AVARGA LIMITED

2020 ANNUAL REPORT

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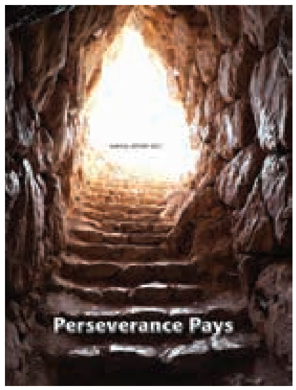
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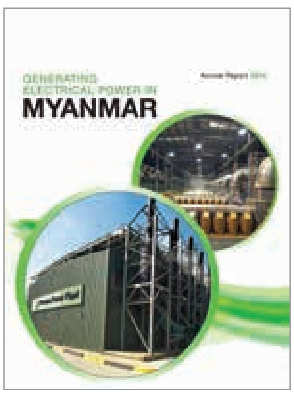
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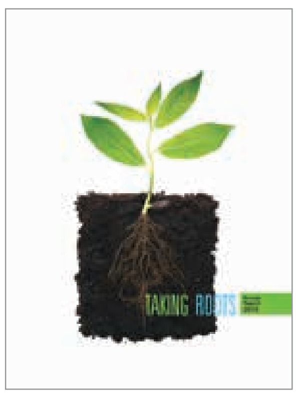
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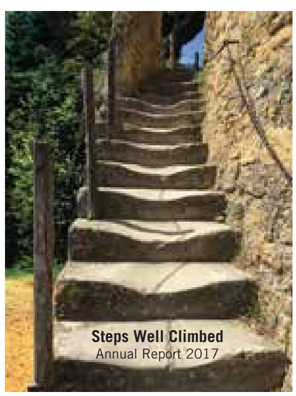
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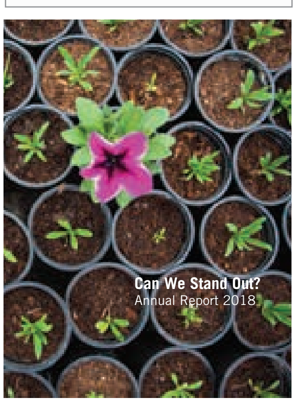
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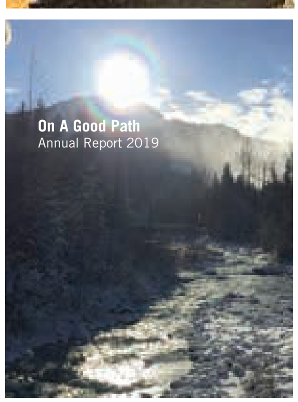
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CORPORATE **INFORMATION**

BOARD OF DIRECTORS

Tong Kooi Ong
Executive Chairman

Tong Ian
Chief Executive Officer and Executive Director

Gary Ho Kuat Foong
Lead Independent Director

Ng Shin Ein
Independent Director

Chan Lay Hoon
Non-Independent Non-Executive Director

Loh Chen Peng
Independent Director

Moey Weng Foong
Independent Director
(Appointed on 27 June 2020)

Kalimullah Bin Masheerul Hassan
Independent Director
(Resigned on 27 June 2020)

COMPANY SECRETARIES

Lim Sim Ving
Cheok Hui Yee

AUDIT AND RISK MANAGEMENT COMMITTEE

Gary Ho Kuat Foong (Chairman)
Ng Shin Ein
Chan Lay Hoon
Loh Chen Peng
Moey Weng Foong (Member since 27 June 2020)
Kalimullah Bin Masheerul Hassan (Resigned on 27 June 2020)

NOMINATING COMMITTEE

Loh Chen Peng (Chairman) (Chairman since 27 June 2020)
Gary Ho Kuat Foong
Ng Shin Ein
Kalimullah Bin Masheerul Hassan (Resigned on 27 June 2020)

REMUNERATION COMMITTEE

Ng Shin Ein (Chairman)
Chan Lay Hoon (Member since 27 June 2020)
Loh Chen Peng
Kalimullah Bin Masheerul Hassan (Resigned on 27 June 2020)

REGISTERED OFFICE

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#13-10 Great World City
Singapore 237994
Tel: (65) 6836 5522
Fax: (65) 6836 5500
E-mail: admin@avarga.com.sg
Website: http://www.avarga.com.sg

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
80 Robinson Road
#25-00
Singapore 068898

Director-in-charge: Meriana Ang Mei Ling
(Appointed since 31 December 2018)

BANKERS

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

CEO'S **STATEMENT**

Dear Fellow Shareholders,

I would like to first wish all of you good health and safety, wherever you may be.

The saying goes "Life is a marathon, not a sprint". At Avarga, we adopt the same mentality when it comes to managing your Company. Over the years, we have practiced **patience** with our capital deployment, building and improving a portfolio of assets that emphasize **resilience**. These efforts bore fruit in 2020, despite unprecedented macro challenges, as our businesses performed strongly and proved the essential value they provide in their respective economies.

The past year has been extremely difficult for many people. Our communities have always been a priority for us, and we found ways to support them through the crisis. Beyond the programs we work with on an ongoing basis, our efforts included a donation to The Edge Covid-19 Equipment Fund to obtain equipment for Malaysia's medical facilities and healthcare workers, and the creation of the Taiga Community Fund which deployed funds to 30 different programs across North America.

Also, last year marked the saddening loss of two of Taiga's founders and directors, Cameron White and Douglas Morris. They were titans in our industry, captains of our organisation, friends of everyone they met, and mentors to me personally. We would like to express our heartfelt condolences and appreciation to their families for all they have done.

Financial Year 2020

Your Company achieved its fourth consecutive year of record profits last year.

Pre-tax profit reached a new high of S$102.2 million in 2020, up 92% from S$53.3 million in 2019. Net profit after non-controlling interests increased to S$54.8 million from S$32.6 million, or 5.79 cents per share from 3.44 cents per share. Total revenue in 2020 was S$1,693.3 million compared to S$1,403.9 million, largely due to surging commodity prices.

On our balance sheet, total assets increased from S$575.3 million to S$651.0 million, mainly due to the higher commodity prices on our inventories and receivables. Total equity grew to S$306.9 million from S$252.8 million, as a result of our strong overall Group performance.

As we have done the last two years, pages 7 to 10 provide an alternative version of our financial statements and summary performance from 2012 to 2020. The restated financial statements use the same information in the Annual Report, to better express our cash flows, performance, investments, and returns.

Wholesale Distribution of Building Materials (Canada and USA)

Taiga had an exceptional 2020, hitting record highs across all profitability metrics. Pre-tax profit grew to C$96.2 million from C$35.9 million in 2019. EBITDA was C$116.9 million compared to C$57.7 million in the prior year.

A key factor for Taiga's performance in 2020 was the dramatic rise in commodity lumber, as well as oriented strand board ("**OSB**") and plywood. I have chosen to use a 5-year chart below to highlight the unprecedented environment we are in. Between June to October 2020, lumber prices rose and fell sharply, reaching a then-historical high of US$984.50 before dropping to just under US$500 per MBF (thousand board feet). Since then, it has risen quickly again, crossing the US$1,000 benchmark for the first time ever in February 2021. Prices are now three standard deviations above the long-term historical price range.

CEO'S STATEMENT

Chart 1: 5 Year Lumber prices (USD/MBF)

Source: businessinsider.com

The volatility represents a double-edged sword to our business. Generally, Taiga's profits are derived by a gross margin percentage on the products it distributes. Higher commodity prices therefore translate to higher profitability, and we also make inventory gains while prices trend higher. However, such unusual prices also raise the likelihood of an accelerated downward decline, in which case we could suffer significant inventory losses. Furthermore, these elevated prices can put a strain on both Taiga and its customers' working capital availability. If prices stay at its current levels, industry players would require two to three times the capital to purchase inventory as compared to 2019.

Why is this happening?

As our Chairman opined in last year's annual report, record low interest rates has spurred home buying in North America, particularly in the US. Data published by tradingeconomics.com showed US housing starts surged 5.8% month-on-month to an annualised rate of 1.7 million in December. In particular, single-family housing starts increased 12.0% while multi-family housing starts decreased by 15.2%. The work-from-home (WFH) trend has resulted in consumers moving away from apartments in the city to suburban homes, which uses the building products that Taiga distributes.

While a part of Taiga's success last year was due to macroeconomic trends, strategic decision-making and forward planning allowed us to outperform. After restructuring Taiga's balance sheet, we acquired Exterior Wood in 2018 for US$42 million when our data showed the US housing market bottoming out. After full integration of the branch into our network, pre-tax profit for Exterior grew to US$13.0 million from US$6.8 million the year before.

In late March of 2020, governments in US and Canada had just announced nationwide lockdowns in response to the Covid-19 pandemic. With all the uncertainty, lumber mills curtailed production and most of the distributors started liquidating their lumber inventory. Taiga made the strategic decision not to follow the herd and sell down our inventory at a loss. Firstly, with a strong balance sheet and a market leadership position, we knew we could weather the storm for a long period. Secondly, as we have reiterated in the

CEO'S STATEMENT

past, Taiga's most important attribute is its resiliency. When the economy is weak, consumers switch from new home construction to home renovation and restoration (R&R). True enough, R&R demand picked up in the ensuing months, keeping the business in good shape. Then, as mentioned earlier, lumber prices started soaring as new housing starts picked up in the second half of the year. This is when we started selling, making significant gains on our inventory. For context, Taiga's gross margin percentage for 2020 was 14.2% compared to a historical average of 8% to 10%. Gross margin percentage on lumber, which constitutes roughly half of revenue, increased to 10.8% versus a historical average of 5%.

I share this with you because I believe it is important to acknowledge the fantastic efforts of Taiga's management, but also to explain why this was a one-time event. While we expect Taiga to continue to perform well in the long term, earnings growth will come from initiatives leading to sustainable margin expansion and strategic extensions of its network. As a wholesale distributor with high inventory turnover, it is very unlikely we will repeat last year's performance as we will not sit on our inventory. Taiga does not and will not make speculative bets on commodities as a business, nor will it become reliant on economic cycles. Acknowledging that, Taiga has paid out a special dividend of C$30 million to its shareholders including Avarga.

Paper Manufacturing (Malaysia)

This year marks the 50th anniversary of our original core paper manufacturing business, having started operations in Singapore in 1971 before the plant was relocated to Malaysia in 1998-2000.

The paper manufacturing division reported lower profits in 2020, as sales, production and costs were affected by the movement control orders (MCO) imposed to curb the spread of the Covid-19 pandemic. Our paper mill had a temporary shutdown and was then allowed to operate during the MCO, albeit on a reduced scale with restrictions. However, lower production output and a shortage of raw materials due to disrupted supply chains increased operating and production costs.

Raw material costs were also elevated in the second half of 2020, due to inventory stocking ahead of China's complete ban on the import of solid waste. However, our margins have since returned to normalised levels.

Despite these challenges, our volume sales held up very well, underscoring the strong demand for paper packaging products amid the growing structural shift towards e-commerce. Volume sales for 2020 declined only marginally by 4.9%, while turnover fell 6.3%. However, higher raw material and operating costs resulted in a decline in EBITDA margins from 21.3% to 16.9%. As a result, pre-tax profit for the year fell 32.4% to RM16.6 million.

Effective 1 January 2021, China has banned the import of all solid waste materials including paper into the country. This marks a final tightening of its "National Sword Policy" which began in January 2018 with gradual restrictions for waste imports. These restrictions have prompted major Chinese paper companies to establish plants around the region, including in Malaysia, primarily to import and process waste paper into recycled pulp and paper for re-export back to China. Although we do not anticipate these companies to actively sell their products in Malaysia, we are nevertheless mindful of the risks these large players may pose for the domestic market.

On 16 October 2020, Public Investment Bank Bhd was appointed as an adviser to explore and advise on a possible listing of the paper manufacturing business on the Main Market of Bursa Securities. We are exploring the potential IPO exercise as we believe a listing exercise will raise the profile of our well-established paper business in Malaysia and enable it to raise funds from the capital markets or potential investors for any future expansion exercise. Exploratory work for the IPO exercise is ongoing and there is no assurance that the proposed listing will materialize or be proceeded with.

Power Generation (Myanmar)

Our 50MW power plant in Myanmar successfully completed its scheduled major overhaul in July 2020 of all 13 machines. On 10 February 2021, the power plant completed its seventh year of operations. We have continued to exceed our annual production commitment of 350 million kWh under the power purchase agreement every year since inception. Despite some downtime from the overhauls, we produced 390.0 million kWh of electricity for the year to 10 February 2021, an increase of 5.2% from 370.8 million kWh the year before.

On 1 February 2021, the Tatmadaw assumed control of the government in Myanmar and announced a one-year state of emergency. Since then, the country has witnessed public

CEO'S STATEMENT

protests and labour strikes. We are closely monitoring the evolving political developments there. Operations at our power plant have continued as normal and have not been affected by these developments. However, the situation remains uncertain.

Dividends

Over the last few years, the Company has grown its dividends as cash flow generated has increased sustainably. Total dividend per share was 0.15 cent in 2012 and 2013, 0.5 cent in 2014, 1.0 cent in 2015, 2016 and 2017, 3.5 cents in 2018, and 2.0 cents in 2019.

Of the 5.5 cents total in 2018 and 2019, 3.5 cents was funded by the sale of the Tuas property and was part of our capital optimisation exercise. Excluding the one-off dividends, 2018 and 2019 dividends would have been 1.0 cent each.

We have proposed a final dividend of 0.78 cent for 2020, subject to shareholders approval. In addition to the interim dividends totaling 0.72 cent, total dividend for 2020 is 1.5 cents.

In June 2020, we formally introduced our dividend policy announcing a target payout ratio of at least 40% of net profit, to be paid on a quarterly basis. Our proposed dividend is below the target payout ratio, and as announced on 27 February 2021, we have further revised the payout ratio downward to 30% from 40% with effect from the financial year ending 31 December 2021.

I would like to address these decisions.

First, we decided to introduce a dividend policy last year as we believed shareholders would appreciate having some guidance as to the cash flow they can expect to receive from an investment into our Group. Tying it to profitability would let shareholders enjoy growing dividends as we grew our earnings over the long term. As noted above, excluding special dividends, we have either increased or maintained the total dividend per share every year since 2012, and have done so again for 2020.

Second, what we did not expect last year was for Taiga to outperform our other businesses by such a significant margin. This impacts our dividend policy because our existing businesses have different growth trajectories. While we extract most of the net cash flows from our paper and power businesses, we believe Taiga is at a stage where it needs to reinvest its capital and grow its operations. As I pointed out earlier, restructuring Taiga's balance sheet led to the acquisition of Exterior Wood, which was a major contributor to our performance in 2020. We believe there are other similar opportunities, but it means Taiga will need to retain its capital to take advantage of them. Given the company's widening contribution to Avarga's bottom line, we felt it was necessary to lower the payout ratio to account for that.

Third, Avarga also needs to maintain a strong balance sheet in an uncertain global environment of both opportunities and threats. While operations are normal for now, we must be prepared for various scenarios with regards to our power plant in Myanmar given the political climate. Additionally, while our paper business is undergoing its IPO process, it is also restricted from flowing up its cash flow to our Group level.

Fourth, we regularly monitor share buyback opportunities as an alternative means of returning capital to shareholders. Between 17 June 2020 to 1 March 2021, Avarga bought back 17 million of its own shares for a total consideration of S$4.8 million, or an average price of 28 cents per share. Based on our 2020 results and dividend, that represents a price-to-earnings (P/E) ratio of 4.8x and a yield of 5.4%. Over the same period, Avarga purchased 2 million shares of Taiga for C$1.95 million. Taiga also bought back 3 million of its own shares for C$3.2 million. Taken together, the average price per share was C$1.04, at a P/E ratio of 1.5x and a yield of 26.6% using Taiga's 2020 earnings and special dividend payout. Avarga's interest in Taiga has increased to roughly 72% from 68% since end-2019.

We believe this was a more prudent capital-deployment approach for shareholders. The value-traded elasticity for Avarga is almost 3,000 compared to the market average of 4. The impact on market capitalisation is high for every dollar of share buyback, while our share buyback to market capitalisation is low at 0.3%. In total, roughly S$10 million was utilised to purchase shares of Avarga and Taiga. While we could have opted to pay it out as dividends and meet our target dividend payout, we saw an opportunity for shareholders to gain a larger share of our Group's future cash flows at very reasonable costs while also providing an exit for shareholders who wished to do so.

CEO'S STATEMENT

Looking ahead

The Covid-19 crisis continues to impact all aspects of our society and economy, while tension continues between the two most powerful nations. This environment has created or accelerated a range of major trends – such as shifts in geographical consumption, global supply chain relocations, de-urbanisation, e-commerce adoption, food security, technological infrastructure, etc. As we have mentioned before, some of these affect our existing businesses. Accelerating e-commerce adoption means more demand for our paper packaging products and sustained de-urbanisation would benefit Taiga.

Our Company has grown significantly over the years. Since 2012, our revenue has gone from S$50.0 million to S$1,693.3 million last year. In the same time period, pre-tax profit has increased from S$2.4 million to S$102.2 million. Since the acquisition of Taiga, we have generated net cash from operations between S$55.0 and S$60.0 million every year for the last 4 years.

Our net bank borrowings, excluding Taiga's revolving credit and loan notes, remain low at S$38.2 million. With a strong balance sheet and resilient cash flows, we are in a position to look for the next opportunity to further elevate our earnings and dividends. At the same time, we will continue to be the stewards of your capital and manage risks responsibly.

While we have performed well, there are concerns – a possible sharp decline of lumber commodity prices, further political instability in Myanmar, uncertainties surrounding Covid-19, et cetera. We will take a balanced approach in managing our businesses, ensuring that the risks we take are proportionate to the rewards as we continue building our portfolio from strength to strength.

Finally, our thoughts and prayers are with those affected by the virus, both directly and indirectly, around the world. At Avarga, the well-being and safety of our teams, stakeholders, associates, and communities are our top priority. We are continually implementing measures to ensure our teams are safe, with the tools to carry on executing at their best.

Again, on behalf of Avarga and our group of subsidiaries, I wish you and your loved ones well.

