Avarga Limited
and its subsidiary corporations

Condensed Interim financial statements
For the six months ended 30 June 2023

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A. CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Group		
		6 months ended 30 June 2023	**6 months ended 30 June 2022**	**Increase / (decrease)**
	Note	S$'000	S$'000	%
Revenue	4	864,684	1,379,112	(37)
Cost of sale		(764,387)	(1,185,851)	(36)
Gross profit		100,297	193,261	(48)
Other gains/(losses), net				
- Interest income – bank deposits		19	8	138
- Write back of allowance/(loss allowance) on trade receivables, net		1	(539)	nm
- Others		2,382	2,282	4
Distribution expenses		(16,085)	(16,339)	(2)
Selling and administrative expenses		(45,026)	(87,797)	(49)
Finance expenses		(3,493)	(5,358)	(35)
Profit before income tax	6	38,095	85,518	(55)
Income tax expense	7	(11,060)	(24,457)	(55)
Net profit		27,035	61,061	(56)
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss:				
Currency translation differences arising from consolidation				
- Gains		5,401	3,210	68
Items that will not be reclassified subsequently to profit or loss:				
Financial asset, at FVOCI				
- Fair value losses – equity investments		-	(3)	nm
Currency translation differences arising from consolidation				
- Gains		2,772	1,722	61
Other comprehensive income, net of tax		8,173	4,929	66
Total comprehensive income		35,208	65,990	(47)
Net profit attributable to:				
Equity holders of the Company		18,962	43,219	(56)
Non-controlling interests		8,073	17,842	(55)
		27,035	61,061	(56)
Total comprehensive income attributable to:				
Equity holders of the Company		24,363	46,426	(48)
Non-controlling interests		10,845	19,564	(45)
		35,208	65,990	(47)
Earnings per share ("EPS") for profit attributable to equity holders of the Company				
- Basic EPS (cents per share) [A]		2.09	4.76	
- Diluted EPS (cents per share) [B]		2.09	4.76	

nm - not meaningful

[A] The calculation of earnings per ordinary share was based on weighted average number of shares 908,314,000 (First Half 2022: 908,352,000) in issue during the period.

[B] The calculation of earnings per ordinary share (on a fully diluted basis) was based on weighted average number of shares 908,314,000 (First Half 2022: 908,352,000) in issue during the period.

B. CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION

	Note	Group 30/06/2023 S$'000	Group 31/12/2022 S$'000	Company 30/06/2023 S$'000	Company 31/12/2022 S$'000
ASSETS					
Current Assets					
Inventories		199,431	234,503	-	-
Service concession receivables*		16,136	15,982	-	-
Trade receivables		224,252	118,047	-	78
Other receivables		3,044	9,905	138,217	136,755
Prepaid operating expenses		6,350	5,191	28	22
Derivatives financial instruments		38	220	-	-
Income tax recoverable		13,867	15,211	-	-
Cash and cash equivalents		58,418	99,815	1,657	2,135
Total Current Assets		521,536	498,874	139,902	138,990
Non-current Assets					
Property, plant and equipment		157,870	156,769	312	408
Investments in subsidiary corporations		-	-	15,422	15,422
Financial assets, at FVPL	9	10,497	220	220	220
Service concession receivables*		12,179	11,892	-	-
Goodwill on consolidation		32,242	31,469	-	-
Intangible assets		16,257	18,508	-	-
Deferred income tax assets		6,826	8,072	-	-
Total Non-current Assets		235,871	226,930	15,954	16,050
Total Assets		**757,407**	**725,804**	**155,856**	**155,040**
LIABILITIES					
Current Liabilities					
Trade payables and accruals		(145,174)	(149,970)	(182)	(502)
Other payables		(143)	(131)	(97)	(76)
Bank borrowings	11	(30,380)	(31,015)	-	-
Lease liabilities	11	(6,176)	(5,561)	(131)	(128)
Current income tax liabilities		(101)	(278)	-	-
Total Current Liabilities		(181,974)	(186,955)	(410)	(706)
Non-current Liabilities					
Lease liabilities	11	(93,838)	(91,421)	(162)	(215)
Deferred gains		(2,233)	(2,223)	-	-
Provisions		(213)	(261)	-	-
Deferred income tax liabilities		(11,711)	(12,436)	-	-
Total Non-current Liabilities		(107,995)	(106,341)	(162)	(215)
Total Liabilities		**(289,969)**	**(293,296)**	**(572)**	**(921)**
NET ASSETS		**467,438**	**432,508**	**155,284**	**154,119**
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	12	169,597	169,597	169,597	169,597
Treasury shares	12	(12,130)	(12,130)	(12,130)	(12,130)
Retained profits/(accumulated losses)		227,174	208,039	(2,257)	(3,422)
Other reserves		(31,178)	(36,464)	74	74
		353,463	329,042	155,284	154,119
Non-controlling interests		113,975	103,466	-	-
Total Equity		**467,438**	**432,508**	**155,284**	**154,119**

