning of financial year	–	(7,679)	(133)	–	(7,812)
Acquisition of a subsidiary corporation	(7,530)	–	(1,241)	(909)	(9,680)
Charged to profit or loss	378	186	417	69	1,050
Currency translation differences	126	(189)	20	15	(28)
End of financial year	(7,026)	(7,682)	(937)	(825)	(16,470)

24 SHARE CAPITAL AND TREASURY SHARES

	No. of ordinary shares		Amount	
	Issued share capital '000	Treasury shares '000	Share capital $'000	Treasury shares $'000
Group and Company				
2018				
Beginning of financial year	876,667	–	150,519	–
Shares issued (Note 12)	73,439	–	19,094	–
Share issue expenses	–	–	(31)	–
Treasury shares purchased	–	(3,037)	–	(628)
End of financial year	950,106	(3,037)	169,582	(628)
2017				
Beginning of financial year	836,667	–	140,578	–
Share placement	40,000	–	10,000	–
Share issue expenses	–	–	(59)	–
End of financial year	876,667	–	150,519	–

All issued ordinary shares are fully paid. There is no par value for these ordinary shares.

Fully paid ordinary shares carry one vote per share and carry a right to dividend as and when declared by the Company.

On 28 September 2018, the Company issued 73,439,000 ordinary shares, amounting to a total of $19,094,000, as part of the consideration for the acquisition of additional interest in a subsidiary corporation (Note 12).

On 27 March 2017, the Company issued 40,000,000 ordinary shares for a total consideration of $10,000,000 for cash by way of private placement to reduce its bank borrowings.

The newly issued shares rank *pari passu* in all respects with the previously issued shares.

Treasury shares

Treasury shares relate to ordinary shares of the Company that is held by the Company.

The Company acquired 3,037,000 (2017: Nil) shares in the Company in the open market during the financial year. The total amount paid to acquire the shares was $628,000 (2017: $Nil) and this was presented as a component within shareholders' equity.

24 SHARE CAPITAL AND TREASURY SHARES (CONTINUED)

Bonus warrants

On 5 October 2016, the Company announced a proposed Bonus warrants Issue of up to 836,667,121 Bonus warrants, each Bonus warrant carrying the right to subscribe for one new share at the exercise price of $0.37 for each new share, on the basis of one Bonus warrant for every one existing share in the capital of the Company.

The Bonus warrants were issued by the Company on 16 February 2017. The Bonus warrants are only exercisable during the period commencing on and including the date six months from the listing of the warrants on the SGX-ST and expiring on 12 February 2020. As at balance sheet date, the outstanding warrants were 836,667,121 (2017: 836,667,121).

Share options

The Avarga Group Employees' Share Option Scheme 2018 (the "**Option Scheme**") for executive directors and confirmed employees of the Group (the "**Participant**") was approved by members of the Company at an Extraordinary General Meeting on 27 April 2018. The Option Scheme is administered by the Remuneration Committee ("**RC**").

The purpose of the Option Scheme is to provide an opportunity for employees of the Group who have contributed significantly to the growth and performance of the Group, as well as executive directors who satisfy the eligibility criteria as set out in the rules of the Option Scheme ("**Option Scheme Rules**"), to participate in the equity of the Company so as to motivate them to greater dedication, loyalty and higher standards of performance, and to give recognition to past contributions and services. Additionally, the Option Scheme will help the Group to attract and retain the services of appropriate, qualified and experienced employees who would be able to contribute to the Group's business and operations.

Under the Option Scheme, any Executive Director or confirmed employee of the Group selected by the RC to participate in the Option Scheme in accordance with the Option Scheme Rules who have, among other things, been in the employment of the Group for a period of at least 12 months, or such shorter period as the RC may determine, shall be eligible to participate in the Option Scheme. Controlling shareholders and their associates are also eligible to participate in the Option Scheme. Under the Option Scheme, the number of shares comprised in options offered to a participant shall be determined at the absolute discretion of the RC, who shall take into account, where applicable, criteria such as the bonus earned by the participant in any particular year, rank, past performance, years of service and potential contribution of the participant.

The aggregate number of shares over which the RC may offer to grant options on any date, when added to:

(a) the aggregate number of new shares issued and issuable in respect of all other share-based incentive schemes of the Company (if any); and

(b) the number of treasury shares and subsidiary holdings delivered in respect of the options granted under all other share-based incentive schemes of the Company (if any),

shall not exceed 15% of the issued share shares (excluding treasury shares and subsidiary holdings) of the Company on the date immediately preceding the date of grant.

24 SHARE CAPITAL AND TREASURY SHARES (CONTINUED)

Share options (Continued)

The aggregate number of shares over which the RC may offer to grant options to the controlling shareholders and their associates under the Option Scheme, shall not exceed 25% of the shares available under the Option Scheme, provided always that the number of shares available to each controlling shareholder or each of his associates shall not exceed 10% of the shares available under the Option Scheme.

Subject to any adjustment pursuant to the Option Scheme Rules, the exercise price for each share in respect of which an option is exercisable shall be fixed by the RC at the market price as determined in accordance with the Option Scheme Rules.

The exercise price of the options is determined by the RC at the average of the closing prices of the Company's ordinary shares as quoted on the Singapore Exchange for five market days immediately preceding the date of the grant. For the avoidance of doubt, the exercise price shall not be at a discount to the market price. Options granted shall only be exercisable, in whole or in part (provided that an Option may be exercised in part only in respect of 100 shares or any multiple thereof), at any time, by an Option holder during the exercise period. Options granted shall be exercisable during a period commencing after the fourth anniversary of the date of grant of the option and expiring on the tenth anniversary of the date of grant of the option, subject to the following:

(a) Up to 25% only of the shares in respect of which that option is granted may be exercised during the period commencing from the date falling immediately after the fourth anniversary of the date of grant of that option and ending on the fifth anniversary of the date of grant of that option;

(b) Up to 25% only of the Shares in respect of which that option is granted may be exercised during the period commencing from the date falling immediately after the fifth anniversary of the date of grant of that option and ending on the sixth anniversary of the date of grant of that option;

(c) Up to 25% only of the shares in respect of which that option is granted may be exercised during the period commencing from the date falling immediately after the sixth anniversary of the date of grant of that option and ending on the seventh anniversary of the date of grant of that option;

(d) Up to 25% only of the shares in respect of which that option is granted may be exercised during the period commencing from the date falling immediately after the seventh anniversary of the date of grant of that option and ending on the tenth anniversary of the date of grant of that option;

provided always that all options shall be exercised by the tenth anniversary of the relevant date of grant, failing which all unexercised options shall immediately lapse and become null and void and a grantee shall have no claim against the Company.

A feature of the Option Scheme is that Options may be exercised after a Participant ceases to be employed by the Group (other than arising from misconduct on the part of the Option Holder (as determined by the Committee in its absolute discretion)). This is because it is the Company's intention to use Options to pay a portion of a Participant's earned bonus entitlement instead of making such payment in cash, and the Participant would in effect have paid for the Option upon its grant since such Option represents the consideration he receives for that part of his earned bonus entitlement.

24 SHARE CAPITAL AND TREASURY SHARES (CONTINUED)

Share options (Continued)

There were no options granted during the financial year, including options to controlling shareholders of the Company or their associates (as defined in the Listing manual of Singapore Exchange Securities Trading Limited), to subscribe for unissued shares of the Company.

No shares have been issued during the financial year by virtue of the exercise of options to take up unissued shares of the Company or its subsidiary corporations.

There were no unissued shares of the Company or its subsidiary corporations under option at the end of the financial year.

25 OTHER RESERVES

	Group			Company		
	31 December		1 January	31 December		1 January
	2018	2017	2017	2018	2017	2017
	$'000	$'000	$'000	$'000	$'000	$'000
Capital reserve	(600)	5,891	712	74	74	74
Currency translation reserve	(20,046)	(21,093)	(18,298)	–	–	–
Fair value reserve	(663)	446	637	–	–	–
	(21,309)	(14,756)	(16,949)	74	74	74

The currency translation reserve represents exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

The fair value reserve represents the cumulative fair value changes, net of tax, of financial asset, at FVOCI (2017: available-for-sale) until they are disposed of or impaired.

Capital reserve represents mainly the effects arising from changes in the Group' ownership interest in the subsidiary corporations that do not result in a loss of control over the subsidiary corporation, i.e. the difference between change in the carrying amounts of the non-controlling interests and the fair value of the consideration paid or received.

Other reserves are non-distributable.

26 DIVIDENDS

	Group	
	2018	2017
	$'000	$'000
Ordinary dividends		
Final dividend paid in respect of the previous financial year of 0.5 cents (2017: 0.5 cents) per share	4,383	4,383
Interim dividend paid in respect of the current financial year of 0.5 cents (2017: 0.5 cents) per share	4,383	4,383
	8,766	8,766

At the forthcoming Annual General Meeting on 26 April 2019, a final dividend of 3.0 cents per share amounting to a total of $28,413,000 will be recommended. These financial statements do not reflect this dividend, which will be accounted for in shareholders' equity as an appropriation of retained profits in the financial year ending 31 December 2019.

27 REVENUE

	Group	
	2018	2017
	$'000	$'000
Sale of goods		
– Paper products	55,907	54,257
– Building products	1,506,267	1,389,174
Operating and maintenance income	5,649	5,840
Finance income (Note 6)	4,854	5,892
	1,572,677	1,455,163

28 OTHER (LOSSES)/GAINS, NET – OTHERS

	Group	
	2018	2017
	$'000	$'000
Gain/(loss) on disposal of property, plant and equipment	157	(61)
Bad debts recovered/(written off)	28	(783)
Dividend income from listed equity security (Note 10)	139	194
Currency exchange loss, net	(6,063)	(3,946)
Amortisation of deferred gain (Note 20)	398	374
Gain on extinguishment of subordinated notes (Note 22)	–	2,420
Gain on disposal of asset held-for-sale (Note 13)	–	1,161
Others	509	437
	(4,832)	(204)

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29 EXPENSES BY NATURE

	Group	
	2018	2017
	$'000	$'000
Fees on audit services paid/payable to:		
– Auditor of the Company	80	80
– Other auditors	321	333
Fees on non-audit services paid/payable to:		
– Auditor of the Company	9	9
– Other auditors	163	119
Purchase of inventories	45,716	163,102
Depreciation of property, plant and equipment (Note 8)	8,030	6,963
Amortisation of intangible assets (Note 14(d))	4,845	4,252
Directors' fees	786	628
Employee compensation (Note 30)	65,433	61,707
General office expenses	11,931	9,342
General and professional fees	2,623	2,653
Manufacturing overhead	2,832	2,065
Product and treating costs	1,333,748	1,232,657
Freight/transportation expenses	35,474	32,899
Utilities	10,794	8,895
Inventories write-down (Note 7)	2,235	1,170
Warehouse costs	15,382	13,257
Operating and maintenance fees	3,592	3,620
Other expenses	2,412	3,611
Changes in inventories	(19,784)	(132,889)
Total cost of sales, distribution and selling and administrative expenses	1,526,622	1,414,473

30 EMPLOYEE COMPENSATION

	Group	
	2018	2017
	$'000	$'000
Salaries, bonuses and wages	64,906	61,195
Employer's contribution to defined contribution plans	313	286
Other short-term benefits	214	226
	65,433	61,707

31 FINANCE EXPENSES

	Group	
	2018	**2017**
	$'000	**$'000**
Interest expense		
– Revolving credit facility and other short-term liabilities	4,954	3,856
– Finance lease liabilities and bank borrowings	2,802	1,963
– Subordinated notes	868	9,509
– Amortisation of financing costs	346	291
– Bank overdraft	3	3
	8,973	15,622

32 INCOME TAX EXPENSE

	Group	
	2018	**2017**
	$'000	**$'000**
		(Restated)
Tax expense attributable to profit is made up of:		
Profit for the financial year		
Current income tax		
– Singapore	–	13
– Foreign	4,941	5,405
	4,941	5,418
Deferred income tax (Note 23)	5,734	4,582
	10,675	10,000
Under provision in prior financial years		
Current income tax	357	238
	11,032	10,238

NOTES TO THE FINANCIAL STATEMENTS

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32 INCOME TAX EXPENSE (CONTINUED)

A reconciliation between the income tax expense and the product of accounting profit multiplied by the applicable corporate tax rate for the years ended 31 December 2018 and 2017 is as follows:

	Group	
	2018	**2017**
	$'000	**$'000**
		(Restated)
Profit before income tax	31,127	25,148
Tax at the domestic rates applicable to profit in the countries where the Group operates	8,150	2,760
Effects of:		
– Expenses not deductible for tax purposes	3,191	13,755
– Income not subject to tax	(1,212)	(4,973)
– Underprovision of tax in prior financial years	357	238
– Effect of change in tax rate	59	(54)
– Utilisation of previously unrecognised deferred tax assets	–	(225)
– Deferred tax asset not recognised	191	–
– Other taxes	229	–
– Effect of partial tax exemption and tax relief	–	(1,177)
– Others	67	(86)
	11,032	10,238

The above reconciliation is prepared by aggregating separate reconciliations for each national jurisdiction.

According to Section 27(a) of Myanmar Foreign Investment Law, UPP Power (Myanmar) Limited has been granted an exemption from income tax for five consecutive years starting from 11th February 2014 to 10th February 2019 by Myanmar Investment Commission. Hence, there is no tax charge for the financial years under audit.

33 EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share are 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	
	2018	**2017 (Restated)**
Net profit attributable to equity holders of the Company ($'000)	11,163	13,668
Weighted average number of ordinary shares outstanding for basic earnings per share ('000)	895,257	867,352
Basic earnings per share (cents per share)	1.25	1.58

(b) Diluted earnings per share

For purpose of calculating diluted earnings per share, profit attributable to equity holders of the Company and the weighted average number of ordinary shares outstanding are adjusted for the effects of all dilutive potential ordinary shares. The Company has warrants as a category of dilutive potential ordinary shares.

For warrants, the weighted average number of shares on issue has been adjusted as if all dilutive warrants were exercised. The number of shares that could have been issued upon the exercise of all dilutive warrants less the number of shares that could have been issued at fair value (determined as the Company's average share price for the financial year) for the same total proceeds is added to the denominator as the number of shares issued for no consideration. No adjustment is made to the net profit.

Diluted earnings per share attributable to equity holders of the Company is calculated as follows:

	Group	
	2018	**2017 (Restated)**
Net profit attributable to equity holders of the Company ($'000)	11,163	13,668
Weighted average number of ordinary shares outstanding for basic earnings per share ('000)	895,257	867,352
Adjustments for warrants ('000)	–*	–*
	895,257	867,352
Diluted earnings per share (cents per share)	1.25	1.58

* The outstanding warrants of 836,667,121 (2017: 836,667,121) are not assumed to be exercised because they were anti-dilutive during the financial years ended 31 December 2018 and 2017.

34 RELATED PARTY TRANSACTIONS

(a) No transaction took place between the Group and related parties other than those disclosed elsewhere in the financial statements. Outstanding balances at 31 December 2018 and 2017 are unsecured and receivable within 12 months from balance sheet date and are disclosed in Note 5 to the financial statements.