Thank you,

TONG IAN
CEO and Executive Director

"If you're walking down the right path and you're willing to keep walking, eventually you'll make progress"

Barack Obama

CEO'S **STATEMENT**

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

	For the Financial Year Ended 31 December (S$ million)								
	2020	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**
Revenue	1,693.3	1,403.9	1,572.7	1,455.2	63.3	61.1	116.9	48.1	50.0
Gross profit	247.7	150.4	145.7	132.4	18.7	17.5	15.5	8.1	8.1
EBITDA (before exceptional items)	129.9	68.4	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	(13.2)	(12.7)	(8.0)	(7.0)	(2.6)	(2.6)	(2.9)	(3.2)	(3.1)
Amortisation of intangibles	(5.2)	(5.2)	(4.8)	(4.3)	–	–	–	–	–
Amortisation of deferred gain	0.1	0.1	0.4	0.4	–	–	–	–	–
Forex gains/(losses)	0.9	3.7	(6.1)	(3.9)	1.1	3.4	1.7	–	(0.2)
Gain on extinguishment of Taiga notes	–	–	–	2.4	–	–	–	–	–
Gain on disposal of Kajang land	–	–	–	1.2	–	–	–	–	–
Gain on disposal of Tuas factory	–	10.9	–	–	–	–	–	–	–
Cash items:									
Net interest expense	(10.3)	(11.9)	(8.6)	(15.5)	0.5	0.4	0.2	0.3	0.3
	(27.7)	(15.1)	(27.1)	(36.2)	(1.0)	1.2	(1.0)	(2.9)	(3.0)
Pre-tax profit	**102.2**	**53.3**	**31.1**	**25.1**	**13.1**	**13.3**	**9.7**	**1.5**	**2.4**
Net cash generated from operating activities (after tax)	**60.9**	**59.8**	**56.7**	**56.5**	**18.4**	**18.8**	**14.0**	**2.4**	**3.7**
Less committed cash payments:									
Interest expense to finance the acquisition of Taiga and Taiga subordinated noted interest	(1.8)	(1.8)	(1.5)	(9.7)	–	–	–	–	–
Repayment of Taiga lease obligations	(4.9)	(4.9)	(2.5)	(2.0)	–	–	–	–	–
Sub-total	(6.7)	(6.7)	(4.0)	(11.7)	–	–	–	–	–
Net excess cash from operations	**54.2**	**53.1**	**52.7**	**44.8**	**18.4**	**18.8**	**14.0**	**2.4**	**3.7**

CEO'S **STATEMENT**

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

	For the Financial Year Ended 31 December (S$ million)								
	2020	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**
Use of Cash: How we used the cash?									
Capex – PPE (net)	(4.6)	(2.1)	(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	(2.0)	–	–	(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	(1.6)	–	(0.6)	–	–	–	–	–	–
Share buyback: Taiga	(3.3)	(4.3)	(1.7)	–	–	–	–	–	–
Changes in Taiga revolving credit facility (RCF)	(32.9)	(23.8)	(1.9)	(8.4)	–	–	–	–	–
Redemption of outstanding Taiga 14% notes	–	–	–	(15.9)	–	–	–	–	–
Dividends to Avarga shareholders	(11.5)	(42.6)	(8.8)	(8.8)	(12.6)	(4.2)	(1.3)	(1.3)	(0.6)
Others	0.2	0.6	0.3	(1.2)	0.4	0.6	0.3	0.1	0.1
Sub-total	**(55.7)**	**(72.2)**	**(82.8)**	**(119.8)**	**(16.1)**	**(4.7)**	**(45.3)**	**(16.6)**	**(2.3)**
(Deficit)/Surplus	**(1.5)**	**(19.1)**	**(30.1)**	**(75.0)**	**2.3**	**14.1**	**(31.3)**	**(14.2)**	**1.4**

CEO'S **STATEMENT**

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

	For the Financial Year Ended 31 December (S$ million)								
	2020	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**
Source of Cash: How we financed it?									
Sale of Kajang land	–	–	–	1.9	–	–	–	–	–
Sale of Tuas factory	–	18.4	–	–	–	–	–	–	–
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)	1.5	0.7	30.1	63.1	–	–	27.8	7.1	–
Increase in cash at bank	–	–	–	–	(2.3)	(14.1)	–	–	(55.0)
Sub-total	**1.5**	**19.1**	**30.1**	**75.0**	**(2.3)**	**(14.1)**	**31.3**	**14.2**	**(1.4)**
Change in net debt (bank borrowings, excluding Taiga notes & RCF)	**(1.5)**	**(0.7)**	**(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)	(36.7)	(36.0)	(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)	**(38.2)**	**(36.7)**	**(36.0)**	**(5.9)**	**57.2**	**54.9**	**40.8**	**68.6**	**75.7**
Change in net cash/ debt, excluding Taiga RCF & notes	**(1.5)**	**(0.7)**	**(30.1)**	**(63.1)**	**2.3**	**14.1**	**(27.8)**	**(7.1)**	**55.0**

CEO'S STATEMENT

Table 2: Summary of Avarga's performance and cash flows from 2012 to 2020

From 2012 to 2020, we have generated cumulative:

	S$ million	S$ million
Revenue		6,464.5
Gross profit		744.1
EBITDA (before exceptional items)		364.5
Pre-tax profit		251.7
Net cash from operating activities		**291.2**
Net excess cash from operating activities		**262.1**
What did we use it for?		
Capex – PPE (net)		(19.7)
Investment in Myanmar Power Plant		(58.7)
Acquisition of non-controlling interests in UPP Pulp & Paper		(4.9)
Acquisition of Taiga		(89.1)
– Taiga ordinary shares	(22.5)	
– Taiga subordinated notes (later converted to shares)	(57.3)	
– additional Taiga stake via Kublai Canada	(9.3)	
Investing activities made by Taiga		(147.3)
– redemption of outstanding Taiga 14% notes	(15.9)	
– acquisition of Exterior Wood by Taiga	(55.1)	
– share buyback and cancelled	(9.3)	
– changes in Taiga RCF	(67.0)	
Portfolio investments		
– stake in Archisen		(0.5)
– stake in Classic Scenic		(2.8)
Share buyback: Avarga treasury shares		(2.2)
Dividends to Avarga shareholders		(91.7)
Others		1.4
Subtotal		**415.5**
Deficit		**(153.4)**
How did we finance this?		
Sale of Kajang land		1.9
Sale of Tuas factory		18.4
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)		58.9
Sub-total		**153.4**

BOARD OF DIRECTORS

TONG KOOI ONG

Executive Chairman
Appointed to the Board on 15 March 2012

Mr. Tong is an entrepreneur and an analyst.

He has varied business interests in different countries and writes regularly for The Edge Malaysia and The Edge Singapore.

Besides Avarga, he is also the Non-Executive Chairman of 3Cnergy Limited, also listed on the Singapore Exchange. Mr. Tong is on the board of Taiga Building Products Ltd., a subsidiary corporation of the Group listed on the Toronto Stock Exchange in Canada.

Mr. Tong is a nominee director of Khazanah Nasional Berhad and sits on the Board of M+S Pte Ltd.

He 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.

Mr. Tong is a husband, a father to 4 children and has 4 grandkids (more to come).

TONG IAN

Chief Executive Officer and Executive Director
Appointed to the Board on 7 March 2017

Mr. Tong Ian is the Chief Executive Officer of the Group. He joined the Group in 2012 and was appointed Executive Director in 2017 and Chief Executive Officer in 2020. 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*. 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.

GARY HO KUAT FOONG

Lead 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 Secura Group Limited, listed 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.

BOARD OF **DIRECTORS**

NG SHIN EIN
Independent Director
Appointed to the Board on 20 April 2013

Ms. Ng Shin Ein is our independent director and was first appointed on 20 April 2013. Her last re-election as our Director was on 26 April 2019. Ms. Ng Shin Ein brings with her a blend of legal, finance and diplomatic experience.

She 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 started 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 CSE Global, Grab Holdings Inc, Starhub Limited, Yanlord Land Group Limited and other companies.

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

Ms. Ng holds a Degree in Law (LLB Honours), Queen Mary and Westfield College, University of London and a Postgraduate Diploma in Singapore Law, National University of Singapore.

CHAN LAY HOON
Non-Independent Non-Executive Director
Appointed to the Board on 8 March 2019

Ms. Chan is the Chairman of RSP Architects Planners & Engineers (Pte) Ltd, a leading architectural and engineering practices in Singapore and the region. She also serves on the board 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 2019 as well as on the board of the McLaren Group of companies, a British sports technology company from 2011 to 2020.

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.

BOARD OF **DIRECTORS**

LOH CHEN PENG

Independent Director
Appointed to the Board on 9 November 2019

Mr. Loh started his career in 1975 when he joined SGV-Kassim Chan and articled to complete the professional examinations of the Malaysian Institute of Certified Public Accountants ("**MICPA**"). He completed his professional examinations in 1980 and was admitted as a member of the MICPA in 1981.

Mr. Loh left SGV-Kassim Chan in 1980 and joined Arab-Malaysian Merchant Bank Berhad (now known as AmInvestment Bank Berhad), a merchant banking group during which he held several senior management positions in the areas of corporate advisory and corporate banking. Mr. Loh left the bank in September 1993 and thereafter served as the Chief Operating Officer in the stockbroking firm of Inter-Pacific Securities Sdn Bhd for 4 months. In April 1994, he was involved in establishing Phileo Allied Bank Berhad, a commercial bank and served as an Executive Director until 2001. He was a Director of Tropicana Corporation Berhad until his resignation in February 2013. He was re-appointed to the board of Tropicana Corporation Berhad on 1 August 2018 and resigned from the board on 5 December 2020. He had also served on the boards of AmBank (M) Berhad, AmInvestment Bank Berhad and AmIslamic Bank Berhad and resigned from the boards of these banks in July 2014. He was a Director of Berjaya Media Berhad until his retirement in September 2017. He was also a Director of Bermaz Auto Berhad and resigned from the board on 8 October 2020.

Mr. Loh serves on the board of directors of 3Cnergy Limited, a listed company on the Catalist of Singapore Exchange. He is also the Chairman of the Audit Committee and a member of the Remuneration Committee and Nominating Committee.

MOEY WENG FOONG

Independent Director
Appointed to the Board on 27 June 2020

Mr. Moey is the founder and Chief Executive Officer of GM Capital Management Singapore, an investment management and principal investments firm in Singapore.

He has invested in various early-stage growth companies in the Asia-Pacific region and Japan, helping them grow the businesses, complete successful financing rounds and exits.

With over 20 years of experience in the capital markets, he previously worked at Salomon Smith Barney and Goldman Sachs in New York before founding GM Capital Management.

He holds a Bachelor of Arts in Economics and Philosophy from the National University of Singapore.

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.

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 to 1998. Mr. Flagel received a Bachelor of Arts from the University of Manitoba.

GARSON DAVID LEE
Director
Appointed to the Board on 8 November 2019

Mr. Lee is an experienced accounting professional 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. He is also the Managing Director of several private corporations which provide management, consulting and other professional services.

He was also appointed a Director of Vancouver Bullion & Currency Exchange Limited ("**VBCE**") in February 2018 and as a Director of Avarga Limited in March 2017 which he resigned from in September 2019. Avarga Limited is Taiga's major shareholder.

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) designation. He is a member of the Chartered Professional Accountants of British Columbia and the Chartered Professional Accountants of Alberta.

TAIGA BUILDING PRODUCTS LTD. DIRECTORS

JIM TEH
Director
Appointed to the Board on 12 November 2020

Mr. Teh is currently the Group Head, Corporate Development at Pan-United Corporation Limited where he manages corporate strategy, particularly examining mergers and acquisition opportunities and corporate finance initiatives. Mr. Teh also manages Pan-United's slag cement grinding plant in Malaysia and also helped start the largest trucking platform for construction materials in Singapore. Mr. Teh also has extensive experience in the banking sector, having spent 17 years with CIMB Investment Bank Berhad.

Mr. Teh is a Fellow Member of the Association of Chartered Certified Accountants (FCCA) and a Member of the Malaysia Institute of Accountants (CA).

KEY MANAGEMENT **PERSONNEL**

KHOO HSIEN MING, KEVIN
President, Investments and Power Generation
Avarga Limited Group

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. He 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.

TAI LAI YEEN
Group Finance Manager
Avarga Limited

Ms. Tai is responsible for the 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.

NG LEE HUANG
Managing Director
UPP Pulp & Paper (M) Sdn Bhd

Ms. Ng was appointed as Managing Director of UPP Pulp & Paper (M) Sdn Bhd, a subsidiary of the Group, on 1 June 2020. She is responsible for the overall management and operations of the Group's paper manufacturing business.

Ms. Ng joined UPP Pulp & Paper (M) Sdn Bhd in March 2001 and was Senior Finance & Human Resource Manager prior to the appointment. Prior to joining the company, she had working experience in property and audit firms.

Ms. Ng holds a professional accounting qualification by ACCA. She is a Fellow member of the Association of Chartered Certified Accountants and a Fellow member of the Malaysian Institute of Accountants.

TRENT BALOG
Co-Chief Executive Officer and President
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 appointment to current role, Chief Operating Officer.

Mr. Balog entered into a transition agreement with Taiga and will serve as Co-CEO and President from 1 January 2021 to 31 December 2021 then provide consulting services for Taiga until 31 December 2023.

KEY MANAGEMENT PERSONNEL

RUSSELL PERMANN
Co-Chief Executive Officer and President
Taiga Building Products Ltd.

Mr. Permann spent 8 years at Jager Building Systems Inc. When he left Jager, 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 and Chief Operating Officer in March 2015. Mr. Permann was promoted to Co-CEO and President effective 1 January 2021.

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

MICHAEL SIVUCHA
Vice President, Commodities
Taiga Building Products Ltd.

Mr. Sivucha joined Taiga in 2012 as Panel Supply Manager, responsible for the OSB and Plywood product categories. He has held his current role since 2015 and took on the additional responsibilities of Lumber, Export Sales and, more recently, Taiga Logistics, Pressure Treated Wood and Siding Sales. Prior to joining Taiga, he spent eight years with Tolko Industries Ltd., first as Business Development Manager and then as the N. American Sales Manager of its Strand-based businesses.

Mr. Sivucha has a B.Sc. in Forestry from the University of British Columbia and an MBA from St. Mary's University. Prior to completing his MBA, he worked 7 years in forest operations.

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 1 June 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).

ROBERTO VALENTE
Director, Financial Reporting & Controller
Taiga Building Products Ltd.

Mr. Valente joined Taiga in 2011 as a Senior Financial Analyst. In 2013 he was promoted to Manager, Corporate Planning, responsible for treasury, strategic planning, real estate, insurance and fixed assets. Mr. Valente was promoted to Controller in 2015 and then to Director, Financial Reporting & Controller in 2019. Prior to joining Taiga, Mr. Valente worked For the Office of the Auditor General of Canada.

He holds a Bachelor of Arts in History from the University of British Columbia and a Diploma in Accounting from the Sauder School of Business at the University of British Columbia. He became a member of the Chartered Accountants (CA) of British Columbia in 2011 and is also a Chartered Professional Accountant (CPA).

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 2018 (the "**Code**").

The board of directors of the Company ("**Board**") confirms that it has adhered to the principles and provisions of the Code. In so far as any provision has not been complied with, 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: The Board's Conduct of Affairs

The Company is headed by an effective Board which is responsible for the overall management of the Company. The Board works closely with the management of the Company (the "**Management**") for the long-term success of the Company and the Management remains accountable to the Board. In this regard, the Board supervises the achievements of Management's performance targets. This aligns the interests of the Board and Management with that of the shareholders, whilst balancing the interest of all stakeholders.

The Board also sets the tone for the Group in respect of ethics, values and desired organisational culture, and also ensures proper accountability within the Group. Directors facing conflicts of interest recuse themselves from discussions and decisions involving the issues of conflict.

The role of the Board 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.

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.

REPORT ON **CORPORATE GOVERNANCE**

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 Singapore Exchange Securities Trading Limited ("**SGX-ST**") and consultants.

During the financial year ended 31 December 2020 ("**FY2020**"), Mr. Gary Ho Kuat Foong attended courses, titled "Compliance with Main Market Listing Requirement – Reporting of Financial Statements" and "New Corporate Liability – Malaysian Anti-Corruption Commission (Amendment) Act 2018" conducted in Malaysia and "Ethic and Anti-Fraud Management" conducted in Singapore.

Mr. Moey Weng Foong, who joined the Board during the financial year, was briefed on the Group's business and operations, and had attended trainings and professional development programs for Listed Entity Director Essentials conducted by SID.

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 of the SGX-ST ("**Listing Manual**").

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

All directors exercise due diligence and independent judgement and make decisions objectively in the best interests of the Group. The Group adheres to the requirements under the Code. In determining the independence of its directors, please refer to Principle 2 in this report.

REPORT ON CORPORATE GOVERNANCE

In accordance with Rule 210(5)(e) of the Listing Manual, and the Code, the Board has, without abdicating its responsibilities, 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 Committees.

Please refer to the Principles in this report, for further information on the activities of the ARMC, NC and RC.

During FY2020, the Board conducted regular scheduled meetings on a half-yearly basis to coincide with the announcement of the Group's half-yearly 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 52 of this Annual Report.

The Management provides the directors with complete, adequate and timely information prior to meetings and on an on-going basis. Directors also have separate and independent access to the Management to enable them to make informed decisions and discharge their duties and responsibilities. Detailed meeting papers are prepared for each meeting of the Board and Board Committees and are normally circulated in advance of each meeting. The meeting 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 directors.

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

The company secretary(ies) and/or her representative(s) 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(ies) is a decision of the Board as a whole. All directors have separate, direct and independent access to the advice and services of the company secretary(ies).

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**

Principle 2: Board Composition and Guidance

The Company is headed by an effective Board to lead, control and direct the Company and the Board has a pivotal role in charting the strategic course and direction of the Group. As at the date of this report, the Board comprised seven (7) directors, namely Mr. Tong Kooi Ong, Mr. Tong Ian, Mr. Gary Ho Kuat Foong, Ms. Ng Shin Ein, Ms. Chan Lay Hoon, Mr. Loh Chen Peng and Mr. Moey Weng Foong. It is chaired by Mr. Tong Kooi Ong who is also an executive director. He is responsible for the leadership and objective functioning of the Board.

As at the date of this report, the Board comprised of the following members:

Mr. Tong Kooi Ong	Executive Chairman
Mr. Tong Ian	Chief Executive Officer ("**CEO**")/Executive Director
Mr. Gary Ho Kuat Foong	Lead Independent Director
Ms. Ng Shin Ein	Independent Director
Ms. Chan Lay Hoon	Non-Independent Non-Executive Director
Mr. Loh Chen Peng	Independent Director
Mr. Moey Weng Foong	Independent Director

The Chairman of the Board is the father of the CEO. The independent directors make up a majority 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 could impair their independence.

The Board (taking into account the views of the NC) reviews whether the individual independent directors are independent in conduct, character and judgement with reference to the provisions set out by the Code. In accordance with the provisions set out by the Code, the Board also considers whether any of the independent directors have any relationships with the Company, its related corporations, its substantial shareholders or its officers which could interfere, or be reasonable perceived to interfere, with the exercise of the respective director's independent business judgement in 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 Provision 2.1 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 Code.