* The Group recognised service concession receivables as it has a contractual right under the concession agreement to receive a fixed and determinable amount of payments during the concession period irrespective of the usage of the plant. The service concession receivables are measured on initial recognition at its fair value. Subsequent to initial recognition, the service concession receivables are measured at amortised cost using the effective interest rate method.

C. CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY

THE GROUP

Consolidated statement of changes in equity for the period ended 30 June 2023

	Note	Share capital	Treasury shares	Retained profits	Capital reserve	Foreign currency translation reserve	Fair value reserve	Total reserves	Non-controlling interests	Total equity
		S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000
Balance at 1 January 2023		**169,597**	**(12,130)**	**208,039**	**1,070**	**(37,534)**	**-**	**(36,464)**	**103,466**	**432,508**
Profit for the financial period		-	-	18,962	-	-	-	-	8,073	27,035
Other comprehensive income for the financial period		-	-	-	-	5,401	-	5,401	2,772	8,173
Total comprehensive income for the financial period		**-**	**-**	**18,962**	**-**	**5,401**	**-**	**5,401**	**10,845**	**35,208**
Effect of subsidiary's shares buyback and cancelled		-	-	173	(108)	(7)	-	(115)	(336)	(278)
Balance at 30 June 2023		**169,597**	**(12,130)**	**227,174**	**962**	**(32,140)**	**-**	**(31,178)**	**113,975**	**467,438**

Consolidated statement of changes in equity for the period ended 30 June 2022

	Note	Share capital	Treasury shares	Retained profits	Capital reserve	Foreign currency translation reserve	Fair value reserve	Total reserves	Non-controlling interests	Total equity
		S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000
Balance at 1 January 2022		**169,597**	**(12,120)**	**157,130**	**1,098**	**(21,858)**	**(29)**	**(20,789)**	**83,045**	**376,863**
Profit for the financial period		-	-	43,219	-	-	-	-	17,842	61,061
Other comprehensive income for the financial period		-	-	-	-	3,210	(3)	3,207	1,722	4,929
Total comprehensive income for the financial period		**-**	**-**	**43,219**	**-**	**3,210**	**(3)**	**3,207**	**19,564**	**65,990**
Purchase of treasury shares		-	(10)	-	-	-	-	-	-	(10)
Transfer upon disposal of financial assets, at FVOCI		-	-	(32)	-	-	32	32	-	-
Balance at 30 June 2022		**169,597**	**(12,130)**	**200,317**	**1,098**	**(18,648)**	**-**	**(17,550)**	**102,609**	**442,843**

C. CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY (CONT'D)

THE COMPANY

Statement of changes in equity for the period ended 30 June 2023

	Note	Share capital	Treasury shares	Retained profits/ (Accumulated losses)	Capital reserve	Total reserves	Total equity
		S$'000	S$'000	S$'000	S$'000	S$'000	S$'000
Balance at 1 January 2023		**169,597**	**(12,130)**	**(3,422)**	**74**	**74**	**154,119**
Total comprehensive income for the financial period		-	-	1,165	-	-	1,165
Balance at 30 June 2023		**169,597**	**(12,130)**	**(2,257)**	**74**	**74**	**155,284**