(b) Key management personnel compensation

Key management personnel compensation is as follows:

	Group	
	2018	**2017**
	$'000	**$'000**
Salaries and bonuses	5,419	6,112
Directors' fees	786	628
Employer's contribution to defined contribution plans	281	104
Other short-term benefits	37	38
	6,523	6,882
Comprise amounts paid/payable to:		
Directors of the Company	2,265	2,050
Directors of the subsidiary corporations	403	717
Other key management personnel	3,855	4,115
	6,523	6,882

35 COMMITMENTS

Operating lease commitments – where the Group is a lessee

The Group leases land, premises and warehouse 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:

	Sale and leaseback $'000	**Others $'000**	**Total $'000**
Group			
31 December 2018			
Not later than one year	1,797	2,708	4,505
Between one and five years	7,002	6,878	13,880
Later than five years	4,155	4,869	9,024
	12,954	14,455	27,409

35 COMMITMENTS (CONTINUED)

Operating lease commitments – where the Group is a lessee (Continued)

	Sale and leaseback $'000	Others $'000	Total $'000
Group			
31 December 2017			
Not later than one year	1,909	2,317	4,226
Between one and five years	7,516	5,584	13,100
Later than five years	6,252	4,093	10,345
	15,677	11,994	27,671
1 January 2017			
Not later than one year	–	491	491
Between one and five years	–	1,633	1,633
Later than five years	–	4,064	4,064
	–	6,188	6,188

The certain sales and leaseback operating leases completed in 2014 and expire in February 2034. Rental rates are subject to adjustments every five years based on consumer price index. For each property, the Group has two options to renew for five years each.

The other sales and leaseback operating leases completed in 2006 and expire in February 2021 or February 2026 depending on the property. Rental rates are subject to adjustments every five years based on consumer price index. For each property, the Group has three options to renew for five years each.

Total operating lease payments recognised as an expense during the financial year were $4,514,000 (2017: $3,989,000).

36 CONTINGENT LIABILITIES

Financial support

The Company has given letters of financial support to certain subsidiary corporations in the Group with net current liabilities position at the balance sheet date to enable these subsidiary corporations to operate as going concern and to meet their liabilities as and when they fall due.

Other Outstanding Legal Matters

Certain subsidiary corporations in the Group are involved in various non-material legal actions and claims arising in the course of its business. The financial impact individually or in aggregate resulting from these actions and claims is not expected to be significant. The individual and aggregate outcomes cannot be determined at this time.

36 CONTINGENT LIABILITIES (CONTINUED)

Canada Revenue Agency ("CRA") Reassessment

Subsidiary corporation of the Group, Taiga Building Products Ltd. ("**Taiga**") received a notice of reassessment from the Canada Revenue Agency in the amount of approximately C$42,000,000 (which includes interest) relating to the years from 2005 to 2013. The reassessment related to the amount of taxes withheld, by Taiga, on dividends paid or deemed to have been paid to what were then Taiga's two largest shareholders in connection with and subsequent to Taiga's corporate reorganisation in 2005 involving a swap of then outstanding common shares for stapled units. Taiga paid the full amount of the reassessment on 31 January 2017 using proceeds provided by its two former major shareholders. Taiga and the two former major shareholders had previously entered into agreements whereby the shareholders agreed to fully indemnify Taiga from this potential liability, including related liabilities. The indemnity agreements remain in effect and would apply in the event that CRA issues further reassessments relating to the amount of taxes withheld. Taiga intends to challenge the reassessment and vigorously defend its tax filings and to seek a resolution as soon as practically possible. Taiga's two former major shareholders may elect to assume any action or defence of Taiga in connection with the foregoing pursuant to the terms of the indemnity agreements with Taiga.

37 FINANCIAL RISK MANAGEMENT

The Group and the Company are exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk, interest rate risk, foreign currency risk, capital risk and price risk. The Group's overall risk management strategy seeks to minimise any adverse effects from the unpredictability of financial markets on the Group's performance. It is, and has been throughout the current and previous financial year, the Group's and the Company's policy that no trading in derivatives for speculative purposes shall be undertaken. The Group and the Company do not apply hedge accounting.

The board of directors is responsible for setting the objectives and underlying principles of financial risk management for the Group. The following sections provide details regarding the Group's and Company's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

There has been no change to the Group's and the Company's exposure to these financial risks or the manner in which it manages and measures the risks.

(i) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group and arises principally from the Group's receivables from customers and service concession receivables. The Group adopts the policy of dealing only with:

– Customers of appropriate credit standing and history, and obtaining sufficient collateral where appropriate to mitigate credit risk; and

– High credit quality counterparties.

37 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (Continued)

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 pattern and credit exposure are continuously monitored at the entity level by the respective management and at the Group level by the Management.

There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions.

For derivative financial instruments (interest rate swap and lumber futures contracts), management evaluates potential counterparties in advance of entering into such agreements and deals only with parties it anticipates will satisfy their obligations under the contracts.

As the Group and the Company do not hold collateral, the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the balance sheet.

Trade receivables

The Group uses a provision matrix to measure the lifetime expected credit loss ("**ECL**") allowance for trade receivables.

In measuring the expected credit losses, trade receivables are grouped based on their shared credit risk characteristics and days past due.

In calculating the expected credit loss rates, the Group considers historical loss rates for each category of customers and adjusts to reflect current and forward-looking macroeconomic factors affecting the ability of the customers to settle the receivables.

Trade receivables are written-off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group categorises trade receivables for potential write-off when the counterparty fails to make contractual payments more than 180 days past due. Where receivables are written-off, the Group continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

37 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (Continued)

Trade receivables (Continued)

The movements in credit loss allowance are as follows:

	Trade receivables $'000
Group	
Balance at 1 January 2018 under SFRS	870
Application of SFRS(I) 9	–
Balance at 1 January 2018 under SFRS(I) 9	870
Loss allowance recognised in profit or loss during the financial year on:	
– Assets acquired/originated	1,500
Receivables written off as uncollectible	(10)
Currency translation differences	92
Balance at 31 December 2018 (Note 5)	2,452

The Group's and the Company's credit risk exposure in relation to trade receivables under SFRS(I) 9 as at 31 December 2018 are set out in the provision matrix as follows:

		Past due				
	Current $'000	Within 30 days $'000	1 to 3 months $'000	4 to 6 months $'000	Over 6 months $'000	Total $'000
Group						
Wholesale of building products						
Expected loss rate	–	–	–	5%	100%	
Trade receivables	73,551	14,410	1,138	2,096	2,264	93,459
Loss allowance	–	–	–	97	2,264	2,361
Trading of paper products						
Expected loss rate	–	–	–	3%	100%	
Trade receivables	3,455	2,898	3,773	1,225	58	11,409
Loss allowance	–	–	–	33	58	91
Company						
Trading of paper products						
Expected loss rate	–	–	–	–	–	
Trade receivables	–	17	–	–	–	17
Loss allowance	–	–	–	–	–	–

37 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (Continued)

Other financial assets, at amortised cost

The Group's and the Company's other financial assets recognised at amortised cost are mainly comprised of cash and cash equivalents, service concession receivables and other receivables, ie, amount due from subsidiary corporations, loan to subsidiary corporations and deposits. These other financial assets are subject to immaterial credit loss.

In determining the ECL, management has taken into account the historical default experience and the financial position of the counterparties, adjusted for factors that are specific to these receivables in estimating the probability of default of each of these other financial assets.

For the purpose of impairment assessment, loss allowance is generally measured at an amount equal to 12-month ECL as there is low risk of default and strong capability to meet contractual cash flows. When the credit quality deteriorates and the resulting credit risk of other financial assets increase significantly since its initial recognition, the 12-month ECL would be replaced by lifetime ECL.

Other financial assets are written-off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of other receivables to engage in a repayment plan with the Group or the Company, and a failure to make contractual payments.

No loss allowance against other financial assets, at amortised cost is recognised as the management believes that the amounts that are collectible, based on historical payment behaviour and credit-worthiness of these receivables.

Previous accounting policy for impairment of financial assets

In 2017, the impairment of financial assets was assessed based on the incurred loss impairment model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively, to determine whether there was objective evidence that an impairment had been incurred but not yet identified.

The Group considered that there was evidence if any of the following indicators were present:

– Significant financial difficulties of the debtor;

– Probability that the debtor will enter bankruptcy or financial reorganisation; and

– Default or delinquency in payments.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

37 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (Continued)

Other financial assets, at amortised cost (Continued)

Previous accounting policy for impairment of financial assets *(Continued)*

The Group's credit risk exposure in relation to trade receivables under SFRS 39 as at 31 December 2017 and 1 January 2017 are set out in the provision matrix as follows:

	Past due			
	Within 30 days $'000	1 to 3 months $'000	Over 3 months $'000	Total $'000
Group				
31 December 2017				
Trade receivables				
Gross carrying amount:				
– Not past due	–	–	–	121,513
– Past due but not impaired	2,524	2,092	824	5,440
– Past due and impaired	–	–	870	870
				127,823
Less: Allowance for impairment (Note 5)				
– Beginning of the financial year				(230)
– Allowance made				(777)
– Allowance reversed				143
– Currency translation differences				(6)
				(870)
Net carrying amount				126,953
1 January 2017				
Trade receivables				
Gross carrying amount:				
– Not past due	–	–	–	8,857
– Past due but not impaired	2,274	807	273	3,354
– Past due and impaired	–	–	230	230
				12,441
Less: Allowance for impairment (Note 5)				(230)
Net carrying amount				12,211

37 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (Continued)

Financial assets that are neither past due nor impaired

Financial assets that are neither past due nor impaired are mainly deposits with banks with high credit ratings and no history of default. Trade receivables that are neither past due nor impaired are substantially companies with a good collection track record with the Group and the Company.

Other than the above, there are no impairment allowance for other financial assets at amortised costs as at 31 December 2017 and 1 January 2017.

(ii) Liquidity risk

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's and Company's ability to make scheduled payments or refinance its obligations depends on the Group's successful financial and operating performance, cash flows and capital resources, which in turn depend upon prevailing economic conditions and certain financial, business and other factors.

The Group's and the Company's ability to maintain compliance with certain of its debt covenants under the banking facilities depends on meeting the required interest coverage ratio, which is subject to the Group's future financial and operating performance. The Group's and the Company's ability to repay or refinance its indebtedness will also depend on its future financial and operating performance. The Group's performance, in turn, will be subject to prevailing economic and competitive conditions, as well as financial, business, legislative, regulatory, industry and other factors, many of which are beyond our control. The Group's and the Company's ability to meet its debt service and other obligations may depend in significant part on the extent to which the Group can implement successfully its business growth and cost reduction strategies. The Group and the Company cannot provide any assurance that it will be able to implement its strategy fully or that the anticipated results of its strategy will be realised.

The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities. The Group manages its liquidity risk by maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of stand-by credit facilities from banks. At the balance sheet date, assets held by the Group and the Company for managing liquidity risk included cash and short-term deposits as disclosed in Note 4 to the financial statements.

The Group monitors working capital projections regularly, taking into account the available banking and other borrowing facilities to ensure that the Group has adequate working capital to meet current requirements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

37 FINANCIAL RISK MANAGEMENT (CONTINUED)

(ii) Liquidity risk (Continued)

The table below analyses non-derivative financial liabilities of the Group and the Company into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

	Less than 1 year $'000	Between 1 to 5 years $'000	Over 5 years $'000
Group			
At 31 December 2018			
Trade and other payables	65,382	–	–
Revolving credit facility	64,680	–	–
Bank borrowings	30,499	22,276	6,610
Finance lease liabilities	3,998	13,827	14,063
Subordinated notes	877	15,155	–
	165,436	51,258	20,673
At 31 December 2017			
Trade and other payables	83,704	–	–
Revolving credit facility	58,280	–	–
Bank borrowings	34,643	11,008	–
Finance lease liabilities	4,213	14,982	18,242
Subordinated notes	932	17,040	–
	181,772	43,030	18,242
At 1 January 2017			
Trade and other payables	5,677	–	–
Company			
At 31 December 2018			
Trade and other payables	1,685	–	–
At 31 December 2017			
Trade and other payables	1,626	–	–
At 1 January 2017			
Trade and other payables	911	–	–

37 FINANCIAL RISK MANAGEMENT (CONTINUED)

(ii) Liquidity risk (Continued)

The table below analyses the Group's trading portfolio derivatives financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows into relevant maturity groupings based on the remaining period from the balance sheet date to the expected settlement date. The amounts disclosed in the table are the net fair values, as the amounts at which an orderly settlement of the transactions would take place between market participants at the balance sheet date.

	31 December		1 January
	2018	**2017**	**2017**
	$'000	**$'000**	**$'000**
Group			
Less than 1 year			
Held for trading			
– Net-settled Lumber futures	56	(38)	–

(iii) Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. As the Group has no significant interest-bearing assets, the Group's income is substantially independent of changes in market interest rates.

The Group utilise significant leverage to finance day-to-day operations and for acquisition purposes. The interest costs of the Group's revolving credit facility and other bank borrowings are predominately based on the prime rate. The Group monitors current interest rates and selectively utilises interest rate swap agreements to manages these cash flow interest rate risk.

At the balance sheet date, if interest rates had been 100 (2017: 100) basis points higher/lower with all other variables including tax rate being held constant, based on the Group's average borrowing level, the profit after tax would have been lower/higher by $890,000 (2017: $795,000) as a results of higher/lower interest expense on these borrowings.

37 FINANCIAL RISK MANAGEMENT (CONTINUED)

(iv) Currency risk

The Group operates in North America and Asia with dominant operations in Canada, United States, Singapore, Malaysia and Myanmar. Entities in the Group regularly transact in currencies other than their respective functional currencies ("**foreign currencies**").

Currency risk arises within entities in the Group when transactions are denominated in foreign currencies such as the Canadian Dollar ("**CAD**"), United States Dollar ("**USD**"), Singapore Dollar ("**SGD**") and Malaysian Ringgit ("**MYR**").

The Group's and the Company's currency exposure based on the information provided to key management is as disclosed in Notes 4, 5, 15, 17 and 18 to the financial statements. As at 31 December 2018 and 2017, the Group and the Company are not significantly exposed to SGD and MYR.

In addition, the Group is exposed to currency translation risk on the net assets in foreign operations. Currency exposure to the net assets of the Group's foreign operations in Canada, Malaysia and Myanmar are managed primarily through borrowings denominated in the relevant foreign currencies. There is no formal hedging policy with respect to foreign currency exposures. Exposures to currency risk are monitored on an ongoing basis and the Group endeavors to keep the net exposure at an acceptable level.

If the USD and CAD change against the SGD by 2% (2017: 5%) and 5% (2017: 1%) respectively with all other variables including tax rate being held constant, the effects arising from the net financial asset/liability (excluding equity instruments) that are exposed to currency risk will be as follows:

	Increase/(Decrease) Profit after tax	
	2018	**2017**
	$'000	**$'000**
Group		
USD against SGD		
– Strengthened	89	71
– Weakened	(89)	(71)
CAD against SGD		
– Strengthened	3,566	3,245
– Weakened	(3,566)	(3,245)
Company		
USD against SGD		
– Strengthened	281	1,104
– Weakened	(281)	(1,104)
CAD against SGD		
– Strengthened	3,566	3,245
– Weakened	(3,566)	(3,245)

37 FINANCIAL RISK MANAGEMENT (CONTINUED)

(v) Capital risk

The Group's objectives when managing capital are to safeguard the Group's ability to operate and grow its business, to provide a sufficient return to its shareholders, and to meet internal capital expenditure requirements and credit facility covenants. The revolving credit facilities and share capital are considered as the Group's capital.