The NC together with the Board noted that Mr. Gary Ho Kuat Foong has served on the Board for more than nine (9) years from the date of his first appointment. In view of the above, the NC is of the view that although Mr. Ho has served beyond nine years as an independent director since 2006, he continues to express his individual viewpoints, debate issues and objectively and constructively challenge Management's proposals and decisions on business activities and transactions that may involve conflicts of interest and other complexities. The NC has determined that Mr. Ho tenures in office has not affected his independence and ability to bring independent and considered judgement to bear in his discharge of duties as a member of the Board and Board Committees. The Board concurred with the NC's views after having considered the confirmation of independence form submitted by Mr. Ho.

REPORT ON **CORPORATE GOVERNANCE**

Under Rule 210(5)(d)(iii) of the Listing Manual that will come into effect on 1 January 2022, the appointment of an independent director who has served an aggregate period of more than nine (9) years (whether before or after listing) will be subject to a two-tier voting process. The continued appointment of such person as an independent director has to be approved in separate resolutions by (A) all shareholders; and (B) shareholders excluding directors, chief executive officer, and associates of such directors and chief executive officer. For the purpose of the resolution referred to in (B), the directors and the chief executive officer, and their respective associates, must not accept appointment as proxies unless specific instructions as to voting are given. Such resolutions may remain in force until the earlier of the following: (i) the retirement or resignation of that director; or (ii) the conclusion of the third annual general meeting of the company following the passing of the resolutions.

Mr. Gary Ho Kuat Foong, who is also due for re-election this year, will be seeking for approval at the forthcoming annual general meeting of the Company ("**AGM**") for his continued appointment as an independent director via separate resolutions pursuant to Rule 210(5)(d)(iii) of the Listing Manual.

The Company will also table the resolutions proposing Ms. Ng Shin Ein for the continued appointment as an independent director pursuant to Rule 210(5)(d)(iii) of the Listing Manual at the AGM. Ms. Ng was first appointed to the Board as an independent director on 20 April 2013. The NC and Board are of the view that Ms. Ng has demonstrated strong independence and judgement over the years in discharging her duties and responsibilities as an independent director.

Taking into account the views of the NC, the Board has determined that all independent directors are independent.

The Board is of the view that the current Board and Board Committees size facilitate 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 recognises that a diverse Board will enhance the decision-making process by utilising the variety in skills, industry and business experiences, gender and other distinguishing qualities of the members of the Board. Diversity will be considered in determining the optimum composition of the Board so that, as a whole, it reflects a range of different perspectives, complementary skills and experiences, which is likely to result in better decision-making. Such diversity will provide a wider range of perspectives, skills and experience, which will allow Board members to better identify possible risks, raise challenging questions, and contribute to problem-solving.

Each year, the NC reviews the composition and size of the Board and each Board Committee and takes into careful consideration a combination of factors when reviewing appointments to the Board and the continuation of those appointments. These factors include skills, core competencies, knowledge, professional experience, educational background, gender and age.

The Board (taking into account the views of the NC) considers that its 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.

REPORT ON **CORPORATE GOVERNANCE**

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.

Principle 3: Chairman and Chief Executive Officer

Mr. Tong Kooi Ong, the Chairman of the Board is the father of Mr. Tong Ian, the CEO. Although Chairman of the Board and the CEO are immediate family members, 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 within the Group. As the Chairman of the Board, Mr. Tong Kooi Ong'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 Kooi Ong 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 Ian 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 Ian 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 the normal channels of communication with the Chairman or Management are inappropriate or inadequate. All the independent directors including the Lead Independent Director, meet at least annually without the presence of executive directors.

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

REPORT ON **CORPORATE GOVERNANCE**

Principle 4: Board Membership

The Board, in conjunction with the NC, reviews the composition of the Board and Board Committees annually, taking into account the need for progressive renewal of the Board.

As at the date of this report, the NC comprised three (3) directors, all of whom, including the Chairman, are independent non-executive directors. Mr. Gary Ho Kuat Foong, the Lead Independent Director, is a member of the NC.

As at the date of this report, the NC members comprised of the following members:

Mr. Loh Chen Peng	(Chairman)
Mr. Gary Ho Kuat Foong	(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.

Succession planning is an important part of the governance process. The NC will review the board succession plans for directors, in particular the Chairman, CEO and key management personnel. The NC will also seek to refresh the Board membership progressively and in an orderly manner.

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.

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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.

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 Constitution, at the annual general meeting of the Company in each year, one-third of the directors for the time being (save for the managing director), or, if their number is not three or a multiple of three, then the number nearest one-third, shall retire from office by rotation and shall be eligible for re-election, provided always that all directors shall retire from office at least once every three 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.

The NC has also reviewed the independence of the directors with reference to the Provision 2.1 of the Code, and has determined Mr. Gary Ho Kuat Foong, Ms. Ng Shin Ein, Mr. Loh Chen Peng and Mr. Moey Weng Foong to be independent. All directors are required to disclose to the NC whether they have any relationships with the Company, its related corporations, its substantial shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgement in 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.

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 FY2020, 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.

REPORT ON **CORPORATE GOVERNANCE**

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 including taking into consideration the attendance record at the meetings of the Board and the Board Committees for monitoring and evaluating the performance of the Board as a whole and effectiveness and contribution of individual directors.

In respect of evaluating the effectiveness of the Board and Board Committees, each director is required to complete a board performance evaluation on a yearly basis. On the basis of returns submitted, a consolidated report will be presented to the NC for discussion, with a view to implementing recommendations to further enhance the effectiveness of the Board and/or the Board Committees.

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 director is required to complete an evaluation form on a yearly basis. On the basis of returns submitted, a consolidated report will be presented to the NC for discussion.

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, knowledge and skills, relevant experience and preparedness for meetings.

REMUNERATION MATTERS

Principle 6: Procedures for Developing Remuneration Policies

As at the date of this report, the RC comprised three (3) directors, all of whom are non-executive directors and majority of whom, including the Chairman, are independent.

The composition of the RC is as follows:

Ms. Ng Shin Ein	(Chairman)
Ms. Chan Lay Hoon	(Member)
Mr. Loh Chen Peng	(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;

REPORT ON **CORPORATE GOVERNANCE**

(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.

For FY2020, Aon Solutions Singapore Pte Ltd was engaged as an external consultant to provide the market compensation data for the CEO against the comparable peers. In engaging external consultants, the Group ensures that the relationship, if any, between ourselves and these external consultants will not affect the independence and objectivity of the latter. The RC undertook a review of the independence and objectivity of Aon Solutions Singapore Pte Ltd and confirmed that the Group had no relationship with the firm that would affect the latter's independence.

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.

Whilst the RC reviews the fees payable to non-executive directors to be recommended for shareholders' approval at the AGM, no member of the RC may by himself or herself decide on his or her own remuneration.

REPORT ON **CORPORATE GOVERNANCE**

Principle 7: 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.

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. 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.

Principle 8: Disclosure on Remuneration

The remuneration of directors and top 5 key management personnel (who are not directors or the CEO) of the Group for FY2020 is set out below:

(a) Directors of the Company	Fees (S$)	Salary (S$)	Bonus (S$)	Benefits (S$)	Total (S$)
Mr. Tong Kooi Ong	1,545,300[3]	383,333	–	515,369[4]	2,444,002
Mr. Tong Ian	1,287,750[3]	366,667	–	21,867	1,676,284
Mr. Gary Ho Kuat Foong	100,000	–	–	–	100,000
Ms. Ng Shin Ein	100,000	–	–	–	100,000
Ms. Chan Lay Hoon	92,533	–	–	–	92,533
Mr. Loh Chen Peng	97,066	–	–	–	97,066
Mr. Moey Weng Foong[1]	46,500	–	–	–	46,500
Dato' Seri Kalimullah Bin Masheerul Hassan[2]	34,231	–	–	–	34,231

Notes:

(1) Mr. Moey Weng Foong appointed to the Board on 27 June 2020.

(2) Dato' Seri Kalimullah Bin Masheerul Hassan resigned as director on 27 June 2020.

(3) Directors' fees declared by subsidiary corporation, Taiga.

(4) Included amount of S$500,000 paid in cash for stepping down as CEO of the Company on 1 June 2020.

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(b) Directors of Subsidiary, Taiga	**Fees (S$)**	**Salary (S$)**	**Bonus (S$)**	**Benefits (S$)**	**Total (S$)**
Mr. Brian Flagel	61,587	–	–	–	61,587
Mr. Garson David Lee	76,965	–	–	–	76,965
Mr. Jim Teh[1]	15,453	–	–	–	15,453
Mr. Cam White[2]	–	–	–	–	–
Mr. Douglas J. Morris[3]	35,832	–	–	–	35,832

Notes:

(1) Mr. Jim Teh appointed to the Board on 12 November 2020.

(2) Mr. Cam White passed away on 28 February 2020.

(3) Mr. Douglas J. Morris passed away on 17 July 2020.

(c) Top 5 Key Management Personnel (who are not directors or the CEO)

Remuneration bands	**Number**
S$250,000 to S$500,000	1
S$500,001 to S$750,000	1
S$750,001 to S$1,000,000	1
S$1,000,001 to S$1,250,000	2

Taking note of the highly competitive industry conditions, pressure in talent market and the sensitivity and confidentiality of remuneration matters, the Board decided not to disclose the remuneration of the top five key management personnel (who are not directors or the CEO) of the Group on a name basis. The Board is of the view that the disclosure of such information would not be in the interests of the Company as such information is confidential and sensitive, and may facilitate the solicitation of the key management personnel. The Company needs to maintain stability in the management team.

Total remuneration paid to the key management personnel (who are not directors or the CEO) for FY2020 was approximately S$4,747,000.

The RC met once during the year to decide on directors' fees, review the remuneration packages of executive directors, assess the performance of senior management and determine their compensation packages (including bonus awards) for FY2020. 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 names and remuneration of employees who are substantial shareholders of the Company, or are immediate family members of a director, the CEO or a substantial shareholder of the Company, and whose remuneration exceeded S$100,000 during FY2020 are set out below:

Between S$2,400,000 to S$2,500,000

Name	**Designation**	**Relationship**
Mr. Tong Kooi Ong	Executive Chairman	Substantial shareholder and father of Mr. Tong Ian (CEO/Executive Director)

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Between S$1,600,000 to S$1,700,000

Name	Designation	Relationship
Mr. Tong Ian	CEO/Executive Director	Son of Mr. Tong Kooi Ong (substantial shareholder and Executive Chairman)

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 ("**P4P**") Remuneration Framework, for the executive directors and key management personnel.

The RC believes P4P is a comprehensive and transparent compensation scheme, promoting performance and risk management, as well as aligning the interests of Management with shareholders.

The P4P scheme has a clear framework based on a risk assessment matrix that incorporates the earnings and operating outlook, risk profiles and the required rate of return for each of our business units.

At the beginning of each year, the RC discusses and recommends for the Board's approval the risk assessment matrix for the coming year, based on a number of factors including:

- The risk parameters for each business unit, taking into account earnings sustainability, performance risks, country risk and currency risk

- The required rate of return for each risk profile, and consequently, the required rate of return for each business unit

Multiplying this required rate of return with the capital employed for each business unit yields the overall weighted required rate of return for the Company. The prevailing risk-free rate is then added to this required rate of return for the Company, with adjustments for gearing.

Compensation for the Company's Management is based on exceeding this hurdle Rate of Return on Capital Employed, which in 2020 was calculated at 9.23% (8.22% in 2019).

The Company currently also has an employee share option scheme known as the 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.

REPORT ON **CORPORATE GOVERNANCE**

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.

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.

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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 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 FY2020, 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 9: 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, to safeguard the interests of the Company and its shareholders.

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.

REPORT ON CORPORATE GOVERNANCE

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.

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 2020.

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/Executive Director and the Executive Chairman that, as at 31 December 2020, the Group's financial records have been properly maintained and the financial statements give a true and fair view of the Group's operations and finances.

The Board has also received assurance from the CEO/Executive Director, Managing Director of Paper Manufacturing, President of Investments and Power Generation and Group Finance Manager, who are responsible, that the Group's risk management and internal control systems were adequate and effective as at 31 December 2020 to address the risks that the Group considers relevant and material to its operations.

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 10: Audit and Risk Management Committee

As at the date of this report, the ARMC comprised five (5) directors, all of whom, are non-executive directors and the majority of whom, including the Chairman, are independent. The Chairman and all its members have recent and relevant accounting or related financial management expertise or experience.

As at the date of this report, the composition of the ARMC is as follows:

Mr. Gary Ho Kuat Foong	(Chairman)
Ms. Ng Shin Ein	(Member)
Ms. Chan Lay Hoon	(Member)
Mr. Loh Chen Peng	(Member)
Mr. Moey Weng Foong	(Member)

REPORT ON **CORPORATE GOVERNANCE**

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 half yearly and annual financial statements before submission to the Board for approval, focusing in particular, on:

- changes in accounting policies and practices;

- major risk areas;

REPORT ON **CORPORATE GOVERNANCE**

- significant adjustments resulting from the audit;
- the going concern statement;
- compliance with accounting standards; and
- compliance with stock exchange and statutory/regulatory/requirements;

(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.

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In performing its functions, the ARMC and the Audit Committee of the Group's significant subsidiary, Taiga met with its external auditors and the internal auditors, where applicable, 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.

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 Company's external auditors, Nexia TS Public Accounting Corporation ("**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	91
Non-Audit Service	21
Total Fees	112

The ARMC, having reviewed all non-audit services provided by the external auditors of the Company, 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	286
Non-Audit Service	85
Total Fees	371

The external auditor of UPP Pulp & Paper (M) Sdn Bhd, a subsidiary of the Company, is Deloitte PLT, Malaysia ("**Deloitte Malaysia**"). During the year under review, the remuneration paid or payable to Deloitte Malaysia is set out below.

Service Category	Fees Paid/Payable (S$'000)
Audit Service	28
Non-Audit Service	–
Total Fees	28

REPORT ON **CORPORATE GOVERNANCE**

The Company'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 ARMC does not comprise former partners or directors of the Group's auditing firm.

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.

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.

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/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 FY2020, no internal audit firm was appointed by the Group to perform internal audit services. The internal audit function of the Company's significant subsidiary corporation, Taiga was carried out in house by the manager of Internal Audit & Process Control of Taiga for its operations. The internal audit charter ensures the internal audit department has full access to all documents, records, properties and personnel of the Group, including the ARMC, and has appropriate standing within the Group.

The Group's internal auditors for FY2020 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 FY2020, the ARMC is of the view that the internal audit function is independent, effective and adequately resourced.

REPORT ON **CORPORATE GOVERNANCE**

SHAREHOLDER RIGHTS AND ENGAGEMENT

Principle 11: Shareholder Rights and Conduct of General Meetings
Principle 12: Engagement with Shareholders

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.

Annual general meeting 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 annual general meetings. 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 annual general meeting to address questions from shareholders. Details of the directors' attendance at general meetings held during the financial year is provided on page 52 of this Annual Report.

The Company tables separate resolutions at general meetings on each substantially separate issue unless the issues are interdependent and linked so as to form one significant proposal. Where the resolutions are "bundled", the Company explains the reasons and material implications in the notice of meeting. 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.

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 Constitution currently does not allow a shareholder to vote in absentia at general meetings, except through the appointment of a proxy, attorney or in the case of a corporation, a corporate representative to cast their vote in their stead. 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 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.

REPORT ON **CORPORATE GOVERNANCE**

In view of the current Covid-19 situation, the AGM is being convened, and will be held, by electronic means pursuant to the Covid-19 (Temporary Measures) (Alternative Arrangements for Meetings for Companies, Variable Capital Companies, Business Trusts, Unit Trusts and Debenture Holders) Order 2020. Printed copies of the notice of AGM ("**Notice**") will not be sent to shareholders. Instead, the Notice will be sent to shareholders by electronic means via publication on the Company's website at the URL *http://www.avarga.com.sg/investor-relations/sgx-announcements/*. The Notice will also be made available on the SGX's website at the URL *http://www.sgx.com/securities/company-announcements*. Alternative arrangements relating to attendance at the AGM via electronic means (including arrangements by which the AGM can be electronically accessed via live audio-visual webcast or live audio-only stream), submission of questions to the chairman of the AGM in advance of the AGM, addressing of substantial and relevant questions at the AGM and voting by appointing the chairman of the AGM as proxy at the AGM, will be put in place for the AGM to be held in April 2021.

The Company has in place an investor relations policy which allows for an ongoing exchange of views so as to actively engage and promote regular, effective and fair communications with shareholders. The investor relations policy also explains that shareholders with questions may contact the Investor Relation Officer by email to admin@avarga.com.sg. Through that contact, the Company may respond to such questions.

For FY2020, the Company has paid a total interim dividends of 0.72 cent per share and will be paying a final dividend of 0.78 cent per share, if approved by the shareholders of the Company at the AGM. The Company has stated that barring unforeseen circumstances, major capex or merger and acquisition deals, and subject to compliance with the Companies Act, the Company will endeavour to have a dividend payout policy of 30% of net profit attributable to shareholders excluding non-controlling interests and non-recurring, one-off and exceptional items, annually.

MANAGING STAKEHOLDERS RELATIONSHIPS

Principle 13: Engagement with Stakeholders

The Board adopts a balanced approach towards the needs and interests of key stakeholders, taking into account the best interests of the Company.

To facilitate the exercise of shareholders' rights, the Company ensures that all material information relating to the Company and its financial performance is disclosed in an accurate and timely manner via SGXNET. Shareholders are also informed of rules, including voting procedures that govern the general meeting. The Company maintains a current corporate website, http://www.avarga.com.sg/ to communicate and engage with stakeholders.

The Annual Reports sets out the Group's strategy and key areas of focus in managing stakeholder relationships.