Statement of changes in equity for the period ended 30 June 2022

	Note	Share capital	Treasury shares	Retained profits/ (Accumulated losses)	Capital reserve	Total reserves	Total equity
		S$'000	S$'000	S$'000	S$'000	S$'000	S$'000
Balance at 1 January 2022		**169,597**	**(12,120)**	**2,794**	**74**	**74**	**160,345**
Total comprehensive income for the financial period		-	-	4,107	-	-	4,107
Purchase of treasury shares		-	(10)	-	-	-	(10)
Balance at 30 June 2022		**169,597**	**(12,130)**	**6,901**	**74**	**74**	**164,442**

D. CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

		Group	
		6 months ended 30 June 2023	6 months ended 30 June 2022
	Note	S$'000	S$'000
Cash flows from operating activities			
Profit before income tax		38,095	85,518
Adjustments for:			
Depreciation of property, plant and equipment	6	6,794	6,884
Amortisation of intangible assets	6	2,482	2,655
Amortisation of deferred gain	6	(59)	(64)
Loss/(gain) on disposal of property, plant and equipment	6	25	(97)
Provisions		(55)	(57)
(Write back of allowance)/loss allowance on trade receivables		(1)	539
Net fair value loss/(gain) on derivatives		182	(717)
Finance income		(1,575)	(1,859)
Fair value adjustment of financial assets, at FVPL	6	(435)	-
Interest income	6	(19)	(8)
Interest expenses	6	3,493	5,358
Unrealised currency translation losses		(1,089)	4,277
Operating cash flows before working capital changes		47,838	102,429
Changes in working capital:			
Inventories		40,796	(11,055)
Service concession receivables		1,422	5,008
Trade receivables		(99,411)	(132,950)
Other receivables		6,861	(2,208)
Prepaid operating expenses		(1,877)	(2,173)
Trade payables and accruals		(10,212)	16,155
Other payables		12	(72)
Cash used in operations		(14,571)	(24,866)
Interest received		19	8
Interest paid		(2,896)	(3,948)
Income tax paid		(8,113)	(34,206)
Net cash used in operating activities		(25,561)	(63,012)
Cash flows from investing activities			
Purchase of property, plant and equipment		(2,944)	(2,756)
Proceeds from disposal of property, plant and equipment		17	114
Proceed from disposal of listed equity security		-	382
Purchase of financial assets, at FVPL	9	(9,828)	-
Net cash used in investing activities		(12,755)	(2,260)
Cash flows from financing activities			
Principal element of lease payments		(883)	(2,726)
Proceeds from bank borrowings		-	7,448
Repayment of bank borrowings		(290)	(12,034)
Interest paid		(2,666)	(1,049)
Purchase of treasury shares		-	(10)
Purchase of treasury shares by a subsidiary corporation		(278)	-
Net cash used in financing activities		(4,117)	(8,371)
Net decrease in cash and cash equivalents		(42,433)	(73,643)
Cash and cash equivalents at beginning of period		99,815	88,257
Effects of currency translation on cash and cash equivalents		1,036	30
Cash and cash equivalents at end of period		58,418	14,644

E. NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate information

Avarga Limited (the "Company") is listed on the Singapore Exchange Securities Trading Limited ("SGX-ST") and incorporated and domiciled in Singapore. These condensed interim consolidated financial statements as at and for the six months ended 30 June 2023 comprise the Company and its subsidiaries (collectively, the Group). The principal activities of the Company are the trading of paper products, investment holding and providing management services. The principal activities of the Group are:

(a) Investment holding;
(b) Manufacture and sale of paper products and trading in recycled fibre;
(c) Design, operate and maintain power plants for electricity generation and sell the electricity produced to Myanmar Government; and
(d) Independent wholesale distributor of building products.

2. Basic of preparation

The condensed interim financial statements for the six months ended 30 June 2023 have been prepared in accordance with SFRS(I) 1-34 *Interim Financial Reporting* issued by the Accounting Standards Council Singapore. The condensed interim financial statements do not include all the information required for a complete set of financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance of the Group since the last annual financial statements for the financial year ended 31 December 2022.

The accounting policies adopted are consistent with those of the previous financial year which were prepared in accordance with SFRS(I)s, except for the adoption of new and amended standards as set out in Note 2.1.

The condensed interim financial statements are presented in Singapore dollar ("S$") which is the Company's functional currency and all values in the tables are rounded to the nearest thousand (S$'000) as indicated.

2.1 New and amended standards adopted by the Group

A number of amendments to Standards have become applicable for the current reporting period. The adoption of the new and revised standards had no material financial impact on the financial statements of the Group.