In order to maintain or achieve an optimal capital structure, the Group may adjust the amount of dividend payment, return capital to shareholders, issue new shares, buy back issued shares, obtain new borrowings or sell assets to reduce borrowings. No changes were made in the objectives, policies or processes during the financial years ended 31 December 2018 and 2017.

Management monitors capital based on a gearing ratio. The Group is also required by the banks to maintain a gearing ratio of not exceeding 2.0 times. The Group's policy is to keep the gearing ratio below 2.0 times.

The gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as bank borrowings plus finance lease liabilities, subordinated notes and revolving credit facility less cash and cash equivalents. Total capital is calculated as total equity less intangible assets.

	Group			Company		
	31 December		1 January	31 December		1 January
	2018	2017	2017	2018	2017	2017
	$'000	$'000 (Restated)	$'000	$'000	$'000	$'000
Net debt	136,178	103,802	–	–	–	–
Total capital	187,080	210,058	183,742	195,353	152,647	142,588
Gearing ratio (times)	0.73	0.49	–	–	–	–

The Group is in compliance with all externally imposed capital requirements for the financial years ended 31 December 2018 and 2017. The Company is not subjected to capital requirements for the financial years ended 31 December 2018 and 2017.

37 FINANCIAL RISK MANAGEMENT (CONTINUED)

(vi) Price risk

(a) Equity price risk

The Group is exposed to equity security price risk arising from the investments held by the Group which are classified on the consolidated balance sheet as financial asset, at FVOCI (2017: available-for-sale). This security is listed in Malaysia.

If prices for equity security listed in Malaysia had changed by 2% (2017: 4%) with all other variable including tax rate being held constant, the effects on other comprehensive income would have been:

	Increase/(Decrease) Other comprehensive income	
	2018	**2017**
	$'000	**$'000**
Group		
Listed in Malaysia		
– increased by	52	131
– decreased by	(52)	(131)

(b) Commodity price risk

The Group does not generally hedge its commodity price risk through the purchase of lumber futures contracts. Substantially all purchases are made based on current orders and anticipated sales, and most sales are made from inventory or against product on order. Inventory levels are monitored in an attempt to achieve balance between maximum inventory turnover and anticipated customer demand. Although the Group strives to reduce the risk associated with price changes by maximising inventory turnover, the Group maintains significant quantities of inventory, which is affected by fluctuating prices.

The Group selectively utilises Chicago Mercantile Exchange Random Length lumber futures contracts. Each contract calls for mill delivery of 110,000 board feet (plus or minus 5,000 board feet) or random length 8-foot to 20-foot nominal 2-inch x 4-inch pieces. The contracts can be settled in cash or by delivery of a commodity. These positions are immaterial relative to the Group's consolidated inventories.

37 FINANCIAL RISK MANAGEMENT (CONTINUED)

(vii) Fair value measurements

The table below presents assets and liabilities measured and carried at fair value and classified by level of the following fair value measurement hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

(b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and

(c) inputs for the asset or liability that are not based on observables market data (unobservable inputs) (Level 3).

	Level 1 $'000	Level 2 $'000	Level 3 $'000
Group			
31 December 2018			
Assets			
Financial asset, at FVPL	–	–	500
Financial asset, at FVOCI	2,158	–	–
Derivative financial instruments	–	56	–
31 December 2017			
Assets			
Financial asset, available-for-sale	3,267	–	–
Liabilities			
Derivative financial instruments	–	(38)	–
1 January 2017			
Assets			
Financial asset, available-for-sale	3,458	–	–
Company			
31 December 2018			
Financial asset, at FVPL	–	–	500

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy level as at the end of the reporting period.

There were no transfers between Levels 1 and 2 during the financial years ended 31 December 2018 and 2017.

The fair value of financial instruments traded in active markets (financial asset, at FVOCI) is based on quoted market prices at the balance sheet date. The quoted market price used for financial asset held by the Group is the current bid price. This instrument is included in Level 1.

37 FINANCIAL RISK MANAGEMENT (CONTINUED)

(vii) Fair value measurements (Continued)

The fair value of lumber futures contract is determined using market observable inputs at the balance sheet date. Derivative financial instruments are classified as Level 2.

There were no transfer between Levels 2 and 3 during the financial years ended 31 December 2018 and 2017.

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

See Note 11 for disclosure of the financial asset that is measured at fair value.

(viii) Financial instruments by category

The carrying amount of the different categorises of financial instruments is as disclosed on the face of the balance sheet and in Notes 9, 10 and 16 to the financial statements, except for the following:

	Group $'000	Company $'000
31 December 2018		
Financial asset, at FVPL	556	500
Financial assets, at amortised cost	169,670	160,966
Financial liabilities, at amortised cost	223,932	1,685
31 December 2017		
Loan and receivables	211,538	133,708
Financial liabilities, at amortised cost	226,207	1,626
1 January 2017		
Loan and receivables	125,510	127,706
Financial liabilities, at amortised cost	5,677	911

37 FINANCIAL RISK MANAGEMENT (CONTINUED)

(ix) Offsetting financial assets and financial liabilities

The Company has the following financial instruments subject to enforceable master netting arrangements as follows:

	Related amounts set off in the balance sheet		
	Gross amounts – financial assets (a) $'000	Gross amounts – financial liabilities (b) $'000	Net amounts – financial assets presented in the balance sheet (c)=(a)-(b) $'000
At 31 December 2018			
Due from subsidiary corporations	73,162	(8,881)	64,281
Total	73,162	(8,881)	64,281
At 31 December 2017			
Due from subsidiary corporations	45,879	(30,182)	15,697
Total	45,879	(30,182)	15,697
At 1 January 2017			
Due from subsidiary corporations	71,784	(22,837)	48,947
Total	71,784	(22,837)	48,947

For the financial assets and liabilities subject to enforceable master netting arrangements or similar arrangements above, each agreement between the Company and their respective counterparties allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

38 SEGMENT INFORMATION

The Group's chief operating decision-maker ("**CODM**") comprises of the Chief Executive Officer, the Chief Operating Officer, President, Investments and the heads of each business within each primary geographic segment. Management has determined the operating segments based on the reports reviewed by the CODM that are used to make strategic decisions, allocated resources, and assess performance.

The CODM considers the business from a business segment perspective. From a business segment perspective, the Group is organised into business units based on their products and services, and has four reportable operating segments.

(1) The paper mill division manufactures and sells industrial grade paper products, collect and trades in waste paper products.

(2) Power division operates a 50 MW gas-fired generating plant in Ywama, Myanmar.

(3) Wholesale distribution of building products in Canada, United States and overseas.

(4) Others which include investment/corporate segment focus on identifying new investment opportunities locally and overseas that has the potential to increase revenue streams and produce good returns on investments.

Except as indicated above, no operating segments have been aggregated to form the above reportable operating segments.

The CODM monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss. Group income taxes are managed on a group basis and are not allocated to operating segments.

The revenue from external parties reported to the CODM is measured in a manner consistent with that in the statement of comprehensive income.

38 SEGMENT INFORMATION (CONTINUED)

The segment information provided to the CODM for the reportable segments are as follows:

	Paper Mill		Power Plant		Building Products		Others		Total		Adjustments and elimination			Per consolidated financial statements	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000	Note	2018 $'000	2017 $'000
Revenue:															
External customers	55,907	54,257	10,503	11,732	1,506,267	1,389,174	–	–	1,572,677	1,455,163	–	–		1,572,677	1,455,163
Results:															
Finance expenses	(4)	(4)	–	–	(8,332)	(15,045)	(637)	(573)	(8,973)	(15,622)	–	–		(8,973)	(15,622)
Interest income	299	120	–	–	–	–	78	21	377	141	–	–		377	141
Depreciation	(2,453)	(2,370)	(4)	(5)	(5,542)	(4,502)	(31)	(86)	(8,030)	(6,963)	–	–		(8,030)	(6,963)
Amortisation of intangible assets	–	–	–	–	(4,845)	(4,252)	–	–	(4,845)	(4,252)	–	–		(4,845)	(4,252)
Segment profit/(loss) before income tax	10,271	8,338	5,680	6,887	25,565	18,497	(10,389)	(8,574)	31,127	25,148	–	–		31,127	25,148
Assets:															
Additions to:–															
– Property, plant and equipment	428	1,053	7	–	15,895	51,320	440	12	16,770	52,385	–	–		16,770	52,385
– Intangible assets	–	–	–	–	28,908	54,842	–	–	28,908	54,842	–	–		28,908	54,842
Segment assets	83,280	75,349	41,149	44,842	372,829	342,236	14,670	42,535	511,928	504,962	270	184	A	512,198	505,146
Segment liabilities	3,193	3,028	968	881	191,935	186,153	31,702	45,448	227,798	235,510	26,258	9,915	B	254,056	245,425

38 SEGMENT INFORMATION (CONTINUED)

Notes: Nature of adjustments and eliminations to arrive at amounts reported in the consolidated financial statements.

A The following items are added to segment assets to arrive at total assets reported in the consolidated balance sheet.

	Group	
	2018 $'000	2017 $'000
Deferred income tax assets	270	184

B The following items are added to segment liabilities to arrive at total liabilities reported in the consolidated balance sheet.

	Group	
	2018 $'000	2017 $'000 (Restated)
Income tax payables	4,430	4,649
Deferred income tax liabilities	21,828	9,915
	26,258	14,564

Geographical information

Revenue and non-current assets information based on the geographical location of customers and assets respectively are as follows:

	Revenue		Non-current assets	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Canada	1,275,989	1,218,840	72,318	82,067
United States	230,278	170,334	53,093	12,735
Malaysia	46,540	48,576	44,836	46,840
Singapore	970	1,604	423	8
Myanmar	10,503	11,732	84	82
Sri Lanka	2,015	1,347	–	–
Australia	1,448	1,299	–	–
Others	4,934	1,431	–	–
	1,572,677	1,455,163	170,754	141,732

Non-current assets information presented above consist of property, plant and equipment and intangible assets presented in the consolidated balance sheet.

39 BUSINESS COMBINATIONS

2018

On 31 July 2018, the Group acquired 100% equity interest in Exterior Wood, Inc. ("**EWI**"). EWI has been operating a wood treatment facility and distribution centres in Washougal, Washington since 1977, and services retail building supply centers throughout the western United States and Canada with a wide array of pressure treated products. The acquisition will expand Taiga's existing wood treatment operations at three facilities in Canada, with additional penetration into the United States market. As a result of the acquisition, EWI became a subsidiary corporation of the Group.

Details of the consideration paid, the assets acquired and liabilities assumed, the non-controlling interest recognised and the effects on the cash flows of the Group, at the acquisition date, are as follows:

(a) Purchase consideration

	$'000
Cash paid and consideration transferred for the business	58,102

(b) Effect on cash flows of the Group

	$'000
Cash paid (as above)	58,102
Less: Cash and cash equivalents in subsidiary corporation acquired	(2,999)
Net cash outflow on acquisition	55,103

(c) Identified assets acquired and liabilities assumed

	At fair value $'000
Property, plant and equipment (Note 8)	11,230
Trade and other receivables (Note (e) below)	10,683
Cash and cash equivalents	2,999
Inventories	21,440
	46,352
Trade and other payables	(3,552)
Line of credit payable	(6,876)
Deferred income tax liabilities (Note 23)	(6,730)
	(17,158)
Total identifiable net assets	29,194
Add: Goodwill (Note 14(a))	10,689
Add: Intangible assets (Note 14(b))	18,219
Consideration transferred for the business	58,102

39 BUSINESS COMBINATIONS (CONTINUED)

2018 (Continued)

(d) Acquisition-related costs

Acquisition-related costs of $805,000 was included in "selling and administrative expenses" in the consolidated statement of comprehensive income for the financial year ended 31 December 2018.

(e) Acquired receivables

The fair value of trade and other receivables is $10,683,000 and includes trade receivables with a fair value of $10,295,000. The gross contractual amount for trade receivables due is $10,621,000, of which $326,000 is expected to be uncollectible.

(f) Goodwill arising from acquisition

The goodwill recognised of $10,689,000 was primarily attributed to the expected synergies arising from the acquisition and the expertise and reputation of the assembled management and workforce.

(g) Revenue and profit contribution

From the date of the acquisition, the acquired business contributed revenue of $36,618,000 and a net loss of $1,817,000 to the Group. Had EWI been consolidated from 1 January 2018, consolidated revenue and consolidated net profit for the financial year ended 31 December 2018 would have been $1,636,197,000 and $25,231,000 respectively.

2017

On 31 January 2017, the Company through its wholly-owned subsidiary corporation, UPP Investments Canada Limited ("**UPP Canada**") acquired 58.34% equity interest in Taiga Building Products Ltd. ("**Taiga**"), a public company incorporated in Canada and listed on the Toronto Stock Exchange. Taiga is an independent wholesale distributor of building materials in Canada. As a result of the acquisition, Taiga became a subsidiary corporation of the Group.

The acquisition is beneficial to the Group as this is earning accretive and would enable the Group to undertake a separate line of business as well as expand its geographical presence beyond Southeast Asia.

The Group has elected to measure the non-controlling interest at the non-controlling interest's proportionate share of Taiga's net identifiable liabilities.

39 BUSINESS COMBINATIONS (CONTINUED)

2017 (Continued)

Details of the consideration paid, the assets acquired and liabilities assumed, the non-controlling interest recognised and the effects on the cash flows of the Group, at the acquisition date, are as follows:

(a) Purchase consideration

	$'000
Cash paid and consideration transferred for the business	20,477

(b) Effect on cash flows of the Group

	$'000
Cash paid (as above) and net cash outflow on acquisition	20,477

(c) Identified assets acquired and liabilities assumed

	At fair value $'000
Property, plant and equipment (Note 8)	47,877
Trade and other receivables (Note (e) below)	109,592
Inventories	149,887
Intangible assets (Note 14(b) and Note 14(c))	31,923
	339,279
Trade and other payables	(70,237)
Provisions (Note 21)	(2,135)
Deferred gain	(3,740)
Revolving credit facility	(66,707)
Bank borrowings	(1,397)
Finance lease liabilities	(28,015)
Subordinated notes (Note 22)	(160,456)
Income taxes payables	(5,651)
Deferred tax liabilities (Note 23)	(5,128)
	(343,466)
Total identifiable net liabilities	(4,187)
Less: Non-controlling interests	1,745
Add: Goodwill (Note 14(a))	22,919
Consideration transferred for the business	20,477

39 BUSINESS COMBINATIONS (CONTINUED)

2017 (Continued)

(d) Acquisition-related costs

Acquisition-related costs of $205,000 is included in "administrative expenses" in the consolidated statement of comprehensive income and in operating cash flows in the consolidated statement of cash flows for the financial year ended 31 December 2017.

(e) Acquired receivables

The fair value of trade and other receivables is $109,592,000 and includes trade receivables with a fair value of $106,713,000. The gross contractual amount for trade receivables due is $106,923,000, of which $210,000 is expected to be uncollectible.

(f) Goodwill arising from acquisition

The residual goodwill of $22,919,000 represents the strategic rational of the Group's acquisition of Taiga, enabling the Group to undertake a separate line of business as well as expanding its geographical presence beyond Southeast Asia.

(g) Revenue and profit contribution

The acquired business contributed revenue of $1,389,174,000 and net profit of $14,742,000 to the Group from the period from 31 January 2017 to 31 December 2017. Had Taiga been consolidated from 1 January 2017, consolidated revenue and consolidated profit for the year ended 31 December 2017 would have been $1,477,830,000 and $13,804,000 respectively.