REPORT ON **CORPORATE GOVERNANCE**

CORPORATE INFORMATION AND ADDITIONAL INFORMATION REQUIRED PURSUANT TO RULE 720(6) OF THE LISTING MANUAL OF DIRECTORS SEEKING FOR RE-ELECTION

Particulars of Directors as at 31 December 2020

Name of Directors	Board Committees 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 26 June 2020	Executive Chairman	3Cnergy Limited	–
Mr. Tong Ian	–	7 March 2017 26 June 2020	Chief Executive Officer/Executive Director	–	–
Mr. Gary Ho Kuat Foong	Chairman: ARMC Member: NC	31 October 2006 27 April 2018	Lead Independent Director	Secura Group Limited	Thomson Medical Group Limited
Ms. Ng Shin Ein	Chairman: RC Member: ARMC and NC	20 April 2013 26 April 2019	Independent Director	Yanlord Land Group Limited Starhub Limited CSE Global Limited	Eu Yan Sang Limited Sabana Shari'ah Compliant Industrial Real Estate Investment Trusts
Ms. Chan Lay Hoon	Member: ARMC and RC	8 March 2019 26 April 2019	Non-Independent, Non-Executive Director	–	Thomson Medical Group Limited
Mr. Loh Chen Peng	Chairman: NC Member: ARMC and RC	9 November 2019 26 June 2020	Independent Director	3Cnergy Limited	–
Mr. Moey Weng Foong	Member: ARMC	27 June 2020 –	Independent Director	–	–

REPORT ON **CORPORATE GOVERNANCE**

Directors standing for re-election at the AGM

The following information relating to Mr. Gary Ho Kuat Foong, Ms. Chan Lay Hoon, Mr. Moey Weng Foong and Ms. Ng Shin Ein, each of whom is standing for re-election as a director in accordance to the Constitution and/or continued appointment as independent director pursuant to Rule 210(5)(d)(iii) of the Listing Manual at the AGM, is provided pursuant to Rule 720(6) of the Listing Manual.

Name of Director	**Mr. Gary Ho Kuat Foong**	**Ms. Chan Lay Hoon**	**Mr. Moey Weng Foong**	**Ms. Ng Shin Ein**
Date of Appointment	31 October 2006	8 March 2019	27 June 2020	20 April 2013
Date of last re-appointment (if applicable)	27 April 2018	26 April 2019	–	26 April 2019
Age	66	56	46	46
Country of principal residence	Singapore	Singapore	Singapore	Singapore
The Board's comments on this appointment (including rationale, selection criteria, and the search and nomination process)	The NC and the Board have determined that Mr. Gary Ho Kuat Foong remains objective and independent-minded in Board deliberations. His vast experience enables him to provide the Board and the various Board Committees on which he serves, with pertinent experience and competence to facilitate sound decision-making and that his length of service does not in any way interfere with his exercises of independent judgement nor hinder his ability to act in the best interests of the Company. The NC and the Board proposed for the (1) re-election and re-nomination in accordance to the Constitution; and (2) continued appointment pursuant to Rule 210(5)(d)(iii) of the Listing Manual; of Mr. Gary Ho as the Lead Independent Director, chairman of ARMC and member of NC.	The NC noted that in accordance with the Constitution, Ms. Chan Lay Hoon shall be required to retire at the AGM. The Board having considered among others, the recommendation of the NC and the qualifications and work experience of Ms. Chan, is of the view that she is suitable for re-election as a non-independent non-executive director, and member of the ARMC and RC.	The Board has considered the NC's recommendation and assessment of Mr. Moey Weng Foong's qualification, expertise and experience, and is satisfied that his re-appointment as an independent director and member of ARMC will be beneficial to the Board and to the Company.	The NC and the Board have determined that Ms. Ng Shin Ein remains objective and independent-minded in Board deliberations. Her vast experience enables her to provide the Board and the various Board Committees on which she serves, with pertinent experience and competence to facilitate sound decision-making and that her length of service does not in any way interfere with her exercises of independent judgement nor hinder her ability to act in the best interests of the Company. The NC and the Board proposed for her continued appointment pursuant to Rule 210(5)(d)(iii) of the Listing Manual. If pass, Ms. Ng will remain as an independent director, chairman of RC and member of ARMC and NC.

REPORT ON **CORPORATE GOVERNANCE**

Name of Director	Mr. Gary Ho Kuat Foong	Ms. Chan Lay Hoon	Mr. Moey Weng Foong	Ms. Ng Shin Ein
Whether the appointment is executive, and if so, the area of responsibility	Non-Executive, Independent Director	Non-Executive, Non-Independent Director	Non-Executive, Independent Director	Non-Executive, Independent Director
Job Title	Lead Independent Director, Chairman of ARMC and Member of NC	Non-Independent Non-Executive Director, Member of ARMC and RC	Independent Director, Member of ARMC	Independent Director, Chairman of RC, Member of ARMC and NC
Professional qualifications	Bachelor Degrees in Commerce and Science from the University of Western Australia and a member of the Institute of Singapore Chartered Accountants and CPA Australia.	Bachelor of Accountancy degree from the National University of Singapore and a member of the Institute of Singapore Chartered Accountants	Bachelor of Arts in Economics and Philosophy from the National University of Singapore	Degree in Law (LLB Honours) from Queen Mary and Westfield College, University of London, and Postgraduate Diploma in Singapore Law from National University of Singapore
Working experience and occupation(s) during the past 10 years	Please refer to the "**Board of Directors**" section of this Annual Report	Please refer to the "**Board of Directors**" section of this Annual Report	Please refer to the "**Board of Directors**" section of this Annual Report	Please refer to the "**Board of Directors**" section of this Annual Report
Shareholding interest in the listed issuer and its subsidiaries	No	No	Yes Please refer to the "**Directors' Statement**" section of this Annual Report	No
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	Yes. An employee of a company that is owned by a substantial shareholder, Mr. Lim Eng Hock	No	No
Conflict of interest (including any competing business)	No	No	No	No

REPORT ON **CORPORATE GOVERNANCE**

Name of Director	Mr. Gary Ho Kuat Foong	Ms. Chan Lay Hoon	Mr. Moey Weng Foong	Ms. Ng Shin Ein
Undertaking (in the format set out in Appendix 7.7) under Rule 720(1) has been submitted to the Company	Yes	Yes	Yes	Yes
Other Principal Commitments including Directorships – Past (for the last 5 years) and Present	**Past directorships:** 1. Thomson Medical Group Limited **Present directorships:** 1. TMC Life Sciences Berhad 2. Thailoy Investments Pty Ltd 3. Elnora Pty Ltd 4. Secura Group Limited	**Past directorships:** 1. Thomson Medical Group Limited 2. J.S. Corporate Service Pte Ltd 3. Sasteria Pte Ltd 4. Sasteria (M) Pte Ltd 5. Catpital Private Limited 6. Valencia Club de Futbol (Asia) Pte Ltd 7. Mint Capital Limited 8. Valencia Club de Futbol S.A.D. 9. Fundacion Valencia Club De Futbol de la C.V. 10. Thomson Medical Pte Ltd **Present directorships:** 1. Bellton International Limited 2. Caili (Hong Kong) Limited 3. Caili Limited 4. Double Click Pte Ltd 5. FASTrack Management Pte. Ltd. 6. Gao Fei Investments Limited 7. GG Collections Private Limited 8. Incanto Investments Limited 9. Jovina Investments Limited 10. KelHealth Pte. Ltd. 11. Kestrel Capital Pte Ltd 12. Kestrel Investments Pte Ltd	**Past directorships:** 1. GMCM Asia Alpha Fund 2. GMCM Real Estate Fund I Pte. Ltd. 3. Oasis Mind Limited **Present directorships:** 1. 1078517 B.C Ltd 2. ASFM International Ltd 3. Blackhawk Asian Opportunities Inc 4. Descartes Capital Ltd 5. Descartes Investments Pte. Ltd. 6. Empire Dream International Investments 7. GBS Partners Limited 8. GMCM Asia Investments I 9. GMCM Asia Multi-Strategy Fund 10. GMCM Capital Partners SPC 11. GMCM Consulting Pte Ltd 12. GMCM Global Equity Opportunity Fund 13. GMCM Rei Inc 14. GMCM VCP I Pte. Ltd. 15. GMCM Venture Capital Partners I Inc 16. Lothlorien Holdings Ltd 17. Malibu Asia Fund I 18. Shadowfax Capital Ltd	**Past directorships:** 1. Working Capital Partners Ltd 2. NTUC Fairprice Cooperative Limited 3. Eu Yan Sang International Ltd 4. Sabana Shari’ah Compliant Industrial Real Estate Investment Trust 5. First Resources Limited **Present directorships:** 1. Starhub Ltd. 2. Singapore International Foundation 3. Yanlord Land Group Limited 4. Blue Ocean Associates Pte Ltd 5. CSE Global Limited 6. Grab Holdings Inc. 7. Oswaldus Holdings Pte. Ltd.

REPORT ON **CORPORATE GOVERNANCE**

Name of Director	**Mr. Gary Ho Kuat Foong**	**Ms. Chan Lay Hoon**	**Mr. Moey Weng Foong**	**Ms. Ng Shin Ein**
		13. Meriton Capital Limited 14. Meriton Holdings Limited 15. Merlington Investments Limited 16. Perlman Investments Limited 17. Pinewind Limited 18. Plano Pte. Ltd. 19. PT Meriton Resources 20. Project 92 Limited 21. Rowsley Hospitality Holdings Pte. Ltd. 22. Rowsley (HFM) Pte. 23. Rowsley Technologies Limited 24. RSP Architects Planners & Engineers (Pte) Ltd 25. RSP Design Consultants (India) Pvt Ltd 26. RSP Holdings Pte Ltd 27. RSP TopCo Pte Ltd 28. Sephia Pte Ltd 29. Singapore Olympic Foundation 30. Squire Mech Private Limited 31. SSP Innovations Pte Ltd 32. Tenion Pte Ltd 33. Towerhill Pte Ltd 34. Vantage Plus Holdings Limited 35. Venture India Pte Ltd	19. Fortress Financial Partners Pte. Ltd. 20. Kanon Capital Limited 21. Atlas Investments Pte Ltd 22. Aquinas Hospitality Partners Pte Ltd 23. ASFM Holdings HK Limited 24. Nix Concepts HK Limited 25. GM Capital Management Pte Ltd	

REPORT ON CORPORATE GOVERNANCE

Name of Director	Mr. Gary Ho Kuat Foong	Ms. Chan Lay Hoon	Mr. Moey Weng Foong	Ms. Ng Shin Ein
Disclosure on the following matters concerning the Director:				
(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	No

REPORT ON **CORPORATE GOVERNANCE**

Name of Director	Mr. Gary Ho Kuat Foong	Ms. Chan Lay Hoon	Mr. Moey Weng Foong	Ms. Ng Shin Ein
(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	No
(c) Whether there is any unsatisfied judgment against him?	No	No	No	No

REPORT ON **CORPORATE GOVERNANCE**

Name of Director	Mr. Gary Ho Kuat Foong	Ms. Chan Lay Hoon	Mr. Moey Weng Foong	Ms. Ng Shin Ein
(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	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	No

REPORT ON **CORPORATE GOVERNANCE**

Name of Director	Mr. Gary Ho Kuat Foong	Ms. Chan Lay Hoon	Mr. Moey Weng Foong	Ms. Ng Shin Ein
(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	No

REPORT ON **CORPORATE GOVERNANCE**

Name of Director	Mr. Gary Ho Kuat Foong	Ms. Chan Lay Hoon	Mr. Moey Weng Foong	Ms. Ng Shin Ein
(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	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	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	No

REPORT ON **CORPORATE GOVERNANCE**

Name of Director	Mr. Gary Ho Kuat Foong	Ms. Chan Lay Hoon	Mr. Moey Weng Foong	Ms. Ng Shin Ein
(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	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	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	No

Name of Director	Mr. Gary Ho Kuat Foong	Ms. Chan Lay Hoon	Mr. Moey Weng Foong	Ms. Ng Shin Ein
(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,	No	No	No	No
in connection with any matter occurring or arising during that period when he was so concerned with the entity or business trust?				
(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	No

REPORT ON **CORPORATE GOVERNANCE**

Name of Director	**Mr. Gary Ho Kuat Foong**	**Ms. Chan Lay Hoon**	**Mr. Moey Weng Foong**	**Ms. Ng Shin Ein**
(Applicable to appointment of director only) Any prior experience as a Director of an issuer listed on the Exchange?	Not applicable	Not applicable	Not applicable	Not applicable

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.

Attendance at Board, Board Committees and General Meetings during the financial year ended 31 December 2020

Directors	**Board**		**ARMC**		**NC**		**RC**		**AGM**	
	No. of meetings	**Attendance**	**No. of meetings**	**Attendance**	**No. of meetings**	**Attendance**	**No. of meetings**	**Attendance**	**No. of meetings**	**Attendance**
Mr. Tong Kooi Ong	2	2	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	1	1
Mr. Tong Ian	2	2	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	1	1
Mr. Gary Ho Kuat Foong	2	2	2	2	1	1	N.A.	N.A.	1	1
Ms. Ng Shin Ein	2	2	2	2	1	1	1	1	1	1
Ms. Chan Lay Hoon	2	2	2	2	N.A.	N.A.	1	N.A.[1]	1	1
Mr. Loh Chen Peng	2	2	2	2	1	N.A.[2]	1	1	1	1
Mr. Moey Weng Foong[3]	2	1	2	1	N.A.	N.A.	N.A.	N.A.	1	N.A.

Notes:

(1) Becomes member of the RC on 27 June 2020.

(2) Becomes chairman/member of the NC on 27 June 2020.

(3) Appointed to the Board on 27 June 2020.

REPORT ON **CORPORATE GOVERNANCE**

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.

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 one (1) month before the announcement of the Group's half yearly and full year financial results, as the case may be, and if they are in possession of unpublished material and price-sensitive information.

The Company has complied with Rule 1207(19) of the Listing Manual.

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.

Particulars of the interested person transaction(s) for the FY2020, disclosed in accordance with Rule 907 of the Listing Manual were set out below:

Name of interested person	**Nature of relationship**	**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)**	**Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than S$100,000)**
Nil	Nil	Nil	Nil

REPORT ON **CORPORATE GOVERNANCE**

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**").

On 12 February 2020, the outstanding bonus warrants of 836,627,900 had expired.

As at 13 February 2020, the Company has issued 39,221 ordinary shares arising from the exercise of bonus warrants at S$0.37 per share.

The total proceeds received by the Company is approximately S$15,000.

The Board will continue to make periodic announcements on the utilisation of the proceeds arising from the exercise of warrants until the whole of the proceeds has been fully disbursed.

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. Over the past few years, we have helped two schools in Myanmar, with a primary focus on a government primary school near our power plant, No. 16 Basic Education Primary School, Insein township, which is home to over 800 students.

We started our CSR activities in the school in Yangon, in 2015 by replacing two-thirds of its 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.

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.

REPORT ON **CORPORATE GOVERNANCE**

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.

In 2018 and 2019, we focused our CSR efforts back on the school in Insein, 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. We constructed a new 605 ft length perimeter concrete wall and contributed towards the establishment and furnishing of a library in the school in 2019. That same year, we donated school uniforms and books to all 887 students of the school for the 2019 to 2020 academic year.

Having made substantial improvements to the school's infrastructure and facilities over the years, it did not need further funding in 2020. With the Covid-19 pandemic, we shifted much of our group CSR efforts to focus on combating the spread of the virus, supporting our dedicated frontline healthcare workers and helping the affected communities in areas where we operate in.

In Myanmar, we repaired an overhead water tank that was supplying water to the housing area near our power plant. We contributed 48 million kyat (or US$37,200) to repair the tank with capacity of over 50,000 gallons and weighing over 200 tonnes.

In Malaysia, UPP Pulp & Paper (M) Sdn Bhd contributed towards The Edge Covid-19 Equipment Fund. Established by The Edge Media Group in March 2020, the fund aimed to raise donations from the corporate sector to buy medical equipment such as ventilators, protective suits and masks, to assist Malaysia's medical facilities and healthcare workers. We were one of the first donors to the fund, which has since gone a long way in procuring medical equipment for government hospitals and healthcare staff in the critical early stages of the pandemic, when the healthcare system was under severe strain and medical supplies were limited.

In Canada, Taiga Building Products created the Taiga Community Fund to support customers and organisations in need through difficult times. The fund has made donations to recipients in every province in Canada, including Abbotsford Food Bank, Kelowna's Women's Shelter and Coast Mental Health in British Columbia, the Arthouse for Children and Youth and Children's Aid Foundation of Halton in Ontario; and the Big Brothers Big Sisters Foundations in both Nova Scotia and Prince Edward Island.

SUSTAINABILITY REPORT

Avarga has adopted a formalised reporting approach by applying the industry recognised international reporting framework, Global Reporting Initiative Standards: Core option and the requirements of SGX-ST Listing Rules 711A and 711B in preparing our fourth sustainability report.

The sustainability report covers data and information from 1 January 2020 to 31 December 2020 ("**FY2020**") and outlines the Group's achievements and performance towards Environmental, Social and Governance issues.

The Company is working towards the issuance of its sustainability report for FY2020 by 31 May 2021 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 2020

The directors present their statement to the members together with the audited financial statements of the Group for the financial year ended 31 December 2020 and the balance sheet of the Company as at 31 December 2020.

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 68 to 154 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 2020 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)
Tong Ian	(Chief Executive Officer)
Gary Ho Kuat Foong	
Ng Shin Ein	
Chan Lay Hoon	
Loh Chen Peng	
Moey Weng Foong	(Appointed on 27 June 2020)

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' **STATEMENT**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

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 a director is deemed to have an interest	
	At 31.12.2020	At 1.1.2020 or date of appointment, if later	At 31.12.2020	At 1.1.2020 or date of appointment, if later
Company				
(No. of ordinary shares)				
Tong Kooi Ong	–	–	295,364,000	295,364,000
Tong Ian	–	–	2,800,000	2,800,000
Ng Shin Ein	–	671,400	–	–
Moey Weng Foong	625,000	625,000	–	–

Mr Tong Kooi Ong, who by virtue of his interest of not less than 20% of the issued share 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 31.12.2020	At 1.1.2020
Taiga Building Products Ltd.		
– No. of ordinary shares	108,541,557	111,520,583

The directors' interests in the ordinary shares of the Company as at 21 January 2021 were the same as those as at 31 December 2020.

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**").

DIRECTORS' **STATEMENT**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

Share options (Continued)

Avarga Group Employees' Share Option Scheme 2018 (Continued)

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.

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.

Share options (Continued)

Avarga Group Employees' Share Option Scheme 2018 (Continued)

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.

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.

DIRECTORS' **STATEMENT**
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

Share options (Continued)

Avarga Group Employees' Share Option Scheme 2018 (Continued)

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
Chan Lay Hoon
Loh Chen Peng
Moey Weng Foong

All members of the ARMC are non-executive directors. The majority of the members, including the Chairman, are independent.

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 as at 31 December 2020 and the consolidated financial statements of the Group for the financial year then ended 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.

DIRECTORS' **STATEMENT**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

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

23 March 2021

INDEPENDENT **AUDITOR'S REPORT**

TO THE MEMBERS OF AVARGA LIMITED

Report on the Audit of the Financial Statements

Our Opinion

We have audited the accompanying financial statements of Avarga 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 2020, 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 68 to 154.