2.2 Use of judgements and estimates

In preparing the condensed interim financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the financial year ended 31 December 2022.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Management is of the opinion that there is no instance of application of judgment which is expected to have a significant impact on the amounts recognised in the Group's condensed interim financial statements for six months period ended 30 June 2023.

3. Seasonal operations

The sales of the building products business of the Group, i.e. under Taiga Group are typically subject to seasonal variances that fluctuate in accordance with the normal home building season in Canada and the United States. Taiga generally experiences higher sales in the second and third quarters and reduced sales in the late fall and winter during its first and fourth quarters of each year, when home building activity is low due to the cold weather.

The Group's other businesses are not affected significantly by seasonal or cyclical factors during the financial period.

4. Segment information

The Group's chief operating decision-maker ("CODM") comprises of the Executive Chairman, Chief Executive 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 Yangon, Myanmar.

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

(d) Others, which include corporate and investments segment.

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.

4.1 Reportable segments

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

<u>Group</u>

	Paper Mill		Power Plant		Building Products		Others		Total		Adjustments and elimination			Per consolidated financial statements	
	6 months ended 30 June 2023	6 months ended 30 June 2022	6 months ended 30 June 2023	6 months ended 30 June 2022	6 months ended 30 June 2023	6 months ended 30 June 2022	6 months ended 30 June 2023	6 months ended 30 June 2022	6 months ended 30 June 2023	6 months ended 30 June 2022	6 months ended 30 June 2023	6 months ended 30 June 2022	Note	6 months ended 30 June 2023	6 months ended 30 June 2022
	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000		S$'000	S$'000
Revenue:															
External customers	12,521	21,327	4,297	4,799	847,866	1,352,986	-	-	864,684	1,379,112	-	-		864,684	1,379,112
Results:															
Finance expenses	(190)	(126)	-	-	(2,605)	(4,774)	(698)	(458)	(3,943)	(5,358)	-	-		(3,943)	(5,358)
Interest income	-	-	-	-	-	-	19	8	19	8	-	-		19	8
Depreciation	(1,129)	(1,287)	(3)	(3)	(5,552)	(5,484)	(110)	(110)	(6,794)	(6,884)	-	-		(6,794)	(6,884)
Amortisation of intangible assets	-	-	-	-	(2,482)	(2,655)	-	-	(2,482)	(2,655)	-	-		(2,482)	(2,655)
Segment profit/(loss) before income tax	(1,990)	(2,312)	1,775	2,075	39,419	86,307	(1,109)	(552)	38,095	85,518	-	-		38,095	85,518

	Paper Mill		Power Plant		Building Products		Others		Total		Adjustments and elimination			Per consolidated financial statements	
	30/06/2023	31/12/2022	30/06/2023	31/12/2022	30/06/2023	31/12/2022	30/06/2023	31/12/2022	30/06/2023	31/12/2022	30/06/2023	31/12/2022	Note	30/06/2023	31/12/2022
	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000		S$'000	S$'000
Assets:															
Additions to:-															
- Property, plant and equipment	315	1,910	-	-	6,065	9,591	15	391	6,395	11,892	-	-		6,395	11,892
Segment assets	44,972	49,841	28,928	28,111	658,216	619,224	4,598	5,345	736,714	702,521	20,693	23,283	A	757,407	725,804
Segment liabilities	7,784	8,822	2,049	1,219	243,700	245,706	24,624	24,835	278,157	280,582	11,812	12,714	B	289,969	293,296

4.1 Reportable segments (cont'd)

Notes Nature of adjustments and eliminations to arrive at amounts reported in the condensed interim consolidated financial statements.

A The following items are added to segment assets to arrive at total assets reported in the condensed interim statement of financial position.

	Group	
	30/06/2023 S$'000	**31/12/2022** S$'000
Income tax recoverable	13,867	15,211
Deferred income tax assets	6,826	8,072
	20,693	23,283

B The following items are added to segment liabilities to arrive at total liabilities reported in the condensed interim statement of financial position.