40 PRIOR YEAR ADJUSTMENTS

During the financial year, management reviewed the deferred income taxes related to the fair value adjustments on acquisition of subsidiary corporation, Taiga Building Products Ltd. ("**Taiga**"), and is of the view that given the fair value of the unsecured subordinated notes ("**Taiga Notes**") acquired and adjusted as part of the business combination had been derecognised in prior financial year when Taiga Notes were extinguished upon completion of the exchange offer on 17 November 2017 (Note 22), it is considered more appropriate to derecognise the corresponding deferred income tax assets related to the fair value adjustment made on Taiga Notes during the purchase price allocation exercise (Note 39). Accordingly, a prior year adjustment of $5.4 million (C$5.1 million) has been made to recognise the reversal of deferred income tax assets on the fair value adjustment for Taiga Notes.

40 PRIOR YEAR ADJUSTMENTS (CONTINUED)

The effects of the abovementioned adjustment to the consolidated balance sheet as at 31 December 2017, consolidated statement of comprehensive income and consolidated statement of cash flows for the financial year ended 31 December 2017 are as follows:

The Group	As reported $'000	Adjustment $'000	As restated $'000
Consolidated balance sheet as at 31 December 2017			
Deferred income tax liabilities	4,461	5,454	9,915
Retained profits	62,742	(2,672)	60,070
Non-controlling interests	66,670	(2,782)	63,888
Consolidated statement of comprehensive income for the financial year ended 31 December 2017			
Income tax expense	(4,784)	(5,454)	(10,238)
Net profit	20,364	(5,454)	14,910
Profit attributable to:			
Equity holders of the Company	16,340	(2,672)	13,668
Non-controlling interests	4,024	(2,782)	1,242
Total comprehensive income attributable to:			
Equity holders of the Company	13,354	(2,672)	10,682
Non-controlling interests	4,167	(2,782)	1,385
Consolidated statement of cash flows for the financial year ended 31 December 2017			
Cash flows from operating activities			
Net profit	20,364	(5,454)	14,910
Adjustment for:			
– Income tax expense	(4,784)	(5,454)	(10,238)

The earnings per share attributable to equity holders of the Company is restated accordingly as 1.58 cents (previously reported as 1.88 cents).

41 NEW OR REVISED ACCOUNTING STANDARDS AND INTERPRETATIONS

Below are the mandatory standards, amendments and interpretations to existing standards that have been published, and are relevant for the Group's accounting periods beginning on or after 1 January 2019 and which the Group has not early adopted:

Effective for annual periods beginning on or after 1 January 2019

- SFRS(I) 16 *Leases*

  SFRS(I) 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not change significantly.

  The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

  Upon transition to the new standard, lease liabilities will be measured at the present value of the remaining lease payments discounted by the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets and lease liabilities will be recognised on the balance sheet with the cumulative difference recognised in retained earnings.

  At transition, lease liabilities of approximately $28 million to $30 million will be recognised in the balance sheet. The Group is finalising its assessment of the transitional right-of-use assets with any difference between the lease liability and the right-of-use asset recognised as a reduction of retained earnings. Management is still analysing the assumptions and inputs for the transition, so the final impact may be materially different from the estimate.

  The Group's activities as a lessor are not material and the Group does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

- SFRS(I) INT 23 *Uncertainty Over Income Tax Treatments*

  The interpretation explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. In particular, it discusses:

  i) how to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty;

41 NEW OR REVISED ACCOUNTING STANDARDS AND INTERPRETATIONS (CONTINUED)

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

- SFRS(I) INT 23 *Uncertainty Over Income Tax Treatments* (Continued)

  ii) that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, i.e. that detection risk should be ignored;

  iii) that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment;

  iv) that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty, and

  v) that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements.

  The Group does not expect additional tax liability to be recognised arising from the uncertain tax positions as disclosed in Note 3.1(f) on the adoption of the interpretation on 1 January 2019.

Effective for annual periods beginning on or after 1 January 2020

- Amendments to SFRS(I) 3: Definition of a Business
- Amendments to SFRS(I) 1-1 and SFRS(I) 1-8: Definition of Material

Effective for annual periods beginning on or after 1 January 2021

- SFRS(I) 17 *Insurance Contracts*

Effective date: to be determined

- Amendments to SFRS(I) 10 and SFRS(I) 1-28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

NOTES TO THE FINANCIAL STATEMENTS

42 EVENTS OCCURRING AFTER BALANCE SHEET DATE

(a) Amalgamation of Avarga Canada Limited and Kublai Canada Limited

Avarga Canada Limited and Kublai Canada Limited, wholly-owned subsidiary corporations of the Group, were amalgamated on 1 January 2019. Both Avarga Canada Limited and Kublai Canada Limited were investment holding companies. The existing share capital of Avarga Canada Limited of 100 common shares and 29,500,000 preferred shares were exchanged into 7,670 common shares and 29,500,000 preferred shares without par value of the new amalgamated company which is held by UPP Investments Luxembourg S.à.r.l.. While the existing share capital of Kublai Canada Limited of 10 common shares and 9,216,100 preferred shares were exchanged into 2,330 common shares without par value and 9,216,100 preferred shares with par value of C$1.00 of the new amalgamated company which is held by the Company. The new amalgamated company name is Avarga Canada Limited.

(b) Completion of disposal of Tuas property

On 28 January 2019, the Group had completed the disposal of the property at 35 Tuas View Crescent Singapore 637608 classified as assets held-for-sale for a consideration of $18,600,000 (Note 13).

(c) Interim special dividend for financial year ending 31 December 2019

On 23 February 2019, a special interim dividend of 1.5 cents per share was declared out of the gains from the disposal of the abovementioned property (Note 42(b)).

43 AUTHORISATION OF FINANCIAL STATEMENTS

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors of Avarga Limited (formerly known as UPP Holdings Limited) on 22 March 2019.

ADDITIONAL SGX DISCLOSURES IN THE ANNUAL REPORT

MATERIAL CONTRACTS

Since the end of the financial year ended 31 December 2018, the Company and its subsidiary corporations did not enter into any material contracts involving interests of the Chief Executive Officer, Directors or controlling shareholders and no such material contract still subsist at the end of the financial year, save for Interested Person Transactions disclosed on page 48 of this Annual Report.

LIST OF MAJOR PROPERTIES

The following properties are owned/leased by the Group:

Location	Description	Land area (sq.m)	Tenure
UPP Industries Pte. Ltd. 35 Tuas View Crescent Singapore 637608 (Completion of disposal on 28 January 2019)	Office and factory	15,999	30 years commencing from 1 December 1999 (with an option to extend for an additional 30 years)
UPP Pulp & Paper (M) Sdn. Bhd. Lots 225-227 & Lots 240-242 Jalan Kuala Selangor, 45620 Ijok Batang Berjuntai, Selangor Malaysia	Office and factory	121,657	Freehold
Lot 538, Mukim of Ijok Kuala Selangor, Selangor Malaysia	Land	6,891	99 years commencing from 17 May 1984
Lot 2772, Mukim of Ijok Kuala Selangor, Selangor Malaysia	Land	3,518	99 years commencing from 13 May 1992
Taiga Building Products Ltd. 4385 Pacific Street Rocklin, CA 95677 California, Western USA	Distribution Centre	55,037	Freehold
1980 Industrial Way Sanger, California Western USA	Distribution Centre	50,990	Freehold

SHAREHOLDING STATISTICS

AS AT 15 MARCH 2019

ISSUED AND FULLY PAID UP CAPITAL	:	S$169,581,863
NO. OF SHARES ISSUED	:	950,106,121
NO. OF TREASURY SHARES HELD	:	3,037,000
NO. OF SUBSIDIARY HOLDINGS HELD	:	NIL
NO. OF ISSUED SHARES (EXCLUDING TREASURY SHARE)	:	947,069,121
CLASS OF SHARES	:	ORDINARY SHARES
VOTING RIGHTS	:	1 VOTE PER SHARE

Size of Shareholdings	Number of Shareholders	%	Number of Shares	%
1 – 99	107	3.04	1,633	0.00
100 – 1,000	323	9.18	302,904	0.03
1,001 – 10,000	1,401	39.82	8,064,251	0.85
10,001 – 1,000,000	1,658	47.13	126,611,449	13.33
1,000,001 and above	29	0.83	815,125,884	85.79
Total	**3,518**	**100.00**	**950,106,121**	**100.00**

TOP 20 SHAREHOLDERS

S/No.	Name	Number of Shares Held	%
1	CGS-CIMB SECURITIES (SINGAPORE) PTE LTD	227,140,542	23.98
2	LIM ENG HOCK	183,246,925	19.35
3	CITIBANK NOMINEES SINGAPORE PTE LTD	105,770,275	11.17
4	UOB KAY HIAN PTE LTD	94,748,400	10.00
5	RAFFLES NOMINEES (PTE) LTD	38,109,900	4.02
6	OCBC SECURITIES PRIVATE LTD	29,701,290	3.14
7	DBS NOMINEES PTE LTD	18,685,363	1.97
8	DBS VICKERS SECURITIES (S) PTE LTD	18,378,800	1.94
9	MAYBANK KIM ENG SECURITIES PTE. LTD.	17,026,792	1.80
10	RHB SECURITIES SINGAPORE PTE LTD	15,367,200	1.62
11	UNITED OVERSEAS BANK NOMINEES PTE LTD	11,178,508	1.18
12	LIM JUEXIN LEONARD	6,466,000	0.68
13	PHILLIP SECURITIES PTE LTD	6,143,729	0.65
14	KHOO POH KOON	5,748,001	0.61
15	HSBC (SINGAPORE) NOMINEES PTE LTD	4,100,000	0.43
16	ALPHA SECURITIES PTE LTD	4,000,000	0.42
17	OCBC NOMINEES SINGAPORE PTE LTD	3,949,460	0.42
18	CHIEW POH CHENG	3,140,000	0.33
19	WONG SUEI HORNG	3,000,000	0.34
20	DIANA SNG SIEW KHIM	2,573,000	0.27
	Total	**798,474,185**	**84.32**

Source: The Central Depository (Pte) Limited

Substantial Shareholders	Number of Shares (Direct Interest)	Number of Shares (Deemed Interest)
Lim Eng Hock	183,246,925	–
Tong Kooi Ong	–	295,364,000(1)
Phileo Capital Limited	221,925,000	–
Genghis S.à.r.l.	73,439,000	–
3Cs Investments Ltd	–	73,439,000(3)
TMF Trustees Singapore Limited	–	295,364,000(2)

Notes:

(1) Shares held in the name of the registered holders, Phileo Capital Limited and Genghis S.à.r.l..

(2) Issued shares held in the name of the registered holders, Phileo Capital Limited and Genghis S.à.r.l..

(3) Issued shares held in the name of the registered holder, Genghis S.à.r.l..

Approximately 45.26% of the issued Ordinary Shares are held in the hands of the public. Rule 723 of the Listing Manual of the Singapore Exchange Securities Trading Limited has accordingly been complied with.

WARRANTHOLDINGS STATISTICS

AS AT 15 MARCH 2019

WARRANTS (W200212)
LISTING DATE : 16 FEBRUARY 2017
EXPIRY DATE : 12 FEBRUARY 2020

Size of Warrantholdings	Number of Warrantholders	%	Number of Warrants held	%
1 – 99	113	3.65	1,880	0.00
100 – 1,000	314	10.14	296,310	0.04
1,001 – 10,000	1,302	42.06	7,210,142	0.86
10,001 – 1,000,000	1,331	42.99	116,143,469	13.88
1,000,001 and above	36	1.16	713,015,320	85.22
Total	**3,096**	**100.00**	**836,667,121**	**100.00**

TOP 20 WARRANTHOLDERS

S/No.	Name	Number of Warrants Held	%
1	CGS-CIMB SECURITIES (SINGAPORE) PTE LTD	222,124,925	26.55
2	LIM ENG HOCK	183,246,925	21.90
3	CITIBANK NOMINEES SINGAPORE PTE LTD	77,469,275	9.26
4	OCBC SECURITIES PRIVATE LTD	32,592,190	3.90
5	MAYBANK KIM ENG SECURITIES PTE LTD	21,442,034	2.56
6	RAFFLES NOMINEES (PTE) LTD	20,633,500	2.47
7	UOB KAY HIAN PTE LTD	17,967,800	2.15
8	DBS NOMINEES PTE LTD	17,356,563	2.07
9	DBS VICKERS SECURITIES (S) PTE LTD	14,206,800	1.70
10	RHB SECURITIES SINGAPORE PTE LTD	13,445,800	1.61
11	UNITED OVERSEAS BANK NOMINEES PTE LTD	10,853,719	1.30
12	PHILLIP SECURITIES PTE LTD	8,679,729	1.04
13	TANG CHONG SIM	6,700,000	0.80
14	LIM JUEXIN LEONARD	6,466,000	0.77
15	TAN SEE SENG	6,185,100	0.74
16	HSBC (SINGAPORE) NOMINEES PTE LTD	6,017,100	0.72
17	WONG NYOK NGO	6,000,000	0.72
18	KHOO POH KOON	5,748,001	0.69
19	OCBC NOMINEES SINGAPORE PTE LTD	3,644,160	0.44
20	WONG SUEI HORNG	2,600,000	0.31
	Total	**683,379,621**	**81.70**

Source: The Central Depository (Pte) Limited

NOTICE OF
ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 52nd Annual General Meeting of **AVARGA LIMITED** (the "**Company**") will be held on Friday, 26 April 2019 at 9.30 a.m. at Tan Chin Tuan Function Room 2, Level 4, YMCA of Singapore, 1 Orchard Road, Singapore 238824 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' Statement and Audited Accounts of the Company for the financial year ended 31 December 2018 together with the Auditors' Report thereon. **(Ordinary Resolution 1)**

2. To approve a final dividend of 3.00 cents tax exempt (one tier) dividend per share for the financial year ended 31 December 2018. *(See Explanatory Note (i))* **(Ordinary Resolution 2)**

3. To approve the payment of Directors' fees of up to S$400,000 payable by the Company for the financial year ending 31 December 2019. **(Ordinary Resolution 3)**

4. To re-elect Ms. Ng Shin Ein, retiring pursuant to Regulation 104 of the Constitution of the Company. *(See Explanatory Note (ii))* **(Ordinary Resolution 4)**

5. To re-elect Dato' Seri Kalimullah Bin Masheerul Hassan, retiring pursuant to Regulation 104 of the Constitution of the Company. *(See Explanatory Note (iii))* **(Ordinary Resolution 5)**

6. To re-elect Ms. Chan Lay Hoon, who ceases to hold office in accordance with Regulation 114 of the Constitution of the Company and who, being eligible, offers herself for re-election. *(See Explanatory Note (iv))* **(Ordinary Resolution 6)**

7. To re-appoint Messrs Nexia TS Public Accounting Corporation as Auditors of the Company and to authorise the Directors to fix their remuneration. **(Ordinary Resolution 7)**

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

AS SPECIAL BUSINESS

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

9. **Authority to Directors to Issue Shares**

   As an Ordinary Resolution:

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

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

(ii) convertible securities;