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 2020 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.

INDEPENDENT **AUDITOR'S REPORT**

TO THE MEMBERS OF AVARGA LIMITED

Key Audit Matters (Continued)

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the matter</th></tr>
<tr><td>Impairment of non-financial assets – Goodwill
(Refer to Note 2.10(a), Note 3.1(a) and Note 14(a) to the financial statements)

As at 31 December 2020, goodwill recognised in the consolidated balance sheet in relation to the acquisition of Taiga Building Products Ltd. ("Taiga") on 31 January 2017 and Exterior Wood, Inc. ("EWI") on 31 July 2018 amounted to $22.0 million and $10.3 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 using discounted cash flows, which involved significant judgements in estimating the gross margin, weighted average growth rate and discount rate. Based on the impairment test, management concluded that no impairment was required for the goodwill allocated to both Taiga and EWI as at 31 December 2020.

We considered the audit of management's impairment assessment of goodwill to be a key audit matter due to the magnitude of the amounts recognised in the financial statements. In addition, the assessment process involved significant management estimates and was based on assumptions that are affected by future market and economic conditions.</td><td>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 carrying amounts of 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 and the impact of Covid-19 pandemic.

• 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.

• Reviewed the adequacy of the disclosures made in relation to the impairment assessment of goodwill in the financial statements.</td></tr>
</table>

INDEPENDENT **AUDITOR'S REPORT**

TO THE MEMBERS OF AVARGA LIMITED

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the matter
Revenue recognition – Wholesale of building products and trading of paper products *(Refer to Note 2.3(i), Note 2.3(ii) and Note 27 to the financial statements)* The Group derives revenue primarily from wholesale of building products and trading of paper products which are recognised at a point in time, i.e. when the control of the products has been transferred to the customers, being when the products are shipped to the customers in instances where the customers arrange for shipments or upon delivery for instances in which the Group arranges for shipments. During the financial year ended 31 December 2020, the Group recognised revenue from wholesale of building products and trading of paper products of $1,632.0 million and $44.8 million respectively. We focus on this area as a key audit matter as there is presumed fraud risk with regards to revenue recognition and revenue is one the key performance indicators of the Group. The potential existence of management override controls and large volume of transactions also increase the inherent risk of material misstatement in the amount of revenue reported.	In obtaining sufficient audit evidence, the following procedures have been performed: • Evaluated management's assessment of the application of SFRS(I) 15 *Revenue from Contracts with Customers* and considered the appropriateness of the Group's revenue recognition accounting policies. • Evaluated the design and implementation of internal controls relating to revenue and test the operating effectiveness. • Performed analytical procedures to identify unusual fluctuations or trends and areas where there is a higher risk of misstatement. • Performed substantive test of details of revenue transactions throughout the financial year and sales cut-off test to ascertain that sales have been properly taken up in the correct financial year. • Reviewed terms of rebate and other rebates incentive arrangements with customers and performed substantive procedures to ascertain that revenue recognised is measured correctly. Where amounts of rebates incentives require judgement/estimate, reviewed management's judgement/estimate for reasonability. • Reviewed management journal entries posted to revenue for evidence of fraud. • Reviewed credit notes issued subsequent to the financial year end and ascertained that revenue is adjusted accordingly, if any.

INDEPENDENT **AUDITOR'S REPORT**

TO THE MEMBERS OF AVARGA 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.

INDEPENDENT **AUDITOR'S REPORT**

TO THE MEMBERS OF AVARGA LIMITED

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

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.

- 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.

INDEPENDENT **AUDITOR'S REPORT**

TO THE MEMBERS OF AVARGA LIMITED

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

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.

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

23 March 2021

BALANCE **SHEETS**

AS AT 31 DECEMBER 2020

		Group		Company	
	Note	2020 $'000	2019 $'000	2020 $'000	2019 $'000
ASSETS					
Current assets					
Cash and cash equivalents	4	19,037	19,245	4,280	4,618
Trade and other receivables	5	155,682	102,027	134,389	125,312
Service concession receivables	6	15,732	16,029	–	–
Inventories	7	202,674	169,475	–	–
		393,125	306,776	138,669	129,930
Non-current assets					
Property, plant and equipment	8	170,357	174,807	453	664
Investments in subsidiary corporations	12	–	–	34,854	34,854
Other receivables	5	–	–	–	8,419
Service concession receivables	6	23,760	24,512	–	–
Financial asset, at fair value through profit or loss ("**FVPL**")	11	500	500	500	500
Financial asset, at fair value through other comprehensive income("**FVOCI**")	10	1,786	1,964	–	–
Intangible assets	14	61,162	66,548	–	–
Deferred income tax assets	23	277	196	–	–
		257,842	268,527	35,807	44,437
Total assets		650,967	575,303	174,476	174,367

The accompanying notes form an integral part of these financial statements

BALANCE **SHEETS**

AS AT 31 DECEMBER 2020

	Note	Group		Company	
		2020	**2019**	**2020**	**2019**
		$'000	**$'000**	**$'000**	**$'000**
LIABILITIES					
Current liabilities					
Trade and other payables	15	132,897	76,583	1,159	2,080
Derivative financial instruments	16	203	136	–	–
Revolving credit facility	17	9,074	42,279	–	–
Bank borrowings	18	45,401	40,588	–	–
Lease liabilities	19	4,771	4,746	128	124
Current income tax liabilities		4,950	14,747	–	–
		197,296	179,079	1,287	2,204
Non-current liabilities					
Bank borrowings	18	11,862	15,361	–	–
Lease liabilities	19	94,783	95,232	84	212
Deferred gain	20	2,575	2,683	–	–
Provisions	21	488	590	–	–
Subordinated notes	22	12,975	12,900	–	–
Deferred income tax liabilities	23	24,117	16,633	–	–
		146,800	143,399	84	212
Total liabilities		344,096	322,478	1,371	2,416
NET ASSETS		306,871	252,825	173,105	171,951
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	24	169,597	169,582	169,597	169,582
Treasury shares	24	(2,206)	(628)	(2,206)	(628)
Retained profits		98,494	54,651	5,640	2,923
Other reserves	25	(23,385)	(22,399)	74	74
		242,500	201,206	173,105	171,951
Non-controlling interests	12	64,371	51,619	–	–
Total equity		306,871	252,825	173,105	171,951

The accompanying notes form an integral part of these financial statements

CONSOLIDATED STATEMENT OF **COMPREHENSIVE INCOME**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

	Note	2020 $'000	2019 $'000
Revenue	27	1,693,259	1,403,873
Cost of sales		(1,445,525)	(1,253,516)
Gross profit		247,734	150,357
Other gains/(losses), net			
– Interest income – bank deposits		172	330
– Loss allowance on trade receivables, net	36(a)	(780)	(168)
– Others	28	3,201	14,924
Expenses			
– Distribution		(28,866)	(28,035)
– Selling and administrative		(108,786)	(71,868)
– Finance	31	(10,501)	(12,220)
Profit before income tax		102,174	53,320
Income tax expense	32	(27,378)	(12,732)
Net profit		74,796	40,588
Other comprehensive (loss)/income:			
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences arising from consolidation			
– Losses		(1,822)	(1,750)
Items that will not be reclassified subsequently to profit or loss:			
Financial assets, at FVOCI			
– Fair value changes – equity investments	10	(178)	(194)
Currency translation differences arising from consolidation			
– (Losses)/gains		(323)	147
Other comprehensive loss, net of tax		(2,323)	(1,797)
Total comprehensive income		72,473	38,791
Net profit attributable to:			
Equity holders of the Company		54,826	32,562
Non-controlling interests		19,970	8,026
		74,796	40,588
Total comprehensive income attributable to:			
Equity holders of the Company		52,826	30,618
Non-controlling interests		19,647	8,173
		72,473	38,791
Earnings per share ("EPS") for profit attributable to equity holders of the Company (cents per share)			
– Basic EPS	33	5.79	3.44
– Diluted EPS	33	5.79	3.44

The accompanying notes form an integral part of these financial statements

CONSOLIDATED STATEMENT OF **CHANGES IN EQUITY**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

		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
2020										
Balance as at 1 January 2020		169,582	(628)	54,651	360	(21,902)	(857)	(22,399)	51,619	252,825
Profit for the financial year		–	–	54,826	–	–	–	–	19,970	74,796
Other comprehensive loss for the financial year		–	–	–	–	(1,822)	(178)	(2,000)	(323)	(2,323)
Total comprehensive income/(loss) for the financial year		–	–	54,826	–	(1,822)	(178)	(2,000)	19,647	72,473
Warrants 2017 conversion	24	15	–	–	–	–	–	–	–	15
Purchase of treasury shares	24	–	(1,578)	–	–	–	–	–	–	(1,578)
Effect of subsidiary corporation's shares buyback and cancelled	12	–	–	566	164	(77)	–	87	(3,977)	(3,324)
Acquisition of non-controlling interests without a change in control	12	–	–	–	927	–	–	927	(2,918)	(1,991)
Dividends relating to 2019 paid	26	–	–	(4,735)	–	–	–	–	–	(4,735)
Dividends relating to 2020 paid	26	–	–	(6,814)	–	–	–	–	–	(6,814)
Total transactions with owners, recognised directly in equity		15	(1,578)	(10,983)	1,091	(77)	–	1,014	(6,895)	(18,427)
Balance as at 31 December 2020		169,597	(2,206)	98,494	1,451	(23,801)	(1,035)	(23,385)	64,371	306,871

The accompanying notes form an integral part of these financial statements

CONSOLIDATED STATEMENT OF **CHANGES IN EQUITY**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

		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
2019										
Balance as at 1 January 2019		169,582	(628)	64,317	(600)	(20,046)	(663)	(21,309)	49,004	260,966
Profit for the financial year		–	–	32,562	–	–	–	–	8,026	40,588
Other comprehensive (loss)/income for the financial year		–	–	–	–	(1,750)	(194)	(1,944)	147	(1,797)
Total comprehensive income/(loss) for the financial year		–	–	32,562	–	(1,750)	(194)	(1,944)	8,173	38,791
Effect of subsidiary corporation's shares buyback and cancelled	12	–	–	385	960	(106)	–	854	(5,567)	(4,328)
Liquidation of a subsidiary corporation		–	–	–	–	–	–	–	9	9
Dividends relating to 2018 paid	26	–	–	(28,409)	–	–	–	–	–	(28,409)
Dividends relating to 2019 paid	26	–	–	(14,204)	–	–	–	–	–	(14,204)
Total transactions with owners, recognised directly in equity		–	–	(42,228)	960	(106)	–	854	(5,558)	(46,932)
Balance as at 31 December 2019		169,582	(628)	54,651	360	(21,902)	(857)	(22,399)	51,619	252,825

(1) Retained profits of the Group are fully distributable.

CONSOLIDATED STATEMENT OF **CASH FLOWS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

	Note	2020 $'000	2019 $'000
Cash flows from operating activities			
Net profit		74,796	40,588
Adjustments for:			
– Income tax expense	32	27,378	12,732
– Depreciation of property, plant and equipment	29	13,156	12,679
– Amortisation of intangible assets	29	5,244	5,241
– Amortisation of deferred gain	28	(122)	(123)
– Loss/(gain) on disposal of property, plant and equipment	28	195	(14)
– Gain on disposal of asset held-for-sale	28	–	(10,864)
– Provisions		(104)	(98)
– Loss allowance on trade receivables, net		780	168
– Net fair value loss on derivatives		67	192
– Finance income	27	(4,116)	(4,586)
– Dividend income from listed equity security	28	(39)	(137)
– Interest income		(172)	(330)
– Interest expense	31	10,501	12,220
– Unrealised currency translation gains		(2,160)	(56)
		125,404	67,612
Change in working capital:			
– Trade and other receivables and service concession receivables		(49,236)	11,046
– Inventories		(33,199)	(11,520)
– Trade and other payables		53,451	10,068
Cash generated from operations		96,420	77,206
Interest received		172	330
Interest paid		(7,316)	(9,621)
Income tax paid		(28,360)	(8,083)
Net cash provided by operating activities		60,916	59,832
Cash flows from investing activities			
Additions to property, plant and equipment		(4,575)	(2,277)
Disposal of property, plant and equipment		25	195
Disposal of asset held-for-sale		–	18,406
Dividend income from listed equity security		39	137
Net cash (used in)/provided by investing activities		(4,511)	16,461

CONSOLIDATED STATEMENT OF **CASH FLOWS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

	Note	2020 $'000	2019 $'000
Cash flows from financing activities			
Acquisition of non-controlling interests	12	(1,991)	–
Proceed from issuance of shares	24	15	–
Purchase of treasury shares	24	(1,578)	–
Repurchase of common shares by a subsidiary corporation	12	(3,324)	(4,328)
Principal payment of lease liabilities		(4,855)	(4,852)
Changes in revolving credit facility		(32,919)	(23,802)
Proceeds from bank borrowings		14,370	31,300
Repayment of bank borrowings		(13,014)	(33,277)
Interest paid		(1,812)	(1,761)
Dividends paid to equity holders of the Company	26	(11,549)	(42,613)
Net cash used in financing activities		(56,657)	(79,333)
Net decrease in cash and cash equivalents		(252)	(3,040)
Cash and cash equivalents			
Beginning of financial year		19,245	22,372
Effects of currency translation on cash and cash equivalents		44	(87)
End of financial year	4	19,037	19,245

Reconciliation of liabilities arising from financing activities

			Non-cash changes		
	1 January 2020 $'000	Cash flows $'000	Addition $'000	Foreign exchange movement $'000	31 December 2020 $'000
Lease liabilities	99,978	(4,855)	4,331	100	99,554
Bank borrowings	55,949	1,356	–	(42)	57,263
Subordinated notes	12,900	–	–	75	12,975
Revolving credit facility	42,279	(32,919)	–	(286)	9,074

			Non-cash changes			
	1 January 2019 $'000	Cash flows $'000	Impact on adoption of SFRS(I) 16 Leases $'000	Addition $'000	Foreign exchange movement $'000	31 December 2019 $'000
Lease liabilities	22,985	(4,852)	76,475	3,177	2,193	99,978
Bank borrowings	58,360	(1,977)	–	–	(434)	55,949
Subordinated notes	12,525	–	–	–	375	12,900
Revolving credit facility	64,680	(23,802)	–	–	1,401	42,279

The accompanying notes form an integral part of these financial statements

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

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

1 GENERAL INFORMATION

Avarga 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, 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.

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.

Coronavirus (Covid-19) Impact

The Covid-19 pandemic which spread in 2020 has affected almost all countries of the world, and resulted in border closures, production stoppages, workplace closures, movements controls and other measures imposed by the various governments including the countries which the Group's operations based, which are Canada, the United States of America, Malaysia and Myanmar.

In response to the pandemic, the governments from different countries around the world have implemented containment measures to varying degrees in a bid to curb the spread of the virus. As a result, there has been disruption to global trade due to restrictions for cross-border movement and reduced demand in recreational activities.

The ongoing and evolving Covid-19 pandemic has a significant impact on the global economy. There is significant uncertainty as to the duration of the pandemic and its impact on those economies which the Group operates in, hence might affect the Group's financial performance in the following financial years.

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

Coronavirus (Covid-19) Impact (Continued)

Set out below is the impact of Covid-19 on the Group's financial performance reflected in this set of financial statements for the financial year ended 31 December 2020.

i. The Group had assessed that the going concern basis of preparation for this set of financial statements remains appropriate.

ii. The Group has considered the market conditions including the impact of Covid-19 as at the reporting date, in making estimates and judgements on the recoverability of assets as at 31 December 2020.

Rent concessions

As a result of Covid-19, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments.

The Group has elected to early adopt this practical expedient to all property leases. The adoption of this new amendment did not result in substantial changes to the Group's accounting policies and had no material effect on the amounts reported for the current financial year.

2.2 Interpretations and amendments to published standards effective in 2020

On 1 January 2020, the Group has adopted the new or amended SFRS(I) and Interpretations of SFRS(I) ("**INT SFRS(I)**") that are mandatory for application for the financial year. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective SFRS(I) and INT SFRS(I).

The adoption of these new or amended SFRS(I) and INT SFRS(I) did not result in substantial changes to the Group's accounting policies and had no material effect on the amounts reported for the current or prior financial years.

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.

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Revenue recognition (Continued)

(i) Wholesale of building products (Continued)

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 (financial asset) 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.

(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.

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Revenue recognition (Continued)

(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.

(vi) Interest income

Interest income from financial assets at FVPL is included as part of the net fair value gains or losses in "Other gains and losses". Interest income from financial assets at amortised cost and FVOCI is recognised using the effective interest rate 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

2 **SIGNIFICANT ACCOUNTING POLICIES** (CONTINUED)

2.4 **Group accounting** (Continued)

(a) *Subsidiary corporations (Continued)*

(ii) *Acquisitions (Continued)*

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.

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

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 2020

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 gains/(losses), 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.

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

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.

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

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.

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

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 (including right-of-use assets)
Investments in subsidiary corporations

Intangible assets, property, plant and equipment (including right-of-use assets) 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 2020

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial assets

(a) *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 2020

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial assets (Continued)

(a) 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 gains/(losses), 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 gains/(losses), 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 gains/(losses), 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".

(b) 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 *Financial Instruments*, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial assets (Continued)

(b) Impairment (Continued)

For other financial assets at amortised cost, the general 3 stage approach is applied. Credit loss allowance is based on 12-month expected credit loss if there is no significant increase in credit risk since initial recognition of the assets. If there is a significant increase in credit risk since initial recognition, lifetime expected credit loss will be calculated and recognised.

(c) 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.

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

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

At the inception of the contract, the Group assesses if the contract contains a lease. A contract contains a lease if the contract conveys the right to control the use of an identifiable asset for a period of time in exchange for consideration. Reassessment is only required when the terms and conditions of the contract are changed.

(i) Right-of-use assets

The Group recognised a right-of-use asset and lease liability at the date which the underlying asset is available for use. Right-of-use assets are measured at cost which comprises the initial measurement of lease liabilities adjusted for any lease payment made at or before the commencement date and lease incentive received. Any initial direct costs that would not have been incurred if the lease had not been obtained are added to the carrying amount of the right-of-use assets.

These right-of-use assets is subsequently depreciated using the straight-line method or declining balance method from the commencement date to the earlier of the end of the useful life of the right-of-use assets or the end of the lease term.

Right-of-use assets are presented within "Property, plant and equipment".

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Leases (Continued)

When the Group is the lessee (Continued)

(ii) Lease liabilities

The initial measurement of lease liability is measured at the present value of the lease payments discounted using the implicit rate in the lease, if the rate can be readily determined. If that rate cannot be readily determined, the Group shall use its incremental borrowing rate.