	Group	
	30/06/2023 S$'000	**31/12/2022** S$'000
Income tax liabilities	101	278
Deferred income tax liabilities	11,711	12,436
	11,812	12,714

The Group's revenue from its products and services are as follows: -

	Group	
	6 months ended 30 June 2023 S$'000	**6 months ended 30 June 2022** S$'000
Sales of goods		
- Paper products	12,521	21,327
- Building products	847,866	1,352,986
Operating and maintenance income	2,722	2,940
Finance income	1,575	1,859
	864,684	1,379,112

The geographical information on the Group's revenue and non-current assets is not presented as it is not used for segmental reporting purposes.

5. Financial assets and financial liabilities

Set out below is an overview of the financial assets and financial liabilities of the Group and the Company as at 30 June 2023 and 31 December 2022:

	Group		Company	
	30/06/2023 S$'000	**31/12/2022** S$'000	**30/06/2023** S$'000	**31/12/2022** S$'000
Financial Assets				
Financial asset, at FVPL	10,497	220	220	220
Cash and bank balances, trade and other receivables and service concession receivables (Amortised cost)	314,029	255,641	139,874	138,968
Derivative financial instruments	38	220	-	-
	324,564	256,081	140,094	139,188
Financial Liabilities				
Trade and other payables, lease liabilities and borrowings (Amortised cost)	(275,711)	(278,098)	(572)	(921)
	(275,711)	(278,098)	(572)	(921)

6. Profit before income tax

6.1 Significant items

Profit for the period included the following:

	Group	
	6 months ended 30 June 2023	**6 months ended 30 June 2022**
	S$'000	S$'000
Interest income	19	8
Amortisation of deferred gain	59	64
(Loss)/gain on disposal of property, plant and equipment	(25)	97
Interest expenses	(3,493)	(5,358)
- Revolving credit facility and other short-term liabilities	-	(123)
- Lease liabilities and bank borrowings	(3,374)	(4,589)
- Subordinated notes	-	(470)
- Amortisation of financing costs	(119)	(176)
Depreciation of property, plant and equipment	(6,794)	(6,884)
Amortisation of intangible assets	(2,482)	(2,655)
Reversal of write-down/(write down) of inventories	498	(4,457)
Foreign exchange gains, net	1,106	1,292
Bad debt written off	(35)	(7)
Net fair value gain on derivatives	846	752
Fair value gains on financial assets, at FVPL (Note 9)	435	-

6.2 Related party transactions

There are no material related party transactions apart from those disclosed elsewhere in the financial statements.

7. Taxation

The Group calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense in the condensed interim consolidated statement of comprehensive income are:

	Group	
	6 months ended 30 June 2023	**6 months ended 30 June 2022**
	S$'000	S$'000
Current income tax expense	(11,815)	(27,948)
Deferred tax income	755	6,026
Current and deferred tax adjustments in respect of prior years	-	(2,535)
	(11,060)	(24,457)

8. Net Asset Value

	Group		Company	
	30/06/2023	**31/12/2022**	**30/06/2023**	**31/12/2022**
	S$ cents	S$ cents	S$ cents	S$ cents
Net asset value per ordinary share	38.91	36.23	17.10	16.97

As at the end of the reporting period, the number of ordinary shares of the Group used for the above calculation had been adjusted to exclude treasury shares.

9 Financial assets, at FVPL

	Group		Company	
	30/06/2023	**31/12/2022**	**30/06/2023**	**31/12/2022**
	S$'000	S$'000	S$'000	S$'000
Beginning of financial year	220	220	220	220
Additions	9,828	-	-	-
Fair value gains (Note 6.1)	435	-	-	-
Currency translation differences	14	-	-	-
End of financial year	10,497	220	220	220
Unlisted securities :				
- Equity securities – Singapore	10,497	220	220	220

The instruments are all mandatorily measured at fair value through profit or loss.

10.1 Fair value measurement

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	**Level 2**	**Level 3**	**Total**
	S$'000	S$'000	S$'000	S$'000
<u>Group</u>				
30 June 2023				
Financial assets				
FVPL	-	10,277	220	10,497
Derivative financial instruments	-	38	-	38
31 December 2022				
Financial assets				
FVPL	-	-	220	220
Derivative financial instruments	-	220	-	220
<u>Company</u>				
30 June 2023				
Financial assets				
FVPL	-	-	220	220
31 December 2022				
Financial assets				
FVPL	-	-	220	220

11. Group's borrowings and debt securities

	Group	
	30/06/2023	**31/12/2022**
	S$'000	S$'000
Secured borrowings		
Repayable within one year	6,176	5,561
Repayable after one year	93,838	91,421
	100,014	96,982
Unsecured borrowings		
Repayable within one year	30,380	31,015

Security granted

The Group's secured borrowings comprise a revolving credit facility of S$Nil (2022: S$Nil) and lease liabilities of S$99,670,000 (2022: S$96,944,000).