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

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

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

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

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

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

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

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

(3) in exercising the authority conferred by this Resolution, the Company shall comply with the rules, guidelines and measures issued by the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Constitution of the Company; and (unless revoked or varied by the Company in General Meeting), in respect of sub-paragraph (1) above the authority conferred by this Resolution shall continue in force until the conclusion of the next Annual General Meeting of the Company ("**AGM**") or the date by which the next AGM of the Company is required by law to be held, whichever is earlier. *(See Explanatory Note (v))* **(Ordinary Resolution 8)**

10. **Authority to offer and grant options and allot and issue shares pursuant to the Avarga Group Employees' Share Option Scheme 2018**

As an Ordinary Resolution:

That authority be and is hereby given to the Directors to offer and grant options in accordance with the provisions of the Avarga Group Employees' Share Option Scheme 2018 (the "**Avarga Group ESOS 2018**") approved by Shareholders in general meeting on 27 April 2018 as may be amended from time to time, and pursuant to Section 161 of the Companies Act, Cap. 50, to allot and issue and/or transfer from time to time such number of shares in the Company as may be required to be issued and/or transferred pursuant to the exercise of the options under the Avarga Group ESOS 2018, notwithstanding that the approval has ceased to be in force if the shares are issued pursuant to the exercise of an option granted while the approval to offer and grant the option was in force provided always that the aggregate number of shares to be issued pursuant to the Avarga Group ESOS 2018, when added to (a) the aggregate number of shares issued or issuable in respect of any other share-based incentive schemes of the Company (if any) and (b) the number of treasury shares and subsidiary holdings delivered in respect of the options granted under all the other share-based incentive schemes of the Company (if any), shall not exceed fifteen per cent. (15%) of the issued shares (excluding treasury shares and subsidiary holdings) of the Company on the date immediately preceding the date of grant of the option. Such authority shall, unless revoked or varied by the Company in a general meeting, continue in force until the conclusion of the next AGM of the Company or the date by which the next AGM of the Company is required by law to be held, whichever is earlier.
(See Explanatory Note (vi)) **(Ordinary Resolution 9)**

11. **Approval for Renewal of Share Purchase Mandate**

As an Ordinary Resolution:

(a) That for the purposes of Sections 76C and 76E of the Companies Act, Cap. 50 of Singapore (the "**Act**"), the exercise by the Directors of all the powers of the Company to purchase or otherwise acquire issued ordinary shares of the Company (the "**Shares**") not exceeding in aggregate the Prescribed Limit (as hereinafter defined), at such price or prices as may be determined by the Directors from time to time up to the Maximum Price (as hereinafter defined), whether by way of:

(i) on-market purchases (each an "**On-Market Share Purchase**") on the Singapore Exchange Securities Trading Limited (the "**SGX-ST**"); and/or

(ii) off-market purchases (each an "**Off-Market Share Purchase**") effected in accordance with any equal access scheme(s) as may be determined or formulated by the Directors as they may consider fit, which scheme(s) shall satisfy all the conditions prescribed by the Act,

and otherwise in accordance with all other laws and regulations and rules of the SGX-ST as may for the time being be applicable, be and is hereby authorised and approved generally and unconditionally (the "**Share Purchase Mandate**");

(b) unless varied or revoked by the Company in general meeting, the authority conferred on the Directors pursuant to the Share Purchase Mandate may be exercised by the Directors at any time and from time to time during the period commencing from the date of the passing of this Resolution and expiring on the earliest of:

(i) the date on which the next AGM of the Company is held;

(ii) the date by which the next AGM of the Company is required by law to be held; and

(iii) the date on which the purchase of Shares by the Company pursuant to the Share Purchase Mandate is carried out to the full extent mandated;

(c) in this Resolution:

"**Prescribed Limit**" means 10% of the total number of issued Shares as at the date of the passing of this Resolution (excluding any Shares which are held as treasury shares or subsidiary holdings as at that date); and

"**Maximum Price**" in relation to a Share to be purchased, means an amount (excluding brokerage, stamp duties, commission, applicable goods and services tax and other related expenses) not exceeding:

(i) in the case of an On-Market Share Purchase, 105% of the Average Closing Price; and

(ii) in the case of an Off-Market Share Purchase, 120% of the Average Closing Price,

where:

"**Average Closing Price**" means the average of the closing market prices of a Share over the last 5 Market Days ("**Market Day**" being a day on which the SGX-ST is open for securities trading), on which transactions in the Shares were recorded, before the day on which the On-Market Share Purchase was made or before the date of the Company's announcement of an offer for the Off-Market Share Purchase, as the case may be, and deemed to be adjusted for any corporate action that occurs after the relevant 5 Market Days; and

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(d) the Directors of the Company and/or each of them be and are/is hereby authorised to complete and do all such acts and things as they and/or he may consider necessary, desirable, expedient, incidental or in the interests of the Company to give effect to the transactions contemplated and/or authorised by this Resolution. *(See Explanatory Note (vii))* **(Ordinary Resolution 10)**

BY ORDER OF THE BOARD

Tong Kooi Ong
Executive Chairman and Chief Executive Officer

11 April 2019

Notes:

1. (a) A member of the Company who is not a relevant intermediary entitled to attend and vote at the above Meeting may appoint not more than two (2) proxies to attend and vote in his stead. Where a member appoints two (2) proxies, he shall specify the proportion of his shareholdings to be represented by each proxy.

   (b) A member of the Company who is a relevant intermediary is entitled to appoint more than two (2) proxies to attend and vote at the AGM, but each proxy must be appointed to exercise the rights attached to a different Share or Shares held by such member (which number and class of Shares shall be specified). In such an event, such member shall submit a list of its proxies together with the information required in this proxy form to the Company.

   "**relevant intermediary**" means:

   (i) a banking corporation licensed under the Banking Act, Chapter 19 of Singapore, or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity;

   (ii) a person holding a capital markets services license to provide custodial services for securities under the Securities and Futures Act, Chapter 289 of Singapore, and who holds shares in that capacity; or

   (iii) the Central Provident Fund Board established by the Central Provident Fund Act, Chapter 36 of Singapore, in respect of shares purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.

2. A proxy need not be a member of the Company.

3. The instrument appointing a proxy must be deposited at the Registered Office of the Company not less than seventy-two (72) hours before the time appointed for holding the Meeting.

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

Personal Data Privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Annual General Meeting and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents or service providers) for the purpose of the processing, administration and analysis by the Company (or its agents or service providers) of proxies and representatives appointed for the AGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the AGM (including any adjournment thereof), and in order for the Company (or its agents or service providers) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "**Purposes**"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents or service providers), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents or service providers) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

Explanatory Notes:

(i) Ordinary Resolution 2

For the financial year ended 31 December 2017, the Company paid an interim dividend of 0.50 cents per share and a final dividend of 0.50 cents per share. For the financial year ended 31 December 2018, the Company has paid an interim dividend of 0.50 cents per share and will be paying an additional final dividend of 3.00 cents per share, if approved by the members of the Company at the Annual General Meeting. More information on the proposed final dividend of 3.00 cents can be found in the "**Chairman and CEO's Statement**" section of the Company's Annual Report 2018.

(ii) Ordinary Resolution 4

Subject to her re-election, Ms. Ng Shin Ein will be re-appointed as an Independent Director. Ms. Ng Shin Ein is also the Chairman of the Remuneration Committee, and a member of the Nominating Committee and the Audit and Risk Management Committee. Detailed information on Ms. Ng Shin Ein can be found in the "**Board of Directors**", "**Directors' Statement**" and "**Report on Corporate Governance**" sections of the Company's Annual Report 2018.

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(iii) Ordinary Resolution 5

Subject to his re-election, Dato' Seri Kalimullah Bin Masheerul Hassan will be re-appointed as an Independent Director. Dato' Seri Kalimullah Bin Masheerul Hassan is also the Chairman of the Nominating Committee, and a member of the Remuneration Committee and the Audit and Risk Management Committee. Detailed information on Dato' Seri Kalimullah Bin Masheerul Hassan can be found in the "**Board of Directors**", "**Directors' Statement**" and "**Report on Corporate Governance**" sections of the Company's Annual Report 2018.

(iv) Ordinary Resolution 6

Subject to her re-election, Ms. Chan Lay Hoon will be re-appointed as a Non-Executive, Non-Independent Director. Ms. Chan Lay Hoon is also a member of the Audit and Risk Management Committee. Detailed information on Ms. Chan Lay Hoon can be found in the "**Board of Directors**", "**Directors' Statement**" and "**Report on Corporate Governance**" sections of the Company's Annual Report 2018.

(v) Ordinary Resolution 8

The Ordinary Resolution 8 proposed above, if passed, will empower the Directors of the Company to issue shares in the capital of the Company and to make or grant convertible securities, and to issue shares in pursuance of such convertible securities, without seeking any further approval from shareholders in general meeting, up to a number not exceeding fifty per cent. (50%) of the total number of Issued Shares of which up to twenty per cent. (20%) of the total number of Issued Shares may be issued other than on a pro rata basis to shareholders.

(vi) Ordinary Resolution 9

The Ordinary Resolution 9 proposed above, if passed, will empower the Directors of the Company to offer and grant options and to allot and issue and/or transfer shares in the capital of the Company pursuant to the exercise of options under the Avarga Group ESOS 2018, provided that the aggregate number of shares to be issued and/or transferred pursuant to the Avarga Group ESOS 2018, when added to (a) the aggregate number of shares issued or issuable in respect of any other share-based incentive schemes of the Company (if any) and (b) the number of treasury shares and subsidiary holdings delivered in respect of the options granted under all the other share-based incentive schemes of the Company (if any), shall not exceed fifteen per cent. (15%) of the issued shares (excluding treasury shares and subsidiary holdings) of the Company on the date immediately preceding the date of grant of the option. This authority will, unless previously revoked or varied at a general meeting, expire at the conclusion of the next AGM of the Company or the expiration of the period within which the next AGM is required by law to be held, whichever is earlier.

(vii) Ordinary Resolution 10

The Ordinary Resolution 10 proposed above, if passed, will enable the Directors of the Company, unless varied or revoked by the Company in general meeting, from the date of the above Annual General Meeting until the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting is required by law to be held, or the date on which the purchase of Shares by the Company is carried out to the full extent mandated, whichever is the earliest, to purchase Shares by way of On-Market Share Purchases and/or Off-Market Share Purchases of up to 10% of the total number of issued Shares (excluding treasury shares and subsidiary holdings of the Company) at the time of the passing of the ordinary resolution and up to the Maximum Price. The Company intends to use internal sources of funds or external borrowings, or a combination of both, to finance its purchase of Shares pursuant to the Share Purchase Mandate. The amount of funding required for the Company to purchase or acquire its Shares and the financial impact on the Company and the Group arising from the purchase of Shares cannot be ascertained as at the date of this Notice as these will depend on, *inter alia*, the aggregate number of Shares purchased or acquired, and the consideration paid at the relevant time and the amount (if any) borrowed by the Company to fund the purchase. The rationale for, the authority and the limits on, and the financial effects of the purchase or acquisition of Shares by the Company pursuant to the Share Purchase Mandate on the audited financial statements of the Company and the Group for the financial year ended 31 December 2018 (for illustrative purposes only) are set out in greater detail in the Appendix to the Notice of Annual General Meeting dated 11 April 2019 in relation to the proposed renewal of the Share Purchase Mandate.

APPENDIX DATED 11 APRIL 2019

THIS APPENDIX IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the course of action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

If you have sold or transferred all your issued and fully paid-up ordinary shares in the capital of Avarga Limited, you should immediately forward this Appendix to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale was effected for onward transmission to the purchaser or transferee.

The Singapore Exchange Securities Trading Limited (the "**SGX-ST**") assumes no responsibility for the accuracy of any of the statements made, opinions expressed or reports contained in this Appendix.

AVARGA
LIMITED

AVARGA LIMITED
(Incorporated in the Republic of Singapore)
(Company Registration No.: 196700346M)

APPENDIX TO THE NOTICE OF ANNUAL GENERAL MEETING DATED 11 APRIL 2019

IN RELATION TO THE PROPOSED RENEWAL OF THE SHARE PURCHASE MANDATE

DEFINITIONS

Except where the context otherwise requires, the following definitions apply throughout this Appendix:–

"ACRA"	:	Accounting and Corporate Regulatory Authority of Singapore
"AGM"	:	Annual general meeting of the Company
"Board"	:	The board of directors of the Company
"CDP"	:	The Central Depository (Pte) Limited
"Company"	:	Avarga Limited
"Companies Act"	:	Companies Act (Chapter 50) of Singapore, as may be amended or modified from time to time
"Constitution"	:	The existing Constitution of the Company
"Controlling Shareholder"	:	A person who holds directly or indirectly 15% or more of the total voting rights of the Company (unless the SGX-ST determines otherwise) or a person who in fact exercises control over the Company, as defined under the Listing Manual
"Directors"	:	The directors of the Company as at the Latest Practicable Date
"EPS"	:	Earnings per Share
"FY2018"	:	Financial year ended 31 December 2018
"Group"	:	The Company and its subsidiaries
"Latest Practicable Date"	:	15 March 2019, being the latest practicable date prior to the printing of this Appendix
"Listing Manual"	:	The listing manual of the SGX-ST, as may be amended or modified from time to time
"Market Day"	:	A day on which the SGX-ST is open for securities trading
"NAV"	:	Net asset value
"Off-Market Share Purchase"	:	A Share Purchase (if effected otherwise than on the SGX-ST) pursuant to an equal access scheme (as defined under Section 76C of the Companies Act) for the purchase of Shares from the Shareholders
"On-Market Share Purchase"	:	A Share Purchase effected on the SGX-ST through the ready market, through one or more duly licensed stockbrokers appointed by the Company for the purpose

DEFINITIONS

"Registrar"	:	Registrar of Companies appointed under the Companies Act and includes any Deputy or Assistant Registrar of Companies
"Securities Account"	:	The securities account maintained by a Depositor with CDP but does not include a securities sub-account maintained with a Depository Agent
"SGX-ST"	:	Singapore Exchange Securities Trading Limited
"Shareholders"	:	Registered holders of Shares except that where the registered holder is CDP, the term "**Shareholders**" shall, in relation to such Shares and where the context admits, mean the persons named as Depositors in the Depository Register and whose Securities Accounts are credited with the Shares
"Share Purchase"	:	Purchase or acquisition of Shares by the Company pursuant to the Share Purchase Mandate
"Share Purchase Mandate"	:	General mandate given by Shareholders to authorise the Board to purchase or otherwise acquire Shares in accordance with the terms set out in this Appendix as well as the rules and regulations set forth in the Companies Act and the Listing Manual
"Shares"	:	Ordinary shares in the capital of the Company
"SIC"	:	Securities Industry Council of Singapore
"Substantial Shareholder"	:	A person who has an interest in not less than 5% of the issued voting Shares of the Company
"Take-over Code"	:	The Singapore Code on Take-overs and Mergers, as may be amended or modified from time to time
"S$" and "cents"	:	Singapore dollars and cents respectively
"%"	:	Percentage or per centum

The terms "**Depositor**", "**Depository Agent**" and "**Depository Register**" shall have the meanings ascribed to them respectively in Section 81SF of the Securities and Futures Act (Chapter 289) of Singapore.

The term "**treasury shares**" shall have the meaning ascribed to it in Section 4 of the Companies Act.

The term "**subsidiary**" shall have the meaning ascribed to it in Section 5 of the Companies Act.

Words denoting the singular shall, where applicable, include the plural and vice versa and words denoting the masculine gender shall, where applicable, include the feminine and neuter genders and vice versa. References to persons shall, where applicable, include corporations.