Lease payments include the following:

– Fixed payment (including in-substance fixed payments, less any lease incentives receivables;

– Variable lease payment that are based on an index or rate, initially measured using the index or rate as at the commencement date;

– Amount expected to be payable under residual value guarantees;

– The exercise price of a purchase option if is reasonably certain to exercise the option; and

– Payment of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

For contract that contain both lease and non-lease components, the Group allocates the consideration to each lease component on the basis of the relative stand-alone price of the lease and non-lease component. The Group has elected to not separate lease and non-lease component for property leases and account these as one single lease component.

Lease liability is measured at amortised cost using the effective interest method. Lease liability shall be remeasured when:

– There is a change in future lease payments arising from changes in an index or rate;

– There is a change in the Group's assessment of whether it will exercise an extension option; or

– There is modification in the scope or the consideration of the lease that was not part of the original term.

Lease liability is remeasured with a corresponding adjustment to the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Leases (Continued)

When the Group is the lessee (Continued)

(iii) Short term and low value leases

The Group has elected to not recognised right-of-use assets and lease liabilities for short-term leases that have lease terms of 12 months or less and leases of low value leases. Lease payments relating to these leases are expensed to profit or loss on a straight-line basis over the lease term.

(iv) Variable lease payments

Variable lease payments that are not based on an index or a rate are not included as part of the measurement and initial recognition of the lease liability. The Group shall recognise those lease payments in profit or loss in the periods that triggered those lease payments.

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. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a tax authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Income taxes (Continued)

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.

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.

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Provisions (Continued)

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.

(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.

NOTES TO **THE FINANCIAL STATEMENTS**
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Employee compensation (Continued)

(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.

2.20 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 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.

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 lease liability. Amortisation is included in "Other gains/(losses), 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 financial 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.

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

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 gains/(losses), 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.

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Currency translation (Continued)

(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

(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.

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.26 Share capital and treasury shares (Continued)

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.

2.27 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 (or disposal groups) held-for-sale

Non-current assets (or disposal groups) 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.

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

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) *Estimated impairment of goodwill*

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

Significant judgements are involved in estimating 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).

The Group has assessed that any reasonably possible change in the key assumptions used in the value-in-use calculation does not materially cause the recoverable amount to be lower than its carrying amount.

(b) *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. 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 $1,316,000 (2019: $1,268,000) higher or lower.

(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.

3 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

3.1 Critical accounting estimates and assumptions (Continued)

(c) Carrying amount of service concession receivables (Continued)

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.

If the actual cash flows differ by 5% (2019: 10%) from management estimates, the carrying amount of the service concession receivables will be increased/decreased by $1,275,000 (2019: $1,289,000) and correspondingly to profit or loss.

(d) Current and deferred income tax

The Group calculates current and deferred income 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 to 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 subsidiary corporations 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 profits 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 deferred income taxes, unrecognised tax losses, capital allowances and merger and acquisition allowances are set out in Note 23. The amount of income tax expense recognised is disclosed in Note 32.

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

3 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

3.2 Critical judgements in applying the entity's accounting policies

(a) *Impairment of trade receivables*

As at 31 December 2020, the Group's trade receivables before loss allowance amounted to $147,888,000 (2019: $95,977,000) (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 $1,884,000 (2019: $1,149,000) (Note 5) for trade receivables was recognised as at 31 December 2020.

The Group's and the Company's credit risk exposure for trade receivables are set out in Note 36(a)(i).

(b) *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. If the net realisable value of the inventories were lower by 1%, the carrying amount of inventories will be decreased by $2,027,000 (2019: $1,695,000).

(c) *Critical judgement over the lease terms*

As at 31 December 2020, the Group's lease liabilities, which are measured with reference to an estimate of the lease terms, amounted to $99,554,000 (2019: $99,978,000), of which $68,410,000 (2019: $69,333,000) arose from extension options. Extension option is included in the lease term if the lease is reasonably certain to be extended. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise the extension option.

3 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

3.2 Critical judgements in applying the entity's accounting policies (Continued)

(c) Critical judgement over the lease terms (Continued)

For leases of warehouse and factory, the following factors are considered to be most relevant:

- If any leasehold improvements are expected to have a significant remaining value, the Group typically includes the extension option in lease liabilities;
- If the warehouse and factory are located in strategic locations that will contribute to the continued profitability of the business segment, the Group typically includes the extension option in lease liabilities;
- Otherwise, the Group considers other factors including its historical lease periods for similar assets, costs required to obtain replacement assets, and business disruptions.

The assessment of reasonable certainty to exercise extension options is only revised if a significant change in circumstances occurs which affects this assessment, and that is within the control of the lessee. There is no change in the Group's assessment of extension option which has an impact on the recognised lease liabilities and right-of-use assets during the financial year.

4 CASH AND CASH EQUIVALENTS

	Group		Company	
	2020	**2019**	**2020**	**2019**
	$'000	**$'000**	**$'000**	**$'000**
Cash at bank and on hand	12,254	10,028	4,275	4,613
Short-term bank deposits	6,783	9,217	5	5
	19,037	19,245	4,280	4,618

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	
	2020	**2019**	**2020**	**2019**
	$'000	**$'000**	**$'000**	**$'000**
United States Dollar	2,998	5,732	451	4,070

NOTES TO **THE FINANCIAL STATEMENTS**

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5 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2020	**2019**	**2020**	**2019**
	$'000	**$'000**	**$'000**	**$'000**
Current				
Trade receivables – non-related parties	147,888	95,977	180	55
Less: Loss allowance (Note 36(a))	(1,884)	(1,149)	–	–
Trade receivables – net	146,004	94,828	180	55
Non-trade amounts due from subsidiary corporations (Note 36(g))	–	–	50,276	41,708
Loan to subsidiary corporations	–	–	83,870	83,487
Deposits	90	779	37	37
Prepayments	3,780	3,143	14	18
Other receivables – non-related parties	5,808	3,277	12	7
	9,678	7,199	134,209	125,257
	155,682	102,027	134,389	125,312
Non-current				
Loan to a subsidiary corporation	–	–	–	8,419
	155,682	102,027	134,389	133,731

Trade receivables of $136,475,000 (2019: $85,410,000) 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' credit 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 repayable on demand.

Total current and non-current loan to a subsidiary corporation by the Company amounted to $4,131,000 (2019: $12,628,000) 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 loan amount of $53,711,000 (2019: $53,400,000) which are unsecured, interest-free and repayable on demand.

As at 31 December 2019, the carrying amount of the non-current loan to a subsidiary corporation approximated its fair value that was determined from the cash flow analysis discounted at effective interest rate of 8%, which was in the opinion of management 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.

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

5 TRADE AND OTHER RECEIVABLES (CONTINUED)

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	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
United States Dollar	1,345	1,383	8,292	8,653
Canadian Dollar	–	–	96,918	91,433

6 SERVICE CONCESSION RECEIVABLES

	Group	
	2020 $'000	2019 $'000
Current portion	15,732	16,029
Non-current portion	23,760	24,512
	39,492	40,541

During the financial year, the Group recognised finance income of $4,116,000 (2019: $4,586,000) as revenue from service concession arrangement (Note 27). The effective interest rate applied is 12% (2019: 12%) per annum.

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

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

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.

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

6 SERVICE CONCESSION RECEIVABLES (CONTINUED)

Service concession arrangement (Continued)

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 with good payment records and no history of default. Accordingly, management is of the view that the associated credit risk is not significant.

7 INVENTORIES

	Group	
	2020 **$'000**	**2019** **$'000**
At cost		
Building products:		
– Allied building products	37,670	28,938
– Lumber products	124,678	104,143
– Panel products	33,506	28,297
Paper products:		
– Finished goods	2,774	4,940
– Raw materials	2,133	1,666
Work-in-progress	9	5
Production consumables	1,904	1,486
	202,674	169,475

The cost of inventories recognised as an expense and included in "cost of sales" amounted to $18,419,000 (2019: $17,341,000). The Group has recognised a write-down on its slow-moving inventories amounting to $1,948,000 (2019: $3,511,000) (Note 29).

Inventories of $197,199,000 (2019: $162,291,000) of the Group have been pledged as security for the revolving credit facility of the Group (Note 17).

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

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
<u>**Group**</u>							
2020							
Cost							
Beginning of financial year	9,560	133,454	75,223	3,625	1,529	6,884	230,275
Additions	–	2,144	4,838	1,296	75	468	8,821
Disposals	–	(449)	(2,013)	(996)	(8)	(18)	(3,484)
ROU disposals	–	(173)	(313)	–	–	–	(486)
Reclassification	–	(4,526)	4,178	–	–	348	–
Currency translation differences	(41)	1,897	(1,792)	(59)	1	80	86
End of financial year	9,519	132,347	80,121	3,866	1,597	7,762	235,212
Accumulated depreciation							
Beginning of financial year	–	13,863	35,853	1,977	978	2,797	55,468
Charge for the financial year (Note 29)	–	6,708	4,590	537	187	1,134	13,156
Disposals	–	(444)	(1,871)	(906)	(8)	(19)	(3,248)
ROU disposals	–	(173)	(313)	–	–	–	(486)
Currency translation differences	–	(72)	19	(35)	1	52	(35)
End of financial year	–	19,882	38,278	1,573	1,158	3,964	64,855
Net book value							
End of financial year	9,519	112,465	41,843	2,293	439	3,798	170,357

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

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							
2019							
Cost							
Beginning of financial year	9,590	131,010	72,051	3,099	1,622	6,105	223,477
Additions	–	696	3,728	555	–	607	5,586
Disposals	–	(194)	(415)	–	(90)	–	(699)
Written off	–	–	–	(16)	–	–	(16)
Currency translation differences	(30)	1,942	(141)	(13)	(3)	172	1,927
End of financial year	9,560	133,454	75,223	3,625	1,529	6,884	230,275
Accumulated depreciation							
Beginning of financial year	–	7,694	31,613	1,560	883	1,707	43,457
Charge for the financial year (Note 29)	–	6,473	4,530	450	188	1,038	12,679
Disposals	–	(36)	(294)	–	(90)	–	(420)
Written off	–	–	–	(16)	–	–	(16)
Currency translation differences	–	(268)	4	(17)	(3)	52	(232)
End of financial year	–	13,863	35,853	1,977	978	2,797	55,468
Net book value							
End of financial year	9,560	119,591	39,370	1,648	551	4,087	174,807

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

8 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Leasehold building $'000	Furniture, fixtures, and office equipment $'000	Motor vehicles $'000	Total $'000
Company				
2020				
Cost				
Beginning of financial year	370	79	435	884
Additions	–	9	–	9
End of financial year	370	88	435	893
Accumulated depreciation				
Beginning of financial year	51	68	101	220
Charge for the financial year	124	9	87	220
End of financial year	175	77	188	440
Net book value				
End of financial year	195	11	247	453
2019				
Cost				
Beginning of financial year	–	87	435	522
Additions	370	2	–	372
Written off	–	(10)	–	(10)
End of financial year	370	79	435	884
Accumulated depreciation				
Beginning of financial year	–	72	14	86
Charge for the financial year	51	6	87	144
Written off	–	(10)	–	(10)
End of financial year	51	68	101	220
Net book value				
End of financial year	319	11	334	664

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

8 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Right-of-use assets acquired under leasing arrangements are presented together with the owned assets of the same class. Details of such leased assets are disclosed in Note 9(a).

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 2020, the development costs of the upgrading projects that are not ready for use were $487,000 (2019: $153,000). No depreciation has been recognised on the components that are not ready for use.

Included in treating equipment, warehouse equipment and plant and machinery is the balance of the unutilised construction fund that was recognised on the acquisition of Exterior Wood, Inc., which at 31 December 2020 was $Nil (2019: $660,000). This amount, plus other construction-in-progress of $2,733,000 was not yet subject to depreciation in 2019. In 2020, the construction was completed and depreciation has commenced.

Bank borrowings of $8,393,000 (2019: $18,449,000) (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 $1,399,000 (2019: $1,419,000) and $1,581,000 (2019: $1,699,000) respectively.

9 LEASES – THE GROUP AS A LESSEE

Nature of the Group's leasing activities

Leasehold land, buildings and leasehold improvements

The Group leases warehouse for storage and distribution needs. These leasehold land, buildings and leasehold improvements are recognised within Property, plant and equipment (Note 8).

There is no externally imposed covenant on these lease arrangements.

Treating equipment, warehouse equipment and plant and machinery

The Group leases equipment to produce pressure-treated wood products at its wood preservation plants.

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

9 LEASES – THE GROUP AS A LESSEE (CONTINUED)

(a) *Carrying amounts*

ROU assets classified within Property, plant and equipment

	Group		Company	
	2020 **$'000**	**2019** **$'000**	**2020** **$'000**	**2019** **$'000**
Leasehold land, buildings and leasehold improvements	90,917	93,875	195	319
Treating equipment, warehouse equipment and plant and machinery	3,395	3,827	–	–
Furniture, fixtures and office equipment	47	10	7	10
	94,359	97,712	202	329

(b) *Depreciation charge during the financial year*

	Group	
	2020 **$'000**	**2019** **$'000**
Leasehold land, buildings and leasehold improvements	5,317	5,069
Treating equipment, warehouse equipment and plant and machinery	842	1,516
Furniture, fixtures and office equipment	11	3
	6,170	6,588

(c) *Interest expense*

Interest expense on lease liabilities of the Group for the financial year ended 31 December 2020 was $5,060,000 (2019: $4,754,000).

(d) *Lease expense not capitalised in lease liabilities*

	Group	
	2020 **$'000**	**2019** **$'000**
Lease expense – short-term leases	191	617

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

9 LEASES – THE GROUP AS A LESSEE (CONTINUED)

(e) Total cash outflow for all the leases during the financial year ended 31 December 2020 for the Group was $10,106,000 (2019: $10,223,000).

(f) Additions of ROU assets during the financial year ended 31 December 2020 for the Group and the Company were $4,331,000 and $Nil (2019: $3,177,000 and $370,000) respectively.

	Group		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Leasehold land, buildings and leasehold improvements	1,889	370	–	370
Treating equipment, warehouse equipment and plant and machinery	2,392	2,807	–	–
Furniture, fixtures and office equipment	50	–	–	–
	4,331	3,177	–	370

10 FINANCIAL ASSET, AT FVOCI

	Group	
	2020 $'000	2019 $'000
Listed equity security – Classic Scenic Berhad (Malaysia)		
Beginning of financial year	1,964	2,158
Fair value loss	(178)	(194)
End of financial year	1,786	1,964

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 $39,000 (2019: $137,000) from the listed equity security during the financial year (Note 28).

Subsequent to the financial year ended 31 December 2020, the Group had disposed all the shares of Classic Scenic Berhad for a total consideration of approximately $2,560,000 (MYR7,800,000).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

11 FINANCIAL ASSET, AT FVPL

	Group and Company	
	2020	2019
	$'000	$'000
Unlisted equity security – Singapore		
Beginning and end of financial year	500	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 its initial cost of investment in view that there was no significant change in the operations and performance of the underlying investment.

12 INVESTMENTS IN SUBSIDIARY CORPORATIONS

	Company	
	2020	2019
	$'000	$'000
Equity investments at cost		
Beginning of financial year	34,854	35,126
Disposal	–	(272)
End of financial year	34,854	34,854

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

12 INVESTMENTS IN SUBSIDIARY CORPORATIONS (CONTINUED)

The Group has the following subsidiary corporations as at 31 December 2020 and 2019:

Name of companies	Country of business/ incorporation	Principal activities	Proportion of ordinary shares directly held by Parent		Proportion of ordinary shares held by the Group		Proportion of ordinary shares held by non-controlling interests	
			2020 %	2019 %	2020 %	2019 %	2020 %	2019 %
Held by the Company								
[(1)]UPP Industries Pte. Ltd.	Singapore	Investment holding	100	100	100	100	–	–
[(1)]UPP Greentech Pte. Ltd.	Singapore	Investment holding	100	100	100	100	–	–
[(1)]Avarga Investment Pte. Ltd.	Singapore	Investment holding	100	100	100	100	–	–
[(4)]UPP Investments Luxembourg S.à.r.l.	Luxembourg	Investment holding	100	100	100	100	–	–
[(4)]Avarga Canada Limited	Canada	Investment holding	23	23	100	100	–	–
Held through subsidiary corporations								
[(2)]Avarga (M) Sdn. Bhd.	Malaysia	Investment holding	–	–	100	100	–	–
[(3)]UPP Pulp & Paper (M) Sdn. Bhd.	Malaysia	Manufacture and sale of paper products and trading in recycled fibre	–	–	100	100	–	–
[(3)]UPP Recycled Fibre (M) Sdn. Bhd.	Malaysia	Dormant	–	–	100	100	–	–
[(4)]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	–	–
[(4)]Avarga Canada Limited	Canada	Investment holding	23	23	100	100	–	–
[(5)(6)]Taiga Building Products Ltd. and its subsidiary corporations	Canada	Independent wholesale distributor of building products	–	–	71.6	67.9	28.4	32.1

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

12 INVESTMENTS IN SUBSIDIARY CORPORATIONS (CONTINUED)

(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) Audited by Deloitte PLT, Malaysia.
(4) Reviewed by Nexia TS Public Accounting Corporation for consolidation purposes.
(5) Audited by Dale Matheson Carr-Hilton Labonte, LLP, Vancouver, an independent member firm associated with Moore Stephens International Limited.
(6) During the financial year ended 31 December 2020, the Group further acquired 1.8% of the issued shares of Taiga and Taiga had also reacquired some of its ownership interest and resulted in the increase in the Group's shareholding in Taiga to 71.6%.