The revolving credit facility, if utilised, will be secured by a first perfected security interest in all real and personal property of Taiga Building Products Ltd ("**Taiga**") and certain of its subsidiary corporations.

Lease liabilities of the Group are effectively secured over the right-of-use assets.

Revolving credit facility

On 21 December 2022, Taiga entered into a new C$250 million senior secured revolving credit facility (the "**Facility**") with a syndicate of lenders led by Bank of Montreal and including Scotiabank, Bank of America, TD Bank and CIBC. The Facility bear interest at variable rates plus variable margin, is secured by a first perfected security interest in all real and personal property of Taiga and certain of its subsidiary corporations, and matures on 20 December 2027. Taiga's ability to borrow under the Facility is based upon a defined percentage of accounts receivable and inventories.

12. Share capital and treasury shares

	Group and Company			
	Number of shares		Amount	
	Issued share capital	**Treasury shares**	**Share capital**	**Treasury shares**
	'000	'000	S$'000	S$'000
Balance as at 1 January 2023 and 30 June 2023	950,145	(41,832)	169,597	(12,130)
Balance as at 1 January 2022	950,145	(41,790)	169,597	(12,120)
Treasury shares purchases	-	(42)	-	(10)
Balance as at 31 December 2022	950,145	(41,832)	169,597	(12,130)

The Company has no outstanding convertibles as at 30 June 2023 and 30 June 2022.

The Company's subsidiaries do not hold any shares in the Company as at 30 June 2023 and 30 June 2022.

As at 30 June 2023, the issued and paid-up capital excluding treasury shares comprised 908,313,642 (31 December 2022: 908,313,642) ordinary shares.

As at 30 June 2023, the number of treasury shares represented 4.61% (30 June 2022: 4.61%) of the total number of issued shares excluding treasury shares.

As at 30 June 2023, there were no sales, transfers, cancellation and/or use of treasury shares and subsidiary holdings.

13. Subsequent events

There are no known subsequent events which have led to adjustments to this set of interim financial statements.

F. OTHER INFORMATION

1. Review

The condensed consolidated statement of financial position of Avarga Limited and its subsidiaries as at 30 June 2023 and the related condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended and certain explanatory notes have not been audited or reviewed.

2. Review of performance of the group

Group financial performance by business segments

1st half year ended 30 June 2023 ("1H2023") Vs 1st half year ended 30 June 2022 ("1H2022")

	1H2023 S$'000	Contribution %	1H2022 S$'000	Contribution %
Revenue				
Paper manufacturing	12,521	1	21,327	2
Building products	847,866	98	1,352,986	98
Power plant	4,297	1	4,799	-
	864,684	100	1,379,112	100
Gross profit/(loss)				
Paper manufacturing	(268)	-	(62)	-
Building products	98,668	98	191,181	99
Power plant	1,897	2	2,142	1
	100,297	100	193,261	100

Overview

For 1H2023, the Group reported net profit of S$27.0 million, a decrease of 56% or S$34.1 million from S$61.1 million for 1H2022. The Group's revenue for 1H2023 was S$864.7 million, compared to S$1.379 billion for 1H2022. Overall gross profit decreased by S$93.0 million or 48% to S$100.3 million. Overall gross profit margin percentage decreased from 14.0% for 1H2022 to 11.6% for 1H2023.

Based on the business segmental information, building products business continue to contribute more than 95% of the Group's performance.