DEFINITIONS

Any reference in this Appendix to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any word defined under the Companies Act or the Listing Manual or any statutory modification thereof and used in this Appendix shall, where applicable, have the meaning assigned to it under the Companies Act or the Listing Manual or any such statutory modification thereof, as the case may be, unless otherwise provided.

Any reference to a time of day and dates in this Appendix shall be a reference to Singapore time and dates, unless otherwise stated.

Any discrepancies in figures included in this Appendix between the amounts listed and the totals thereof are due to rounding. Accordingly, figures shown as totals in this Appendix may not be an arithmetic aggregation of the figures that precede them.

THE PROPOSED RENEWAL OF THE SHARE PURCHASE MANDATE

1 INTRODUCTION

1.1 Avarga Limited (the "**Company**") has on 11 April 2019 issued a Notice convening the 52nd Annual General Meeting of the shareholders of the Company (the "**Shareholders**") to be held on 26 April 2019 (the "**2019 AGM**").

1.2 We refer to Ordinary Resolution No. 10 relating to the proposed renewal of the Share Purchase Mandate. It is a requirement under the Companies Act that a company, which wishes to purchase or otherwise acquire its own shares, has to obtain the approval of its shareholders at a general meeting of the company. The Company proposes to seek the approval of the Shareholders at the forthcoming 2019 AGM for the renewal of the Share Purchase Mandate to authorise the Directors to buy back its issued and fully paid Shares in accordance with the terms set out in this Appendix as well as the rules and regulations set out in the Companies Act and the Listing Manual.

1.3 The purpose of this Appendix is to explain the rationale for, and provide Shareholders with information relating to, the proposed renewal of the Share Purchase Mandate.

2 THE PROPOSED RENEWAL OF THE SHARE PURCHASE MANDATE

2.1 RATIONALE FOR THE SHARE PURCHASE MANDATE

2.1.1 The Share Purchase Mandate will give the Company the flexibility to undertake Share Purchases at any time, subject to market conditions, during its validity period. The Directors believe that the Share Purchase Mandate will provide the Company with a mechanism to facilitate the return of any surplus cash in excess of the Group's working capital requirements in an expedient and cost-efficient manner. The Directors further believe that Share Purchases may also buffer short-term share price volatility and offset the effects of share price speculation. Where Shares are purchased by the Company and are held as treasury shares, it will also enable the Company to transfer the treasury shares for the purposes of the Company's employees' share option scheme.

2.1.2 If and when circumstances permit, the Directors will decide whether to effect the Share Purchases via On-Market Share Purchases or Off-Market Share Purchases, after taking into account the amount of surplus cash available, the then prevailing market conditions and the most cost effective and efficient approach.

2.1.3 The Share Purchases would be made only as and when the Directors consider it to be in the best interests of the Company and in appropriate circumstances which the Directors believe will not result in any material adverse effect on the liquidity and the orderly trading of the Shares, as well as the financial condition of the Group.

2.2 AUTHORITY AND LIMITS ON THE SHARE PURCHASE MANDATE

The authority and limits placed on the Share Purchases under the Share Purchase Mandate are set out below:–

2.2.1 Maximum number of Shares

(a) Only Shares which are issued and fully paid-up may be purchased or acquired by the Company. In accordance with Rule 882 of the Listing Manual, the total number of Shares which may be purchased or acquired pursuant to the Share Purchase Mandate shall not exceed 10% of the total number of issued Shares (excluding treasury shares and subsidiary holdings) in each class as at the date of the 2019 AGM at which approval for the proposed renewal of the Share Purchase Mandate is being sought (the "**Approval Date**"). Under the Companies Act, any Shares which are held as treasury shares and subsidiary holdings will be disregarded for the purpose of computing the 10% limit. As at the Latest Practicable Date, the Company had 3,037,000 treasury shares and no subsidiary holdings, and the Shares, being the ordinary shares in the capital of the Company, were the only class of shares issued by the Company.

(b) For illustrative purposes only, on the basis of 947,069,121 issued Shares as at the Latest Practicable Date, and assuming that no further Shares are issued prior to the 2019 AGM, not more than 94,706,912 Shares (representing 10% of the total number of issued Shares as at that date) may be purchased by the Company pursuant to the proposed Share Purchase Mandate during the duration referred to in paragraph 2.2.2(a) below.

2.2.2 Duration of Authority

(a) Share Purchases may be made, at any time and from time to time, on and from the Approval Date up to:–

(i) the date on which the next annual general meeting of the Company is held or required by law to be held;

(ii) the date on which the Share Purchases are carried out to the full extent mandated; or

(iii) the date on which the authority conferred by the Share Purchase Mandate is revoked or varied by the Shareholders in a general meeting,

whichever is the earliest.

(b) The authority conferred on the Board by the Share Purchase Mandate to purchase Shares may be renewed at the next annual general meeting of the Company or at an extraordinary general meeting of the Company to be convened immediately after the conclusion or adjournment of the next annual general meeting.

2.2.3 Manner of Share Purchases

(a) Share Purchases may be made by way of:

(i) an On-Market Share Purchase; and/or

(ii) an Off-Market Share Purchase.

(b) The Directors may impose such terms and conditions which are not inconsistent with the Share Purchase Mandate, the Listing Manual and the Companies Act, as they consider fit in the interests of the Company in connection with or in relation to any equal access scheme or schemes. However, an Off-Market Share Purchase effected in accordance with an equal access scheme must satisfy all the following conditions:–

(i) offers under the scheme are to be made to every person who holds Shares to purchase or acquire the same percentage of their Shares;

(ii) all of those persons shall be given a reasonable opportunity to accept the offers made to them; and

(iii) the terms of all the offers shall be the same, except that there shall be disregarded:–

(1) differences in consideration attributable to the fact that the offers relate to Shares with different accrued dividend entitlements;

(2) differences in consideration attributable to the fact that the offers relate to Shares with different amounts remaining unpaid (if applicable); and

(3) differences in the offers introduced solely to ensure that each person is left with a whole number of Shares.

(c) In addition, the Listing Manual provides that, in making an Off-Market Share Purchase, the Company must issue an offer document to all Shareholders which must contain at least the following information:–

(i) the terms and conditions of the offer;

(ii) the period and procedures for acceptance;

(iii) the reasons for the proposed Share Purchase;

(iv) the consequences, if any, of Share Purchases that will arise under the Take-over Code or other applicable take-over rules;

(v) whether the Share Purchase, if made, could affect the listing of the Shares on the SGX-ST;

(vi) details of any Share Purchases made by the Company during the previous 12 months (whether On-Market Share Purchases or Off-Market Share Purchases), giving the total number of Shares purchased, the purchase price per Share or the highest and lowest prices paid for such Share Purchases, where relevant, and the total consideration paid for such Share Purchases; and

(vii) whether the Shares purchased by the Company will be cancelled or kept as treasury shares.

2.2.4 Maximum Purchase Price

(a) The purchase price (excluding brokerage, stamp duties, commission, applicable goods and services tax and other related expenses) to be paid for a Share will be determined by the Directors.

(b) However, the purchase price to be paid for the Shares pursuant to the Share Purchase Mandate must not exceed:–

(i) in the case of an On-Market Share Purchase, 105% of the Average Closing Price (as defined below) of the Shares; and

(ii) in the case of an Off-Market Share Purchase, 120% of the Average Closing Price of the Shares,

(the "**Maximum Price**").

(c) For the above purposes, "**Average Closing Price**" means the average of the closing market prices of a Share over the last 5 Market Days, on which transactions in the Shares were recorded, before the day on which the On-Market Share Purchase was made or, as the case may be, before the date of making an announcement by the Company of an offer for an Off-Market Share Purchase and deemed to be adjusted for any corporate action that occurs after the relevant 5 Market Days.

2.3 STATUS OF PURCHASED SHARES UNDER THE SHARE PURCHASE MANDATE

2.3.1 Under Section 76B of the Companies Act, any Share which is purchased shall, unless held as a treasury share, be deemed cancelled immediately on purchase, and all rights and privileges attached to that Share will expire on cancellation. All Shares purchased by the Company, unless held as treasury shares, will be automatically delisted by the SGX-ST, and (where applicable) all certificates in respect thereof will be cancelled and destroyed by the Company as soon as reasonably practicable following the settlement of any such purchase. The total number of issued Shares will be diminished by the number of Shares purchased or acquired by the Company and which are not held as treasury shares.

2.3.2 Some of the provisions on treasury shares under the Companies Act are summarised below:–

(a) Maximum Holdings

The number of Shares held as treasury shares shall not at any time exceed 10% of the total number of issued Shares; and the Company shall be entered in the Register of Members or the Depository Register, as the case may be, as the member holding those Shares.

(b) Voting and Other Rights

The Company cannot exercise any right in respect of treasury shares. In particular, the Company cannot exercise any right to attend or vote at meetings; and for the purposes of the Companies Act, the Company shall be treated as having no right to vote in respect of treasury shares and the treasury shares shall be treated as having no voting rights.

In addition, no dividend may be paid, and no other distribution of the Company's assets may be made, to the Company in respect of the treasury shares. However, the allotment of Shares as fully paid bonus shares in respect of treasury shares is allowed. Also, a subdivision or consolidation of any treasury share into treasury shares of a greater or smaller number, as the case may be, is allowed so long as the total value of the treasury shares after the sub-division or consolidation is the same as before.

(c) Disposal and Cancellation

Where Shares purchased or acquired by the Company are held as treasury shares, the Company may at any time:–

(i) sell the treasury shares (or any of them) for cash;

(ii) transfer the treasury shares (or any of them) for the purposes of or pursuant to any share scheme, whether for the Company's employees, directors or other persons;

(iii) transfer the treasury shares (or any of them) as consideration for the acquisition of shares in or assets of another company or assets of a person;

(iv) cancel the treasury shares (or any of them); or

(v) sell, transfer or otherwise use the treasury shares for such other purposes as may be prescribed by the Minister for Finance.

The Shares purchased under the Share Purchase Mandate will be held as treasury shares or cancelled by the Company taking into consideration the then prevailing circumstances and requirements of the Company at the relevant time.

In addition, under the Listing Manual, an immediate announcement must be made of any sale, transfer, cancellation and/or use of treasury shares, stating the following:–

(i) date of the sale, transfer, cancellation and/or use;

(ii) purpose of such sale, transfer, cancellation and/or use;

(iii) number of treasury shares sold, transferred, cancelled and/or used;

(iv) number of treasury shares before and after such sale, transfer, cancellation and/or use;

(v) percentage of the number of treasury shares against the total number of Shares outstanding in a class that is listed before and after such sale, transfer, cancellation and/or use; and

(vi) value of the treasury shares if they are used for a sale or transfer, or cancelled.

2.4 REPORTING REQUIREMENTS

2.4.1 Within 30 days of the passing of a Shareholders' resolution to approve or renew the Share Purchase Mandate, as the case may be, the Company shall lodge a copy of such resolution with the Registrar.

2.4.2 The Company shall lodge with the Registrar a notice of Share Purchase within 30 days of such Share Purchase. Such notification shall include the date of the purchases, the number of Shares purchased by the Company, the number of Shares cancelled, the number of treasury shares held, the Company's issued share capital before and after the purchases, the amount of consideration paid by the Company for the purchases, whether the Shares were purchased out of the profits or the capital of the Company and such other particulars as may be required in the prescribed form.

2.4.3 Within 30 days of the cancellation or disposal of treasury shares in accordance with the Companies Act, the Company shall lodge with the Registrar a notice of the cancellation or disposal of treasury shares with such particulars as may be required in the prescribed form.

2.5 SOURCE OF FUNDS

2.5.1 The Company may only apply funds for the Share Purchases in accordance with the applicable laws in Singapore. The Company may not purchase its Shares for a consideration other than in cash and in the case of an On-Market Share Purchase, for settlement otherwise than in accordance with the trading rules of the SGX-ST.

2.5.2 The Company intends to use internal sources of funds or external borrowings, or a combination of both, to finance its Share Purchases.

2.5.3 The Companies Act stipulates that any purchases of Shares may be made out of the Company's capital and/or profits so long as the Company is solvent. Under the Companies' Act, a Company is solvent if at the date of the payment made by the Company in consideration of acquiring any right with respect to the purchase or acquisition of its own Shares:–

(a) there is no ground on which the Company could be found to be unable to pay its debts;

(b) if:

(1) it is intended to commence winding up of the Company within the period of 12 months immediately after the date of the payment, the Company will be able to pay its debts in full within the period of 12 months after the date of commencement of the winding up; or

(2) it is not intended so to commence winding up, the Company will be able to pay its debts as they fall due within the period of 12 months immediately after the date of the payment; and

(c) the value of the Company's assets is not less than the value of its liabilities (including contingent liabilities) and will not, after the proposed purchase, acquisition, variation or release (as the case may be), become less than the value of its liabilities (including contingent liabilities).

2.5.4. Where the consideration paid by the Company for the Share Purchases is made out of profits, such consideration will correspondingly reduce the amount of profits available for the distribution of cash dividends by the Company. However, where the consideration paid by the Company for the Share Purchases is made out of capital, the amount of profits available for the distribution of cash dividends by the Company will not be reduced. The Companies Act further stipulates that a payment for such purchase of shares shall include any expenses (including brokerage or commission) incurred directly in the purchase.

2.6 FINANCIAL EFFECTS

2.6.1 The financial effects on the Company and the Group arising from the Share Purchases will depend on, *inter alia*, whether the Share Purchases are made by way of On-Market Share Purchases or Off-Market Share Purchases, the price paid for such Shares and whether the Shares are held in treasury or cancelled.

2.6.2 **For illustrative purposes only,** the financial effects on the Company and the Group arising from the Share Purchases, based on the audited financial statements of the Company and the Group for FY2018, are prepared assuming the following:–

(a) the Share Purchases comprised 94,706,912 Shares (representing the maximum 10% allowed under the Share Purchase Mandate of the 947,069,121 issued Shares excluding treasury shares and subsidiary holdings, as at the Latest Practicable Date);

(b) in the case of On-Market Share Purchases, the Maximum Price was S$0.256 (being 5% above the Average Closing Price prior to the Latest Practicable Date) and accordingly, the maximum amount of funds (excluding brokerage, stamp duties, commission, applicable goods and services tax and other related expenses) required for effecting such On-Market Share Purchases would amount to approximately S$24.2 million;

(c) in the case of Off-Market Share Purchases, the Maximum Price was S$0.293 (being 20% above the Average Closing Price prior to the Latest Practicable Date) and accordingly, the maximum amount of funds (excluding brokerage, stamp duties, commission, applicable goods and services tax and other related expenses) required for effecting such Off-Market Share Purchases would amount to approximately S$27.7 million;

(d) the Share Purchases were made out of the Company's capital and profits as the Company has decided that any Share Purchases made under the Share Purchase Mandate will be made out of capital and profits;

(e) the Share Purchases took place on 1 January 2019 and the Shares purchased were (i) cancelled; or (ii) held as treasury shares; and

(f) the Share Purchases were financed by external short-term bank borrowings.