Carrying value of non-controlling interests

	2020 $'000	2019 $'000
Taiga Building Products Ltd. ("**Taiga**") and its subsidiary corporations	64,371	51,619

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

	2020 $'000	2019 $'000
Current		
Assets	342,683	253,260
Liabilities	(146,383)	(135,583)
Total current net assets	196,300	117,677
Non-current		
Assets	189,115	198,015
Liabilities	(138,224)	(134,287)
Total non-current net assets	50,891	63,728
Net assets	247,191	181,405

NOTES TO THE FINANCIAL STATEMENTS
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12 INVESTMENTS IN SUBSIDIARY CORPORATIONS (CONTINUED)

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

	2020 $'000	2019 $'000
Revenue	1,632,036	1,337,120
Profit before income tax	94,714	32,730
Income tax expense	(24,950)	(9,098)
Net profit	69,764	23,632
Other comprehensive loss	(2,314)	(2,922)
Total comprehensive income	67,450	20,710
Total comprehensive income allocated to non-controlling interests	19,334	7,103
Dividends paid to non-controlling interests	–	–

Summarised cash flows for the financial year ended 31 December

	2020 $'000	2019 $'000
Net cash provided by operating activities	53,539	43,480
Net cash used in investing activities	(2,879)	(1,715)
Net cash used in financing activities	(50,660)	(41,766)

Transaction with non-controlling interests

Acquisition of additional interest in a subsidiary corporation

On 22 May 2020, the Group acquired additional 1.8% of the issued shares of Taiga for a purchase consideration of C$1,950,000, i.e. approximately $1,991,000 (2019: $Nil). The Group now holds 69.7% of the equity share capital of Taiga. The carrying amount of the non-controlling interests in Taiga on the date of acquisition was $2,918,000. The Group derecognised non-controlling interests of $2,918,000 and recorded an increase in equity attributable to owners of the Company of $927,000. The effect of changes in the ownership interest of Taiga on the equity attributable to owners of the Company during the financial year ended 31 December 2020 is summarised as follows:

	2020 $'000	2019 $'000
Carrying amount of non-controlling interests acquired	2,918	–
Consideration paid to non-controlling interests	(1,991)	–
Increase in equity attributable to owners of the Company	927	–

NOTES TO **THE FINANCIAL STATEMENTS**

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12 INVESTMENTS IN SUBSIDIARY CORPORATIONS (CONTINUED)

Transaction with non-controlling interests (Continued)

Deemed acquisition of additional interest in a subsidiary corporation

Subsequently during the financial year, Taiga acquired 2,979,026 (2019: 4,043,055) shares of its own in the open market for cash consideration of C$3,230,000, i.e. approximately $3,324,000 (2019: C$4,154,000, i.e. approximately $4,328,000). The Group now holds 71.6% of the equity share capital of Taiga Group. This has resulted in a decrease in non-controlling interests of $3,977,000 (2019: $5,567,000) and an increase in equity attributable to owners of the Company of $653,000 (2019: $1,239,000). The effect of the Taiga shares buy-back transactions is summarised as follows:

	2020 $'000	2019 $'000
Carrying amount of non-controlling interests deemed acquired	3,977	5,567
Consideration transferred to non-controlling interests	(3,324)	(4,328)
Increase in equity attributable to owners of the Company	653	1,239

13 ASSET HELD-FOR-SALE

	Leasehold land and building $'000	Total $'000
Group		
2019		
Cost		
Beginning of financial year	10,545	10,545
Disposal	(10,545)	(10,545)
End of financial year	–	–
Accumulated depreciation		
Beginning of financial year	2,803	2,803
Disposal	(2,803)	(2,803)
End of financial year	–	–
Net book value		
End of financial year	–	–

NOTES TO **THE FINANCIAL STATEMENTS**

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13 ASSET HELD-FOR-SALE (CONTINUED)

The details of the Group's asset held-for-sale were as follows:

Location	Descriptions	Tenure
35 Tuas View Crescent Singapore 637608	Office and factory	Leasehold with 30 years lease expiring 1 December 2029 with an option for a further term of 30 years.

The disposal of asset held-for-sale was completed on 28 January 2019 and a gain on disposal amounted to $10,864,000 was recognised in the consolidated statement of comprehensive income (Note 28).

14 INTANGIBLE ASSETS

	Group	
	2020	**2019**
	$'000	**$'000**
Composition		
Goodwill (Note (a))	32,303	32,322
Customers relationships and brand name (Note (b))	25,001	29,550
Favourable lease terms (Note (c))	3,858	4,676
	61,162	66,548

(a) Goodwill

	Group	
	2020	**2019**
	$'000	**$'000**
Cost		
Beginning of financial year	32,322	31,895
Currency translation differences	(19)	427
End of financial year	32,303	32,322
Accumulated impairment		
Beginning and end of financial year	–	–
Net book value		
End of financial year	32,303	32,322

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14 INTANGIBLE ASSETS (CONTINUED)

(a) **Goodwill** (Continued)

Impairment test for goodwill

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

	Group	
	2020	**2019**
	$'000	**$'000**
Building products		
Canada	21,967	21,839
United States	10,336	10,483
	32,303	32,322

The Group performed its impairment testing by comparing the carrying value of the CGU against its value-in-use.

The value-in-use of the CGU requires the use of assumptions. The calculation uses cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated terminal growth rate of 1% and 3% (2019: 1% and 3%) for Canada and United States respectively. The value-in-use calculation includes cash flows relating to sustaining capital expenditures and working capital based on historical activity. Cash flows are discounted using a pre-tax discount rate of 6.2% and 13.7% (2019: 5.1% and 14.5%) for Canada and United States respectively.

Based on the impairment test, the value-in-use of both CGUs exceeded its respective 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 value-in-use calculation would not result in the carrying amount of each CGU to exceed its recoverable amount.

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14 INTANGIBLE ASSETS (CONTINUED)

(b) Customers relationships and brand name

	Group	
	2020 **$'000**	**2019** **$'000**
Cost		
Beginning of financial year	40,629	40,328
Currency translation differences	(120)	301
End of financial year	40,509	40,629
Accumulated amortisation		
Beginning of financial year	11,079	6,515
Amortisation charge	4,408	4,406
Currency translation differences	21	158
End of financial year	15,508	11,079
Net book value		
End of financial year	25,001	29,550

(c) Favourable lease terms

	Group	
	2020 **$'000**	**2019** **$'000**
Cost		
Beginning of financial year	7,779	7,553
Currency translation differences	45	226
End of financial year	7,824	7,779
Accumulated amortisation		
Beginning of financial year	3,103	2,199
Amortisation charge	836	835
Currency translation differences	27	69
End of financial year	3,966	3,103
Net book value		
End of financial year	3,858	4,676

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14 INTANGIBLE ASSETS (CONTINUED)

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

	Group	
	2020	**2019**
	$'000	**$'000**
Administrative expenses (Note 29)	5,244	5,241

15 TRADE AND OTHER PAYABLES

	Group		Company	
	2020	**2019**	**2020**	**2019**
	$'000	**$'000**	**$'000**	**$'000**
Trade payables – non-related parties	59,065	46,604	–	–
Accrued operating expenses	72,999	29,148	1,066	1,978
Other payables – non-related parties	155	243	93	102
Provisions (Note 21)	678	588	–	–
	132,897	76,583	1,159	2,080

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	
	2020	**2019**	**2020**	**2019**
	$'000	**$'000**	**$'000**	**$'000**
United States Dollar	7,468	7,227	8	25

16 DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	2020	**2019**
	$'000	**$'000**
Financial liabilities at fair value through profit or loss which are held for trading		
– Lumber futures contract	203	136

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.

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17 REVOLVING CREDIT FACILITY

	Group	
	2020 $'000	2019 $'000
Revolving credit facility	9,926	43,474
Financing costs, net of amortisation	(852)	(1,195)
	9,074	42,279

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. 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 2020 and 2019.

The Group's revolving credit facility includes an amount of $1,184,000 (2019: $1,923,000) denominated in the foreign currency other than the functional currency of the subsidiary corporation, i.e. United States Dollar.

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

18 BANK BORROWINGS

	Group	
	2020 $'000	2019 $'000
Current	45,401	40,588
Non-current	11,862	15,361
Total borrowings	57,263	55,949

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	
	2020 $'000	2019 $'000
6 months or less	57,263	55,949

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18 BANK BORROWINGS (CONTINUED)

Security granted

Total borrowings include secured liabilities of $8,393,000 (2019: $18,449,000) 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 carrying amounts of the bank borrowings approximate their fair values 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.

19 LEASE LIABILITIES

A summary of the right-of-use lease obligations is as follows:

	Group		Company	
	2020 **$'000**	**2019** **$'000**	**2020** **$'000**	**2019** **$'000**
Minimum lease payments due over the lives of the right-of-use leases:				
– Not later than one year	9,814	9,781	132	132
– Between one and five years	35,129	33,893	85	217
– Later than five years	114,365	118,659	–	–
	159,308	162,333	217	349
Less: Future finance charges	(59,754)	(62,355)	(5)	(13)
Present value of lease liabilities	99,554	99,978	212	336

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

19 LEASE LIABILITIES (CONTINUED)

The present values of lease liabilities are analysed as follows:

	Group		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Current				
– Not later than one year	4,771	4,746	128	124
Non-current				
– Between one and five years	17,134	15,808	84	212
– Later than five years	77,649	79,424	–	–
	94,783	95,232	84	212
Total	99,554	99,978	212	336

As at 31 December 2020, the Group leases certain buildings and operating equipment from non-related parties which are classified as right-of-use assets under the adoption of SFRS(I) 16. Lease payments represent blended payments consisting of principal and interest based on interest rates ranging from 3.9% to 5.6% (2019: 4.8% to 5.6%).

For the financial year ended 31 December 2020, expenses for short term leases that were not capitalised as right-of-use assets totalled to $191,000 (2019: $542,000). These future payments are not included in the lease obligations above.

Some of the Group's equipment leases include variable charged based on usage. These variable components are expensed as they are incurred and are not included in the lease obligations.

Some of the Group's land and building leases that were capitalised as right-of-use assets include incremental lease payment increases based on the Consumer Price Index.

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 lease liability. Amortisation for the financial year ended 31 December 2020 amounted to $122,000 (2019: $123,000) is included in "Other gains/(losses), net – Others" (Note 28).

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

21 PROVISIONS

The following table summarises the movements in the provisions:

	Warranty $'000	Lease $'000	Total $'000
Group			
2020			
Beginning of financial year	588	590	1,178
Provision made	85	–	85
Provision utilised	–	(131)	(131)
Amortisation of discount	–	28	28
Currency translation differences	5	1	6
End of financial year	678	488	1,166
Included in trade and other payables (Note 15)	(678)	–	(678)
Non-current provisions	–	488	488
2019			
Beginning of financial year	382	760	1,142
Provision made	194	–	194
Provision utilised	–	(132)	(132)
Amortisation of discount	–	33	33
Currency translation differences	12	(71)	(59)
End of financial year	588	590	1,178
Included in trade and other payables (Note 15)	(588)	–	(588)
Non-current provisions	–	590	590

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.

Lease Provision

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 prior to 1 January 2019. 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%.

NOTES TO **THE FINANCIAL STATEMENTS**

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22 SUBORDINATED NOTES

Per the Trust Indenture dated 17 November 2017 (the "**Indenture**"), the Group's Subordinated Notes ("**Subordinated Notes**") are unsecured, bear interest at 7% per annum and mature on 17 November 2022. The Subordinated Notes are not listed on any stock exchange. Interest on the Subordinated Notes is payable on 17 May and 17 November of each year. The aggregate principal amount of the Subordinated 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 2020 and 2019.

The carrying amount of the Subordinated Notes approximates fair value as these notes bear interest at a rate that is consistent with a market rate.

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 taxation authority.

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

	Group	
	2020	**2019**
	$'000	**$'000**
Deferred income tax assets		
To be recovered after one year	(277)	(196)
Deferred income tax liabilities		
To be settled after one year	24,117	16,633
Net deferred income tax liabilities		
To be settled after one year	23,840	16,437

The movement in the net deferred income tax account is as follows:

	Group	
	2020	**2019**
	$'000	**$'000**
Beginning of financial year	16,437	21,558
Tax charged/(credited) to		
– Profit or loss (Note 32)	9,280	(6,688)
– Other comprehensive income	(1,011)	1,013
Currency translation differences	(866)	554
End of financial year	23,840	16,437

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

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, capital allowances and mergers and acquisition allowances of approximately $9,881,000 (2019: $7,960,000), $3,908,000 (2019: $3,908,000) and $8,087,000 (2019: $5,866,000) respectively and the Company has unrecognised tax losses and merger and acquisition allowances of approximately $1,922,000 (2019: $Nil) and $8,087,000 (2019: $5,866,000) respectively 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, capital allowances and merger and acquisition allowances in their respective countries of incorporation. The tax losses have no expiry date except for the amount of $6,478,000 (2019: $6,478,000) relating to Avarga (M) Sdn. Bhd.. Out of this amount, $5,489,000 (2019: $5,489,000) will expire in 2025 and the remaining will expire in 2026. The capital allowances and merger and acquisition 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	Others $'000	Total $'000
Group					
2020					
Beginning of financial year	–	36,415	10,421	788	47,624
Charged/(credited) to					
– Profit or loss	8,195	256	(1,516)	595	7,530
– Other comprehensive income	–	(1,011)	–	–	(1,011)
Currency translation differences	62	(849)	49	12	(726)
End of financial year	8,257	34,811	8,954	1,395	53,417
2019					
Beginning of financial year	7,581	14,569	11,732	–	33,882
(Credited)/charged to					
– Profit or loss	(7,806)	20,658	(1,661)	788	11,979
– Other comprehensive income	–	1,013	–	–	1,013
Currency translation differences	225	175	350	–	750
End of financial year	–	36,415	10,421	788	47,624

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

23 DEFERRED INCOME TAXES (CONTINUED)

Deferred income tax assets

	Lease liabilities $'000	Unutilised investment and reinvestment allowances $'000	Deferred gain on sale and leaseback $'000	Total $'000
Group				
2020				
Beginning of financial year	(26,620)	(3,934)	(633)	(31,187)
Charged to profit or loss	706	1,044	–	1,750
Currency translation differences	(150)	14	(4)	(140)
End of financial year	(26,064)	(2,876)	(637)	(29,577)

	Lease liabilities $'000	Unutilised investment and reinvestment allowances $'000	Provisions and others $'000	Deferred gain on sale and leaseback $'000	Total $'000
Group					
2019					
Beginning of financial year	(6,205)	(5,420)	(74)	(625)	(12,324)
(Credited)/charged to profit or loss	(20,223)	1,470	74	12	(18,667)
Currency translation differences	(192)	16	–	(20)	(196)
End of financial year	(26,620)	(3,934)	–	(633)	(31,187)

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				
2020				
Beginning of financial year	950,106	(3,037)	169,582	(628)
Warrants 2017 conversion	39	–	15	–
Treasury shares purchased	–	(6,302)	–	(1,578)
End of financial year	950,145	(9,339)	169,597	(2,206)
2019				
Beginning and end of financial year	950,106	(3,037)	169,582	(628)

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.

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 has acquired 6,301,800 (2019: Nil) shares in the Company in the open market during the financial year. The total amount paid to acquire the shares was $1,578,000 (2019: $Nil). The treasury shares are presented as a component within shareholders’ equity.

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 were only exercisable during the period commencing on and including the date six months from the listing of the warrants on the SGX-ST and expired on 12 February 2020. As at balance sheet date, the outstanding warrants were nil (2019: 836,667,121).

During the financial year ended 31 December 2020, the Company issued 39,221 ordinary shares for a total consideration of approximately $15,000 for cash by warrants conversion.

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

24 SHARE CAPITAL AND TREASURY SHARES (CONTINUED)

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.

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.

24 SHARE CAPITAL AND TREASURY SHARES (CONTINUED)

Share options (Continued)

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.

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.

NOTES TO **THE FINANCIAL STATEMENTS**
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24 SHARE CAPITAL AND TREASURY SHARES (CONTINUED)

Share options (Continued)

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	
	2020 **$'000**	**2019** **$'000**	**2020** **$'000**	**2019** **$'000**
Composition:				
Capital reserve	1,451	360	74	74
Currency translation reserve	(23,801)	(21,902)	–	–
Fair value reserve	(1,035)	(857)	–	–
	(23,385)	(22,399)	74	74

The 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.

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 until they are disposed of or impaired.

Other reserves are non-distributable.

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

26 DIVIDENDS

	Group	
	2020	**2019**
	$'000	**$'000**
Ordinary dividends		
Final dividend paid in respect of the previous financial year of 0.5 cents (2019: 3.0 cents) per share	4,735	28,409
Interim dividend paid in respect of the current financial year of 0.72 cents (2019: 1.5 cents) per share	6,814	14,204
	11,549	42,613

At the forthcoming Annual General Meeting, a final dividend of 0.78 cents per share amounting to a total of $7,260,000 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 2021.

27 REVENUE

	Group	
	2020	**2019**
	$'000	**$'000**
Sale of goods		
– Paper products	44,803	48,058
– Building products	1,632,035	1,337,108
Operating and maintenance income	12,305	14,121
Finance income (Note 6)	4,116	4,586
	1,693,259	1,403,873

28 OTHER GAINS/(LOSSES), NET – OTHERS

	Group	
	2020	**2019**
	$'000	**$'000**
(Loss)/gain on disposal of property, plant and equipment	(195)	14
(Bad debts written off)/bad debts recovered	(40)	262
Dividend income from listed equity security (Note 10)	39	137
Currency exchange gain, net	920	3,664
Amortisation of deferred gain (Note 20)	122	123
Gain on disposal of asset held-for-sale (Note 13)	–	10,864
Government grants	3,118	–
Others	(763)	(140)
	3,201	14,924

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

28 OTHER GAINS/(LOSSES), NET – OTHERS (CONTINUED)

Government grants include:

(a) Grant income of $2,982,000 (2019: $Nil) recognised under the Canada Emergency Wage Subsidy (the "**CEWS**"). The CEWS is a temporary scheme introduced by the Canada Government to help enterprises retain local employees. Under the CEWS, employers will receive cash grants in relation to the gross monthly wages of eligible employees.

(b) Grant income of $136,000 (2019: $Nil) under the Jobs Support Scheme (the "**JSS**"). The JSS is a temporary scheme introduced in the Singapore Budget 2020 to help enterprises retain local employees. Under the JSS, employers will receive cash grants in relation to the gross monthly wages of eligible employees.