Revenue and Pre-tax profit

Revenue from the building products business of Taiga for 1H2023 was S$847.9 million compared to S$1.353 billion over the same period last year. The decrease in revenue from Taiga was largely due to lower selling prices for its commodity products during the period under review. Consequently, segmented pre-tax profit from the building product business division declined by 54% from S$86.307 million to S$39.419 million

In 1H2023, the paper manufacturing division's revenue declined by 41% to S$12.521 million from S$21.327 million in 1H2022, as we restrategised and discontinued producing several product lines. Despite the sharp drop in sales, pre-tax losses for the division narrowed to S$1.99 million in 1H2023, compared with pre-tax losses of S$2.312 million in 1H2022.

In 1H2023, the power plant produced 122.17 million kWh of electricity, a decline of 25.2% from 163.38 million kWh in 1H2022. The decline in production was due to gas supply issues. With Myanmar facing a general shortage of natural gas supplies, there has been periodic gas supply disruptions to our plant, despite the strong demand for electricity in the country. Due to the lower electricity sales, segmental pre-tax profit from the power division declined by 14% from S$2.075 million to S$1.775 million.

Gross margin

Gross margin from the building products business for 1H2023 decreased by S$92.5 million or 48% to S$98.7 million from S$191.2 million over the same period last year. Gross profit margin percentage of the building products business decreased from 14.1% for 1H2022 to 11.6% for 1H2023. These decreases were primarily due to falling commodity price.

Other gains

Other income for 1H2023 included a foreign exchange gain of S$1.1 million (1H2022: S$1.3 million) that arose mainly from the translation of intercompany receivables denominated in Canadian dollar and United States Dollar and a net fair value gain on derivatives of S$0.8 million (1H2022: S$0.8 million).

Expenses

Distribution expenses were S$16.1 million and S$16.3 million for 1H2023 and 1H2022 respectively.

Selling and administrative expenses for 1H2023 were S$45.0 million as compared to S$87.8 million over the same period last year. The decrease was primarily due to decreased compensation costs.

Finance expenses for 1H2023 were S$3.5 million as compared to S$5.4 million over the same period last year. The decrease was due to lower borrowing levels.

(a) Review of Statement of Financial Position

The Group's total assets increased from S$725.8 million as at 31 December 2022 to S$757.4 million as at 30 June 2023. The increase of S$31.6 million was primarily the result of higher trade receivables partially offset by lower inventories and cash and bank balances.

Property, plant and equipment were S$157.9 million and S$156.8 million as at 30 June 2023 and 31 December 2022 respectively. Depreciation charge for the period was S$6.8 million. The net book value of right of use assets as included in property, plant and equipment as at 30 June 2023 was S$92.7 million after depreciation charge for ROU of S$3.5 million for the current period.

Trade receivables increased to S$224.3 million as at 30 June 2023 compared to S$118.0 million as at 31 December 2022, primarily due to selling of larger quantities of building products by Taiga during peak seasons.

Inventories decreased to S$199.4 million as at 30 June 2023 compared to S$234.5 million as at 31 December 2022, primarily due to lower inventory build-up as a result of management's expectation of housing markets to decline.

Total liabilities of the Group decreased to S$290.0 million as at 30 June 2023 from S$293.3 million as at 31 December 2022. The decrease was primarily due to decreased trade payables and accruals.

Trade payables and accruals decreased to S$145.2 million as at 30 June 2023 compared to S$150.0 million as at 31 December 2022 mainly due to decreased payroll liabilities.

The Group's working capital was S$339.6 million as at 30 June 2023 compared to S$311.9 million as at 31 December 2022.

The Group's total equity as at 30 June 2023 amounted to S$467.4 million (31 December 2022: S$432.5 million).

(b) Review of Statement of Cash Flows

Cash flows from operating activities used cash of S$25.6 million for 1H2023 compared to S$63.0 million for the same period last year. The change between the comparative periods were primarily due to changes in non-cash working capital, particularly due to movement in accounts receivable, inventories and account payables and accruals.

Investing activities used cash of S$12.8 million for 1H2023 compared to S$2.3 million for the same period last year. The increase was mainly due to purchase of unlisted equity shares amounted to S$9.8 million during the financial period under review.

Financing activities used cash of S$4.1 million for the 1H2023 compared to S$8.4 million for the same period last year. The change between the comparative periods were primarily due to decreased in borrowing level and lesser repayment of bank borrowings during the current period.

Overall, the net decrease in cash and cash equivalents for 1H2023 was S$42.4 million.

As at 30 June 2023, the Group's cash and cash equivalents was S$58.4 million.

3. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual result

No forecast was previously provided.

4. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.

The Group operates across a diversified range of industries and countries, each with different economic, geo-political and industry-specific impacts and challenges. Increased geographical diversity of the Group's assets also results in greater exposure to currency volatility when earnings are translated back to SGD. Included in the first half results for the financial year ending 31 December 2023 was a currency exchange gain of S$1.1 million, compared to S$1.3 million for 1HFY2022.

The Group will continue to focus on improving operational efficiency for its portfolio of businesses and evaluate opportunities for growth and enhancement in shareholder value.

Outlook of the respective business divisions are as follows: -

a) Building products business

Taiga's financial performance is primarily dependent on the residential construction, renovation and repairs markets in North America. These markets are affected by the strength or weakness in the general economy and as such are influenced by interest rates and other general market indicators. Taiga caters to both the primary housing and renovation markets. Taiga's primary and secondary markets are Canada and the United States respectively.

In Canada, according to the Canada Mortgage and Housing Corporation ("CMHC") in their Spring 2023 Housing Market Outlook, housing starts in Canada are expected to range between 176,890 and 211,917 in 2023 compared to 261,849 units in 2022. In the United States, the National Association of Home Builders reported in June 2023 that housing starts are forecasted to total 1,368,000 units in the 2023 calendar year compared to 1,551,000 units in calendar year 2022.

b) Paper manufacturing business

The operating landscape for the paper manufacturing division in Malaysia remains very challenging, amid strong competition from the large Chinese players operating in Malaysia. While the initial aim of the Chinese players was to re-export back to China given the environmental restrictions there, they have since started to aggressively focus on the local market. This has resulted in significant overcapacity, especially for testliner and corrugated medium, the two main paper packaging products.

Compounding the negative impact was sharply higher energy costs, as all-in electricity tariffs (including surcharges) were increased by about 40% on 1 Jan 2023.

Recognising these challenges, we had embarked on a plan to restructure and restrategise our operations. Since Dec 2022, we have re-strategized ourselves to be a niche paper player, moving away from the more competitive, mass market products.

The restructuring plans have helped to mitigate losses, especially relative to the large losses incurred in 2H2022, and the even more challenging environment faced by most players in 1H2023.

c) Power plant business

The power plant in Myanmar started operations on 11 February 2014, and is currently in its tenth year of operations. The power plant operates under a 30-year power purchase agreement, expiring in February 2044, with the Electric Power Generation Enterprise ("EPGE"), under Myanmar's Ministry of Electricity and Energy.

On 1 February 2021, the Tatmadaw assumed control of the government. Since then, the US has also imposed sanctions on an increasing number of Myanmar government institutions, including several state-owned banks. We will continue to monitor the ongoing developments. Save for the issues highlighted above, operations at our power plant have continued as normal.

5. **Dividend information**

(a) 1st Half period ended 30 June 2023

Any dividend declared for the current financial period reported on? No

(b) 1st Half period ended 30 June 2022

Any dividend declared for the corresponding period of the immediately preceding financial year? No

(c) Date payable

Not applicable.

(d) Books closure date

Not applicable.

(e) If no dividend has been declared/recommended, a statement to that effect and the reason(s) for the decision

In view of the highly volatile and uncertain global operating environment, no dividend has been recommended for the current reporting period, as it is crucial for the Group to conserve its cash resources to sustain its business operations, to meet its financial commitments and retain the cash in the Group for its future growth.

6. **Interested person transactions**

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

7. **Confirmation that the issuer has produced undertaking from all its directors and executive officers (in the format set out in Appendix 7.7) under Rule 720(1)**

The Company has received undertakings from all its directors and executive officers in the format as set out in Appendix 7.7 under Rule 720(1) of the Listing Manual of the SGX-ST.

8. **Negative assurance confirmation by the Board pursuant to Rule 705(5) of the Listing Manual**

The Board of Directors of the Company hereby confirm that to the best of their knowledge that nothing has come to the attention of the Board of Directors of the Company which may render the financial statements for the six-month period ended 30 June 2023 to be false or misleading in any material respect.

BY ORDER OF THE BOARD

Tong Kooi Ong
Executive Chairman

Tong Ian
Chief Executive Officer

12 August 2023