(i) On-Market Share Purchases

	Group			Company		
		After Share Purchases			After Share Purchases	
	Before Share Purchases S$'000	Share Purchases cancelled S$'000	Share Purchases held as Treasury Shares S$'000	Before Share Purchases S$'000	Share Purchases cancelled S$'000	Share Purchases held as Treasury Shares S$'000
As at 31 December 2018						
Share capital	169,582	145,337	169,582	169,582	145,337	169,582
Other reserves	(21,309)	(21,309)	(21,309)	74	74	74
Retained earnings	62,467	62,467	62,467	26,325	26,325	26,325
Treasury shares	(628)	(628)	(24,873)	(628)	(628)	(24,873)
	210,112	185,867	185,867	195,353	171,108	171,108
Non-controlling interests	48,030	48,030	48,030	–	–	–
Total Equity	258,142	233,897	233,897	195,353	171,108	171,108
Current assets	313,894	313,894	313,894	148,201	148,201	148,201
Current liabilities	(167,202)	(191,447)	(191,447)	(1,685)	(25,930)	(25,930)
Non-current assets	198,304	198,304	198,304	48,837	48,837	48,837
Non-current liabilities	(86,854)	(86,854)	(86,854)	–	–	–
Net Asset Value (NAV)	258,142	233,897	233,897	195,353	171,108	171,108
Total borrowings	158,550	182,795	182,795	–	24,245	24,245
Less: Cash and bank balances	22,372	22,372	22,372	2,596	2,596	2,596
Less: Other deposits with financial institutions	–	–	–	–	–	–
Net debt[1]	136,178	160,423	160,423	(2,596)	21,649	21,649
Profit after tax and non-controlling interests	11,163	11,163	11,163	33,037	33,037	33,037
Number of Shares outstanding as at 31 December 2018 ('000)	947,069	852,362	852,362	947,069	852,362	852,362
Weighted average number of Shares as at 31 December 2018						
– Basic ('000)	895,257	800,550	800,550	895,257	800,550	800,550
– Diluted ('000)	895,257	800,550	800,550	895,257	800,550	800,550
Financial Ratios						
NAV per share[2] (cents)	22.19	21.81	21.81	20.63	20.07	20.07
Gross debt gearing[3] (times)	0.85	1.12	1.12	–	0.14	0.14
Net debt gearing[4] (times)	0.73	0.99	0.99	–	0.13	0.13
Current ratio[5] (times)	1.88	1.64	1.64	87.95	5.72	5.72
EPS[6] (cents)						
– Basic	1.25	1.39	1.39	3.69	4.13	4.13
– Diluted	1.25	1.39	1.39	3.69	4.13	4.13

Notes:–

(1) "Net debt" represents total borrowings less cash and cash equivalents and other deposits with financial institutions.

(2) "NAV per share" represents net asset value after non-controlling interests divided by the number of Shares as at 31 December 2018.

(3) "Gross debt gearing" represents total borrowings divided by net tangible asset value.

(4) "Net debt gearing" represents net debt divided by net tangible asset value.

(5) "Current ratio" represents current assets divided by current liabilities.

(6) "Basic EPS" represents profit after tax and non-controlling interests divided by the weighted average number of Shares as at 31 December 2018.

(ii) Off-Market Share Purchases

	Group			Company		
		After Share Purchases			After Share Purchases	
	Before Share Purchases S$'000	Share Purchases cancelled S$'000	Share Purchases held as Treasury Shares S$'000	Before Share Purchases S$'000	Share Purchases cancelled S$'000	Share Purchases held as Treasury Shares S$'000
As at 31 December 2018						
Share capital	169,582	141,833	169,582	169,582	141,833	169,582
Other reserves	(21,309)	(21,309)	(21,309)	74	74	74
Retained earnings	62,467	62,467	62,467	26,325	26,325	26,325
Treasury shares	(628)	(628)	(28,377)	(628)	(628)	(28,377)
	210,112	182,363	182,363	195,353	167,604	167,604
Non-controlling interests	48,030	48,030	48,030	–	–	–
Total Equity	258,142	230,393	230,393	195,353	167,604	167,604
Current assets	313,894	313,894	313,894	148,201	148,201	148,201
Current liabilities	(167,202)	(194,951)	(194,951)	(1,685)	(29,434)	(29,434)
Non-current assets	198,304	198,304	198,304	48,837	48,837	48,837
Non-current liabilities	(86,854)	(86,854)	(86,854)	–	–	–
Net Asset Value (NAV)	258,142	230,393	230,393	195,353	167,604	167,604
Total borrowings	158,550	186,299	186,299	–	27,749	27,749
Less: Cash and bank balances	22,372	22,372	22,372	2,596	2,596	2,596
Less: Other deposits with financial institutions	–	–	–	–	–	–
Net debt[(1)]	136,178	163,927	163,927	(2,596)	25,153	25,153
Profit after tax and non-controlling interests	11,163	11,163	11,163	33,037	33,037	33,037
Number of Shares outstanding as at 31 December 2018 ('000)	947,069	852,362	852,362	947,069	852,362	852,362
Weighted average number of Shares as at 31 December 2018						
– Basic ('000)	895,257	800,550	800,550	895,257	800,550	800,550
– Diluted ('000)	895,257	800,550	800,550	895,257	800,550	800,550
Financial Ratios						
NAV per share[(2)] (cents)	22.19	21.40	21.40	20.63	19.66	19.66
Gross debt gearing[(3)] (times)	0.85	1.17	1.17	–	0.17	0.17
Net debt gearing[(4)] (times)	0.73	1.03	1.03	–	0.15	0.15
Current ratio[(5)] (times)	1.88	1.61	1.61	87.95	5.04	5.04
EPS[(6)] (cents)						
– Basic	1.25	1.39	1.39	3.69	4.13	4.13
– Diluted	1.25	1.39	1.39	3.69	4.13	4.13

Notes:–

(1) "Net debt" represents total borrowings less cash and cash equivalents and other deposits with financial institutions.

(2) "NAV per share" represents net asset value after non-controlling interests divided by the number of Shares as at 31 December 2018.

(3) "Gross debt gearing" represents total borrowings divided by net tangible asset value.

(4) "Net debt gearing" represents net debt divided by net tangible asset value.

(5) "Current ratio" represents current assets divided by current liabilities.

(6) "Basic EPS" represents profit after tax and non-controlling interests divided by the weighted average number of Shares as at 31 December 2018.

The financial effects set out above are purely for illustrative purposes only. Although the Share Purchase Mandate would authorise the Company to buy back up to 10% of the total number of issued Shares (excluding treasury shares and subsidiary holdings) as at the date that the Share Purchase Mandate is renewed, the Company may not necessarily buy back or be able to buy back 10% of the total number of issued Shares (excluding treasury shares and subsidiary holdings) in full.

2.7 TAX IMPLICATIONS ARISING FROM SHARE PURCHASES

Shareholders who are in doubt as to their respective tax positions or any tax implications of Share Purchases by the Company, or who may be subject to tax whether in or outside Singapore, should consult their own professional advisers.

2.8 LISTING MANUAL RELATING TO SHARE PURCHASES

2.8.1 The Listing Manual specifies that a listed company shall notify the SGX-ST of any On-Market Share Purchases not later than 9.00 a.m. on the Market Day following the day on which the On-Market Share Purchase was made, and of any Off-Market Share Purchases not later than 9.00 a.m. on the second Market Day after the close of acceptance of the offer for the Off-Market Share Purchase. The notification of such Share Purchases to the SGX-ST shall be in such form and shall include such details that the SGX-ST may prescribe. The Company shall make arrangements with its stockbrokers to ensure that they provide the Company in a timely fashion the necessary information which will enable the Company to make the notifications to the SGX-ST.

2.8.2 When seeking the approval of Shareholders for the proposed renewal of the Share Purchase Mandate, the Company is required to disclose details pertaining to the purchases of Shares made by the Company during the previous 12 months, including the total number of Shares purchased, the purchase price per Share or the highest and lowest prices paid for such purchases of Shares, where relevant, and the total consideration paid for such purchases.

2.8.3 While the Listing Manual does not expressly prohibit purchase of shares by a listed company during any particular time or times, the Company will not undertake Share Purchases after a price sensitive development has occurred or has been the subject of a consideration and/or a decision of the Board until such time as the price sensitive information has been publicly announced. In particular, the Company will not buy any Shares during the period commencing 2 weeks before the announcement of the Company's results for each of the first, second and third quarters of its financial year, or 1 month before the announcement of the Company's annual results, as the case may be, and ending on the date of announcement of the relevant results.

2.8.4 The Listing Manual requires a listed company to ensure that at least 10% of the total number of issued Shares excluding treasury shares (excluding preference shares and convertible equity securities) in a class that is listed is at all times held by the public. The "public", as defined under the Listing Manual, are persons other than the directors, chief executive officer, substantial shareholders or controlling shareholders of the Company or its subsidiaries, as well as the associates of such persons. Based on the Registers of Directors' Shareholdings maintained by the Company and its subsidiaries and the Register of Substantial Shareholders maintained by the Company and the information received by the Company as at the Latest Practicable Date, there are 433,686,796 Shares held by public Shareholders, representing approximately 45.79% of the total number of issued Shares. Assuming the Company exercises the Share Purchase Mandate in full and purchases

10% of the total number of issued Shares excluding treasury shares and subsidiary holdings through On-Market Share Purchases from the public, the number of Shares in the hands of the public would be reduced to approximately 338,979,884 Shares, representing approximately 39.77% of the total number of issued Shares excluding treasury shares. Accordingly, the Company is of the view that there is a sufficient number of Shares in issue held by public Shareholders which would permit the Company to undertake purchases or acquisitions of its Shares up to the full 10% limit pursuant to the Share Purchase Mandate without affecting the listing status of the Shares on the SGX-ST. While the Share Purchase Mandate would authorise Share Purchases up to a maximum of 10% limit, Shareholders should note that Share Purchases may not be carried out up to the full 10% limit as authorised, or at all.

2.8.5 In undertaking any Share Purchases, the Directors will use their best efforts to ensure that, notwithstanding such Share Purchases, a sufficient float held by the public will be maintained so that the Share Purchases will not adversely affect the listing status of the Shares on the SGX-ST, cause market illiquidity or adversely affect the orderly trading of the Shares.

2.9 TAKE-OVER CODE IMPLICATIONS ARISING FROM SHARE PURCHASES

2.9.1 The resultant increase in the percentage of voting rights held by a Shareholder and persons acting in concert with him, following any Share Purchases, will be treated as an acquisition for the purposes of Rule 14 of the Take-over Code ("**Rule 14**"). Consequently, depending on the number of Shares purchased by the Company and the Company's total number of issued Shares at that time, a Shareholder or group of Shareholders acting in concert with each other could obtain or consolidate effective control of the Company and could become obliged to make an offer under Rule 14.

2.9.2 Under the Take-over Code, persons acting in concert or concert parties comprise individuals or companies who, pursuant to an agreement or understanding (whether formal or informal), co-operate, through the acquisition by any of them of shares in a company, to obtain or consolidate effective control of that company. Unless the contrary is established, the following persons, *inter alia*, will be presumed to be acting in concert, namely, (i) a company with any of its directors (together with their close relatives, related trusts as well as companies controlled by any of the directors, their close relatives and related trusts), and (ii) a company, its parent, subsidiaries and fellow subsidiaries, and their associated companies and companies of which such companies are associated companies, all with one another, and any person who has provided financial assistance (other than a bank in the ordinary course of business) to any of the aforesaid for the purchase of voting rights. For this purpose, ownership or control of at least 20% but not more than 50% of the voting rights of a company will be regarded as the test of associated company status.

2.9.3 The circumstances under which Shareholders (including Directors) and persons acting in concert with them respectively will incur an obligation to make a take-over offer under Rule 14 after a purchase or acquisition of Shares by the Company are set out in Rule 14 and Appendix 2 of the Take-over Code ("**Appendix 2**").

2.9.4 In general terms, the effect of Rule 14 and Appendix 2 is that, unless exempted, Directors and persons acting in concert with them will incur an obligation to make a take-over offer under Rule 14 if, as a result of the Company purchasing or acquiring Shares, the voting rights of such directors and their concert parties would increase to 30% or more, or, in the event that such directors and their concert parties hold between 30% and 50% of the voting rights in the Company, the voting rights of such Directors and their concert parties would increase by more than 1% in any period of 6 months. In calculating the percentages of voting rights of such Directors and their concert parties, treasury shares shall be excluded.

2.9.5 Under Appendix 2, a Shareholder not acting in concert with the Directors will not be required to make a take-over offer under Rule 14 if, as a result of the Company purchasing or acquiring its Shares, the voting rights of such Shareholder would increase to 30% or more, or, if such Shareholder holds between 30% and 50% of the voting rights in the Company, the voting rights of such Shareholder would increase by more than 1% in any period of 6 months. Such Shareholder need not abstain from voting in respect of the resolution authorising the Share Purchase Mandate.

2.9.6 Shareholders and their concert parties will be subject to the provisions of Rule 14 if they acquire any Shares after the Company's Share Purchases. For the purpose of the Take-over Code, an increase in the percentage of voting rights as a result of the Share Purchases will be taken into account in determining whether a Shareholder and persons acting in concert with him have increased their voting rights by more than 1% in any period of 6 months.

2.9.7 If the Company decides to cease the purchase of Shares before it has purchased in full such number of Shares authorised by its Shareholders at the 2018 AGM, the Company will promptly inform its Shareholders of such cessation. This will assist Shareholders to determine if they can buy any more Shares without incurring an obligation under Rule 14.

2.9.8 Based on the Register of Directors' Shareholdings and the Register of Substantial Shareholders, as at the Latest Practicable Date, the shareholdings of the Directors, the Substantial Shareholders, and the Relevant Persons (as defined below) before and after the purchase of Shares pursuant to the Share Purchase Mandate, assuming (i) the Company purchases the maximum 10% of the total number of issued Shares (excluding treasury shares and subsidiary holdings), and (ii) there is no change in the number of Shares held by the Directors and the Substantial Shareholders or which they are deemed interested in, are set out in paragraph 2.11 of this Appendix.

2.9.9 For the purposes of the Take-over Code, Tong Kooi Ong, Executive Chairman and CEO of the Company, his son Tong Ian (who is also a director of the Company), Phileo Capital Limited, Genghis S.à.r.l, 3Cs Investments Ltd and TMF Trustees Singapore Ltd (collectively, the "**Relevant Persons**") are regarded as persons acting in concert in relation to the Company. As at the Latest Practicable Date, the Relevant Persons own in aggregate 298,164,000 Shares, representing approximately 31.48% of the issued Shares (excluding treasury shares and subsidiary holdings), and an aggregate of 217,788,900 warrants.

2.9.10 Assuming that there is no change in the number of Shares held or deemed to be held by the Relevant Persons in the Company as at the Latest Practicable Date, the purchase or acquisition by the Company of the maximum of 94,706,912 Shares (being 10% of the total number of issued Shares (excluding treasury shares and subsidiary holdings) as at the Latest Practicable Date) will result in an increase in the Relevant Persons' collective holdings in the Shares from 31.48% to 34.98%. Accordingly, the percentage of voting rights held by the Relevant Persons in the Company may be increased by more than 1% in any 6 month period as a result of the purchase or acquisition of Shares by the Company pursuant to the Share Purchase Mandate. In the event that the voting rights in the Company controlled by the Relevant Persons increase by more than 1% in any 6 month period, the Relevant Persons will, unless exempted, be required to make a take-over offer for the Shares held by the other Shareholders pursuant to Rule 14 of the Take-over Code.