29 EXPENSES BY NATURE

	Group	
	2020 **$'000**	**2019** **$'000**
Fees on audit services paid/payable to:		
– Auditor of the Company	87	89
– Other auditors	333	321
Fees on non-audit services paid/payable to:		
– Auditor of the Company	16	10
– Other auditors	114	138
Purchase of inventories	53,566	32,372
Depreciation of property, plant and equipment (Note 8)	13,156	12,679
Amortisation of intangible assets (Note 14(d))	5,244	5,241
Directors' fees	3,358	584
Employee compensation (Note 30)	110,566	67,155
General office expenses	8,920	12,437
General and professional fees	1,957	1,472
Manufacturing overhead	2,732	2,777
Product and treating costs	1,344,351	1,156,912
Freight/transportation expenses	36,899	34,031
Utilities	9,869	11,208
Inventories write-down (Note 7)	1,948	3,511
Warehouse costs	12,805	10,637
Operating and maintenance fees	8,553	11,461
Other expenses	1,902	1,904
Changes in inventories	(33,199)	(11,520)
Total cost of sales, distribution and selling and administrative expenses	1,583,177	1,353,419

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

30 EMPLOYEE COMPENSATION

	Group	
	2020 $'000	2019 $'000
Salaries, bonuses and wages	110,019	66,598
Employer's contribution to defined contribution plans	369	357
Other short-term benefits	178	200
	110,566	67,155

31 FINANCE EXPENSES

	Group	
	2020 $'000	2019 $'000
Interest expense		
– Revolving credit facility and other short-term liabilities	3,076	3,846
– Lease liabilities and bank borrowings	6,183	7,132
– Subordinated notes	898	900
– Amortisation of financing costs	344	342
	10,501	12,220

32 INCOME TAX EXPENSE

	Group	
	2020 $'000	2019 $'000
Tax expense attributable to profit is made up of:		
Profit for the financial year		
Current income tax		
– Singapore	–	–
– Foreign	17,742	19,390
	17,742	19,390
Deferred income tax (Note 23)	9,280	(6,688)
	27,022	12,702
Under provision in prior financial year		
Current income tax	356	30
	27,378	12,732

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

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 2020 and 2019 is as follows:

	Group	
	2020 $'000	2019 $'000
Profit before income tax	102,174	53,320
Tax at the domestic rates applicable to profit in the countries where the Group operates	26,100	12,335
Effects of:		
– Expenses not deductible for tax purposes	2,089	1,718
– Income not subject to tax	(1,314)	(1,421)
– Under-provision of tax in prior financial years	356	30
– Effect of change in tax rate	(32)	(35)
– Utilisation of previously unrecognised deferred tax assets	–	(258)
– Deferred tax asset not recognised	304	–
– Other taxes	8	37
– Others	(133)	326
Tax charge	27,378	12,732

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.

33 EARNINGS PER SHARE

(a) Basic earnings per share

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

	Group	
	2020 $'000	2019 $'000
Net profit attributable to equity holders of the Company ($'000)	54,826	32,562
Weighted average number of ordinary shares outstanding for basic earnings per share ('000)	946,724	947,069
Basic earnings per share (cents per share)	5.79	3.44

33 EARNINGS PER SHARE (CONTINUED)

(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	
	2020 **$'000**	**2019** **$'000**
Net profit attributable to equity holders of the Company ($'000)	54,826	32,562
Weighted average number of ordinary shares outstanding for basic earnings per share ('000)	946,724	947,069
Adjustments for warrants ('000)	–*	–**
	946,724	947,069
Diluted earnings per share (cents per share)	5.79	3.44

* As at balance sheet date, there is no outstanding warrants exist since warrants of 836,627,900 was expired on 12 February 2020.

** The outstanding warrants of 836,667,121 are not assumed to be exercised because they were anti-dilutive during the financial year ended 31 December 2019.

NOTES TO **THE FINANCIAL STATEMENTS**
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

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 2020 and 2019 are unsecured and receivable within 12 months from balance sheet date and are disclosed in Note 5.

(b) Key management personnel compensation

Key management personnel compensation is as follows:

	Group	
	2020 $'000	**2019 $'000**
Salaries and bonuses	5,631	4,722
Directors' fees	3,358	584
Employer's contribution to defined contribution plans	181	249
Other short-term benefits	538	44
	9,708	5,599
Comprise amounts paid/payable to:		
Directors of the Company	4,609	2,197
Directors of the subsidiary corporations	190	258
Other key management personnel	4,909	3,144
	9,708	5,599

35 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.

NOTES TO **THE FINANCIAL STATEMENTS**

35 CONTINGENT LIABILITIES (CONTINUED)

Canada Revenue Agency ("CRA") Reassessment

During the financial year ended 31 December 2017, 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. As at 31 December 2020, 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.

36 FINANCIAL RISK MANAGEMENT

Financial risk factors

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. Management then establishes the detailed policies such as authority levels, oversight responsibilities, risk identification and measurement and exposure limits in accordance with the objectives and underlying principles approved by the Board of Directors. 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.

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

36 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) 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.

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 Senior 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.

The credit ratings of the investments are monitored for credit deterioration.

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.

(i) Trade receivables

Trade receivables are initially recognised at fair values and subsequently measured at amortised cost using the effective interest method, less an allowance for expected credit loss ("**ECL**").

The Group has applied the simplified approach for determining the allowance for ECL for trade receivables, where lifetime ECL are recognised in the profit or loss at initial recognition of trade receivables and updated at each reporting date. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of the receivable.

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

36 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

(i) Trade receivables (Continued)

In measuring the expected credit losses, trade receivables are grouped based on their shared credit risk characteristics and days past due. When determining the allowance for ECL, the Group considers reasonable and supportable information that is relevant and available for customer types. This includes both qualitative and quantitative information based on the Group's historical experience and forward looking information such as general economic factors as applicable. Loss events include financial difficulty or bankruptcy of the debtor, significant delay in payments and breaches of contracts.

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. Subsequent recoveries of amount previously written-off are recognised in profit or loss.

The movements in credit loss allowance are as follows:

	Trade receivables $'000
Group	
2020	
Balance at 1 January 2020	1,149
Loss allowance recognised in profit or loss during the financial year on:	
– Assets acquired/originated	780
Written off	(121)
Currency translation differences	76
Balance at 31 December 2020 (Note 5)	1,884
2019	
Balance at 1 January 2019	2,452
Loss allowance recognised in profit or loss during the financial year on:	
– Assets acquired/originated	168
Written off	(1,842)
Currency translation differences	371
Balance at 31 December 2019 (Note 5)	1,149

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

36 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

(ii) 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, i.e. non-trade amounts 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 are collectible, based on historical payment behaviour and credit-worthiness of these receivables.

36 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) 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.

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 2020

36 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) 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 2020			
Trade and other payables	132,219	–	–
Revolving credit facility	9,074	–	–
Bank borrowings	46,670	6,997	5,080
Lease liabilities	9,814	35,129	114,365
Subordinated notes	908	13,883	–
	198,685	56,009	119,445
At 31 December 2019			
Trade and other payables	75,995	–	–
Revolving credit facility	42,279	–	–
Bank borrowings	41,570	8,971	6,506
Lease liabilities	9,781	33,893	118,659
Subordinated notes	903	14,706	–
	170,528	57,570	125,165
Company			
At 31 December 2020			
Trade and other payables	1,159	–	–
Lease liabilities	132	85	–
	1,291	85	–
At 31 December 2019			
Trade and other payables	2,080	–	–
Lease liabilities	132	217	–
	2,212	217	–

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

36 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) ***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.

	2020 **$'000**	**2019** **$'000**
Group		
Less than 1 year		
Held for trading		
– Net-settled Lumber futures	203	136

(c) ***Market risk***

(i) *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 (2019: 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 $527,000 (2019: $755,000) as a results of higher/lower interest expense on these borrowings.

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

36 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) ***Market risk*** *(Continued)*

(ii) 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 other than functional currency 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 and 17. As at 31 December 2020 and 2019, the Group and the Company are not significantly exposed to SGD, MYR and USD.

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 CAD change against the SGD by 1% (2019: 2%) 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	
	2020 $'000	**2019 $'000**
Group and Company		
CAD against SGD		
– Strengthened	804	1,518
– Weakened	(804)	(1,518)

36 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (Continued)

(iii) *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 as financial assets, at FVOCI. This security is listed in Malaysia.

If prices for equity security listed in Malaysia had changed by 9% (2019: 9%) with all other variable including tax rate being held constant, the effects on other comprehensive income would have been:

	Increase/(decrease) Other comprehensive income	
	2020	**2019**
	$'000	$'000
Group		
Listed in Malaysia		
– increased by	162	177
– decreased by	(162)	(177)

(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.

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

36 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Capital risk

The Group's objectives when managing capital are to safeguard the Group's ability to operate and grow its businesses, 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 2020 and 2019.

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 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	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Net debt	159,829	191,861	–	–
Total capital	245,709	186,277	173,105	171,951
Gearing ratio (times)	0.65	1.03	–	–

The Group is in compliance with all externally imposed capital requirements for the financial years ended 31 December 2020 and 2019. The Company is not subjected to capital requirements for the financial years ended 31 December 2020 and 2019.

NOTES TO **THE FINANCIAL STATEMENTS**
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

36 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Fair value measurements

The table below presents assets and liabilities recognised and measured 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 2020			
Assets			
Financial asset, at FVPL	–	–	500
Financial asset, at FVOCI	1,786	–	–
Liabilities			
Derivative financial instruments	–	(203)	–
31 December 2019			
Assets			
Financial asset, at FVPL	–	–	500
Financial asset, at FVOCI	1,964	–	–
Liabilities			
Derivative financial instruments	–	(136)	–

	Level 1 **$'000**	**Level 2** **$'000**	**Level 3** **$'000**
Company			
31 December 2020			
Financial asset, at FVPL	–	–	500
31 December 2019			
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 2020 and 2019.

NOTES TO **THE FINANCIAL STATEMENTS**
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

36 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) ***Fair value measurements*** *(Continued)*

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.

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 transfers between Levels 2 and 3 during the financial years ended 31 December 2020 and 2019.

The fair values of current financial assets and liabilities carried at amortised cost approximate their carrying amounts due to the short-term to maturity of these instruments. The carrying amounts of the revolving credit facility and long-term debts approximate to their fair values as these liabilities bear interest at variable market rates. The carrying amount of the subordinated notes approximates fair value as these notes bear interest at a rate that is consistent with a market rate.

(f) ***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 10, 11 and 16, except for the following:

	Group $'000	Company $'000
31 December 2020		
Financial assets, at amortised cost	210,431	138,655
Financial liabilities, at amortised cost	(311,085)	(1,371)
31 December 2019		
Financial assets, at amortised cost	158,670	138,331
Financial liabilities, at amortised cost	(287,101)	(2,416)

36 FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Offsetting financial assets and financial liabilities

The Company has the following financial instruments subject to enforceable master netting arrangements or other similar agreements 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 2020			
Due from subsidiary corporations	52,244	(1,968)	50,276
At 31 December 2019			
Due from subsidiary corporations	53,041	(11,333)	41,708

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.

NOTES TO **THE FINANCIAL STATEMENTS**
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

37 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, allocate 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.

(a) The paper mill division manufactures and sells industrial grade paper products, collect and trades in waste paper products.

(b) Power division operates a 50 MW gas-fired generating plant in Ywama, Myanmar.

(c) Wholesale distribution of building products in Canada, United States and overseas.

(d) 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.

37 SEGMENT INFORMATION (CONTINUED)

The segment information provided to the CODM for the reportable segments are as follows:

Group

	Paper Mill		Power Plant		Building Products		Others		Total		Adjustments and elimination		Note	Per consolidated financial statements	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000	2020 $'000	2019 $'000	2020 $'000	2019 $'000	2020 $'000	2019 $'000	2020 $'000	2019 $'000		2020 $'000	2019 $'000
Revenue:															
External customers	44,803	48,058	16,421	18,707	1,632,035	1,337,108	–	–	1,693,259	1,403,873	–	–		1,693,259	1,403,873
Results:															
Finance expenses	(13)	(4)	–	–	(9,570)	(11,350)	(918)	(866)	(10,501)	(12,220)	–	–		(10,501)	(12,220)
Interest income	159	283	–	–	–	–	13	47	172	330	–	–		172	330
Depreciation	(2,297)	(2,417)	(5)	(4)	(10,630)	(10,071)	(224)	(187)	(13,156)	(12,679)	–	–		(13,156)	(12,679)
Amortisation of intangible assets	–	–	–	–	(5,244)	(5,241)	–	–	(5,244)	(5,241)	–	–		(5,244)	(5,241)
Segment profit/(loss) before income tax	5,089	8,112	6,614	5,990	94,714	32,731	(4,243)	6,487	102,174	53,320	–	–		102,174	53,320
Assets:															
Additions to:–															
– Property, plant and equipment	1,574	515	–	–	7,238	4,697	9	374	8,821	5,586	–	–		8,821	5,586
Segment assets	70,238	72,880	39,886	40,878	531,522	451,079	9,044	10,270	650,690	575,107	277	196	A	650,967	575,303
Segment liabilities	12,744	2,610	1,609	4,633	260,226	243,175	40,450	40,680	315,029	291,098	29,067	31,380	B	344,096	322,478

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

37 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	
	2020 $'000	**2019 $'000**
Deferred income tax assets	277	196

B The following items are added to segment liabilities to arrive at total liabilities reported in the consolidated balance sheet.

	Group	
	2020 $'000	**2019 $'000**
Income tax payables	4,950	14,747
Deferred income tax liabilities	24,117	16,633
	29,067	31,380

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	
	2020 $'000	**2019 $'000**	**2020 $'000**	**2019 $'000**
Canada	1,265,657	1,075,710	133,386	142,186
United States	366,379	261,398	55,452	55,632
Malaysia	40,099	42,762	42,156	42,795
Singapore	735	493	454	664
Myanmar	16,421	18,707	71	78
Sri Lanka	1,103	1,384	–	–
Australia	1,095	1,316	–	–
Others	1,770	2,103	–	–
	1,693,259	1,403,873	231,519	241,355

Non-current assets information presented above consist of property, plant and equipment and intangible assets presented in the consolidated balance sheet.

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

38 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 2021 and which the Group has not early adopted.

Amendments to SFRS(I) 1-1 Presentation of Financial Statements:

Classification of Liabilities as Current or Non-current (effective for annual periods beginning on or after 1 January 2023)

The narrow-scope amendments to SFRS(I) 1-1 Presentation of Financial Statements clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waver or a breach of covenant). The amendments also clarify what SFRS(I) 1-1 means when it refers to the 'settlement' of a liability.

The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity.

The Group does not expect any significant impact arising from applying these amendments.

Amendments to SFRS(I) 1-16 Property, Plant and Equipment:

Proceeds before Intended Use (effective for annual periods beginning on or after 1 January 2022)

The amendment to SFRS(I) 1-16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment.

Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.

The Group does not expect any significant impact arising from applying these amendments.

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

38 NEW OR REVISED ACCOUNTING STANDARDS AND INTERPRETATIONS (CONTINUED)

Amendments to SFRS(I) 1-37 Provisions, Contingent Liabilities and Contingent Assets:

Onerous Contracts – Cost of Fulfilling a Contract (effective for annual periods beginning on or after 1 January 2022)

An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the costs of fulfilling it and any compensation or penalties arising from failure to fulfil it. The amendment to SFRS(I) 1-37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts.

The Group does not expect any significant impact arising from applying these amendments.

39 EVENTS OCCURRING AFTER BALANCE SHEET DATE

On 1 February 2021, Myanmar underwent a change in leadership when its military, the Tatmadaw, assumed control. Civil resistance efforts have emerged within Myanmar. The Group's operations in Myanmar are currently not affected. However, there may be longer term impact to the Group's Myanmar operations should the civil resistance efforts get worse and/or are prolonged.

40 AUTHORISATION OF FINANCIAL STATEMENTS

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors of Avarga Limited on 23 March 2021.

ADDITIONAL SGX DISCLOSURES IN THE ANNUAL REPORT

MATERIAL CONTRACTS

Since the end of the financial year ended 31 December 2020, 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 53 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 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 16 March 2021

ISSUED AND FULLY PAID UP CAPITAL	:	S$169,596,374.34
NO. OF SHARES ISSUED	:	950,145,342
NO. OF TREASURY SHARES HELD	:	20,075,500
NO. OF SUBSIDIARY HOLDINGS HELD	:	NIL
NO. OF ISSUED SHARES (EXCLUDING TREASURY SHARE)	:	930,069,842
CLASS OF SHARES	:	ORDINARY SHARES
VOTING RIGHTS	:	1 VOTE PER SHARE

Size of Shareholdings	Number of Shareholders	%	Number of Shares	%
1 – 99	110	2.91	2,004	0.00
100 – 1,000	321	8.48	291,225	0.03
1,001 – 10,000	1,508	39.84	9,024,791	0.95
10,001 – 1,000,000	1,812	47.87	141,004,803	14.84
1,000,001 and above	34	0.90	799,822,519	84.18
Total	**3,785**	**100.00**	**950,145,342**	**100.00**

TOP 20 SHAREHOLDERS

S/No.	Name	Number of Shares Held	%
1	CGS-CIMB SECURITIES (SINGAPORE) PTE LTD	245,335,511	26.38
2	LIM ENG HOCK	183,246,925	19.70
3	UOB KAY HIAN PTE LTD	91,353,900	9.82
4	CITIBANK NOMINEES SINGAPORE PTE LTD	55,886,475	6.01
5	OCBC SECURITIES PRIVATE LTD	34,217,490	3.68
6	RAFFLES NOMINEES (PTE) LIMITED	27,612,200	2.97
7	DBS NOMINEES PTE LTD	26,143,197	2.81
8	MAYBANK KIM ENG SECURITIES PTE.LTD	23,137,026	2.49
9	PHILLIP SECURITIES PTE LTD	18,849,758	2.03
10	UNITED OVERSEAS BANK NOMINEES PTE LTD	10,859,543	1.17
11	HSBC (SINGAPORE) NOMINEES PTE LTD	8,685,100	0.93
12	KHOO POH KOON	5,748,001	0.62
13	LIM JUEXIN LEONARD	4,510,000	0.48
14	OCBC NOMINEES SINGAPORE PTE LTD	3,978,893	0.43
15	TANG CHONG SIM	3,800,000	0.41
16	DIANA SNG SIEW KHIM	3,287,000	0.35
17	IFAST FINANCIAL PTE LTD	3,012,700	0.32
18	CHIEW POH CHENG	3,000,000	0.32
19	ASDEW ACQUISITIONS PTE LTD	2,735,000	0.29
20	ABN AMRO CLEARING BANK N.V.	2,681,900	0.29
		758,080,619	**81.50**

Source: The Central Depository (Pte) Limited

SHAREHOLDING **STATISTICS**

AS AT 16 March 2021

Substantial Shareholders	Number of Shares (Direct Interest)	Number of Shares (Deemed Interest)
Lim Eng Hock	183,246,925	3,775,100(1)
Tong Kooi Ong	–	295,364,000(2)
Phileo Capital Limited	221,925,000	–
Genghis S.á.r.l.	73,439,000	–
3Cs Investments Ltd	–	73,439,000(3)
TMF Trustees Singapore Limited	–	295,364,000(4)

Notes:

(1) Shares held in the name of the registered holder, Meriton Capital Limited.

(2) Shares held in the name of the registered holders, Phileo Capital Limited and Genghis S.á.r.l..

(3) Shares held in the name of the registered holder, Genghis S.á.r.l..

(4) Shares held in the name of the registered holders, Phileo Capital Limited and Genghis S.á.r.l..

Approximately 47.77% 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.

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