2.9.11 Pursuant to Section 3(a) of Appendix 2, the Relevant Persons will be exempted from making a general offer for the Company if their voting rights would increase by more than 1% in any period of 6 months subject to the following conditions:–

(a) this Appendix on the resolution to approve the renewal of the Share Purchase Mandate contains advice to the effect that by voting for the renewal of the Share Purchase Mandate, Shareholders are waiving their right to a general offer at the required price from the Relevant Persons and parties acting in concert with them who, as a result of the Company buying back its Shares, would increase their voting rights by more than 1% in any period of 6 months; and the names of the Relevant Persons and persons acting in concert with them, their voting rights at the time of the resolution and after the proposed Share Purchases are disclosed in the same Appendix;

(b) the resolution to approve the renewal of the Share Purchase Mandate is approved by a majority of those Shareholders present and voting at the meeting on a poll who could not become obliged to make an offer as a result of the share purchase or acquisition by the Company under the Share Purchase Mandate;

(c) the Relevant Persons and persons acting in concert with them to abstain from voting for and/or recommending shareholders to vote in favour of the resolution to authorise the Share Purchase Mandate;

(d) within 7 days after the passing of the resolution to authorise the Share Purchase Mandate, each of the directors to submit to the SIC a duly signed form as prescribed by the SIC;

(e) the Relevant Persons and persons acting in concert with them have not acquired and will not acquire any Shares between the date on which they know the announcement of the share purchase by the Company under the Share Purchase Mandate is imminent and the earlier of:–

(i) the date on which the authority of the Share Purchase Mandate expires; and

(ii) the date on which the Company announces it has bought back such number of shares as authorised by the Share Purchase Mandate or it has decided to cease buying back its Shares, as the case may be, if such acquisitions, taken together with those purchased under the Share Purchase Mandate, would cause their aggregate voting rights to increase by more than 1% in the preceding 6 months.

2.9.12 **Shareholders should note that by voting in favour of the Ordinary Resolution relating to the renewal of the Share Purchase Mandate, they will be waiving their rights to a general offer at the required price from the Relevant Persons and persons acting in concert with them.**

2.9.13 Save as disclosed herein, the Directors are not aware of any Shareholder or group of Shareholders acting in concert who may become obligated to make a mandatory offer in the event that the Directors exercise the power to buy back Shares pursuant to the Share Purchase Mandate.

2.9.14 Shareholders are advised to consult their professional advisers and/or the SIC and/or other relevant authorities at the earliest opportunity as to whether an obligation on their part, if any, to make a mandatory take-over offer under the Take-over Code would arise by reason of any Share Purchases by the Company.

2.10 DETAILS OF SHARE PURCHASES DURING THE PREVIOUS 12 MONTHS

The Company has purchased a total of 3,037,000 Shares, representing approximately 0.35% of the total issued Shares (excluding treasury shares and subsidiary holdings) as at the AGM held on 27 April 2018, by way of On-Market Share Purchases in the last 12 months immediately preceding the Latest Practicable Date. The highest and lowest price paid was S$0.22 and S$0.198 per Share respectively. The total consideration paid (which includes brokerage, clearing/trading fees and goods and services tax) was S$628,000. As at the Latest Practicable Date, the Company has 3,037,000 treasury shares which could be utilised for the purposes of paragraph 2.3.2(c) above.

2.11 INTERESTS OF DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

None of the Directors or Substantial Shareholders has any interest, direct or indirect, in the proposed renewal of the Share Purchase Mandate (other than through their respective shareholdings in the Company).

2.11.1 Directors

The interests of the Directors in the Shares as recorded in the Register of Directors' Shareholdings as at the Latest Practicable Date as set out below:–

	Before Share Purchases (No. of Shares)					
Directors	**Direct Interest**	**Deemed Interest**	**Total Interest**	**Before Share Purchases %[1]**	**After Share Purchases %[2]**	**Number of Shares comprised in outstanding warrants**
Tong Kooi Ong	–	295,364,000[3]	295,364,000	31.19	34.65	216,088,900
Tong Ian	–	2,800,000	2,800,000	0.29	0.33	1,700,000
Gary Ho Kuat Foong	–	–	–	–	–	–
Ng Shin Ein	671,400	–	671,400	0.07	0.08	–
Kalimullah Bin Masheerul Hassan	–	30,000,000	30,000,000	3.17	3.52	30,000,000
Garson David Lee	–	1,300,000	1,300,000	0.14	0.15	1,300,000
Chan Lay Hoon	–	–	–	–	–	–

Notes:–

(1) As a percentage of the total number of issued Shares as at the Latest Practicable Date, comprising 947,069,121 Shares (excluding treasury shares and subsidiary holdings).

(2) As a percentage of the total number of issued Shares, comprising 852,362,209 Shares (assuming that the Company purchases the maximum number of 94,706,912 Shares under the Share Purchase Mandate and excluding treasury shares and subsidiary holdings).

(3) Issued Shares held in the name of the registered holders, Phileo Capital Limited and Genghis S.à.r.l..

(4) The Company has an option scheme, known as the "Avarga Group Employees' Share Option Scheme 2018". As at the Latest Practicable Date, no options have been granted under the option scheme.

2.11.2 Substantial Shareholders

The interests of the Substantial Shareholders in the Shares as recorded in the Register of Substantial Shareholders as at the Latest Practicable Date are set out below:–

Substantial Shareholders	Before Share Purchases (No. of Shares) Direct Interest	Deemed Interest	Total Interest	Before Share Purchases %[1]	After Share Purchases %[2]	Number of Shares comprised in outstanding warrants
Lim Eng Hock	183,246,925	–	183,246,925	19.35	21.50	183,246,925
Phileo Capital Limited	221,925,000	–	221,925,000	23.43	26.04	216,088,900
Genghis S.à.r.l.	73,439,000	–	73,439,000	7.75	8.62	–
3Cs Investments Ltd	–	73,439,000[3]	73,439,000	7.75	8.62	–
TMF Trustees Singapore Limited	–	295,364,000[4]	295,364,000	31.19	34.65	216,088,900
Tong Kooi Ong	–	295,364,000[4]	295,364,000	31.19	34.65	216,088,900

Notes:–

(1) As a percentage of the total number of issued Shares as at the Latest Practicable Date, comprising 947,069,121 Shares (excluding treasury shares and subsidiary holdings).
(2) As a percentage of the total number of issued Shares, comprising 852,362,209 Shares (assuming that the Company purchases the maximum number of 94,706,912 Shares under the Share Purchase Mandate and excluding treasury shares and subsidiary holdings).
(3) Issued Shares held in the name of the registered holder, Genghis S.à.r.l..
(4) Issued Shares held in the name of the registered holders, Phileo Capital Limited and Genghis S.à.r.l..

2.11.3 Relevant Persons

The interests of the Relevant Persons in the Shares as at the Latest Practicable Date are set out below:–

Relevant Persons	Before Share Purchases (No. of Shares) Direct Interest	Deemed Interest	Total Interest	Before Share Purchases %[1]	After Share Purchases %[2]	Number of Shares comprised in outstanding warrants
Tong Kooi Ong	–	295,364,000[3]	295,364,000	31.19	34.65	216,088,900
Tong Ian	–	2,800,000	2,800,000	0.29	0.33	1,700,000
Phileo Capital Limited	221,925,000	–	221,925,000	23.43	26.04	216,088,900
Genghis S.à.r.l.	73,439,000	–	73,439,000	7.75	8.62	–
3Cs Investments Ltd	–	73,439,000[4]	73,439,000	7.75	8.62	–
TMF Trustees Singapore Limited	–	295,364,000[3]	295,364,000	31.19	34.65	216,088,900

Notes:–

(1) As a percentage of the total number of issued Shares as at the Latest Practicable Date, comprising 947,069,121 Shares (excluding treasury shares and subsidiary holdings).
(2) As a percentage of the total number of issued Shares, comprising 852,362,209 Shares (assuming that the Company purchases the maximum number of 94,706,912 Shares under the Share Purchase Mandate and excluding treasury shares and subsidiary holdings).
(3) Issued Shares held in the name of the registered holders, Phileo Capital Limited and Genghis S.à.r.l..
(4) Issued Shares held in the name of the registered holder, Genghis S.à.r.l..

3 DIRECTORS' RECOMMENDATION

3.1 The Directors, save for Tong Kooi Ong and Tong Ian, who have abstained from making any recommendation to Shareholders pursuant to the conditions for exemption under Appendix 2 of the Take-over Code (as set out in paragraph 2.9 of this Appendix) are of the opinion that the proposed renewal of the Share Purchase Mandate is in the interests of the Company and accordingly recommend that Shareholders vote in favour of Ordinary Resolution No. 10 relating to the proposed renewal of the Share Purchase Mandate.

4 ACTION TO BE TAKEN BY SHAREHOLDERS

4.1 Appointment of Proxies

Shareholders who are unable to attend the AGM and who wish to appoint a proxy or proxies to attend and vote at the AGM on their behalf, will find attached to this Appendix a Proxy Form which they are requested to complete, sign and return in accordance with the instructions printed thereon as soon as possible and, in any event, so as to reach the office of the Company's share registrar, M & C Services Private Limited at 112 Robinson Road #05-01, Singapore 068902 not less than 72 hours before the time fixed for the AGM. The completion and return of the Proxy Form by a Shareholder does not preclude him from attending and voting in person at the AGM if he so wishes.

4.2 When Depositor regarded as Shareholder

A Depositor shall not be regarded as a Shareholder entitled to attend the AGM and to speak and vote thereat unless he is shown to have Shares entered against his name in the Depository Register as certified by CDP not less than 72 hours before the time fixed for the AGM.

5 DIRECTORS' RESPONSIBILITY STATEMENT

The Directors collectively and individually accept full responsibility for the accuracy of the information given in this Appendix and confirm after making all reasonable enquiries that, to the best of their knowledge and belief, this Appendix constitutes full and true disclosure of all material facts about the proposed renewal of the Share Purchase Mandate, the Company and its subsidiaries and the Directors are not aware of any facts the omission of which would make any statement in this Appendix misleading. Where information in this Appendix has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in this Appendix in its proper form and context.

6 ABSTENTION FROM VOTING

The Relevant Persons will abstain from voting at the AGM in respect of the resolution relating to the proposed renewal of the Share Purchase Mandate pursuant to the conditions under Appendix 2 of the Take-over Code as set out in paragraph 2.9 of this Appendix. Furthermore, such persons shall not act as proxies in relation to such resolution unless specific voting instructions have been given.

7 DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the Company's registered office during normal business hours from the date of this Appendix up to the date of the 2019 AGM:

(a) the Company's Constitution; and

(b) the Annual Report for the financial year ended 31 December 2018.

Yours faithfully
For and on behalf of the Board of Directors of
AVARGA LIMITED

Tong Kooi Ong
Executive Chairman and Chief Executive Officer

11 April 2019

PROXY FORM

Avarga Limited

(Company Registration No. 196700346M)

ANNUAL GENERAL MEETING TO BE HELD ON 26 APRIL 2019

(Before completing this form, please see notes below)

IMPORTANT:

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

I/We, ________________________ (Name) ________________________ (NRIC/Passport No.)

of ____ (Address)

being a member/members of Avarga Limited (the "**Company**"), hereby appoint:

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

as my/our proxy/proxies to attend and to vote for me/us on my/our behalf at the Annual General Meeting ("**AGM**") of the Company to be held on Friday, 26 April 2019 at 9.30 a.m. at Tan Chin Tuan Function Room 2, Level 4, YMCA of Singapore, 1 Orchard Road, Singapore 238824, and at any adjournment thereof in the following manner indicated below: (Please indicate with a cross ("**X**") in the spaces provided whether you wish your vote(s) to be cast "For" or "Against" the Resolutions. In the absence of specific directions, the proxy/proxies will vote or abstain as he/they may think fit.)

No.	Resolutions relating to:	For	Against
	ORDINARY BUSINESS		
1	Adoption of Directors' Statement and Audited Accounts		
2	Approval of a final dividend of 3.00 cents tax exempt (one tier) dividend per share for the financial year ended 31 December 2018		
3	Approval of Directors' fees for the financial year ending 31 December 2019		
4	Re-election of Ms. Ng Shin Ein as Director		
5	Re-election of Dato' Seri Kalimullah Bin Masheerul Hassan as Director		
6	Re-election of Ms. Chan Lay Hoon as Director		
7	Re-appointment of Messrs Nexia TS Public Accounting Corporation as Auditors of the Company and to authorise the Directors to fix their remuneration		
	SPECIAL BUSINESS		
8	To authorise Directors to issue shares and convertible securities under Section 161 of the Companies Act, Chapter 50		
9	To authorise Directors to offer and grant options and allot and issue shares pursuant to the Avarga Group ESOS 2018		
10	To approve the renewal of the Share Purchase Mandate		

Dated this ________ day of ________________ 2019

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

____

Signature(s) of Member(s)/Common Seal

Important: Please read notes overleaf

PROXY FORM

Notes

1. If you have shares in the capital of the Company ("**Shares**") entered against your name in the Depository Register (as defined in Section 81SF of the Securities and Futures Act, Chapter 289 of Singapore (the "**Act**"), 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 of proxy shall be deemed to relate to all the Shares held by you.

2. (a) A member of the Company ("**Member**") who is not a relevant intermediary entitled to attend and vote at the AGM is entitled to appoint not more than two (2) proxies to attend and vote in his stead. Where a Member appoints two (2) proxies, he shall specify the proportion of his shareholding (expressed as a percentage of the whole) to be represented by each proxy. If no percentage is specified, the first named proxy shall be deemed to represent 100 per cent (100%) of the shareholding and the second named proxy shall be deemed to be an alternate to the first named.

   (b) A Member who is a relevant intermediary is entitled to appoint more than two (2) proxies to attend and vote at the AGM, but each proxy must be appointed to exercise the rights attached to a different Share or Shares held by such Member (which number and class of Shares shall be specified). In such an event, such Member shall submit a list of its proxies together with the information required in this proxy form to the Company.

   "**relevant intermediary**" means:

   (i) a banking corporation licensed under the Banking Act, Chapter 19 of Singapore, or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity;

   (ii) a person holding a capital markets services license to provide custodial services for securities under the Act and who holds shares in that capacity; or

   (iii) the Central Provident Fund Board established by the Central Provident Fund Act, Chapter 36 of Singapore (the "**CPF Act**"), in respect of shares purchased under the subsidiary legislation made under the CPF Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.

3. A proxy need not be a Member.

4. The instrument appointing a proxy or proxies must be lodged at the registered office of the Company at 1 Kim Seng Promenade, #13-10 Great World City West Lobby, Singapore 237994, not less than seventy-two (72) hours before the time appointed for holding the AGM.

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

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

General

The Company shall be entitled to reject the instrument of proxy if it is incomplete, improperly completed or illegible or where the true intentions of the Member is not ascertainable from the instructions specified in the instrument of proxy. In addition, in the case of Shares entered in the Depository Register, the Company may reject any instrument of proxy lodged if the Member, being the appointor, is not shown to have Shares entered against his name in the Depository Register seventy-two (72) hours before the time appointed for holding the AGM, as certified by The Central Depository (Pte) Limited to the Company.

Personal Data Privacy

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the AGM and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents or service providers) for the purpose of the processing, administration and analysis by the Company (or its agents or service providers) of proxies and representatives appointed for the AGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the AGM (including any adjournment thereof), and in order for the Company (or its agents or service providers) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "**Purposes**"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents or service providers), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents or service providers) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

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AVARGA
LIMITED

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